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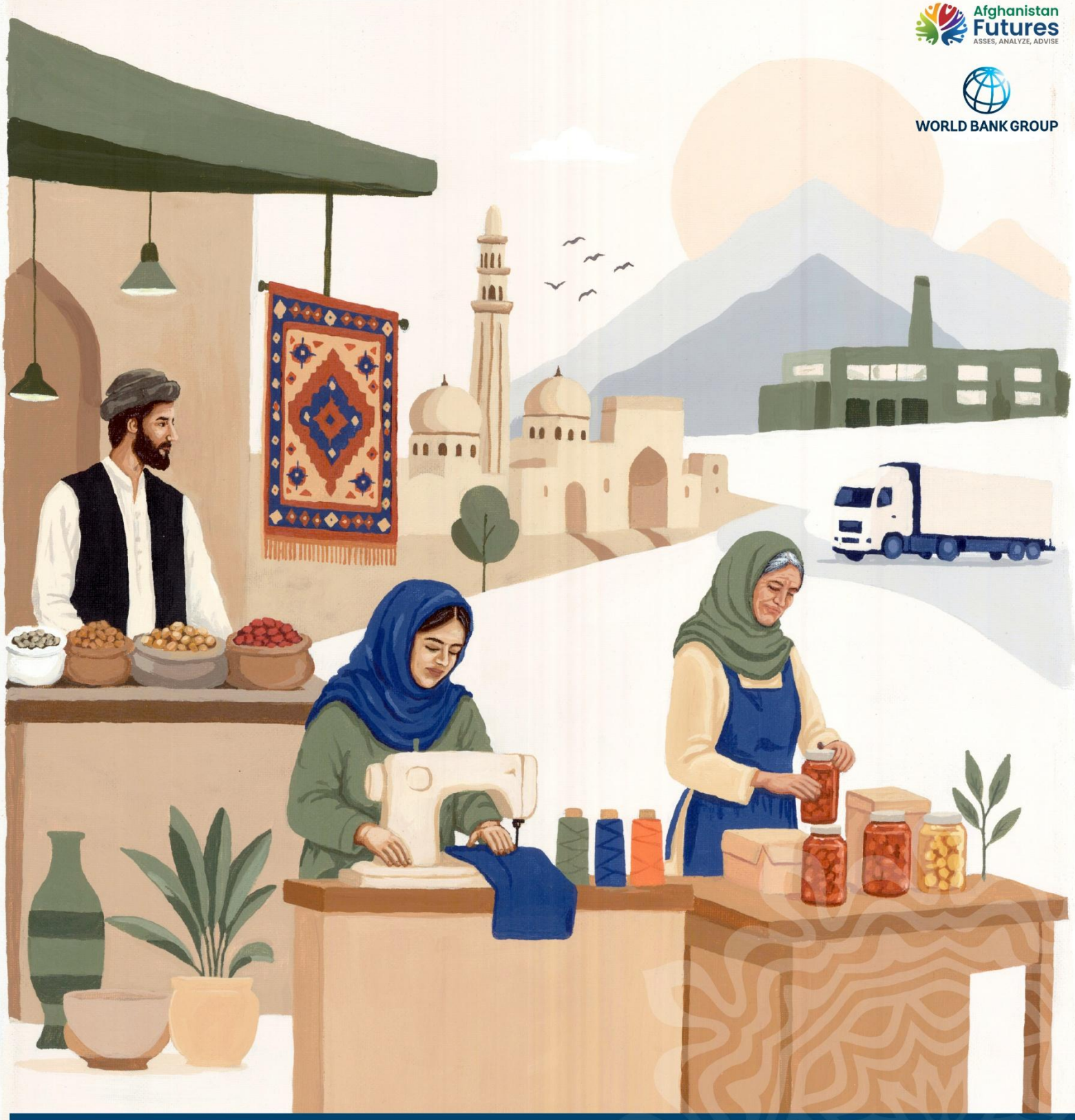

AFGHANISTAN DEVELOPMENT UPDATE

The Private Sector in Afghanistan: Resilient but Constrained

May 2026

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PREFACE

The Afghanistan Development Update provides a comprehensive report on the state of the Afghan economy. It covers recent economic developments and the medium-term outlook for Afghanistan. Each edition includes Special Focus sections that provide in-depth analysis of specific topics. The Afghanistan Development Update is intended for a wide audience, including policymakers, the donor community, the private sector, and analysts and professionals engaged in Afghanistan's economy.

This report was prepared by World Bank teams working on Afghanistan. The Special Focus on private sector is based on the 2025 Enterprise Survey (ES), where the focus is on many aspects of the business environment. These factors can be accommodating or constraining for firms and play an important role in whether an economy's private sector will thrive or not. ESs are conducted by the World Bank and its partners across all geographic regions and cover small, medium, and large firms. The size of the firm is determined by the number of employees: 5 to 19 (small), 20 to 99 (medium), and 100 or more (large). Firms with less than five employees are ineligible for the survey. Firms that are 100 percent state-owned are also ineligible.

The cover artwork serving as cover page for this edition was prepared by Nadima Rustam, an Afghan female artist, whose work thoughtfully conveys the theme of private sector resilience and recovery.

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LIST OF ABBREVIATIONS

ACC	Afghan Citizenship Card
ADB	Asian Development Bank
AFN	Afghan Afghani (currency)
APS	Afghanistan Payment System
Amayesh	Refugee registration card in Iran
CAR	Capital Adequacy Ratio
CBR	Correspondent Banking Relationship
DAB	Da Afghanistan Bank
DOEs	Developing Oil Exporters
DOIs	Developing Oil Importers
ECRMN	Communications Unit
EFSP	Emergency Food Security Project
EMAE2	Afghanistan and Pakistan Country Management Unit
EMAPP	Macro and Poverty Practice
EMDEs	Emerging Market and Developing Economies
FAO	Food and Agriculture Organization
FFS	Forced Displacement Survey
FX	Foreign Exchange
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GRADE	Global Rapid Post-Disaster Damage Estimation
HDP	Humanitarian-Development-Peace nexus
IFRP	Illegal Foreigners Repatriation Plan
IOM	International Organization for Migration
IPC	Integrated Food Security Phase Classification
ITA	Interim Taliban Administration
LCU	Local Currency Unit
MAPKB	Afghanistan Country Office
MENAAP	Middle East, North Africa, Afghanistan, and Pakistan
MOF	Ministry of Finance
MOCI	Ministry of Commerce and Industry
MT	Metric Ton
NEER	Nominal Effective Exchange Rate
NPL	Non-Performing Loan
NSIA	National Statistics and Information Authority
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
POS	Point of Sale
PoR	Proof of Residency
REER	Real Effective Exchange Rate
ROA	Return on Assets
RQA	Return of Qualified Afghans
SMAEO	Social Development Practice
SMAPA	Agriculture Practice
SoVI	Socio-Economic Vulnerability Index
TOKTEN	Transfer of Knowledge Through Expatriate Nationals
UN	United Nations
UNDESA	United Nations Department of Economic and Social Affairs
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollar
WASH	Water, Sanitation, and Hygiene
WB	World Bank
WBG	World Bank Group
WDI	World Development Indicators
WoA	Whole of Afghanistan Survey

EXECUTIVE SUMMARY

Recent Economic Developments and Outlook: *Growth is holding, but living standards are falling under the weight of rapid population increase.*

Afghanistan's economy is expanding modestly, but this growth is not improving people's lives. Economic activity has picked up, supported by relative price stability and improved domestic revenue collection. However, rapid population growth—driven by the return of millions of Afghans — means that incomes per person are declining. At the same time, weak investment and limited job creation continue to constrain opportunities. While macroeconomic stability has largely been preserved, rising external pressures, regional conflicts, and declining aid are increasing vulnerability, and the outlook remains fragile.

Recent Economic Performance: *Economic growth is driven by demand, but is being outpaced by population growth.*

Economic growth in FY2025 reflected resilience in the face of multiple shocks, but remained fragile in quality. Despite return migration, drought, earthquakes, and trade disruptions, real GDP is estimated to have grown by 4.8 percent, driven mainly by higher demand for goods and services.

However, rapid population growth has outpaced economic expansion, leading to falling incomes per person. The return of around 3.7 million people pushed population growth to about 11 percent in FY2025, resulting in a decline in GDP per capita of 5.6 percent. In effect, the economy is growing, but not fast enough to keep up with the number of people, reducing productivity and straining labor markets.

Rising prices have further weakened household purchasing power, especially for the poor. Inflation averaged 3.6 percent in FY2025 and rose to 7.6 percent in March 2026, driven by poor harvest, increased demand, and trade disruptions. While exchange rate stability and lower global prices helped contain inflation, the increase has made it harder for households to meet basic needs.

Poverty and Food Insecurity: *Food insecurity is rising sharply as incomes weaken and pressures intensify.*

Food insecurity has reached critical levels, affecting a large share of the population. An estimated 14.8 million people were acutely food insecure in late 2025, with projections rising to 17.4 million — around 40 percent of the population — during the winter months.

Multiple overlapping pressures are eroding households' ability to cope. Weak incomes, rising food prices, climate shocks, declining humanitarian assistance, and large population inflows are stretching already fragile livelihoods. Returnees and rural households are particularly vulnerable, highlighting the close link between economic conditions and food security.

Fiscal Challenges: *Fiscal stability is maintained, but at the cost of limited investment and resilience.*

Public finances remain constrained despite improvements in domestic revenue collection. While domestic revenues increased to 19.8 percent of GDP in 2025,

overall resources have declined due to a reduction in aid. With no access to borrowing, the authorities continue to operate under a strict cash-based budget framework.

Spending constraints are limiting the ITA's ability to support growth and respond to shocks. Fiscal balance has been maintained mainly through limited spending, particularly in investment and service delivery. High recurrent costs, especially wages (12 percent of GDP), leave little room for development spending, weakening the state's capacity to respond to economic and humanitarian needs.

Trade and External Pressures: *Rising import dependence and weak exports are deepening external vulnerabilities.*

Afghanistan's external position remains fragile due to a widening gap between imports and exports that reached 70 percent of GDP in FY2025. Strong demand, driven by population inflows and reliance on imported goods continue to push imports higher, while exports remain limited and external inflows from aid and remittances have declined.

Efforts to maintain trade flows have reduced short-term disruptions but not structural imbalances. Rerouting trade through alternative corridors after the closure of border with Pakistan and start of the Middle East conflict has helped sustain supply, but it has not addressed the underlying dependence on imports. As a result, Afghanistan remains highly exposed to external shocks and reliant on uncertain external financing.

Monetary and Banking Sector: *Liquidity is increasing, but financial intermediation remains weak.*

The financial system is liquid but not effectively supporting economic activity. Although liquidity has increased due to foreign exchange inflows and higher cash demand, much of it remains outside the banking system.

Limited lending continues to constrain private sector development. Banks are expanding their presence but are not significantly increasing credit to businesses. As a result, investment stays weak, with private sector credit at only 2 percent of GDP, and the economy continues to rely heavily on cash-based and informal financial systems.

Economic Outlook and Risks: *Growth is expected to slow, with significant downside risks from external and domestic pressures.*

Economic growth is projected to moderate, alongside a continued erosion in living standards. Growth is expected to be around 4 percent in FY2026 and slightly below thereafter, driven mainly by consumption and services, with some recovery in agriculture. However, rapid population growth and weak investment will continue to weigh on incomes.

Risks to the outlook are elevated and largely tilted to the downside. Regional instability — particularly in the Middle East — could significantly disrupt trade routes, increase energy prices, and reduce remittances. Afghanistan's reliance on imports and concentrated trade corridors heightens its exposure to such shocks.

Large-scale return migration remains a central structural challenge. While

returnees support demand and economic activity, their numbers are growing faster than the economy's capacity to absorb them. This places pressure on jobs, public services, and prices, reinforcing poverty and fragility.

Private Sector: *Firms show resilience and recovery, but structural constraints continue to limit growth.*

Since 2021 political transition, macroeconomic indicators point to stabilization into a low-level equilibrium, with limited growth, subdued investment, and continued dependence on constrained demand. Against this backdrop, the 2025 Enterprise Survey (ES) offers a nationally representative snapshot of the formal, non-agricultural private sector and helps ground the World Bank Group's Private Sector Pivot, which shifts emphasis from aid toward preserving the country's productive base.

The formal private sector is dominated by small and medium firms — 57 percent employ fewer than 20 workers, only 4.1 percent are large — with manufacturing and construction as the largest segments. Female ownership remains limited, export participation is low, and informality dominates the broader economy, with many formal firms facing direct competition from unregistered businesses that erodes profitability and reinforces a low-productivity equilibrium.

ES 2025 shows a noticeable rebound from the 2021–2022 trough, with firms reporting strong gains in real sales, employment, labor productivity, and investment. Performance is uneven, larger and export-oriented firms outperform on investment and growth, while women-managed firms that remain active report higher sales growth and faster employment expansion than male-managed peers — highlighting constrained potential rather than underperformance.

Comparisons with the 2014 ES suggest meaningful longer-run improvements in the business environment. These improvements include faster permit clearance, a large decline in reported bribery, expanded access to basic financial services, and improved trading conditions. Yet the formal financial sector remains shallow and unevenly accessible, exports remain narrow and sectorally concentrated, and dependence on imported inputs — especially in manufacturing — runs deep.

Despite the rebound, the formal private sector remains smaller than pre-crisis levels, with binding constraints shifting from security and corruption concerns toward structural bottlenecks. The most binding constraints are unreliable electricity, limited and geographically uneven access to finance, pervasive informality, and high tax burden. The evidence supports a pragmatic focus on sustaining firm viability while enabling incremental productivity gains — improving electricity reliability, expanding MSME access to digital and productive finance, strengthening firm capabilities, and deepening selected value-chain linkages. These priorities align with the WBG Private Sector Pivot and the proposed Private Sector Resilience Program (PSRP).

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Table 1. Afghanistan Selected Economic and Financial Indicators, 2020-2028

Fiscal Year	2020	2021	2022	2023	2024 Act.	2025 Est.	2026 Proj.	2027 Proj.	2028 Proj.
			Change in %						
Supply									
Agriculture	5.9	-9.8	-6.6	2.2	2.6	-5.0	3.0	3.2	3.2
Industry	-4.6	-12.8	-5.7	1.8	1.9	10.0	5.0	5.0	5.0
Services	-5.9	-30.1	-6.5	1.5	0.5	10.3	4.4	4.0	3.7
Real GDP	-2.4	-20.7	-6.2	2.3	1.9	4.8	4.0	3.9	3.8
Domestic prices									
Consumer prices (annual average)	5.6	7.8	10.6	-7.7	-4.3	3.6	7.2	6.0	5.0
Exchange Rate (annual average)	76.9	87.7	88.5	77.3	70.3	67.8			
			In % of nominal GDP						
Fiscal									
Revenue and Grants	49.4	36.5	40.6	33.9	35.3	33.1	32.8	32.2	33.2
Domestic Revenue	11.3	11.1	15.1	15.6	19.2	19.8	21.0	21.8	23.4
External Grants	38.1	25.4	25.5	18.3	16.1	13.3	11.8	10.4	9.8
Total Expenditures	51.7	36.0	41.6	35.1	35.8	33.6	33.1	32.1	32.8
Current Expenditures	17.8	13.4	15.3	15.5	17.8	18.2	19.0	19.4	21.2
Capital Expenditures Domestically Financed	10.4	4.1	0.8	1.3	1.8	2.1	2.3	2.3	2.3
Externally Financed Expenditure	23.5	18.4	25.5	18.3	16.1	13.3	11.8	10.4	9.4
ITA Fiscal Balance	-2.3	0.5	-1.0	-1.2	-0.4	-0.5	-0.3	0.1	0.4
General Fiscal Balance (incl. off-budget)	-2.3	0.5	-1.0	-1.2	-0.4	-0.5	-0.3	0.1	0.4
Balance of Payments									
Current Account Balance	-21.6	-15.8	-18.8	-17.6	-28.3	-36.1	-38.5	-37.6	-38.5
Trade Balance (Goods and Services)	-39.1	-34.8	-42.2	-44.6	-62.9	-68.9	-69.8	-68.3	-68.7
Primary and Secondary Incomes	17.5	19.0	23.4	27.0	34.5	32.8	31.3	30.7	30.2
Memorandum items									
Real GDP (constant 2015 USD)	20,622	16,345	15,325	15,673	15,966	16,738	17,405	18,085	18,763
Nominal GDP (USD million)	19,956	14,266	14,502	17,476	17,940	20,301	22,200	23,989	25,129
Population (million)	39.1	40.0	40.6	41.5	42.6	47.4	51.1	52.2	53.3
GDP per capita (real 2015 USD)	527.8	408.6	377.7	378.1	374.4	353.3	340.7	346.6	352.1

Sources: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections.

01 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK IN AFGHANISTAN

RECENT GLOBAL AND REGIONAL ECONOMIC CONTEXT

Global growth proved more resilient than expected in 2025, despite elevated trade tensions and policy uncertainty. This resilience reflected a combination of front-loading of trade ahead of tariff increases, supply-chain reconfiguration, limited near-term tariff pass-through, easier global financial conditions, and a surge in artificial-intelligence-related investment. Global growth is estimated at 2.7 percent in 2025, about 0.4 percentage point above mid-year projections, supported by stronger-than-expected outcomes in major economies.

Growth in advanced economies reached an estimated 1.7 percent. Growth in the United States slowed to an estimated 2.1 percent in 2025, reflecting front-loaded imports, softer consumer spending, and disruptions from a federal government shutdown. In the euro area, growth surprised to the upside at 1.4 percent, supported by export front-loading and stronger domestic demand. Japan's growth firmed to 1.3 percent, reflecting a recovery in consumption and investment.

Regional growth outcomes were mixed. Growth in East Asia and Pacific moderated to 4.8 percent, though it exceeded earlier expectations, while Europe and Central Asia slowed to 2.4 percent amid the lagged effects of tight monetary policy. South Asia recorded strong performance, with growth strengthening to an estimated 7.1 percent, largely driven by resilient activity in India, where robust domestic demand and strong services exports offset rising trade barriers. Growth in Sub-Saharan Africa picked up to about 4 percent, supported by moderating inflation and higher commodity prices, although performance remained uneven across countries. Activity in the Middle East, North Africa, Afghanistan, and Pakistan (MENAAP) region also firmed, supported by higher oil production among exporters and resilient non-hydrocarbon activity in several economies, although elevated geopolitical risks and humanitarian pressures continue to weigh on the outlook in parts of the region.

Global inflation continued to moderate, albeit with significant cross-country divergence. Global headline inflation edged up to an estimated 3.2 percent in 2025, reflecting a pickup in some advanced economies, while easing across most EMDEs. Core inflation declined gradually as labor markets softened and wage growth slowed. Goods price inflation rose modestly in advanced economies—particularly in the United States following the implementation of higher tariffs—but declined in many EMDEs as demand for tradables cooled after early-year stock-building.

The inflationary impact of tariffs has so far been more contained than initially expected. Firms delayed pass-through by front-loading imports, absorbing costs through lower profit margins, and shifting supply chains toward countries with preferential trade arrangements. Nevertheless, goods price inflation in the United States began to pick up from mid-2025, indicating that tariff effects are gradually feeding through.

Global financial conditions eased during the second half of 2025, supporting risk

assets and capital flows. Expectations of U.S. monetary easing, solid risk appetite, and a weaker U.S. dollar fueled equity market gains—particularly in technology-related sectors—and supported capital inflows to EMDEs. Sovereign and corporate issuance by EMDEs increased, and bond spreads narrowed, despite steeper yield curves in advanced economies.

In 2026, geopolitical risks have intensified, particularly in the Middle East, with potential global spillovers. Escalating conflict has disrupted activity around the Strait of Hormuz—a critical chokepoint through which roughly 20 percent of global petroleum production and a similar share of liquefied natural gas (LNG) transit. Shipping disruptions, withdrawal of insurance coverage, and damage to regional production facilities have pushed up energy prices. If sustained, these disruptions are likely to weigh more heavily on global inflation and growth.

Energy markets have been the most immediate transmission channel of the conflict. The Strait of Hormuz handles roughly 20 percent of global oil consumption and is the principal route for LNG exports from Qatar, accounting for about 20 percent of global LNG trade. With few viable alternative routes, sustained disruption to shipping represents the most immediate constraint on global energy supply, even as damage to infrastructure and precautionary production halts carry longer-term risks.

The resulting supply shock has driven a sharp rise in energy and shipping costs. Brent crude prices surged sharply following the escalation of hostilities, while European natural gas prices—closely linked to LNG spot markets—rose markedly. Futures prices suggest that markets expect severe near-term disruption but some normalization over the medium term. Shipping costs have also risen substantially, reflecting higher fuel prices and sharply increased insurance premia.

Historical experience underscores the macroeconomic significance of such energy shocks. Past disruptions affecting far smaller shares of global oil supply triggered large and persistent price increases. The current disruption—affecting an estimated 20 million barrels per day, or about 20 percent of global supply—is larger in scale, heightening risks to the global outlook.

Sustained energy price increases would have significant macroeconomic consequences. Higher energy costs raise input prices across energy-intensive sectors and, over time, are passed on to consumers, pushing up core inflation and eroding real incomes. Elevated fertilizer prices and constrained supply from the Gulf could weigh on agricultural production and global food supplies, with disproportionate impacts on poor and vulnerable populations. If inflation pressures persist, central banks may be compelled to tighten monetary policy, adding a further headwind to global growth amid already elevated uncertainty.

The extent of these risks depends critically on the evolution and duration of the conflict. In the Middle East and neighboring regions, economic impacts are already being felt most acutely in directly affected countries and those in close proximity.

REAL SECTOR DEVELOPMENTS: RETURNEE INFLOWS BOOST OUTPUT BUT WEIGH ON PER CAPITA INCOMES

Economic growth is estimated at 4.8 percent in FY2025, led by services and industry despite drought, but rapid population growth is expected to have resulted in a 5.6 percent decline in GDP per capita. Weak investment amid fast labor force expansion continues to constrain productivity and reinforce a low-productivity equilibrium.

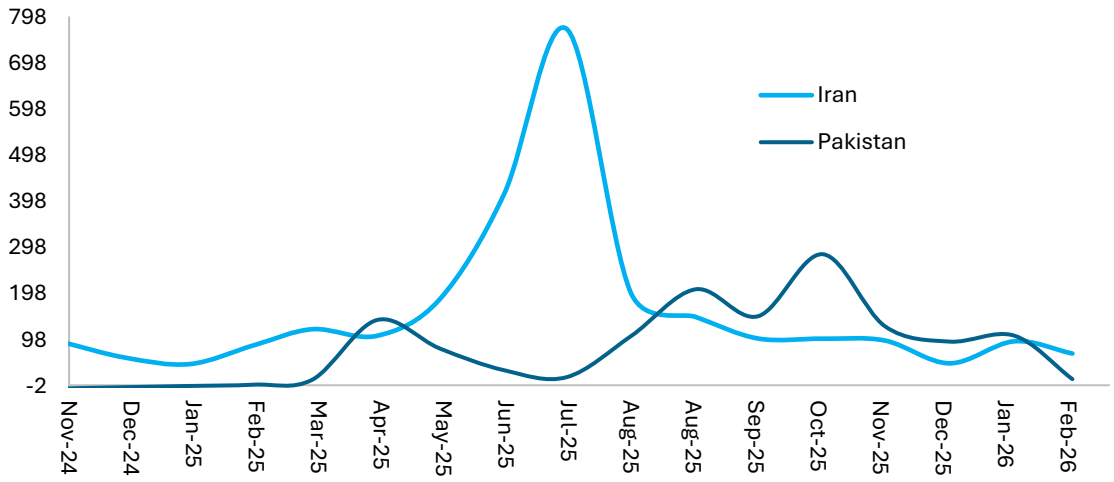
FY2025 was marked by a confluence of shocks that heightened Afghanistan's macroeconomic vulnerability. Afghanistan's economy faced heightened vulnerability during the year, reflecting a combination of external shocks and domestic pressures. A sharp decline in foreign aid, successive natural disasters—including drought and earthquakes—and the prolonged Afghanistan–Pakistan border closure since October 2025 compounded existing structural fragilities. At the same time, the country experienced one of the largest population movements in recent years, with nearly 3.7 million Afghans returning [1] from Iran and Pakistan during the Afghan fiscal year (March 21, 2025–March 20, 2026). Returns peaked in July, when approximately 800,000 individuals—primarily from Iran—re-entered Afghanistan [2]. While trade rerouting helped temporarily mitigate the impact of the border closure, the scale of returns placed significant pressure on domestic demand, public services, and labor markets, while heightening fiscal and external sector risks.

FY2025 outcomes underscored a sharper divergence between population dynamics and economic growth than previously anticipated. On an annual basis, the population is estimated to have grown by 11 percent in FY2025, compared to a projection of 8.6 percent in the Fall 2025 ADU, with migration contributing about 8.6 percentage points (pp) (against 6.1 pp previously projected) (Figure 1 and Box 1). Returns from Pakistan were larger than initially anticipated, contributing to faster-than-expected labor force expansion. Aggregate output, however, rose by only 4.8 percent—slightly above the 4.3 percent projected in the Fall 2025 ADU (Figure 2)—and was driven largely by consumption rather than investment-led growth. As a result, GDP per capita declined by an estimated 5.6 percent, compared to a 4.0 percent decline projected in the Fall ADU. This widening gap between population growth and economic expansion reflected declining capital per worker and limited absorptive capacity, reinforcing capital dilution effects highlighted in standard growth frameworks.

[1] International Organization for Migration (IOM). 2026. *Afghanistan Flow Monitoring Counting (January 10, 2024–March 28, 2026).* Displacement Tracking Matrix (DTM), IOM Afghanistan. Available at: https://dtm.iom.int/datasets/afghanistan-flow-monitoring-counting-january-10-2024-march-28-2026 (accessed April 6, 2026).

[2] World Bank. 2025. *Afghanistan Development Update, December 2025: Sustaining Returns—Challenges and Opportunities.* Washington, DC: World Bank. Available at: https://thedocs.worldbank.org/en/doc/ece486358b8822699ada5d12cdb5cd09-0310012025/afghanistan-development-update-december-2025

Figure 1: Net Inflow of Returnees (thousand persons)



Source: International Organization for Migration (IOM). 2026. Afghanistan Flow Monitoring Counting (January 10, 2024–March 28, 2026). Displacement Tracking Matrix (DTM), IOM Afghanistan.

Non-agriculture sectors were the main drivers of economic growth in FY2025, though the expansion was accompanied by emerging efficiency constraints. The services sector is estimated to have grown by 10.3 percent, supported by strong demand for housing, retail trade, transport, health, and education, partly reflecting the absorption of large numbers of returnees into labor-intensive activities. Industry also expanded by about 10 percent, driven primarily by construction and light manufacturing amid rising domestic demand and labor supply. Mining and quarrying contributed to overall activity as well, with real growth averaging 25 to 30 percent [3] and employment averaging 15 percent per year partly supported by improvements in security conditions. The ITA has awarded hundreds of contracts in recent years; however, most remain at early stages, limiting their immediate contribution to output and exports.

[3] According to the mining module of the 2025 Enterprise Survey, Afghanistan's mining sector experienced strong nominal and real expansion between 2022 and 2024, with firms reporting robust sales growth and moderate employment gains. Firm-level data suggest that annualized symmetric growth rates were substantial: real sales growth averaged around 25–30 percent per year, while employment grew more moderately at about 14–15 percent annually. As a result, productivity growth—measured as the difference between sales and employment growth—has been positive and sizeable.

Figure 2: Contribution to Real GDP Growth (percent)

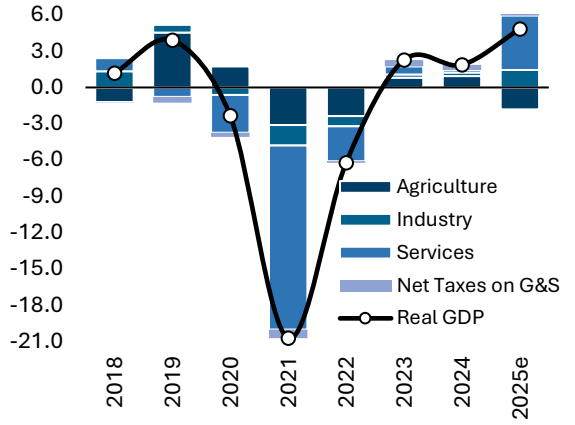
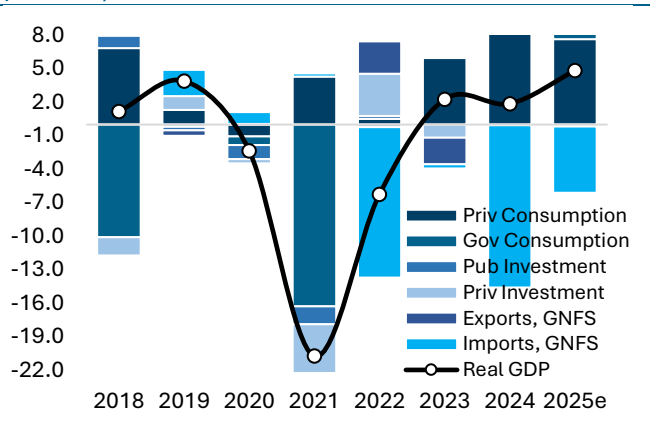


Figure 3: Contribution to Growth by demand (percent)



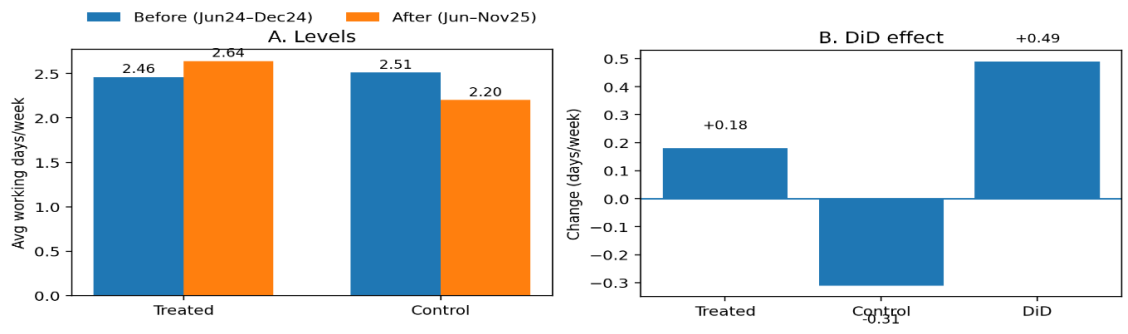
Source: National Statistics and Information Authority (NSIA) up to 2024 and World Bank estimates for 2025.

Box 1: Returnees and Local Labor Markets: Evidence from a Difference-in-Differences (DiD) Approach

The 2025 returnee surge appears to have raised local labor utilization in the short run in provinces receiving the largest share of returnees. Using province level monthly data on the average number of days worked per week by casual laborers, a DiD specification compares provinces with the highest returnee exposure to lower-exposure provinces. The analysis defines a pre-period and a post-period, excluding a transition window. The preferred specification includes province and month fixed effects and clusters standard errors at the province level.

The baseline estimate suggests that high-returnee provinces experienced an increase of roughly 0.5 additional working days per week relative to other provinces after the surge (B. DiD effect panel). It corresponds to about two extra working days per month for casual laborers in the most exposed provinces. Rather than showing immediate labor-market crowding-out, the evidence points to a short-run demand and absorption effect, likely reflecting the fact that many returnees—especially those arriving from Iran—are of working age and bring skills, work experience, and in some cases savings that support small-scale commerce, services, and construction activity. In this interpretation, returnees act not only as job seekers, but also as economic actors generating local demand.

Returnee Exposure and Labor Market Outcomes, Province Level



Source: World Bank Staff based on WFP, IOM, and UNHCR data

Note. Treated = high returnee provinces (Kabul, Herat, Balkh, Kandahar, Kunduz, Helmand, Baghlan, and Nangarhar), Before=June 2024 to December 2024, After = June 2025 to December 2025, Transition period = January – May 2025.

The robustness checks broadly support this result. First, a placebo timing test that assigns a false shock date to mid-2024 yields coefficients close to zero and statistically insignificant, suggesting the post-2025 pattern is not simply an artifact of pre-existing differentials. Second, alternative post windows—for example, shifting the post period to July–November or August–November 2025—continue to produce positive coefficients of similar order of magnitude. Third, excluding obvious data outliers, such as provinces with anomalous zero observations, does not alter the sign of the effect. Fourth, replacing the binary treatment indicator with a continuous exposure measure based on each province's share of total returnees also yields a positive coefficient, consistent with a dose-response relationship: provinces receiving larger inflows tend to record larger improvements in casual labor utilization.

Variable	Baseline DiD	Robustness (Placebo / Alt. specs)
Treated (high-returnee provinces)	0.120 (0.180)	0.095 (0.170)
Post (returnee surge period)	0.080 (0.140)	0.060 (0.135)
Treated × Post	0.500** (0.210)	0.420* (0.240)
Constant	2.000*** (0.100)	2.000*** (0.100)

A simple back-of-the-envelope calibration suggests that an additional 100,000 returnees could raise aggregate GDP by around 0.1 percent in the short run. The calculation assumes that the majority are of working age, and that short-run absorption occurs primarily through informal activities with productivity below the national average. Under those assumptions, the labor-market gains identified in the DiD estimates imply a modest boost to local output, but not enough to prevent a decline in GDP per capita. This helps reconcile the micro evidence of stronger labor-market utilization with the broader macro observation that average income per person can remain under pressure when returnees are absorbed largely into low-productivity informal work.

Overall, the evidence suggests that the returnee shock has had a short-run expansionary effect on local labor supply and demand, particularly in provinces most exposed to inflows. But the quality of that absorption matters. If returnees continue to be absorbed predominantly in low-productivity informal activities, the gains in employment intensity may coexist with declining output per worker and falling GDP per capita.

Firm-level evidence suggests that this expansion was largely driven by demand rather than productivity improvements. According to the 2025 Enterprise Survey (See the Special Focus Chapter), Afghan firms recorded exceptionally strong performance relative to regional and global peers. Average real sales growth reached 19.2 percent—more than three times the regional average—with particularly strong outcomes in services. Employment growth was also robust at 11.7 percent, well above comparator countries,

reflecting rapid labor absorption. Measured labor productivity growth appears to be elevated at 12.7 percent, especially in services, indicating that firms initially benefited from scale effects and demand recovery.

However, other indicators point to structural constraints that limit the sustainability of recent firm-level gains. Capacity utilization remains relatively low at 68.8 percent—well below regional and global averages—indicating significant slack and production inefficiencies. Firms are also relatively young, with an average age of 10.9 years, suggesting a business structure dominated by less mature enterprises with limited capital depth and managerial capacity. While 41.5 percent of firms report investing in fixed assets—slightly above regional benchmarks—investment levels remain insufficient to support sustained capital deepening given the rapid expansion of the labor force.

These patterns indicate that growth in FY2025 was driven primarily through extensive margins rather than productivity-enhancing structural change. Firms responded to strong demand and a surge in labor supply by expanding employment and output, but without commensurate improvements in capacity utilization, capital intensity, or efficiency. This is consistent with a process of capital dilution, in which rapid labor force growth—associated in part with large-scale returnee inflows—outpaced capital accumulation.

Alongside the expansion in non-agriculture sectors, agricultural output contracted in FY2025 due to drought conditions, despite relatively resilient performance in irrigated wheat. Overall agricultural output is estimated to have declined by 5 percent in FY2025, following a strong rebound of 6 percent in FY2024. The winter wheat harvest was below average as weak precipitation and elevated temperatures affected rain-fed production, although total wheat output is estimated at 4.5 million metric tons, supported by irrigated yields and expanded access to certified seeds, irrigation pumps, and fertilizers provided by FAO.

Overall, FY2025 outcomes underscore the risk that Afghanistan's economy remains locked in a low-productivity equilibrium without a decisive step-up in investment, despite stronger-than-initially-expected firm-level performance documented in the 2025 Enterprise Survey (Box 2). While output is estimated to have increased during the year, the lack of commensurate investment in physical and human capital has limited productivity growth and constrained improvements in living standards in per capita terms. As highlighted by firm-level evidence, recent dynamism has been driven largely by demand and labor absorption rather than capital deepening, suggesting that without higher investment and skills accumulation, growth will remain insufficient to reverse declines in output per worker and household welfare.

On the demand side, private consumption was the dominant driver of growth in FY2025. It is estimated to have contributed about 7.6 pp to real GDP growth (Figure 3), reflecting heightened demand pressures following the return of approximately 3.7 million migrants and refugees. The surge in population significantly boosted household

spending on food, housing, and basic services. While this provided a temporary lift to economic activity, consumption-led growth was largely driven by demographic shocks, raising concerns about sustainability in the absence of corresponding productivity gains.

Public consumption provided a modest but stable contribution to growth, constrained by limited fiscal space. ITA consumption is estimated to have contributed about 1.1 pp to growth in FY2025, reflecting continued spending on wages and essential services. However, tight fiscal conditions limited the ITA's capacity to expand investment in basic service delivery, reducing the scope for public spending to support longer-term growth.

Investment remained the weakest component of aggregate demand, underscoring Afghanistan's structural growth constraints. Public investment is estimated to have contributed only about 0.3 pp to GDP growth in FY2025, while private investment added around 1.9 pp, despite more than 40 percent of formal firms reporting fixed-asset acquisition. Overall investment levels remain subdued, highlighting limited capital accumulation and leaving the economy ill-equipped to absorb a rapidly expanding labor force, thereby reinforcing capital dilution pressures.

However, the consumption-led expansion that supported growth in FY2025 also translated into a widening external drag. External trade weighed on growth as exports of goods and services stagnated, while imports subtracted an estimated 5.0 pp from GDP growth. Strong import demand, driven by heightened household consumption following large population inflows and constrained domestic supply capacity, contributed to a widening trade deficit, amplifying Afghanistan's external vulnerabilities.

Box: 2. Firm-Level Resilience and Catch-Up Growth in Afghanistan: Insights from the 2025 Enterprise Survey

Firm-level evidence presents a nuanced picture of Afghanistan's private-sector performance under highly constrained conditions. Survey data (see also the Special Focus Chapter) indicate that many formal firms recorded strong growth in sales, employment, and investment despite persistent weaknesses in infrastructure, finance, and informality the regulatory environment. These outcomes point to notable resilience, as businesses adapted to difficult operating conditions by relying on self-financing, adjusting production processes to cope with unreliable electricity, and maintaining trade and supply relationships amid continued frictions. In this sense, recent firm performance reflects the capacity of enterprises to sustain activity even with weak supportive institutions.

At the same time, several indicators suggest that part of the recent expansion reflects catch-up dynamics rather than deep structural transformation. Capacity utilization remains relatively low by regional standards, implying that firms have been able to increase output by reactivating idle machinery, facilities, and labor rather than through substantial new investment. Measured productivity gains therefore appear partly mechanical, as fixed costs are spread over higher output and inefficiencies accumulated during earlier downturns are reduced. Such improvements are encouraging but may taper off once existing capacity is fully utilized.

Financial constraints shape both the pace and distribution of growth. Access to finance remains extremely limited, particularly for small and medium firms, forcing most enterprises to rely on retained earnings, family networks, or informal sources to fund investment. As a result, expansion has been concentrated in larger firms with greater internal resources, while smaller firms face tighter constraints on scaling up. High levels of informality and business turnover further reinforce reallocation effects, as weaker firms exit and surviving enterprises absorb their market share, boosting average sales and productivity in the formal sector without necessarily expanding the overall economic base.

Taken together, the evidence suggests that resilience and catch-up are operating simultaneously. Afghan firms have demonstrated an ability to adapt, invest, and hire under pressure, underscoring the existence of latent entrepreneurial capacity. However, the same constraints that firms navigate—unreliable electricity, limited access to finance, informality and regulatory unpredictably—continue to limit the breadth and durability of growth. Without progress in easing these binding constraints, current gains risk remaining partial and fragile, driven by reactivation and consolidation rather than broad-based productivity growth.

The findings imply that sustaining private-sector-led growth does not require building entrepreneurial capacity from scratch, but rather unlocking potential that already exists. Improvements in electricity reliability, expanded access to working capital and investment finance for smaller firms, and more predictable administrative processes could help shift growth from short-term catch-up toward deeper and more inclusive productivity gains. In this context, recent firm-level performance offers grounds for cautious optimism, while highlighting the risks of a slowdown once catch-up effects dissipate if structural bottlenecks remain unaddressed.

Afghanistan's growth performance in FY2025 masks a sharp divergence between aggregate output and living standards. While real GDP growth is estimated at 4.8 percent—broadly in line with regional peers—an exceptional population surge of around 11 percent, driven by large-scale returns, implies a contraction in GDP per capita. This contrasts sharply with countries such as Pakistan, Bangladesh, Uzbekistan, and Tajikistan, where population growth remains below 2 percent and positive per capita income gains are expected. As a result, Afghanistan stands out as an economy where strong demographic pressures are offsetting the benefits of output expansion.

This divergence is particularly evident when comparing Afghanistan with South Asian peers, where growth rates are similar but demographic trends differ markedly. Afghanistan's economic growth is comparable to Nepal (4.6 percent), and Bangladesh (3.5 percent). However, while these countries experience modest population growth—or even slight contraction in the case of Nepal—Afghanistan's population has surged by around 11 percent. Consequently, GDP per capita is estimated to have declined by about 5.6 percent in FY2025, whereas neighboring economies continue to record steady improvements in living standards.

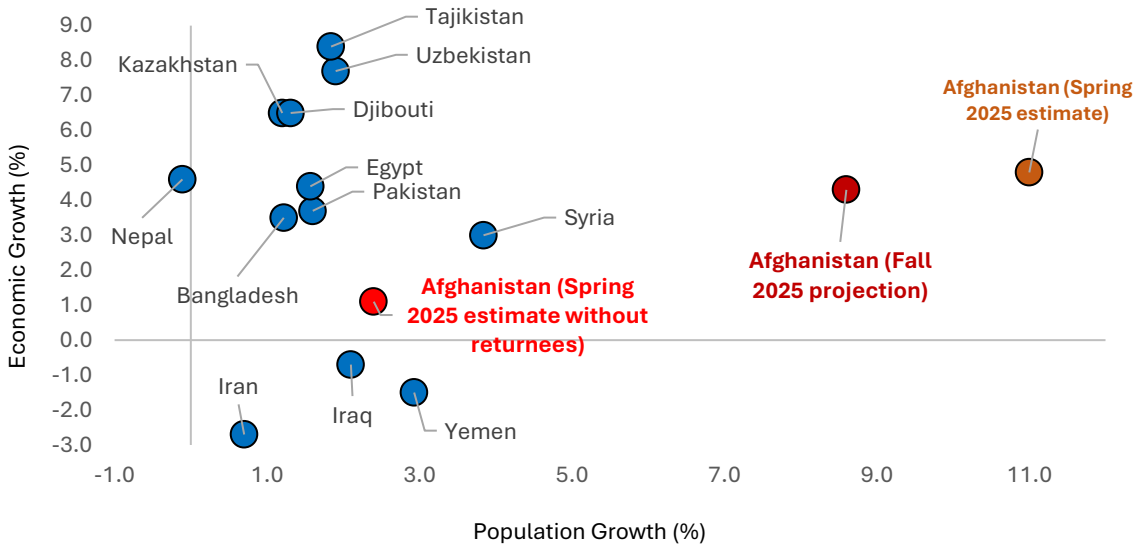
A similar pattern emerges when benchmarking Afghanistan against fragile economies in the MENAAP region, highlighting the outsized role of demographic pressures. Although Afghanistan's growth rate exceeds that of countries such as Iran (-2.7 percent), Yemen (-1.5 percent), and Iraq (-0.7), and is comparable to Syria (2 to 4 percent), population growth in these economies remains significantly lower, ranging from 0.7 to 3.8 percent. This disparity translates into a more pronounced decline in per capita income in Afghanistan, placing it among the most adversely affected economies in per capita terms despite its positive aggregate growth.

The contrast is even more pronounced relative to Central Asian economies, where strong growth is effectively translated into rising living standards. Countries such as Uzbekistan (7.7 percent growth, 1.9 percent population growth), Kazakhstan (6.5 percent, 1.2 percent), and Tajikistan (8.4 percent, 1.8 percent) benefit from a combination of robust output expansion and manageable demographic pressures, resulting in significant per capita income gains. Afghanistan, by contrast, exhibits lower aggregate growth and a population increase several times larger, driven by returnee inflows, leading to declining per capita incomes.

A counterfactual scenario further clarifies the dual impact of returnee inflows on Afghanistan's growth dynamics. In the absence of mass returns, population growth would have been closer to 2.5 percent, but economic growth would also have been substantially lower, at around 1.1 percent, because of the drought-induced contraction in agriculture output. This suggests that returnees have supported aggregate demand and output, while simultaneously exerting downward pressure on per capita income through rapid labor force expansion that outpaces capital accumulation.

Taken together, these comparisons point to a central macroeconomic challenge: Afghanistan's growth is being constrained by its limited capacity to absorb a rapidly expanding population. The returnee-driven demographic surge is intensifying capital dilution, straining labor markets and public services, and undermining welfare gains. Without a significant scaling-up of investment in infrastructure, firm growth, and human capital, Afghanistan risks remaining on a low-productivity growth path in which aggregate output expands but living standards continue to decline relative to regional peers.

Figure 4: Real GDP growth in Afghanistan and regional peers (FY2025e)



Source: World Bank Macro Poverty Outlook (MPO April 2026[4]), World Bank Regional Economic Updates (MENAAP, SA, ECA), UN Population Prospects

PRICE TREND: RISING INFLATION UNDER DEMAND PRESSURES, DROUGHT, AND BORDER CLOSURES

Inflationary pressures intensified in FY2025 amid demographic pressures, drought, and trade disruptions. With strong population inflows, weather-related supply constraints, and extended border closures, inflation has accelerated, rising above levels observed in neighboring South and Central Asian economies, though remaining broadly comparable to inflation in several MENA countries facing elevated price pressures.

Inflation in Afghanistan remained moderate relative to historical volatility, supported by improved import conditions and exchange rate stability. Average inflation rose to 3.6 percent in FY2025, from a deflation of 4.3 percent in FY2024, with price pressures intensifying in the second half of the year. On a year-on-year basis, headline inflation rose to 7.6 percent in March 2026, up from 0.3 percent in March 2025, driven by increases in both food (7.4 percent) and non-food (7.7 percent) prices. These developments reflect a combination of demand-side pressures associated with population growth and localized supply constraints.

Food inflation was driven primarily by both demand pressures and supply conditions. Year-on-year price increases were strongest for bread and cereals (14.6 percent), vegetables (14.6 percent), edible oils (11.6

[4] World Bank. (2026). *Macro Poverty Outlook: Spring Meetings 2026*. Washington, DC: World Bank. Available at: Macro Poverty Outlook Spring 2026 PDF

percent), and fresh and dried fruits (10.4 percent), while price declines in other food categories partially offset the overall increase.

Non-food inflation was led by housing and health-related costs, while other components remained relatively stable. Housing prices increased by 17.6 percent year-on-year in March 2026, reflecting strong demand and supply rigidities, while health-related prices rose by 13.9 percent. Price changes in other non-food categories were more subdued, limiting the overall acceleration in non-food inflation.

Underlying inflationary pressures also strengthened, pointing to persistence risks. Core inflation increased to 8.3 percent, suggesting that beyond volatile food and energy components, price pressures are becoming more entrenched. This underscores the risk that, without easing supply constraints and moderating demand pressures, inflation may remain elevated in the near term.

Regional comparison suggests that inflation in Afghanistan remains moderate relative to several peers, though pressures are rising. With inflation at 3.6 percent, Afghanistan's price growth is broadly in line with Nepal (4.1 percent) and Pakistan (4.5 percent), and below levels observed in Uzbekistan (8.8 percent), Bangladesh (10.0 percent), and Kazakhstan (11.0 percent). Inflation also remains significantly lower than in more stressed economies such as Egypt (20.9 percent), Yemen (20 percent), and Iran (49.1 percent). At the same time, Afghanistan's inflation exceeds that of lower-inflation peers such as Djibouti (0 percent), Iraq (0.3 percent), and Tajikistan (3.4 percent), underscoring that while price pressures are contained relative to some regional comparators, they are no longer negligible—particularly given rising food prices and supply constraints.

Figure 5: Monthly Food and Nonfood (%)

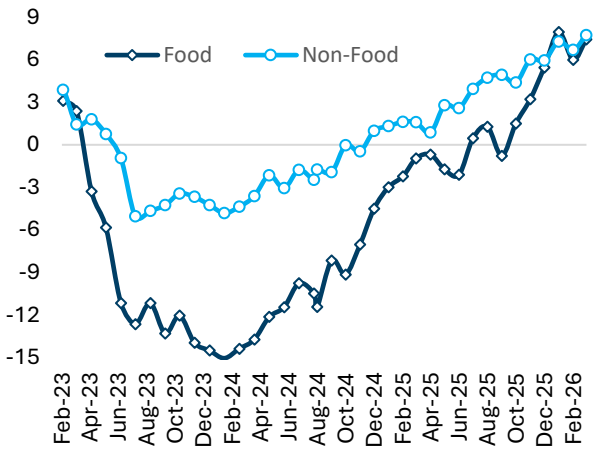
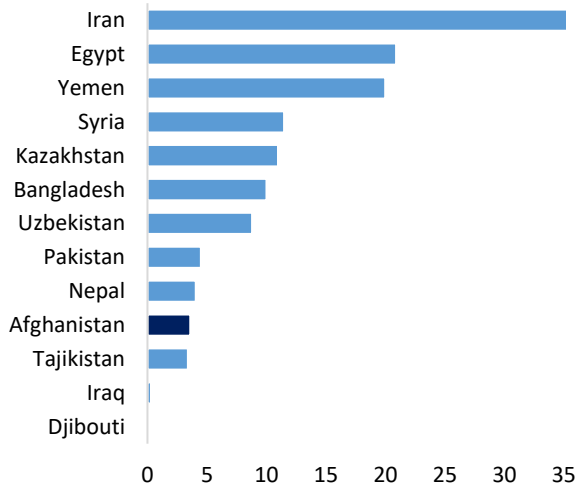


Figure 6: Average Inflation Rate in Afghanistan and Regional Peers (%, 2025)



Source: National Statistics and Information Authority (NSIA) and World Bank Macro Poverty Outlook (MPO April 2026).

HOUSEHOLD WELFARE AND FOOD SECURITY: DETERIATION AMID DROUGHT AND MIGRANT AND REFUGEE RETURNS

Food security conditions have deteriorated further, reflecting the interaction of weak incomes, rising food prices, and climate-related shocks. Declining humanitarian support and large population inflows have compounded pressures on household coping capacity, reinforcing the close links between poverty, rising inflation, agricultural performance, and vulnerability.

Food insecurity has deteriorated sharply, reinforcing poverty and vulnerability amid rising food prices and constrained agricultural output. According to the latest Integrated Food Security Phase Classification (IPC)[5] analysis, about 13.8 million people—around 32 percent of the population—were estimated to be facing high levels of acute food insecurity (IPC Phase 3 and above) in Fall 2025. This number is projected to rise to 17.4 million people, or about 40 percent of the population, between November 2025 and March 2026, including approximately 4.7 million people in IPC Phase 4 (Emergency). This represents a deterioration compared with the 14.8 million people estimated to be acutely food insecure over the same period a year earlier. The worsening outlook reflects persistent economic weakness, high underemployment, declining household incomes, and a reduction in humanitarian assistance, which together have eroded coping capacity and deepened poverty risks.

Adverse climatic conditions and higher food prices have further intensified food insecurity, particularly in rural and remote areas. Prolonged spells of dry weather in 2025 reduced rain-fed wheat production, constraining domestic supply and contributing to food price pressures already discussed in the inflation section. The impact has been most pronounced in Badakhshan, Ghor, Faryab, Jawzjan, Samangan, Bamyan, and Daykundi[6], where reliance on rain-fed agriculture and limited market access heighten vulnerability. These agricultural shocks, combined with rising food prices, have weakened purchasing power for poor households and amplified the transmission from inflation to food insecurity.

Population inflows have added further pressure to food security and social support systems. Many returnees remain highly dependent on humanitarian assistance to meet basic needs. In the context of declining aid and elevated food prices, the influx has increased demand for food and basic services, placing additional strain on already stretched safety nets and reinforcing the link between food insecurity, poverty, and inflation dynamics.

[5] Integrated Food Security Phase Classification (IPC). 2025. *Afghanistan: Acute Food Insecurity Situation (March–April 2025 and projections for May–October 2025).* IPC Global Platform. https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1159622/?iso3=AFG

[6] Food and Agriculture Organization (FAO). (2026). *GIEWS Country Brief: Afghanistan*. Retrieved from https://www.fao.org/giews/countrybrief/country.jsp?code=AFG

Acute malnutrition remains critically high in several provinces, reflecting the combined effects of rising food prices, constrained agricultural production, and weakened household purchasing power. Prolonged drought conditions, the impact of recent earthquakes, limited dietary diversity, and seasonal disease burdens have further undermined nutritional outcomes. These factors are closely linked to reduced rain-fed agricultural output and food inflation, which have constrained both availability of and access to adequate diets. Large-scale returnee inflows are expected to place additional strain on already overstretched health, nutrition, and water, sanitation, and hygiene (WASH) services, particularly in provinces such as Herat, where overcrowded living conditions heighten disease exposure and nutritional vulnerability.

Malnutrition risks among children and women remain severe and geographically widespread. An estimated 3.7 million children aged 6–59 months are estimated to have suffered from acute malnutrition between January and December 2026, including nearly 950,000 cases of severe acute malnutrition, while about 1.2 million pregnant and breastfeeding women are projected to be acutely malnourished. By January 2026, acute malnutrition conditions are expected to remain broadly stable in some areas and worsen in others, with Faryab and Paktika projected to deteriorate from IPC Acute Malnutrition Phase 3 (Serious) to Phase 4 (Critical). Overall, 18 provinces are expected to remain in IPC AMN Phase 3, underscoring the persistent linkages between food insecurity, inflationary pressures, agricultural shocks, and deepening poverty risks.

Figure 7: Acute Food Insecurity in September – October 2025 (Number of people)

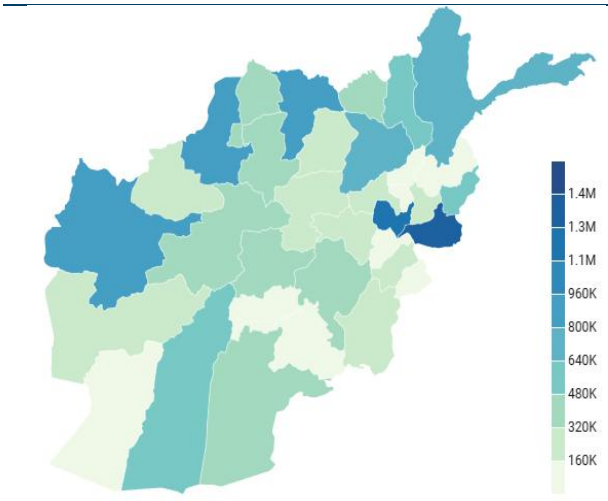
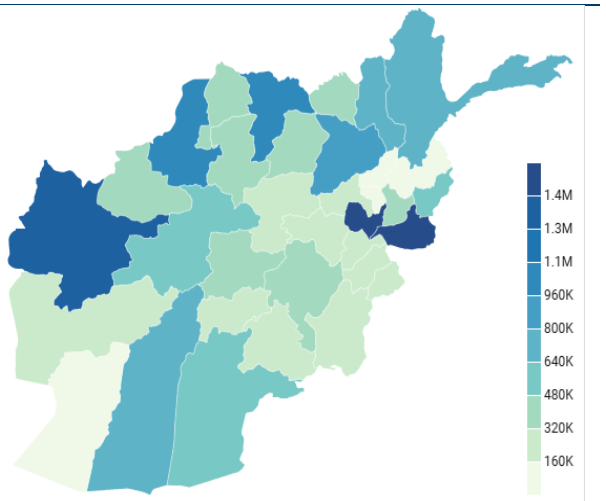


Figure 8: Acute Food Insecurity in November 2025 – March 2026 (Number of people)



Source: Afghanistan: Acute Food Insecurity Situation for September – October 2025 and Projection for November 2025 – March 2026; Integrated Food Security Phase Classification (IPC)

FISCAL DEVELOPMENTS: IMPROVEMENT IN DOMESTIC REVENUES NOT ENOUGH TO COMPENSATE FOR THE DECLINE IN AID

Fiscal outcomes in FY2025 reflected a combination of improved domestic revenue performance and heightened vulnerability from declining external support. While domestic tax revenue remained strong, the overall resource envelope contracted as humanitarian and basic human needs (BHN) aid continued to decline, increasing Afghanistan's reliance on donor financing and trade-related taxation. With borrowing capacity severely constrained, the ITA faced limited room to respond to shocks or finance longer-term growth-enhancing investments, making sustained improvements in revenue mobilization critical to maintaining fiscal stability.

FISCAL REVENUE AND GRANTS[7]

Total revenue and grants declined in FY2025, reflecting a continued reduction in external donor support. Overall resources are estimated to have fallen from 35.3 percent of GDP in FY2024 to 33.1 percent in FY2025. This decline was driven primarily by lower external aid, which is estimated to have decreased from 16.1 percent to 13.3 percent of GDP. The downward trend underscores Afghanistan's persistent vulnerability to shifts in donor financing, which continues to underpin more than 40 percent of public revenues.

Domestic revenue performance continued to strengthen in FY2025, supporting a gradual shift toward greater fiscal self-reliance. Revenue collections rose to AFN 272 billion (19.8 percent of GDP) in FY2025, up from AFN 242 billion (19.2 percent of GDP) in FY2024. This increase was driven by strong growth in tax revenues, which expanded from 10.7 percent to 13.0 percent of GDP. Non-tax and other revenues totaled AFN 92.6 billion, equivalent to 6.7 percent of GDP. Overall, these developments point to a gradual rebalancing of fiscal resources toward more sustainable, tax-based revenues and away from more volatile non-tax sources, helping to partially offset declining external support.

Tax revenue gains [8] in FY2025 were broad-based but remained closely tied to trade dynamics and external conditions. Direct taxes increased from 2.0 percent of GDP in FY2024 to 2.2 percent in FY2025, supported by higher corporate income tax (from 0.4 to 0.5 percent of GDP) and personal income tax collections (from 0.8 to 0.9

[7] The Interim Taliban Administration (ITA) announced the curtailment of the fiscal year 1404 (FY2025), effectively shortening the fiscal year below the standard twelve-month cycle. For the purposes of comparability, this report retains the standard twelve-month fiscal year framework in all estimates and analyses.

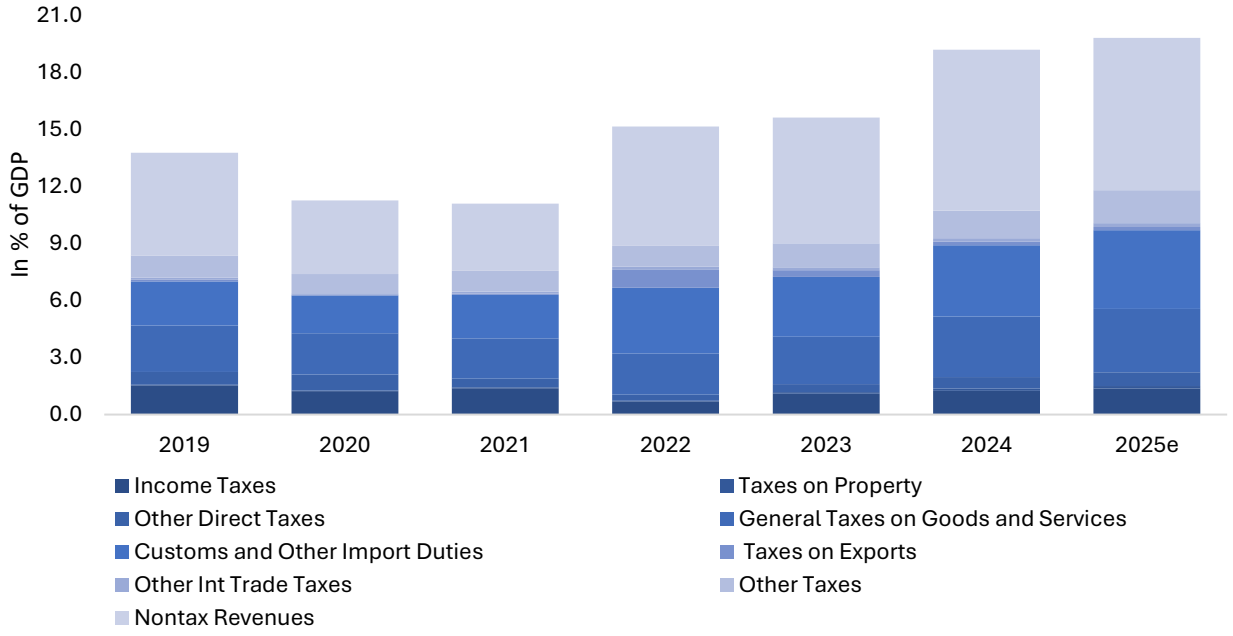
[8] Firm-level analysis of Afghanistan's enterprise sector reveals a consistent pattern: productivity dispersion is primarily associated with structural frictions—particularly financial constraints—rather than fiscal burden distortions. Across multiple empirical approaches, effective tax rates do not emerge as a statistically or economically meaningful driver of firm-level total factor productivity (TFP), investment behavior, working capital structure, or capital misallocation. Weighted regressions of TFP on effective tax rates (controlling for sector and region fixed effects) show consistently small and statistically insignificant coefficients.

percent). Indirect taxes continued to play a larger role, with taxes on goods and services rising from 3.2 to 4.1 percent of GDP. International trade taxes increased more sharply, from 4.1 to 5.0 percent of GDP, despite extended trade disruptions—including the prolonged Afghanistan–Pakistan border closure in the second half of the fiscal year. This improvement was driven largely by higher customs and import duties, which rose from 3.8 percent of GDP in FY2024 to 4.7 percent in FY2025, reflecting strong import demand associated with population inflows. By contrast, export taxes remained stagnant at around 0.2 percent of GDP, underscoring both the narrow export base and the fiscal risks arising from Afghanistan's continued reliance on border-related revenues amid external shocks.

Non-tax revenue weakened as a source of fiscal resources in FY2025, highlighting their limited sustainability despite nominal growth. While non-tax revenues increased in nominal terms, they declined to 6.7 percent of GDP in relative terms. These revenues—largely derived from state-owned enterprises, administrative fees, natural resource rents, and service charges—remained volatile and less predictable than tax receipts. The decline underscores the structural limitations of relying on non-tax revenues, which are sensitive to fluctuations in SOE performance, governance constraints, and the narrow diversification of the Afghan economy. While improvements in transparency and efficiency could help stabilize collections at the margin, medium-term fiscal consolidation will depend more heavily on expanding the formal tax base, absent a significant and sustained increase in revenues from the mining sector.

Despite progress in domestic revenue mobilization, humanitarian and basic human needs (BHN) assistance remained a critical pillar of Afghanistan's public finances in FY2025. Even after a decline of 2.8 pp of GDP, grants accounted for an estimated 13.3 percent of GDP, equivalent to more than 40 percent of total public resources. This continued dependence exposes the fiscal framework to heightened volatility risks should donor support contract further, underscoring the urgency of consolidating and diversifying domestic revenue sources. Since the ITA's takeover, donors have recalibrated their assistance by discontinuing most development projects and technical support, while maintaining humanitarian aid and funding for basic services. Although humanitarian needs have eased moderately, basic human needs programs face longer implementation timelines, and restrictive policies affecting women and girls have continued to constrain the scope and composition of external assistance.

Figure 9: Domestic Revenue by Component (Percent of GDP)



Source: Ministry of Finance and World Bank estimates for 2025.
Note: The Afghan fiscal calendar runs from March 21 of year N to March 20 of year N+1.

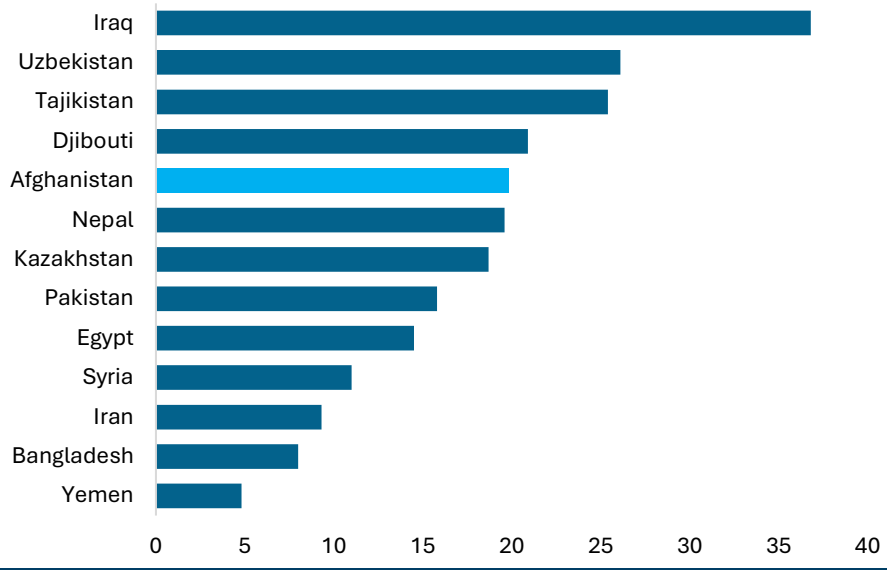
Afghanistan's domestic revenue performance compares favorably with many fragile and regional peers, though it remains below the level required to sustainably finance development and service delivery. With domestic revenues estimated at 19.8 percent of GDP, Afghanistan mobilizes a higher share of GDP than several large and fragile economies, including Yemen (4.8 percent), Syria (11.0 percent), Bangladesh (8 percent), and Iran (9.3 percent). It also outperforms Pakistan (15.8 percent) and Egypt (14.5 percent), indicating a relatively strong fiscal effort despite its fragile political and economic environment. This performance reflects improvements in customs collections, tighter enforcement at borders, and a relatively disciplined approach to tax administration under difficult conditions.

At the same time, Afghanistan continues to lag stronger revenue performers in Central Asia and parts of the broader region. Countries such as Kazakhstan (18.7 percent) and Nepal (19.6 percent) mobilize revenues at levels comparable to Afghanistan, while Tajikistan (25.4 percent) and Uzbekistan (26.1 percent) achieve substantially higher ratios. Iraq, at 36.8 percent of GDP, stands out as an outlier, largely reflecting hydrocarbon revenues rather than broad-based taxation. These comparisons underscore Afghanistan's dual position: fiscally stronger than most fragile states, yet still below the revenue capacity seen in more diversified and resource-rich economies.

Bridging this gap will require sustained reforms to broaden the tax base and reduce reliance on trade-related revenues. While customs and border-based taxation have driven recent gains, expanding underutilized sources—particularly direct taxes—will be essential to improve revenue sustainability and resilience to trade shocks. Strengthening

personal and corporate income taxation, introducing more effective property taxation, and formalizing segments of the economy currently outside the tax net will be critical. Continued investments in tax administration, improved taxpayer services, and the use of digital tools for registration and enforcement will be needed to raise revenues in a manner that supports fiscal stability, equity, and medium-term growth.

Figure 10: Domestic Revenue (Percent of GDP)



Source: World Bank Macro Poverty Outlook (MPO April 2026).

FISCAL EXPENDITURE

Expenditure outcomes in FY2025 were characterized by continued rigidity, with spending dominated by recurrent outlays. While the introduction of social assistance marked a notable shift in spending priorities toward household support, overall capital expenditure remained minimal. This constrained the state's ability to invest in growth-enhancing infrastructure and service delivery, limiting the role of fiscal policy in supporting medium-term productivity and economic recovery.

Overall public spending moderated in FY2025, reflecting tighter external financing and continued fiscal discipline. Total expenditure is estimated to have declined from 35.8 percent of GDP in FY2024 to 33.6 percent in FY2025. This reduction was driven mainly by lower externally financed off-budget spending, while the ITA maintained a near-balanced on-budget position, limiting the scope for discretionary fiscal expansion.

Core recurrent spending increased further in FY2025, with limited reallocation across expenditure categories. Current expenditure is estimated to have risen from 17.8 percent of GDP in FY2024 to 18.2 percent in FY2025. Wages and compensation—the largest spending item, accounting for roughly two-thirds of current expenditure—increased by 0.4 pp of GDP to reach about 12.0 percent of GDP, underscoring the continued weight of

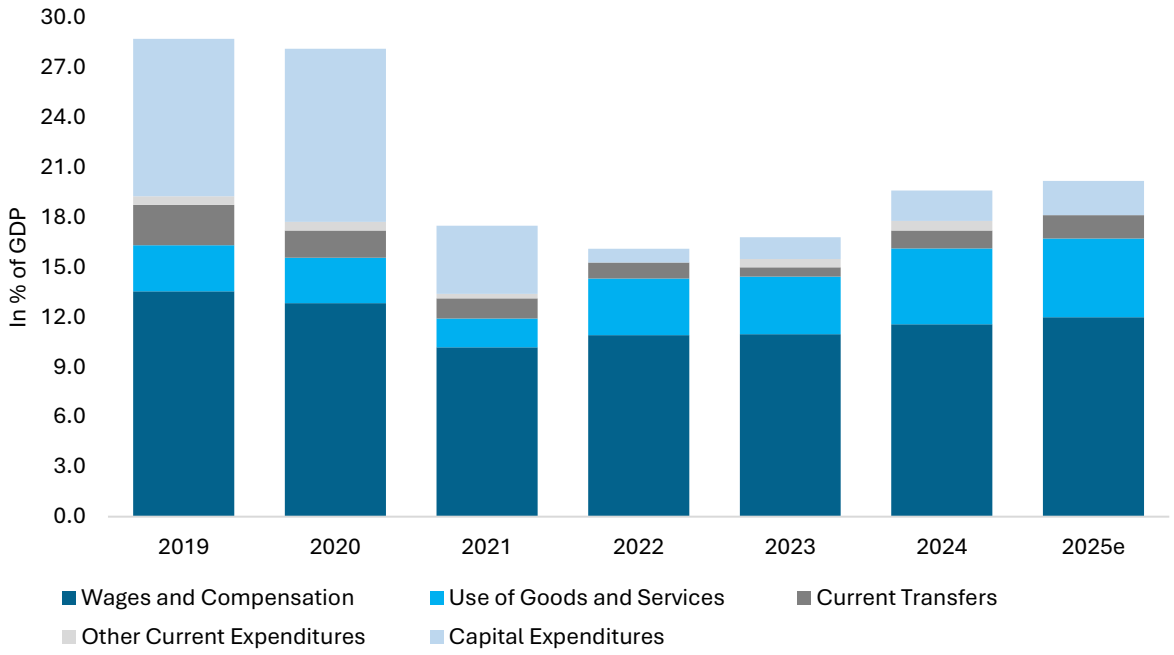
the public wage bill despite announced hiring controls and efforts to reduce public sector employment. Spending on goods and services also rose modestly, from 4.6 to 4.7 percent of GDP, reflecting in part the fiscal response to large returnee inflows and the provision of relief to populations affected by recent earthquakes in Kunar, Nangarhar, and Laghman provinces.

Within current transfers, spending composition shifted in FY2025 toward shock response and social protection, with the introduction of social assistance as a new priority. Current transfers are estimated to have increased from 1.1 percent of GDP in FY2024 to 1.4 percent in FY2025, reflecting the introduction of a new social assistance allocation equivalent to about 0.7 percent of GDP. This spending was directed toward supporting Afghan returnees and households affected by recent earthquakes, strengthening the ITA's capacity to respond to humanitarian and economic shocks. At the same time, subsidies to businesses, which accounted for 0.2 percent of GDP in 2024, were phased out in FY2025, while other current transfers remained negligible, indicating a reorientation of limited fiscal space toward targeted social support.

Capital spending increased modestly in FY2025 but remained far below levels needed to support productivity growth and labor absorption. Capital expenditure is estimated to have risen from 1.8 percent of GDP in FY2024 to 2.1 percent in FY2025. Despite this small uptick, capital spending remained significantly constrained and well below pre-2021 levels, reflecting limited fiscal space and the continued dominance of recurrent obligations. Insufficient investment in infrastructure and productive assets has limited capital deepening at a time of rapid labor force expansion, reinforcing capital dilution and constraining gains in output per worker and medium-term growth.

Externally financed off-budget spending continued to play an important role in supporting service delivery in FY2025, even as donor-funded flows declined. These expenditures—primarily directed toward humanitarian assistance and basic human needs—are estimated to have fallen from 16.1 percent of GDP in FY2024 to 13.3 percent in FY2025. The reduction underscores the ongoing adjustment in external support, particularly for programs implemented through the United Nations system. Given the ITA's limited fiscal space, lower off-budget financing has been difficult to fully offset through domestic resources. As a result, sectors such as healthcare, education, and social protection—long supported by international assistance—face tighter operating conditions. At the same time, declining aid flows may reduce flexibility in responding to shocks, increasing pressures on public services and moderating the pace of economic recovery, with implications for vulnerable groups, including women, children, and displaced populations.

Figure 11: Fiscal Expenditure by Component (Percent of GDP)[9]



Source: Ministry of Finance and World Bank estimates for 2025.
Note: The Afghan fiscal calendar runs from March 21 of year N to March 20 of year N+1.

Cross-country benchmarking highlights that Afghanistan's fiscal stance is shaped by a combination of budget discipline and a highly rigid expenditure structure. Total public expenditure excluding grants in Afghanistan amounts to 20.3 percent of GDP, placing it well above most South and Central Asian peers such as Bangladesh (11.5 percent), Pakistan (21.2 percent), Nepal (21.7 percent), and Kazakhstan (21.9 percent), though below highly spending-intensive economies such as Iraq (40.9 percent). This relatively elevated expenditure level reflects the need to sustain basic administration and service delivery in a constrained environment, rather than expansive fiscal policy.

The composition of spending underscores pronounced rigidity driven by the public wage bill. Current expenditure in Afghanistan reach 18.2 percent of GDP, comparable to Pakistan (18.9 percent) and Nepal (18.0 percent), but with a markedly higher wage component. Wages and compensation account for 12.0 percent of GDP, one of the highest shares among comparator countries and second only to Iraq (18.8 percent). This far exceeds levels observed in Nepal (2.6 percent), Bangladesh (1.4 percent), Kazakhstan (3.3 percent), and Uzbekistan (7.0 percent), highlighting limited flexibility in expenditure allocation and the extent to which the wage bill crowds out other priorities.

By contrast, capital expenditure remains extremely low, constraining growth and productivity. At just 2.1 percent of GDP, Afghanistan's capital spending is below nearly

[9] Fiscal expenditure includes both ITA expenditure and donors' funded projects, classified as other expenditure.

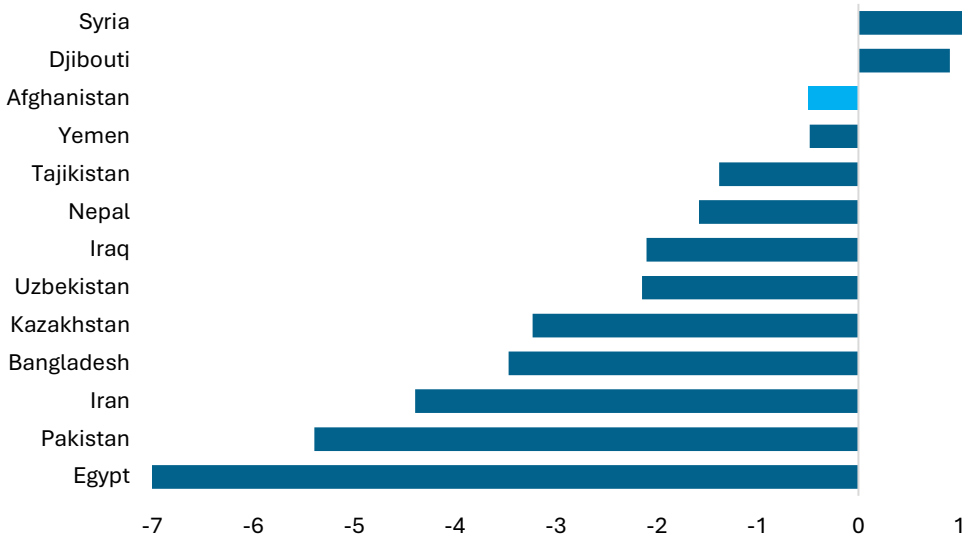
all peers, including Nepal (3.7 percent), Kazakhstan (3.5 percent), Uzbekistan (3.5 percent), and Tajikistan (11.8 percent), and far below Djibouti (8.8 percent) and Iraq (7.0 percent). Only Yemen (0.2 percent) and Syria (0.4 percent) register similarly low investment levels. This narrow capital envelope limits the state's capacity to address infrastructure gaps, support productivity gains, and absorb a rapidly expanding labor force, reinforcing capital-dilution dynamics discussed elsewhere in the ADU.

Within this constrained expenditure structure, Afghanistan has nevertheless maintained one of the tightest fiscal balances in the region. In 2025, the fiscal deficit is estimated at –0.5 percent of GDP, placing Afghanistan among the strongest fiscal performers in the comparator group. Only Djibouti (0.9 percent of GDP) and Syria (1.1 percent) record headline surpluses, reflecting very different economic and institutional contexts. Afghanistan's near-balanced position reflects the ITA's strict adherence to a cash-based, no-deficit budget framework, under which expenditures are tightly aligned with available revenues.

This contrasts sharply with the fiscal positions of most regional peers, who continue to rely on deficit financing. Significant fiscal imbalances persist in Egypt (–7.1 percent of GDP), Pakistan (–5.4 percent), Iran (–4.4 percent), Bangladesh (–3.5 percent), and Kazakhstan (–3.2 percent). Even relatively moderate performers such as Iraq (–2.1 percent), Uzbekistan (–2.1 percent), Nepal (–1.6 percent), Tajikistan (–1.4 percent), and Yemen (–0.5 percent) operate with wider deficits than Afghanistan, supported by greater access to financing.

Taken together, the comparison highlights a fundamental trade-off at the core of Afghanistan's fiscal framework. The near-balanced budget has helped preserve short-term macroeconomic stability and avoid debt accumulation in the absence of borrowing options, but it has been achieved primarily through expenditure compression rather than strengthened fiscal buffers. High recurrent commitments—especially wages—combined with minimal capital spending severely limit fiscal space, constrain service delivery and public investment, and reduce the state's ability to respond to economic, humanitarian, and climate-related shocks. Over the medium term, sustaining stability while easing these constraints will depend on rebalancing expenditure toward investment and continuing progress in domestic revenue mobilization.

Figure 12: Fiscal Balance in 2025 (Percent of GDP)



Source: World Bank Macro Poverty Outlook (MPO April 2026).

EXTERNAL SECTOR: VULNERABILITIES DEEPEN AMID MASS RETURNEE INFLOWS

External sector developments in FY2025 point to increasing pressures on Afghanistan's balance of payments. A widening trade deficit, strong import demand associated with population inflows, declining remittances, and lower external aid combined to push the current account deficit to above one-third of GDP. These trends highlight growing external imbalances and underscore the importance of broadening export capacity, diversifying trade routes, and securing more stable sources of external financing. Without progress on these fronts, pressures on the external position could persist, with implications for exchange rate stability and overall macroeconomic conditions.

Afghanistan's current account deficit widened sharply in FY2025, highlighting growing external fragilities. The deficit is estimated to have increased from 28.3 percent of GDP in FY2024 to 36.1 percent in FY2025, driven by a deteriorating trade balance and weakening income inflows. This widening reflects Afghanistan's continued reliance on external financing to sustain import demand, particularly in the context of declining aid inflows and limited domestic production capacity.

The trade balance remained the main source of external pressure in FY2025, reflecting weak export performance and rising import demand. The trade deficit widened from 63 percent of GDP in FY2024 to 69 percent in FY2025, driven by stagnant exports and a sharp increase in imports. Exports of goods and services remained broadly flat at around 10.5 percent of GDP, with merchandise exports at 10.0 percent and services exports limited to 0.5 percent. This was despite a temporary increase in overflight

fees following the diversion of commercial flights around Iranian airspace during the June conflict. By contrast, imports of goods and services rose to about 79 percent of GDP, with merchandise imports increasing to 65 percent and services imports to 14 percent of GDP, reflecting both the use of alternative trade routes following the Afghanistan–Pakistan border closure in October 2025 and strong domestic demand. Import growth was further supported by large-scale population inflows and successful rerouting trough Iran and Central Asia, while limited productive capacity continued to constrain export expansion.

Declining remittances and external transfers added to balance-of-payments pressures in FY2025, with direct implications for household consumption and vulnerability. Primary and secondary income inflows are estimated to have declined from 34.5 percent of GDP in FY2024 to 32.8 percent in FY2025, driven mainly by a reduction in remittances, which fell from 17.8 percent to 15.7 percent of GDP. This decline reflects large-scale return migration from Iran and Pakistan, which reduced the number of Afghans sending income back to households. Lower remittance inflows have weighed on household purchasing power, particularly for poorer and remittance-dependent families, constraining consumption at a time of rising prices. Other current transfers also decreased, from 6.7 percent to 5.4 percent of GDP, reflecting weaker external support, while outflows remained negligible. Together, these developments underscore Afghanistan's continued exposure to external financing shocks, with spillovers to household welfare and poverty risks amid declining humanitarian assistance.

Afghanistan's trade deficit is among the largest in the region, reflecting deep and persistent structural imbalances. Afghanistan records the second-largest trade gap among comparator countries, exceeded only by Yemen (–61.6 percent). This far surpasses deficits observed in other fragile and regional economies such as Tajikistan (–27.9 percent), Egypt (–14 percent), Djibouti (–13.5 percent), Syria (–12.9 percent), and Uzbekistan (–11 percent), while South Asian peers including Pakistan (–6.6 percent), Bangladesh (–4.5 percent), and Nepal (–4.4 percent) maintain relatively moderate imbalances. In contrast, commodity exporters such as Kazakhstan (2.5 percent), Iran (3.1 percent), and Iraq (5.9 percent) record trade surpluses supported by strong hydrocarbon exports. Afghanistan's exceptionally large deficit signals acute external vulnerability and highlights its reliance on external financing to sustain domestic demand.

The scale of the trade deficit is driven by a stark asymmetry between imports and exports. Merchandise exports amount to just 10 percent of GDP, placing Afghanistan among the weakest exporters in the comparator group and below most regional peers, including Uzbekistan (16.6 percent), as well as well below resource-rich economies such as Kazakhstan (24.5 percent), Iran (24.9 percent), and Iraq (37.1 percent), but comparable to Bangladesh (9.6 percent), Pakistan (7.9 percent), and. Only Nepal (5 percent), Yemen (4.3 percent), and Syria (3.7 percent) record significantly lower export ratios. This underscores the narrowness and limited diversification of Afghanistan's export base, which remains concentrated in low-value agricultural goods and provides

insufficient foreign exchange to offset import needs.

By contrast, merchandise imports are exceptionally high, reflecting deep structural dependence on externally sourced goods. At 66.3 percent of GDP, Afghanistan's import ratio is among the highest in the region, exceeded only marginally by Yemen (65.9 percent) and far above Pakistan (14.5 percent), Bangladesh (14.1 percent), Nepal (9.4 percent), and Egypt (25.0 percent). Even other landlocked economies such as Tajikistan (40.9 percent) and Uzbekistan (27.6 percent) display significantly lower import dependence. Afghanistan's import profile is dominated by food, fuel, construction materials, and consumer goods, reflecting limited domestic production capacity and weak substitution possibilities.

Taken together, these patterns explain why Afghanistan's trade imbalance is structural rather than cyclical. Unlike economies that combine high imports with strong exports or re-export activities—such as Djibouti, whose very large trade flows reflect its role as a regional logistics hub—Afghanistan lacks offsetting mechanisms on the export side. Recent corridor rerouting has helped sustain import volumes despite regional disruptions, but it has not altered the underlying imbalance between what the country produces and what it consumes. As a result, imports continue to be financed largely through aid, remittances, and humanitarian inflows rather than export earnings.

Overall, the benchmarking exercise highlights the central external challenge facing Afghanistan. The combination of one of the world's largest trade deficits, extremely high import dependence, and weak export capacity leaves the economy highly exposed to shocks affecting trade corridors, aid, and remittance inflows. Without sustained progress in expanding export capacity, strengthening domestic production, and integrating into regional markets, improvements in trade logistics alone are unlikely to reduce external imbalances, reinforcing long-term dependence on external financing and vulnerability to regional and global disruptions.

Figure 13: Merchandise Trade Deficit ($Million)

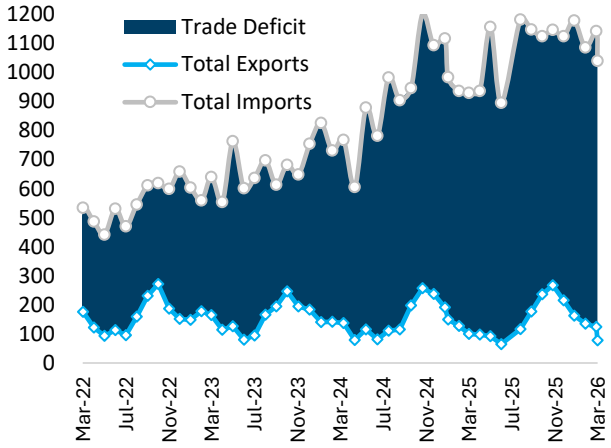
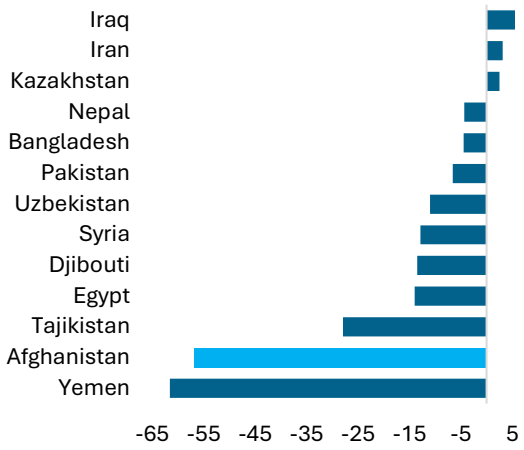


Figure 14: Trade Balance by country (% of GDP)



Source: WB Staff calculations based on Automated System for Customs Data (ASYCUDA) and World Bank Macro-Poverty Outlook (October 2025).

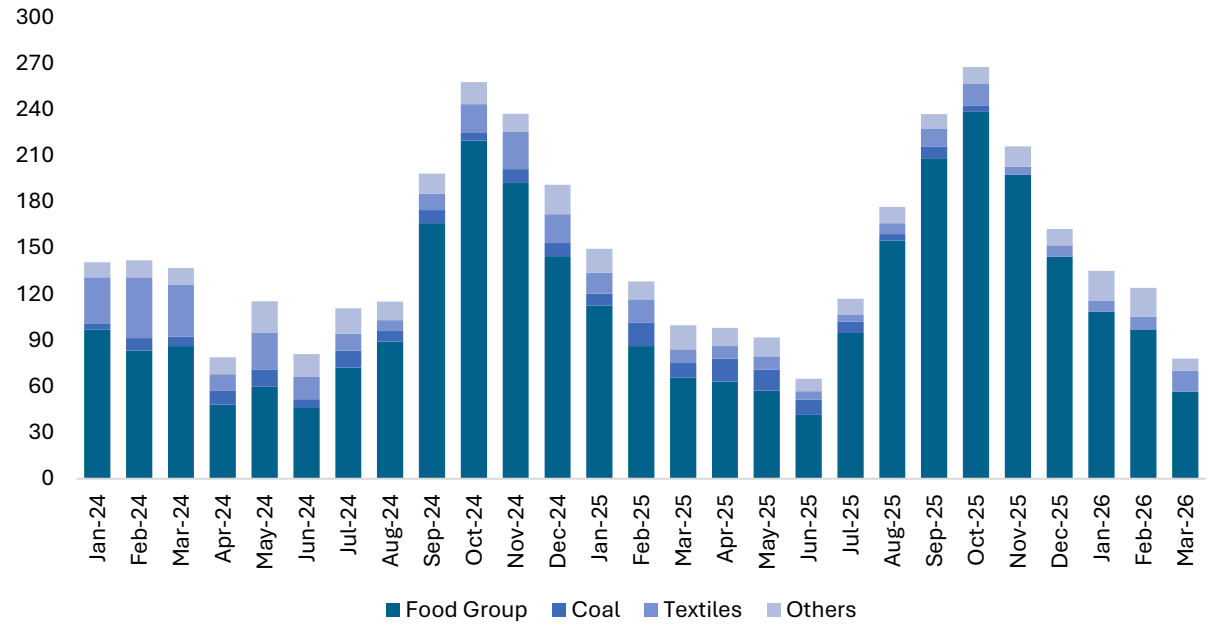
EXPORTS

Afghanistan's exports remained broadly stable across FY2024 and FY2025, but this headline stability masks significant shifts in export composition. Total exports increased only marginally, from US$1,762 million in FY2024 (April 2024–March 2025) to US$1,768 million in FY2025, with aggregate performance driven almost entirely by food exports. Food exports—the largest component of the export basket—expanded strongly in the second half of FY2025, offsetting sharp declines in other categories. After experiencing mid-year disruptions, food exports rebounded and reached peak monthly values above US$230 million, reflecting successful rerouting toward alternative markets, notably India via air corridors and transshipment through Iran. By contrast, coal exports declined sharply, falling from steady monthly flows in FY2024 to near zero by late FY2025, while textile exports also weakened substantially, with average monthly values roughly halving over the period. These declines reflect the heavy dependence of coal and textile exports on the Pakistan market, where border closures and trade restrictions severely curtailed flows and offered limited scope for substitution.

These divergent sectoral outcomes provide micro-level evidence of the broader corridor-rerouting dynamics observed at the macro level. While aggregate exports were sustained through the redirection of agricultural products to India and other markets, sectors tied to Pakistan-facing routes experienced persistent disruption and limited recovery. As a result, Afghanistan's export basket has become increasingly concentrated in food products, underscoring that export resilience is highly sector-specific and contingent on rerouting capacity. This pattern highlights that while corridor diversification can help stabilize total export volumes, its effectiveness varies sharply across sectors, with important implications

for trade composition, market dependence, and vulnerability to future external shocks.

Figure 15: Merchandise Exports Trend ($million)



Source: Automated System for Customs Data (ASYCUDA)

IMPORTS

Total imports increased markedly in FY2025, underscoring the resilience of import flows despite major disruptions to traditional trade routes. Imports rose from US$11.4 billion in FY2024 (April 2024–March 2025) to US$13.2 billion in FY2025 [10], an increase of 15.4 percent year-on-year. The expansion was driven primarily by strong growth in mineral products (26.1 percent), plastics/rubber and machinery (21 percent), transportation goods (16.8 percent), and other imports (14.6 percent), which together accounted for the bulk of the increase in the import bill. Food imports also rose by 10.9 percent, reflecting sustained demand pressures and the essential nature of these goods. By contrast, chemical imports declined by 9.2 percent, suggesting tighter import prioritization or limited adjustment in supply chains under constrained logistics conditions.

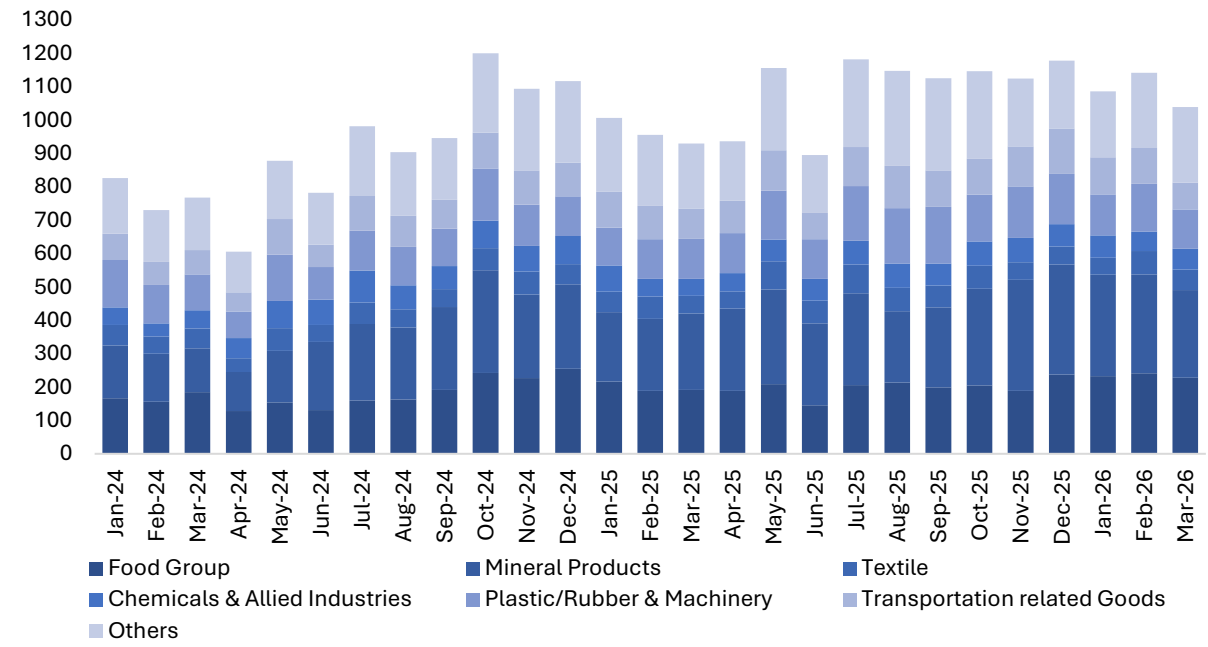
These patterns are closely aligned with the corridor-rerouting dynamics that followed disruptions to Pakistan-linked trade routes in late 2025. Strong growth in bulky and logistics-intensive categories—particularly mineral products and transportation-related goods—points to the increasing reliance on the Iran corridor, and to a lesser extent Central Asian routes, which have absorbed a growing share of Afghanistan's imports. The ability to

10 Imports are valued on a cost, insurance, and freight (CIF) basis for this analysis, rather than on a free on board (FOB) basis.

sustain, and even expand, imports in these categories indicates that rerouting capacity has been relatively effective for goods that can be transported at scale through alternative land corridors. At the same time, the contraction in chemical imports highlights that adjustment has been uneven across categories, likely reflecting differences in sourcing patterns, transport requirements, and supply-chain flexibility.

Monthly data further reinforce the picture of adaptive but uneven import resilience. After an initial period of volatility, import volumes recovered quickly and remained elevated from mid-FY2025 onward, consistent with the timing of rerouting adjustments. At the macro level, this supports the view that corridor diversification has helped mitigate the impact of external shocks on aggregate imports. However, the evolving composition of imports—toward categories that are more easily rerouted—also underscores rising dependence on a narrower set of transit routes. Taken together, the evidence suggests that while the Iran corridor has become the backbone of Afghanistan's import system, enabling continued expansion, it has also increased exposure to corridor-specific risks with implications for external vulnerability.

Figure 16: Merchandise Imports Trend (US$ million)



Source: Automated System for Customs Data (ASYCUDA)

EXCHANGE RATE

The Afghani remained broadly stable and modestly appreciated over FY2025, despite strong import demand and a widening trade deficit associated with large-scale returnee inflows. A stronger nominal effective exchange rate (NEER), together with a lower

real effective exchange rate (REER), helped preserve external purchasing power and price competitiveness during most of the year. However, sustaining these gains will depend on continued foreign exchange inflows and effective containment of domestic inflation. Toward the end of FY2025, the earlier benefits from lower inflation began to unwind as domestic price pressures picked up.

Against the backdrop of wider trade deficit and rising domestic inflation toward the end of FY2025, the Afghani nonetheless remained broadly stable and modestly appreciated over the year. The average market exchange rate strengthened from 71.6 AFN per US dollar in April 2025 to 64.2 AFN per US dollar in March 2026, representing a cumulative appreciation of about 10 percent. This appreciation, together with earlier disinflation, supported a lower real effective exchange rate (REER), helping preserve external purchasing power and price competitiveness for much of the year. These outcomes were sustained despite a widening trade deficit and elevated import demand linked to large-scale returnee inflows, which increased domestic consumption needs. The currency's resilience reflected continued foreign exchange inflows—supported by humanitarian disbursements, remittances, and strengthened supervision of foreign exchange markets—as well as ongoing central bank interventions to manage liquidity. However, as domestic inflation picked up toward the end of the fiscal year, pressures on the REER began to re-emerge, underscoring the importance of maintaining price stability to sustain external competitiveness.

Figure 17: Nominal and Real Effective Exchange Rate – Index (July 2021 = 100)

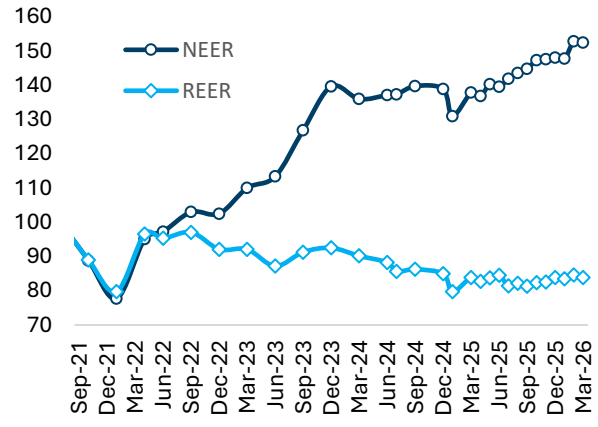
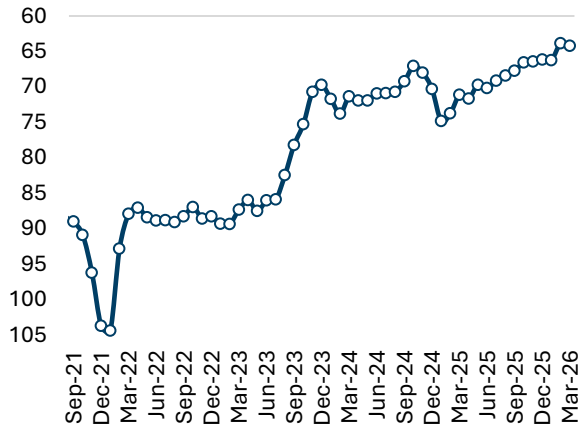


Figure 18: Average Monthly AFN/$Exchange Rate (inverted vertical axis)



Source: Da Bank of Afghanistan (DAB) and World Bank Staff calculations.

MONETARY POLICY AND FINANCIAL SECTOR: CASH DOMINANCE DEEPENS AS FINANCIAL INTERMEDIATION WEAKENS

Monetary conditions in FY2025 reflected rising liquidity pressures amid very limited financial intermediation. Broad money growth resumed, supported by stronger foreign currency holdings and increased cash demand, as foreign assets accumulated while financial intermediation remained shallow. The large-scale return of Afghans from Iran and Pakistan amplified these dynamics by increasing cash-based transactions and reinforcing reliance on informal channels. As a result, liquidity expanded without a commensurate deepening of the financial system, limiting the transmission of monetary conditions to credit and investment.

LIQUIDITY AND MONETARY SECTOR DEVELOPMENTS

Consistent with the liquidity expansion and emerging inflation pressures discussed above, broad money growth in FY2025 was driven primarily by rising cash demand associated with large-scale returnee inflows. Broad money (M2) increased to AFN 570 billion in February 2026, growing by 3.0 percent only year-on-year, while narrow money (M1) expanded by 3.3 percent, led by a 6.9 percent increase in currency in circulation. Returnee households, relying heavily on cash to meet immediate consumption needs, accelerated the shift toward a more cash-based economy. This concentration of liquidity outside the banking system has weakened financial intermediation and limited the transmission of monetary conditions to credit, while contributing to demand-side pressures that have reinforced the recent pickup in inflation.

Despite rising liquidity, domestic credit conditions remained highly constrained in FY2025, limiting the transmission of monetary expansion to productive activity. Net domestic credit remained deeply negative, reaching negative AFN 95 billion in February 2026, compared to negative AFN 105 billion a year earlier, reflecting ITA net deposits held at the Afghanistan Central Bank (DAB). Private sector credit increased to AFN 35 billion (2.5 percent of GDP, among the lowest globally) in February 2026, underscoring the banking system's limited capacity to channel liquidity into lending for investment and growth. As a result, financial intermediation remained weak, with economic activity continuing to rely heavily on informal finance, reinforcing the dominance of cash-based transactions.

Afghanistan's external position showed some improvement in 2025, supporting exchange-rate stability amid rising external pressures. Net foreign assets increased to AFN 879 billion in February 2026, up from AFN 861 billion a year earlier, representing an increase of about 2 percent. Gross reserves—including frozen assets—rose to AFN 808 billion, providing a limited buffer against external shocks.

Figure 19: Change in Broad Money (M2), Narrow Money and Currency in Circulation (%, Y-o-Y)

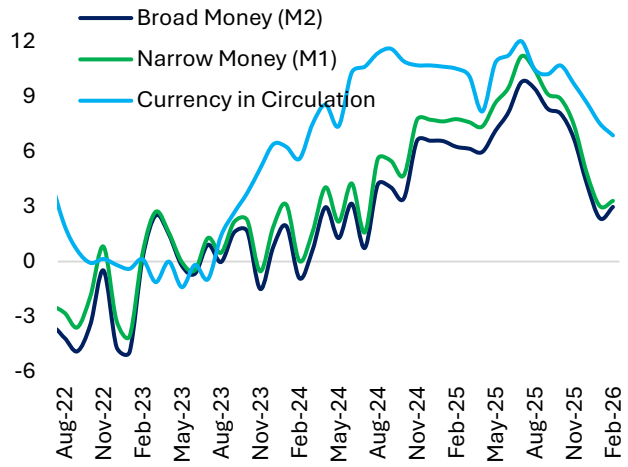
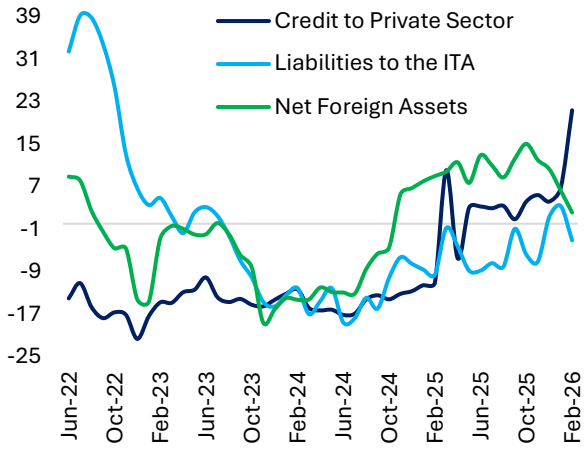


Figure 20: Change in Net Foreign Assets, Credit to Private Sector and Liabilities to the ITA (%, Y-o-Y)



Source: Da Bank of Afghanistan (DAB) and World Bank staff estimates.

BANKING SECTOR INDICATORS

Afghanistan's banking sector in 2025 was characterized by a continued mismatch between its size and its ability to perform its core economic function. Resuming historical trends, assets were growing; intermediation was not. Branches were multiplying; credit was not. The sector accumulated capital without deploying it, expanding its physical footprint to primarily service growing demand for cash-out.

Afghanistan's banking sector remains fragile and only intermediate a small share of payment flows in the economy.[11] The total banking assets increased by 5 percent year-on-year between FY24-FY25 to total USD 3.5 billion by December 2025, but the aggregate deposit figures require careful disaggregation. Although total bank deposits show a year-on-year upward trend since 2023, further analysis would be needed to ensure deposits from individuals and companies, a trust indicator, are also on the rise or not. The negative ratios of return-on-assets (ROA) and return-on-equity (ROE) confirm that the sector is not generating returns commensurate with its capital base and is not yet on a trajectory toward sustainable profitability. The sector still recorded a net loss of USD 7.8 million (AFN 516 million) in the last quarter of 2025. The profitability picture is further complicated by the winding down of forbearance measures that allowed some banks to remain nominally well-capitalized. In addition, there were USD 60.5 million in payouts to banks from the Afghanistan Deposit Insurance Corporation (ADIC) in 2025.[12] These are one-off, non-repeatable factors that do not reflect underlying core performance, making the 2026 outlook uncertain. Meanwhile,

[11] Figures in this section should be interpreted with appropriate caution given data limitations and possible contradiction between different sources.

[12] Payouts provided against bad loans.

geopolitical developments are adding a further layer of risk with disruptions to remittance flows and shifts in trade routes widening the gap between inflows and outflows, generating tensions on liquidity, upward price pressures, and potential future deterioration in loan portfolio quality. As banking channels come under strain, recourse to hawaladars is increasing.

Afghanistan's banks are not yet engines of financing. The sector continues to shy away from intermediating credit to the real economy, constraining private sector and deepening the constraints faced by Afghan enterprises. Banks hold approximately three quarters of their balance sheets in cash and cash equivalents. The financing-to-deposits ratio stands at 10 percent, below the already low 15-16 percent that prevailed between 2019 and 2021, and a fraction of regional and international benchmarks[13]. In comparison, the aggregate loan-to-deposit ratio (LDR) for Gulf Cooperation Council (GCC)[14] banks stood at 94.1 percent[15] in H1 2025, Pakistan 35.3 percent, and South Asia approximately 60 percent. In October 2025, Da Afghanistan Bank's (DAB) has set a requirement to increase the financing-to-deposit ratio to 30 percent within three years, meaning the sector must triple its intermediation depth to meet the regulatory target in future, which might lead to risky exposures in the context of a weak credit infrastructure and lack of financial safety net.

The banks are extremely risk-averse in a context where they are confronted with limited lending opportunities. Credit supply has collapsed sharply, with gross loans shrinking 30.3 percent between 2022 and 2025. While the State-Owned Banks' (SOBs) gross loans have been on a declining trend since 2022 (53 percent contraction), private bank lending shows signs of partial recovery (13 percent growth). However, non-performing loans (NPLs) have risen to 27.2 percent, up from 18.3 percent at end-2022, reflecting the continued deteriorating credit quality across the portfolio. This is driven in large part by the weak recovery framework linked to legacy loans, including unclear legal treatment of legacy interest-bearing loans. The interplay of declining loan volumes and rising NPL ratios suggests that the denominator effect is partially masking the true severity of credit quality deterioration: even as banks have pulled back from lending, a growing share of their residual portfolio remains classified as non-performing. The steep decline in active borrowers (33 percent between FY22-FY25), the persistent collapse of the loans-to-deposits ratio, and the concomitant rise of NPLs indicate that credit market activation will require sustained support on both demand and supply side.

The transition towards Islamic financing is ongoing, but the speed at which financial institutions have been able to restructure their offerings has varied. The transition is the most advanced among the largest players and all operational players now have Sharia-compliant financial products. For example, Bank-e-Millie (BMA) had converted 66 percent of its financing portfolio to Islamic products structures by December 2024, while First MicroFinance Bank (FMFB) had reached 82

[13] 80–90% range is widely cited in banking and financial analysis as a rule of thumb for a healthy loan-to-deposit ratio (LDR).

[14] GCC members countries include Saudi Arabia, UAE, Kuwait, Qatar, Bahrain, Oman.

[15] EY report on GCC banking sector outlook: H1 2025.

percent. Banks have reported facing some delays in completing this transition because of either locked-in term deposits or lack of Sharia-compliant investment options. DAB has issued product guidelines covering seven core Islamic finance products.[16] Murabaha[17] has emerged as the dominant instrument, in part because it was the first product to be approved by DAB.

DIGITAL PAYMENTS AND INFRASTRUCTURE

Against this backdrop of functional retreat, the sector's physical infrastructure tells a nuanced story of apparent growth. The number of bank branches expanded 26 percent, from 369 in 2022 to 464 in 2025, with New Kabul Bank's 130+ branch network leading among all institutions and Azizi Bank operating the largest private network among commercial banks with 61 branches. ATM locations more than doubled over the same period, reaching 333 sites, and banking sector employment grew approximately 13.6 percent, reaching 8,808 staff in 2025. However, the nature of this expansion matters as much as its scale. Afghanistan's economy is undergoing a simultaneously cash-strapped and cash-dependent dynamic, thus, the growth in physical touchpoints largely reflects the demands of a currency-based economy rather than a broadening of financial access. ATMs function primarily as pass-through points as banks report that customers typically withdraw their entire monthly salary in a single transaction. Therefore, the expansion of infrastructure is distinct from (and should not be conflated with) uptake in digital payments.

Beyond some infrastructure expansion numbers, the quality of access is unequal. In 2021, Findex data reported financial account access in Afghanistan to be only 10 percent amongst adults. Today, branches and ATMs still cluster overwhelmingly in Kabul and a handful of major cities, leaving rural populations, the vast majority of Afghanistan's 40 million population, effectively excluded from formal finance. Women comprise approximately 10 percent of the sector's total employees, and products offered could be further adapted to the constraints women-led businesses face. For example, only one in four women holds a national ID yet a valid ID has historically been a prerequisite for accessing finance. Upon request from the sector, DAB has now allowed electronic ID applicants to obtain micro-loans using the ID application form. Returnees might also represent an untapped potential for financial inclusion yet often lack the identification that is necessary to open an account.

Digital payments will require significant investment to take off. DAB has embarked on a journey to modernize the Afghanistan Payment System (APS), the primary card switch, and to enhance interoperability, a fundamental step toward fostering digital payments uptake by enabling connectivity across providers' platforms and reducing the fragmentation that currently limits the reach of electronic transactions. DAB has also recently announced launching an instant payment system. It however remains to be

[16] Murabaha, Qard Hasan, Musharaka, Diminshing Musharakah, Mudarabah, Ijarah, Salam, and Istisna.

[17] Murabaha is a sales contract where the lender buys goods and sells them to the client at a marked-up price, with repayment typically in installments.

seen if, without significant overhaul of the governance rules, investment in the agent network, and higher digital payment acceptance, it will result in increased utilization of digital channels amidst a prevailing cash culture. Money service providers i.e., regulated hawaldars [18] still concentrate the majority of money transfers – whether inbound remittances or in-country transfers. There is potential for economies of scale with over 4 million reported e-money accounts, but its benefits have not yet materialized. Providers focus on diminishing humanitarian cash assistance and only a very small fraction of users, estimated at less than three percent, is actively transacting. The agent network would need to grow significantly to cover the entire market and drive usage, in line with the approved National Digitalization Strategy that focuses on the expansion of the underlying infrastructure for digital financial services and includes awareness raising campaigns.

MICROFINANCE SECTOR DEVELOPMENTS

When juxtaposed with microfinance, the banking sector's dysfunction becomes starkly evident. While banks hold billions in idle cash, microfinance providers maintain active portfolios reaching households and micro-enterprises. Ten providers, including three banks, reported a combined gross financing portfolio of AFN 4.4 billion (USD 67 million) and around 59,000 active clients as of December 2025. The microfinance sector operates across the country with over 100 branches in 24 provinces. It is heavily concentrated, with FMFB (40.5 percent) and OXUS (39 percent) together accounting for nearly 80 percent of total financing. This is partially due to the young age of many microfinance institutions, five of which recently obtained their licenses, and of banks microfinance windows.

The microfinance sector faces increasing regulatory constraints, weighing on its ability to meet its financial inclusion mandate. While the mandatory transition from conventional finance to Islamic finance in 2021 might have spurred demand, it induced substantive losses for providers and increased fixed costs. Operational costs have also risen, reflecting a more resource-intensive Islamic financing model, and compliance costs from meeting directives around lending to female clients. Regulatory caps on lending/profit rates combined with a reduction in the cap on the microfinance loan amounts also risk affecting outreach, excluding certain market segments, slowing sectoral growth, and potentially converging cheaper lending rates to the cap to mitigate losses. Restrictions on women's basic freedoms and entrepreneurship increases risks of repayment and of providers' stability, given that female clients constitute nearly half of all microfinance borrowers. This risk is however currently low, with microfinance sector reporting excellent NPLs, below one percent.

[18] Hawaldars oversight might still be limited, and compliance risks remain.

OUTLOOK AND MEDIUM-TERM PROSPECTS: TRANSITION TO A LOWER EQUILIBRIUM PATH

Afghanistan's economic growth is projected to moderate over the medium term amid persistent structural constraints. Real GDP growth is projected to slow to 4.0 percent in FY2026 and further to 3.8 percent in FY2027–FY2028, driven mainly by private consumption, services activity, and a partial recovery from the FY2025 drought. However, rapid population growth, including continued migrant and refugee returns, subdued investment, and declining aid and remittance inflows are expected to constrain per capita income gains, reinforcing capital dilution and limiting productivity improvements. Risks to the outlook are tilted to the downside, particularly given the ongoing conflict in the Middle East and its potential spillovers to global and regional economies.

MEDIUM-TERM OUTLOOK

Afghanistan's medium-term growth potential remains constrained by weak structural foundations, reinforcing capital-dilution dynamics observed across the economy. Key drivers of long-term growth—including investment in infrastructure, education and skills, and productivity—remain underdeveloped. Firm-level evidence indicates that recent expansion has been driven largely by demand recovery and labor absorption rather than capital deepening, with limited improvements in capacity utilization and investment intensity. In the absence of meaningful reforms to improve the business climate and attract private capital, economic growth is therefore likely to continue tracking rapid population increases, resulting in limited gains in per capita incomes and living standards.

The economy remains fragile, showing only a modest recovery from earlier shocks. The sharp decline in foreign aid since the ITA takeover has weakened fiscal stability, while limited improvements in trade and agriculture have provided only partial relief. High unemployment, low household incomes, and the large influx of returnees from Iran and Pakistan continue to strain labor markets and public service delivery. At the same time, the banking sector remains constrained by shallow intermediation, international restrictions, and the ongoing transition to Islamic finance, limiting its role in supporting recovery and investment.

Medium-term projections point to modest but fragile growth, driven largely by consumption amid persistent investment constraints. Baseline real GDP growth is expected to reach 4 percent in FY2026 and slow to 3.8 percent in FY2027–FY2028. Private consumption is projected to contribute around 5 pp to growth on average over the period, reflecting demand pressures from large returnee inflows and a partial recovery in agriculture following the 2025 drought. ITA consumption is also expected to remain robust, growing by about 8 percent annually in line with available revenue. By contrast, gross fixed investment is projected to remain

subdued, with only a modest contribution from private investment, highlighting persistent barriers to capital accumulation and weak investor confidence.

Services are projected to remain the main driver of growth over the medium term, reflecting relatively low capital intensity and limited productivity gains elsewhere in the economy. Services output is projected to grow by 4.4 percent in FY2026 and by 3.8 percent in FY2027–FY2028, contributing about 2.0 pp to GDP growth in FY2026 and around 1.8 pp in FY2027–FY2028. This largely consumption-driven expansion reflects the sector's reliance on labor absorption and comparatively lower investment requirements.

By contrast, agriculture and industry are expected to provide limited support to growth, constrained by weak investment and productivity dynamics. Agriculture is projected to expand by 3.0 percent in FY2026, reflecting a partial recovery from the drought-induced contraction in FY2025, and to contribute 1.0 pp to GDP growth over the three-year period; however, limited capital deepening and persistent climate risks are likely to continue weighing on productivity. Industry is projected to grow at a more moderate pace, contributing 0.8 percentage points to overall GDP growth, as energy shortages, weak infrastructure, low private investment, and constraints on access to imported inputs continue to limit capacity expansion and efficiency improvements.

Rapid population growth driven by large returnee inflows will continue to undermine per capita income gains. Despite positive headline GDP growth, per capita GDP is projected to contract again in 2026, marking a second consecutive year of decline, as large returnee inflows weigh on average incomes. Continued regional tensions are expected to result in the return of an additional 2.6 million Afghan migrants and refugees from Iran and Pakistan in 2026 alone. As a result, per capita GDP is projected to decline by a further 3.5 percent in 2026, following a 5.6 percent contraction in 2025, reinforcing Afghanistan's entrapment in a low-productivity equilibrium.

Beyond weighing on per capita incomes, these demographic pressures are also expected to add to price dynamics in the near term. Inflationary pressures are projected to intensify in 2025, driven by continued population growth and renewed external cost pressures, including global food and fuel price increases linked to the conflict in the Middle East. Increases in global crude oil prices have already led to adjustments in domestic pump prices, while trade disruptions are expected to raise logistics costs. As a result, inflation is projected to remain elevated at around 7 percent in FY2026, around its level in January–March 2026.

External accounts are projected to remain under sustained pressure over the medium term, reflecting persistent structural imbalances amid trade disruption. The current account deficit is projected to widen further to 38 percent of GDP in FY2026–FY2028, as import demand continues to outpace exports in a context of limited domestic production capacity. Consumption-driven imports, including food, fuel, and basic goods, are expected to remain elevated, while export growth remains constrained by weak competitiveness, narrow

export diversification, and ongoing trade disruptions. At the same time, declining aid inflows and weaker remittances are expected to reduce available external financing, increasing Afghanistan's reliance on volatile flows and heightening exposure to external shocks.

On the fiscal side, space is expected to remain highly constrained over the medium term, reinforcing a cautious, near-balanced budget stance. The ITA is expected to maintain fiscal discipline, with no scope for deficit financing given restricted access to borrowing. While domestic revenue mobilization is projected to continue to strengthen—averaging about 22 percent of GDP—it is unlikely to fully offset declining external grants in FY2026–FY2027 or create room for countercyclical policy. As a result, fiscal policy will remain focused on maintaining basic service delivery and meeting recurrent obligations, with limited capacity to scale up capital expenditure or respond to shocks. This constrained fiscal environment is expected to continue weighing on public investment and growth-enhancing spending, reinforcing underlying structural vulnerabilities.

RISKS TO NEAR-TERM OUTLOOK

The medium-term outlook is subject to elevated uncertainty linked to a more volatile regional environment. Recent developments in the Middle East add to an already fragile global and regional backdrop, increasing uncertainty around trade conditions, financing flows, and migration dynamics relevant to Afghanistan. These factors heighten downside risks to growth and stability, even if regional disruptions remain episodic rather than sustained.

Exposure to external shocks has increased as trade patterns have become more concentrated. While traders have demonstrated flexibility in adapting to disruptions, the economy's growing reliance on a limited set of transit routes leaves activity sensitive to changes in external logistics and market access. Any renewed frictions could weigh on confidence and disrupt already narrow supply margins.

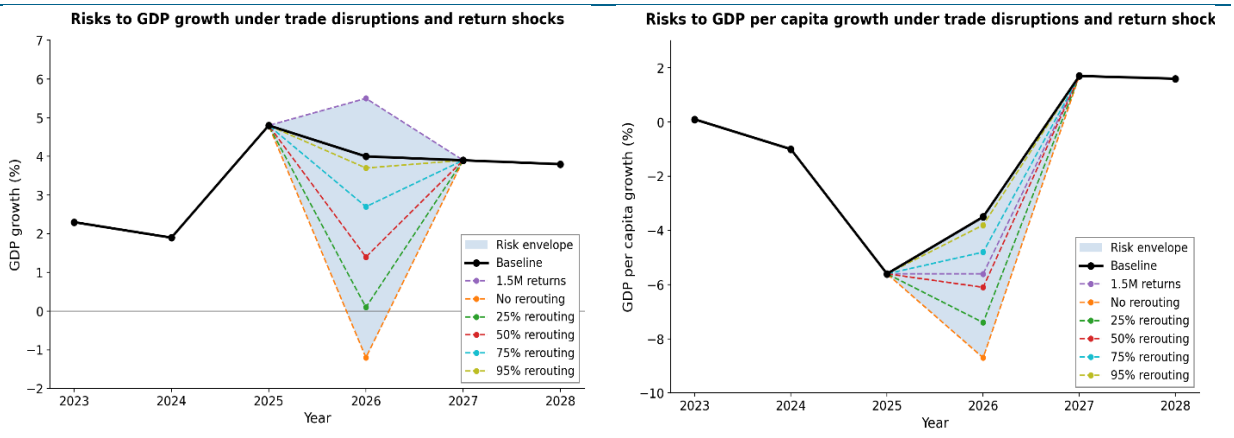
Labor market pressures from migrant and refugee returns could intensify if regional conditions further deteriorate. Afghanistan's absorptive capacity remains constrained by slow job creation and low investment. Additional labor supply pressures—whether gradual or sudden—would further challenge employment outcomes and income growth, particularly in urban areas where services and informal activity dominate. Scenario analysis highlights that near-term growth outcomes are highly sensitive to the degree of trade rerouting capacity and the scale of return-migration pressures, with the largest effects concentrated in FY2026. Even under optimistic rerouting scenarios, GDP per capita recovers only gradually, highlighting that Afghanistan's key challenge is not just restoring growth, but preventing a sustained decline in living standards.

Inflation risks remain skewed upward in an environment of constrained supply response. With domestic production capacity limited, price stability remains vulnerable to external cost pressures and

demand shocks. Even temporary increases in import costs or supply disruptions could spill over into food and basic goods prices, with disproportionate effects on household welfare.

Limited policy buffers constrain the ability to respond to overlapping shocks. Narrow fiscal space, shallow financial intermediation, and continued dependence on external inflows limit the scope for countercyclical responses. As a result, the realization of multiple external shocks could slow recovery and reinforce existing vulnerabilities, underscoring the importance of resilience-building reforms over the medium term.

Figure 21: Real GDP Growth and Real GDP per capita Growth Under Baseline and Alternative Scenarios



Source: NSIA (2023 and 2024) World Bank Staff estimates (2025) and projections (2026 -2028)
Note: The figure illustrates simulated GDP growth paths under alternative scenarios combining large-scale returnee inflows and trade disruptions. Rerouting assumptions reflect the share of disrupted trade flows successfully redirected through alternative corridors. Scenarios are simulated only for 2026.

Box: 3: Potential Spillovers from the Middle East Conflict

The escalation of the conflict in the Middle East presents a material external risk to Afghanistan's fragile recovery through trade, price, migration, and fiscal channels. Although Afghanistan is not directly involved, its economic structure—marked by high import dependence, concentrated trade routes, and large migrant populations in neighboring countries—makes it particularly exposed to regional geopolitical disruptions.

Trade disruptions represent the most immediate and significant transmission channel. Following repeated closures of the Afghanistan–Pakistan border, Afghanistan has increasingly relied on Iranian transit routes for external trade. Trade through Iran now accounts for nearly 60 percent of imports and more than half of exports, equivalent to around 35 percent of GDP. Staff simulations suggest that even a one-week disruption of the Iran corridor could reduce quarterly GDP by about 1.6 percent, equivalent to roughly 0.3–0.4 pp of annual growth, if trade cannot be rerouted. The impact declines sharply if traders are able to divert shipments through alternative corridors in Central Asia or Pakistan, highlighting the importance of corridor diversification in mitigating macroeconomic risks. Given Afghanistan's heavy reliance on imports for food, fuel, and intermediate goods, prolonged disruptions could weigh on domestic activity and intensify supply constraints.

Large-scale return migration from Iran poses an additional macroeconomic and social risk. Iran continues to host one of the largest Afghan migrant populations globally, and historical experience suggests that periods of economic or geopolitical stress can trigger sudden return flows. While returnees contribute to consumption and labor supply, the increase in output is smaller than the increase in population. Empirical estimates using a recent report[19] suggests that an increase of 100,000 returnees raises Afghanistan's population by approximately 0.24 pp but increases GDP by only about 0.1 pp. As a result, large inflows tend to reduce GDP per capita and place pressure on labor markets, public services, prices, and humanitarian systems. These effects would be most pronounced if returns occur rapidly and at scale.

Inflationary pressures could rise through both cost-push and demand-side channels. Afghanistan's consumption basket is highly import-dependent, making domestic prices sensitive to disruptions in logistics, import volumes, and global fuel and food prices. Simulations indicate that a short-lived disruption of the Iran corridor could temporarily raise headline inflation by around 2–3 percentage points (annualized) in the absence of trade diversion, with stronger effects on food prices. Elevated global oil prices linked to regional instability could further amplify food inflation through higher transport and production costs. At the same time, large returnee inflows would add demand-side pressures on housing, food, and basic services, particularly in urban centers and border provinces where supply constraints are binding.

Fiscal pressures could intensify if trade and migration shocks occur simultaneously. Customs revenues account for a large share of domestic revenues, making fiscal performance highly sensitive to import volumes. Even short disruptions to major trade corridors could tighten already-limited fiscal space, particularly if accompanied by higher food prices or additional spending needs related to returnees and humanitarian support. While the simulated revenue losses are modest in isolation, overlapping shocks could compound pressures on budget execution and service delivery.

Overall, Afghanistan's resilience to regional shocks depends critically on the flexibility of its trade logistics and the ability to adapt quickly to disruptions. Afghan traders have demonstrated capacity to reroute trade across Iran, Central Asia, and Pakistan, which has helped preserve trade flows amid past disruptions. However, the growing concentration of trade through Iran increases exposure to the Middle East conflict, underscoring the importance of diversifying trade corridors, monitoring price and migration developments, and maintaining contingency planning to safeguard macroeconomic stability.

[19] The November 2025 Afghanistan Development Update highlights the scale and economic implications of large returnee inflows from Iran and Pakistan, noting their effects on population growth, labor-market pressures, demand, and poverty risks. Source: World Bank (2025), Afghanistan Development Update, November 2025, https://thedocs.worldbank.org/en/doc/ece486358b8822699ada5d12cdb5cd09-0310012025/afghanistan-development-update-december-2025

02 Special Focus on The Private Sector in Afghanistan: Resilient but Constrained

INTRODUCTION

Afghanistan's economy experienced a sharp contraction following August 2021, with GDP falling by around a quarter between 2021 and 2022 and private sector activity declining significantly from pre-crisis levels. Evidence from the Afghanistan Private Sector Rapid Surveys (PSRSs) implemented following the events of 2021 also pointed to widespread declines in sales, liquidity shortages, and significant uncertainty, with many firms scaling down operations or temporarily closing, with women-headed businesses in particular hit hard across different dimensions of business operations. Since then, macroeconomic indicators suggest a degree of stabilization, with the economy settling into a low-level equilibrium characterized by limited growth and subdued investment.

Against this backdrop, the 2025 Enterprise Survey (ES [20]) provides a systematic, nationally representative snapshot of the formal, non-agricultural private sector. The evidence shows that while some firm-level indicators, such as real sales growth, have shown a rebound over the past 2-3 years, the rebound is an outcome of very low base set following the events of 2021. The results also show that while there have been positive movements across some of the core indicators of firm performance, the challenges remain steep, especially when the formal private sector in Afghanistan is compared with formal private sector in Afghanistan's structural and aspirational comparators. The formal private sector has contracted, investment remains subdued, and the business environment is now shaped more by infrastructure and financial constraints than by the security and corruption concerns that dominated in 2014.

The ES both gives credence to- and informs- the WBG Private Sector Pivot in Afghanistan. With aid-financed demand expected to remain constrained for the foreseeable future, Afghanistan's growth prospects will increasingly depend on the extent to which private economic activity, however limited, can be sustained under the status quo. The Private Sector Pivot reflects this recognition, shifting the focus from aid substitution to preserving the productive base of the economy. Enterprise Survey evidence underpins this approach by showing that firms continue to operate as the main source of employment and income generation, even as they face binding constraints. In this context, the Pivot is about anchoring growth in the private sector while preventing further economic erosion by keeping firms viable, maintaining market functions, and preserving human and productive capital as aid declines. Supporting the private sector thus emerges as a necessary strategy for economic stabilization in an environment where aid can

20 World Bank. 2026. "Afghanistan Enterprise Survey 2025." World Bank Enterprise Surveys Database, Washington, DC. Accessed May 18, 2026. World Bank Enterprise Surveys – Afghanistan 2025

no longer serve as the primary engine of activity.

This Special Focus Chapter uses data from ES 2025 to provide new, firm-level evidence on performance, investment and constraints. The chapter starts with a characterization of the formal private sector in Afghanistan, followed by firm performance and operating environment, and then covers the evolving pattern of constraints, including gender-specific challenges.

Box 4: Afghanistan Enterprise Survey 2025 Methodology

Overview

The Afghanistan Enterprise Survey is part of the World Bank's global Enterprise Surveys program, which provides nationally representative, firm-level data on the business environment across more than 160 economies worldwide. The survey is designed to generate comparable evidence on private sector performance, constraints, and opportunities, while also allowing benchmarking across countries and over time. In Afghanistan, the survey represents the first full Enterprise Survey since 2014 and offers a critical update on the state of the formal private sector in a highly fragile and data-scarce context.

Survey Design and Sampling Methodology

The Afghanistan WBES employs a stratified random sampling methodology, consistent with the global Enterprise Surveys framework. Firms are stratified along three main dimensions to ensure national representativeness: Firm size: small (5–19 employees), medium (20–99 employees), and large (100 or more employees); Sector: manufacturing and selected service sectors; and Geographic location: major regions of the country, including Kabul, East and Southeast, North, and West and Southwest. The sampling frame for the formal survey was drawn from the Afghanistan Central Business Registry (ACBR),

Questionnaire and Coverage

The survey uses the globally standardized Enterprise Survey questionnaire, which facilitates comparability across countries and survey rounds. Core modules cover firm characteristics, access to finance, infrastructure, trade, taxation, corruption, labor, informality, innovation, and firm performance. The Afghanistan survey also incorporates selected questions used in the Business Ready (B-READY) indicators, allowing Afghanistan to be benchmarked against international regulatory and business environment metrics.

Survey Implementation in Afghanistan

Survey implementation in Afghanistan was adapted to the country's fragile and high-risk operating environment while maintaining global enterprise survey quality standards. Data collection relied on in-person interviews, conducted by trained enumerators. Enumerator training emphasized standardized interviewing techniques, confidentiality, and respondent safety.

Complementary Private Sector Surveys

It is important to note that the Enterprise Survey captures the dynamics of a specific segment of Afghanistan's private sector, namely formally registered firms with five or more employees. As such, the results reflect the conditions and behavior of a microcosm of the overall private sector, and do not fully capture the breadth and heterogeneity of private economic activity in the country. To help address this gap, two additional firm-level surveys are currently ongoing. One focuses on the informal private sector, which constitutes a substantial share of employment and economic activity in Afghanistan, while the other covers the formal micro private sector, including registered firms below the standard enterprise survey employment threshold. Together, these complementary surveys will significantly bolster the empirical evidence base, allowing for a more comprehensive and nuanced understanding of private sector structure, constraints, and resilience across the full spectrum of firms operating in Afghanistan.

FORMAL PRIVATE SECTOR CHARACTERIZATION

Afghanistan's formal private sector is heterogeneous and dominated by small and medium firms and is broadly distributed across regions. Firms in the sector are spread relatively evenly between Kabul, the East and Southeast, the West and Southwest, and the North. Despite this geographic spread, there are notable regional differences in firm size and capacity. Manufacturing and construction are the two largest sectors, accounting for 41 percent and 27 percent of firms, respectively. These are followed by wholesale and retail (19 percent), transport and storage (8 percent), and other services (5 percent). Within manufacturing, food products dominate, representing 26 percent of firms, followed by wearing apparel (14 percent), chemicals (10 percent), and rubber and plastics (7 percent). Overall, 57 percent of firms employ fewer than 20 workers, while only 4.1 percent qualify as large firms with 100 or more employees. The average firm employs around 32 full-time equivalent workers, though this varies significantly by region: firms in the North average 41 employees, compared to just 25 in the East and Southeast. This structure highlights a private sector dominated by small, largely domestically oriented firms. While this reflects broad-based participation across regions, it also underscores the sector's limited capacity to generate large-scale employment and drive sustained productivity growth.

Female ownership remains limited, with 10.2 percent of formal private sector firms owned by women. Female owned firms are concentrated heavily in manufacturing (89 percent of all female owned firms), and within manufacturing they are overwhelmingly in wearing apparel (55 percent), food products (20 percent), and textiles (13 percent) — sectors typically associated with home-based or small-scale production. Female-owned firms also tend to be slightly smaller on average, employing 28.1 workers compared to 33.6 for male owned firms. Exporters represent a very small share of the formal private sector at just 6.4 percent of firms, with export activity most prevalent in transport and storage (22 percent) and wholesale and retail (13 percent), while other services firms report no direct exporting at all.

While the ES focuses on formal firms, the broader business landscape is dominated by informality. International Labor Organization (ILO) estimates the informal economy at around 70–75 percent of GDP, implying that the vast majority operate outside the formal registry. Informal firms play a critical role in employment and service provision, particularly in rural areas and low-income urban neighborhoods. They have also developed resilient models—such as informal lending and community-based risk sharing—that have survived decades of conflict and political change. However, from the perspective of formal firms, informality is a major competitive pressure. Nearly 46 percent of ES firms report competing against unregistered firms, which can undercut prices by avoiding taxes, regulations, and compliance costs. This "informal shadow" erodes the profitability of formal firms and discourages formalization, contributing to a low-productivity equilibrium.

Figure 22: Sector size

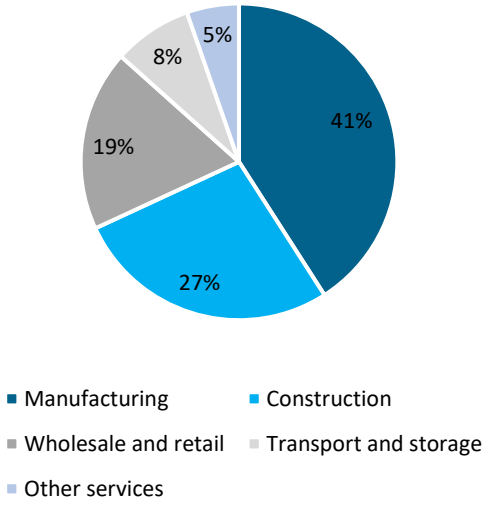


Figure 23: Firm size by sector

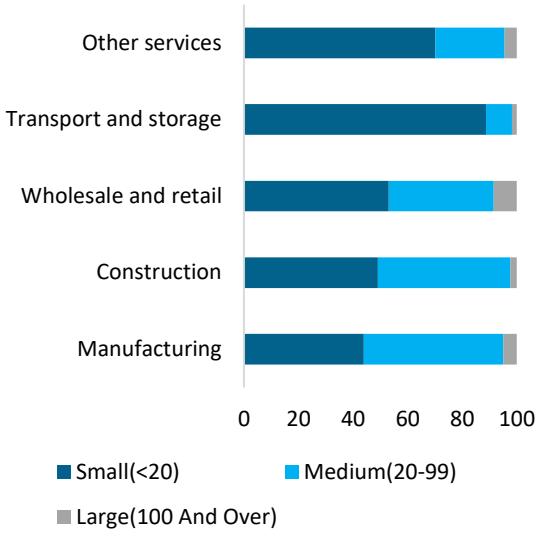


Figure 24: Firm size by region

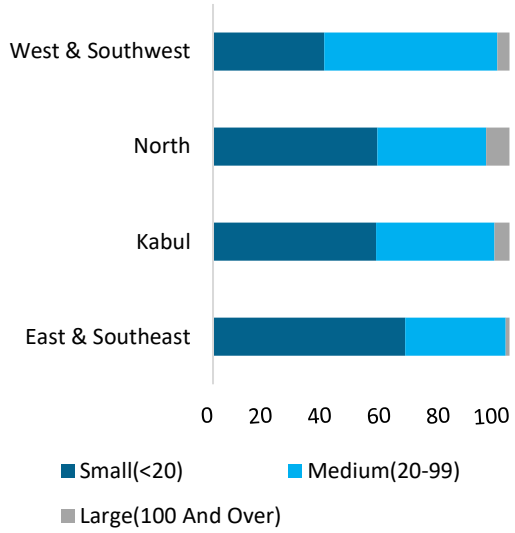
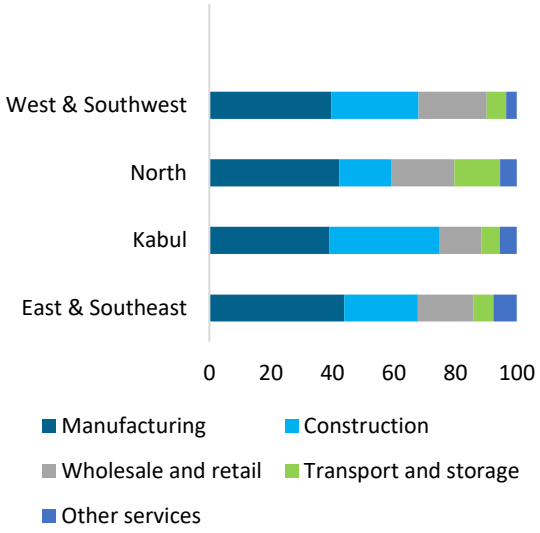


Figure 25: Sectoral composition by region



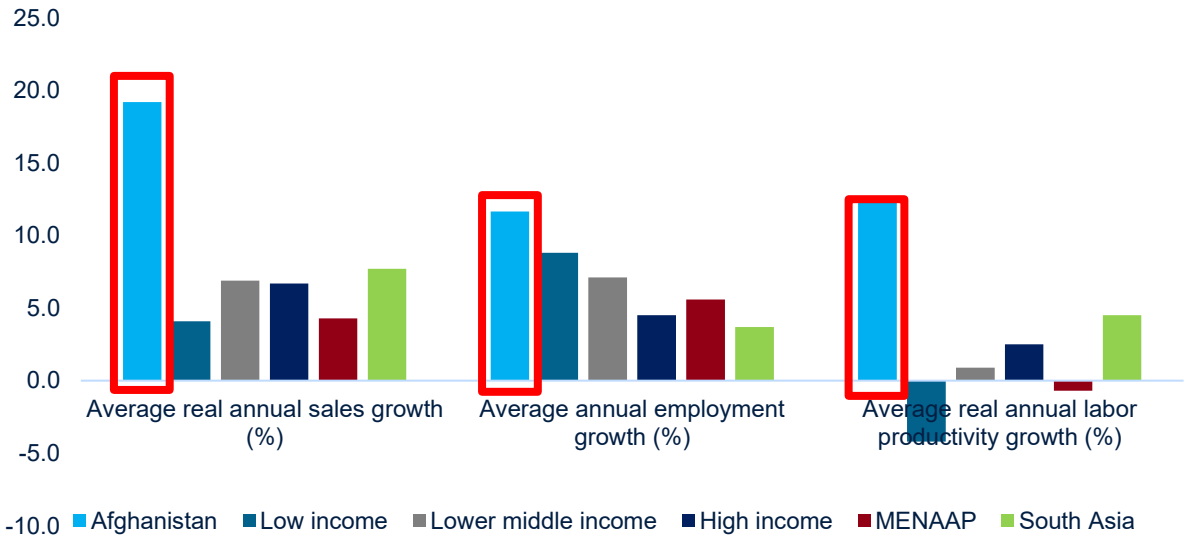
Source: Afghanistan ES 2025

FIRM-LEVEL ADJUSTMENT AND PERFORMANCE

Afghanistan's formal private sector, as defined and covered by the ES 2025, has staged a marked rebound from the historic lows reached in 2021–2022. The results underscore a degree of resilience that has featured prominently in recent analysis, consultations with the private sector and anecdotal evidence from the ground. Evidence from ES 2025 shows that firms recorded strong growth in sales, employment,

and labor productivity between FY22/23 and FY24/25, following the sharp post-transition contraction. Average real annual sales growth reached about 18 percent, employment expanded by nearly 12 percent per year, and labor productivity rose by around 11 percent, outperforming regional averages and income-group peers on all three metrics. The performance realized was in sharp contrast to other low-income and lower-middle-income economies, where sales growth during this period averaged between 4 percent and 7 percent and productivity gains were modest or negative. This pattern is consistent with recent more macro analysis which has highlighted the stabilization of economic activity after 2022 and the persistence of market transactions even amid severe macro-fiscal adjustment, liquidity constraints, and uncertainty. These gains should be interpreted as short-term performance improvements during the post-2022 stabilization phase and are analytically distinct from the longer-run structural changes discussed later in the chapter.

Figure 26: Key Indicators of Firm Performance



Source: Afghanistan ES 2025

The post-stabilization rebound translated into renewed firm-level investment between 2022-25. Close to 40 percent of firms reported purchasing fixed assets in the previous year, an investment rate broadly in line with upper-middle-income benchmarks and well above MENAAP or South Asian averages. Firms also invested more heavily in human capital. Over one-third of firms (37 percent) provided formal worker training, a share meaningfully higher than regional peers. Innovation indicators show a similar pattern. Afghan firms reported higher-than-average rates of introducing new products and improving production processes relative to comparator countries. Overall, the trends in sales, investment, and innovation emerging from the 2025 ES results reinforce those

observed in recent years: despite operating in an extremely fragile context, Afghanistan's private sector retains significant adaptive capacity and responds quickly when constraints ease, even partially.

Figure 27: % of firms which reported investing in fixed over the last FY

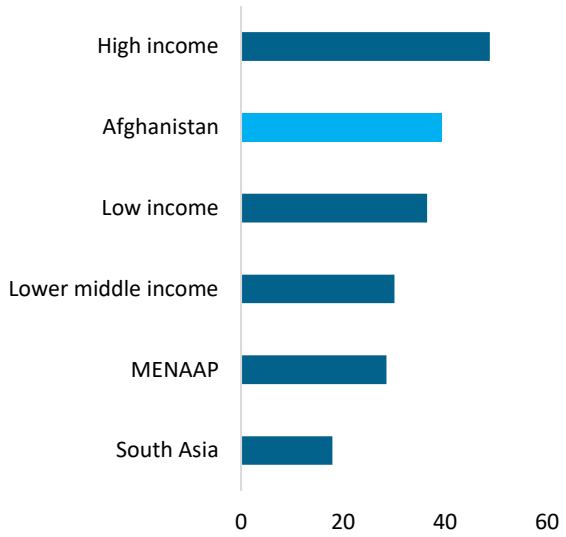
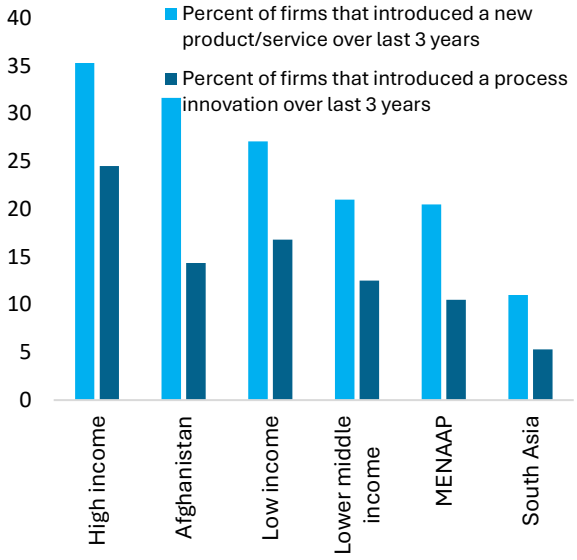


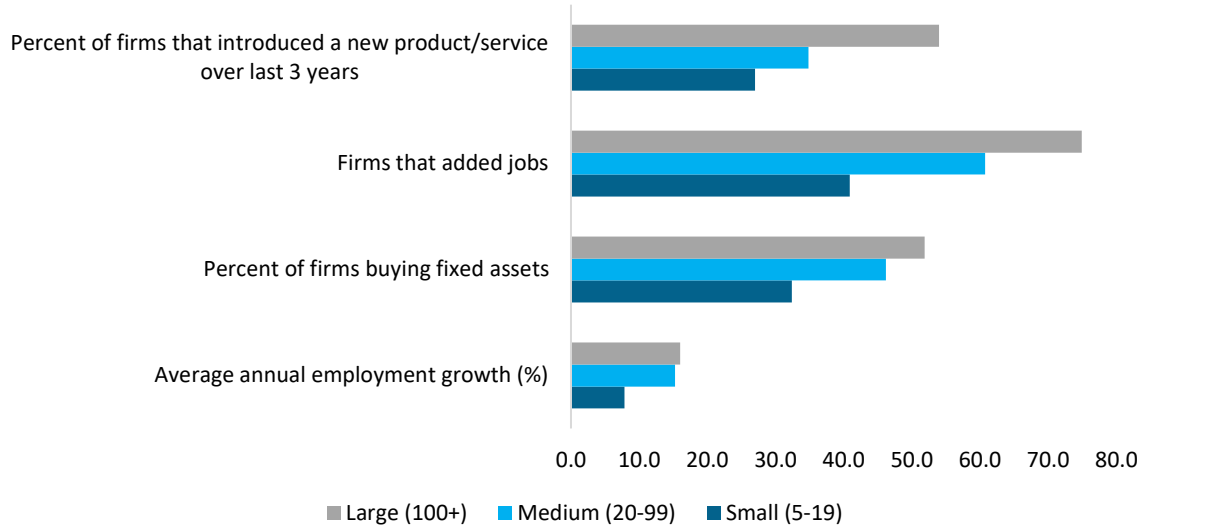
Figure 28: Firm Dynamics and Innovation



Source: Afghanistan ES 2025

The post-2022 recovery was visible across different segments of the formal private sector. ES 2025 results highlight substantial heterogeneity in performance across firm types, echoing findings from diagnostics undertaken in recent years, on firm capabilities and market segmentation. Larger firms, as an example, outperformed small and medium enterprises across multiple dimensions. Large and medium-sized firms added more jobs to their operations as a result of the turnaround witnessed over the past 2-3 years grounded in stability, were significantly more likely to invest in fixed assets, and innovated at much higher rates than small firms. Nearly half of large firms invested in fixed assets, compared to roughly 30 percent of small firms, and more than 50 percent of large firms introduced new products or services over the past 3 years, almost twice that of smaller sized firms.

Figure 29: Key Performance Indicators by Firm Size

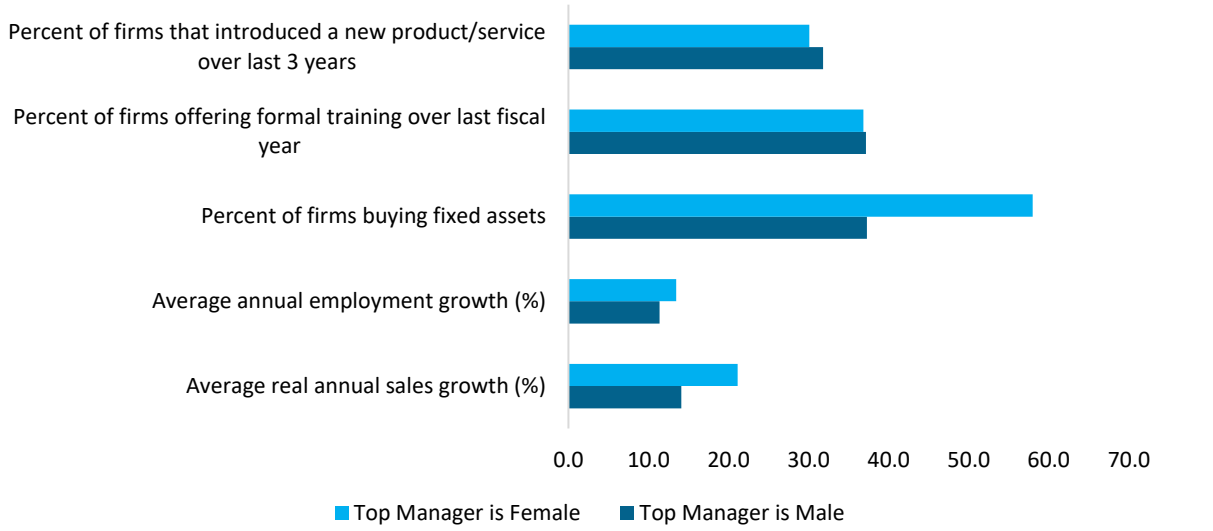


Source: Afghanistan ES 2025

Performance differentials were also pronounced by ownership and market orientation. Export-oriented firms consistently reported stronger growth and investment outcomes, reflecting greater scale, better access to foreign markets, and stronger incentives to upgrade processes and quality. This finding aligns closely with recent global evidence which leverage panel data covering countries around the work and emphasize the productivity and resilience advantages of firms integrated into external markets, even in fragile and landlocked economies such as Afghanistan.

Notably, women-managed firms outperformed their male-managed counterparts on several key indicators, despite operating under considerably tighter social and economic constraints. Women-managed firms recorded markedly higher real annual sales growth, standing at 21 percent compared to 14 percent for male managed firms, and faster employment expansion, with average annual employment growth amounting to 14 percent compared to 11 percent for male managed firms. The outperformance on key indicators of firm performance was shaped by- and in turn drove investment in- fixed assets and human capital base of the firms. Women-managed businesses reported investing in fixed assets and their labor force at rates higher than male-managed firms, with close to 58 percent of women managed businesses reporting investing in fixed assets. Taken together, these findings point to a paradox at the heart of Afghanistan's private sector: women entrepreneurs and managers are demonstrating strong relative performance on growth and human capital metrics precisely where structural barriers are most acute. This is not a story of underperformance; it is a story of constrained potential. Future private sector growth will depend critically on policies that remove the financing, mobility, and regulatory barriers that prevent women-managed firms from translating demonstrated dynamism into sustained, scalable expansion.

Figure 30: Key Performance Indicators by Gender



Source: Afghanistan ES 2025

DEVELOPMENT DELIVERS: PROGRESS THAT SHOWS OVER TIME

Beyond short-term performance, the ES 2025 documents substantial improvements in key dimensions of the business environment since the implementation of the previous Enterprise Survey in 2014, reinforcing longer-run structural change and continued development, which is often masked by the country's headlines capturing volatility.

Regulatory processes have improved considerably over time, becoming faster and more predictable according to ES 2025. The average time to obtain an operating license fell from 13.7 days in 2014 to 9.4 days in 2025, while the time to obtain a construction-related permit declined significantly from 139.6 days to just 23.1 days, an 85 percent reduction. Firms also reported a pronounced decline in corruption. Bribery incidence, as measured by the share of firms experiencing at least one bribe payment request, fell from 46.8 percent in 2014 to 9.5 percent in 2025, and the share of firms expected to give gifts to public officials to get things done dropped from 39.3 percent to 12.3 percent Both indicators fell by more than 75 percent over the decade. These gains are significant and should not be understated.

However, improvements in quantitative indicators need to be examined further before reaching any conclusions. On the one hand, a reduction corruption measures do not necessarily signal a fundamental strengthening of governance, but may instead reflect changes in local dynamics. At the same time, evidence of higher revenue collection and improved fiscal management suggests that governance may indeed be strengthening, which could also contribute to lower corruption. Consistent with this, firms report

improvements in customs and trade regulations, which may reflect fewer opportunities for bribery and unofficial payments. This distinction is important for assessing how durable these gains will be as state capacity continues to evolve.

Figure 31: Key Indicators of Operating Environment – 2014 and 2025

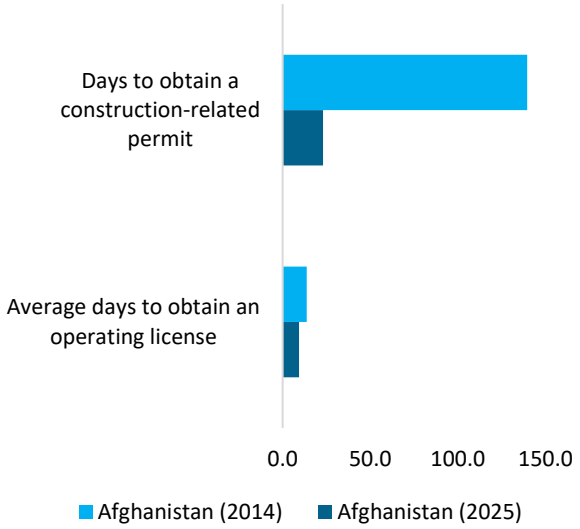
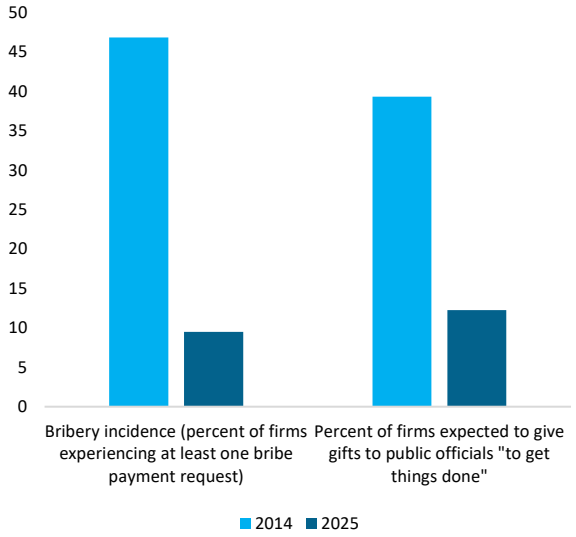


Figure 32: Key Indicators of Governance and Corruption – 2014 and 2025



Source: Afghanistan ES 2025 and 2014

The 2025 ES also points to measurable improvements in firms' basic access to formal financial services since 2014. Over 2014–2025, the share of formal firms with a checking or savings account increased from 44 percent to 67 percent and the share with a bank loan or line of credit rose from 5 percent to 22 percent Over the same period, the proportion of firms identifying access to finance as a major or very severe constraint fell from 48 percent to 27 percent Taken together, these trends suggest a decade-long expansion in basic financial outreach to formal firms and a partial easing of perceived credit constraints.

However, these gains need to be interpreted against the backdrop of Afghanistan's structurally shallow formal financial sector, which continues to underperform its intermediation potential. Crises, conflict, weak governance, and the persistence of cash-based and informal finance all limit the ability of financial intermediaries to expand sustainable access to finance at scale. It is also important to underscore that the observed improvements reflect gradual progress over more than a decade and should not be conflated with developments in the immediate post-2021 period.

Figure 33: : Key Indicators of Access to Finance (2014 and 2025)

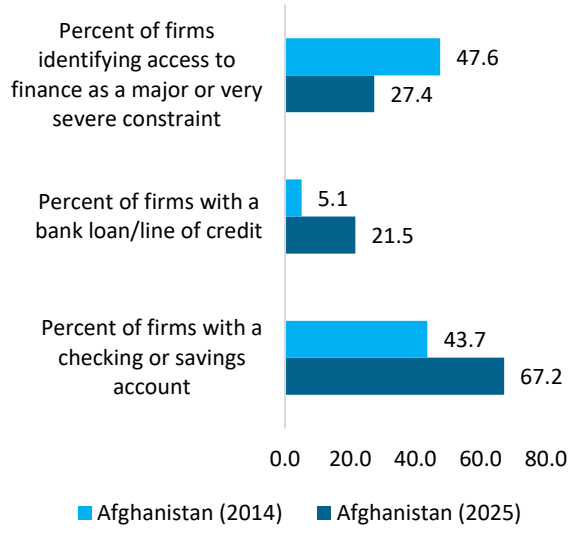


Figure 34: Key Indicators of Trade Performance (2014 and 2025)



Source: Afghanistan ES 2025 and 2014

Trade is another area where conditions have improved markedly over the past decade, as shown by comparing ES 2014 and ES 2025. Firms report broad-based reductions in the time, costs, and procedural steps associated with cross-border transactions, which has translated into a sharp decline in the share of firms viewing customs and trade regulations as a major constraint. By 2025, the average time to clear exports through customs had fallen to 4.7 days, from 8.1 days in 2014. The time to clear imports also declined, from 10.6 to 7.2 days. As a result, only 9.4percent of firms surveyed in 2025 identified trade and customs regulations as a constraint, compared with 46.5 percent (nearly half of all firms) in 2014. These gains have had tangible effects on firm behavior: 6.9 percent of formal firms now report exporting directly, almost three times the 2.3 percent recorded in 2014, indicating greater export orientation.

However, improvements in trading conditions—particularly in export orientation—mask substantial heterogeneity. Export participation varies sharply by sector: transport and storage firms are the most outward-facing, with a direct export rate of 20.8 percent followed by wholesale and retail at 14.5 percent while manufacturing—the sector most associated with tradable goods—has a direct export rate of just 3.6 percent. The exporter base has also shifted structurally. Small firms now account for 55 percent of all exporters, up from less than one-third a decade ago, reflecting the exit or downsizing of larger firms and the emergence of smaller, niche-oriented exporters in their place.

For a landlocked, import-dependent economy with limited transit options, these pressures translate directly into higher prices for fuel, food, and other critical goods. On the export side, Afghan firms already operating on thin margins face

growing difficulty in securing and fulfilling contracts, especially in time-sensitive sectors such as fresh and processed agricultural products. Taken together, the structural over-reliance on imports and the external shocks from regional instability risk widening the trade deficit, eroding export competitiveness, and fueling domestic inflation at a moment when both households and businesses have little capacity to absorb further disruption.

Beyond the import-export asymmetry, customs data, by contrast, presents a comparatively positive picture, at 4.7 days, export clearance is faster than the MENAAP regional average of 6.7 days, and import clearance at 7.9 days remains comparable to peers. Even so, border efficiency alone cannot offset the deeper structural and financial barriers that continue to constrain Afghan exporters, particularly the smaller firms now at the forefront of trade activity. Further, the structure of Afghanistan's exporter base has changed considerably since 2014. Large firms, once accounting for nearly half of all exporters, have given way to small firms, which now constitute the majority.

While this broadening of export participation reflects the emergence of smaller enterprises in niche markets — agribusiness, carpets, and light manufacturing — it also introduces new vulnerabilities, as these firms tend to face sharper constraints in financing, logistics, and regulatory compliance. These constraints are further deepened by the erosion of correspondent banking relationships, which has made international transactions more complex and costly. Firms have pragmatically shifted suppliers and increasingly used Hawala for cross-border payments, but these strategies raise costs, disrupt production, deter export-focused investment, and weaken the formal financial system.

Binding Constraints

Despite marked improvements in firm performance, the ES 2025 results underscore that Afghanistan's private sector still faces deep structural constraints relative to peers, and recent gains remain vulnerable to shocks. The profile of binding constraints has shifted since 2014 from political instability, corruption, and access to land toward three principal obstacles (1) unreliable electricity, (2) limited access to finance and (3) pervasive informality, with taxation also emerging as a concern. These constraints align closely with the pillars of the World Bank Group Pivot Engagement, namely investment in foundational infrastructure (electricity), business-enabling environment reforms (addressing access to finance and informality), and mobilizing capital at scale. The latter is complicated by the absence of international recognition of the ITA, which limits the use of standard de-risking instruments. Addressing some of these constraints through a sustained, incremental approach will be critical to placing the private sector on a more durable growth trajectory.

Figure 35: Top 4 Constraints Faced by Firms 2014

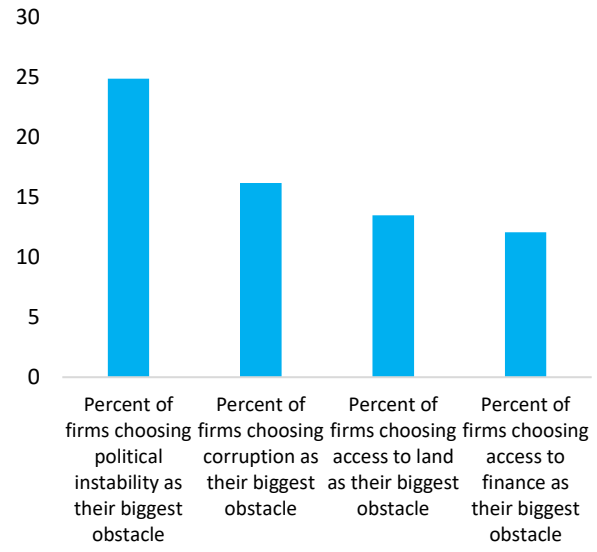
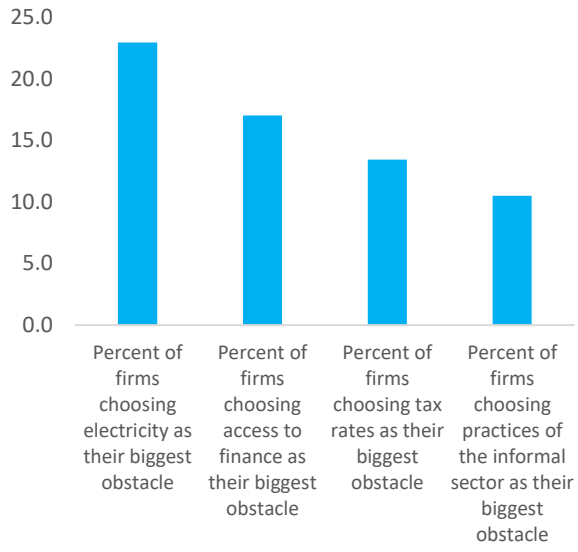


Figure 36: Top 4 Constraints Faced by Firms 2025



Source: Afghanistan ES 2025 and 2014

ELECTRICITY RELIABILITY

The primary electricity challenge facing firms is not access, but reliability. While obtaining a new connection is relatively efficient—with average 3.6 days, suggesting limited administrative bottlenecks—firms continue to struggle with the quality and consistency of power supply. This is reflected in how strongly electricity is perceived as a constraint in the ES 2025. When rated on its own severity scale, 42.8 percent of firms identify it as a major or very severe issue, placing Afghanistan above all comparator groups, including MENAAP (30.2 percent), low-income countries (38.5 percent), and lower-middle-income countries (32.0 percent). Only South Asia reports a significantly lower share at 9.7 percent. Consistent with this, electricity is now the most frequently cited obstacle among formal private firms, named by 23 percent as their top constraint in 2025—more than double the 10.2 percent recorded in 2014. These dynamics unfold amid limited public sector capacity to deliver large-scale grid reliability improvements, increasing reliance on costly and only partially effective market-based and firm-level mitigation.

As a result, 65.3 percent **of Afghan firms own or share a generator, by far the highest rate of any comparator group.** It is nearly double the low-income country average (46.2 percent) and more than twice the MENAAP average (25.7 percent). This extraordinary rate of self-generation reflects firms' rational response to an unreliable grid, but it represents a significant and regressive private cost burden. Generator investment, fuel, and maintenance absorb capital that could otherwise fund productive investment, training, or expansion. Critically, generator ownership does not fully resolve the constraint, for example, 46.6 percent of firms with generators still rate electricity as a major or very severe obstacle, compared to 51.5

percent among firms without generators — a remarkably small gap, suggesting that self-generation mitigates but does not eliminate the electricity burden.

Manufacturing firms are the most severely affected sector — 46.8 percent rate electricity as a major or very severe obstacle, far ahead of any other sector. For a sector that depends on continuous power for machinery and production processes, this represents a significant drag on productivity and operating costs, with average losses of around 621,000 AFN per affected firm. While this is an average that masks significant variation, it points to a real and recurring cost burden that compounds across the supply chain. Construction is the second most affected sector at 22.8 percent, followed by wholesale and retail at 11.8 percent. Transport and storage and other services are comparatively less exposed at 9.2 percent and 8.8 percent respectively.

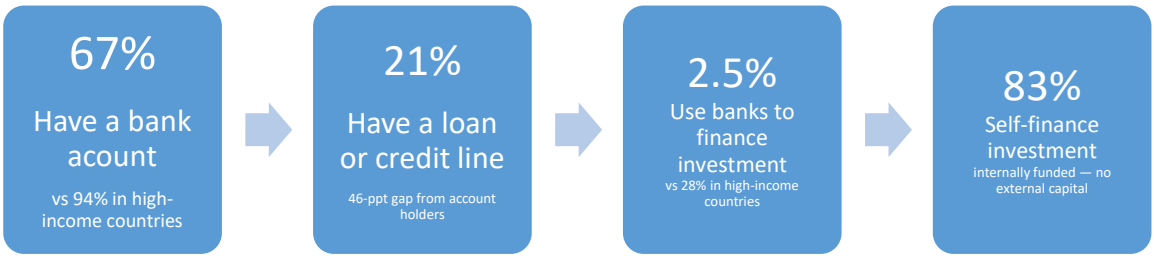
Electricity stress is geographically concentrated. West & Southwest firms are the most severely affected, with 33.7 percent citing electricity as their biggest obstacle — the highest of any region. Kabul follows at 25.2 percent, East & Southeast at 21.0 percent, and the North is the least affected at just 9.6 percent. This regional disparity likely reflects differences in grid infrastructure, proximity to generation capacity, and the legacy of conflict damage to electricity networks.

ACCESS TO FINANCE

Despite gains relative to 2014, Afghanistan continues to underperform peer economies, and access to finance remains a binding constraint in absolute terms. The share of firms with a checking or savings account has risen from 44 percent to 67.2 percent over the past decade, but this remains well below the average for low-income countries (80.8 percent) and far behind high-income economies, where 94 percent of surveyed firms report having such accounts. A similar pattern holds across other access-to-finance indicators. Only 21.5 percent of surveyed firms report having a bank loan or line of credit—an improvement from 5 percent in 2014, but still below the average of 26 percent in lower-middle-income countries and 44.7 percent in high-income countries.

Afghanistan's financial landscape is marred by a stark contrast between nominal access to formal financial systems and the actual utilization of these services, highlighting the severe limitations in accessing productive capital. This trend is particularly pronounced in the North region, where 46 percent of firms cite access to finance as their primary obstacle, underscoring a significant regional disparity. Other services (46 percent) and construction (33 percent) sectors have the highest shares of firms identifying finance as a major or very severe obstacle, while wholesale and retail (11 percent) are least affected.

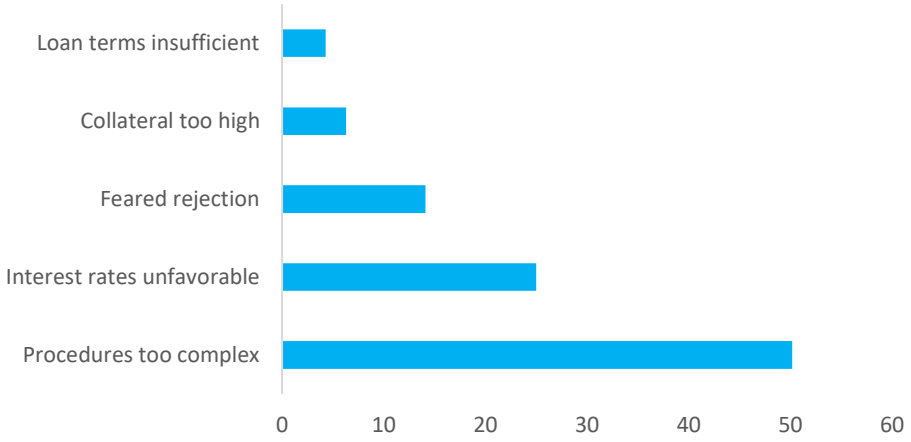
Figure 37: Access to finance performance in Afghanistan



Source: Afghanistan ES 2025

The primary reason cited by firms for not applying for financing is having sufficient capital, which seems innocuous at first glance. However, a closer examination of firms that did not apply reveals a more nuanced picture. 50 percent of these firms cite overly complex application procedures, 25 percent find the cost of financing unfavorable, and 6.4 percent deem collateral requirements too high — suggesting that a significant proportion of firms claiming to have sufficient capital may actually be deterred by unworkable loan terms. Fewer than one in five businesses surveyed applied for a loan and of those that did, only around one in four was approved in full.

Figure 38: Reasons why firms are deterred from apply for loans



Source: Afghanistan ES 2025

Finance stress is highest in other services (46 percent citing it as a major or very severe constraint), construction (33.2 percent**), and manufacturing (28.8 percent).** Wholesale and retail firms are least constrained at 10.6 percent, likely reflecting shorter working capital cycles and more collateralizable inventory. By size, small firms are most constrained at 32.3 percent, though the gap with medium (22.8 percent) and large (14.7

percent) firms is less dramatic than might be expected, suggesting that the finance constraint is broadly distributed rather than exclusively a small-firm problem. By region, the North stands out dramatically: 45.7 percent of northern firms cite access to finance as their biggest single obstacle — far above Kabul (18.5 percent), East & Southeast (8.2 percent), and West & Southwest (1.9 percent). This regional disparity points to significant geographic inequity in banking infrastructure and credit availability.

Electronic payments represent a nascent but growing part of the business landscape: 22.6 percent of firm sales are paid electronically by customers, and firms make 18.3 percent of their own payments electronically. Transaction costs are low—0.17 percent to receive and 0.44 percent to make electronic payments—and settlement is fast, at under one day. These are positive signals. However, the majority of transactions remain cash-based, and while the payment infrastructure is improving, transactions still heavily rely on hawaldars for local and cross-border payments—as discussed in the financial sector section. Hawaldars, which are regulated but not monitored as extensively as banks are, continue to channel a significant share of business activity.

INFORMALITY

Pervasive informality has been a defining characteristic of the private sector in Afghanistan in recent decades. The vast majority of private sector activity can be characterized as low income, weakly diversified, and largely informal. A pattern that reflects not only fragility and uncertainty, but also a rational economic choice, where the costs of doing business formally outweigh the benefits, and firms naturally opt to remain informal. This is particularly pronounced in Afghanistan, where access to finance (one of the key advantages of formal registration) remains exceptionally low, weakening the incentive to formalize.

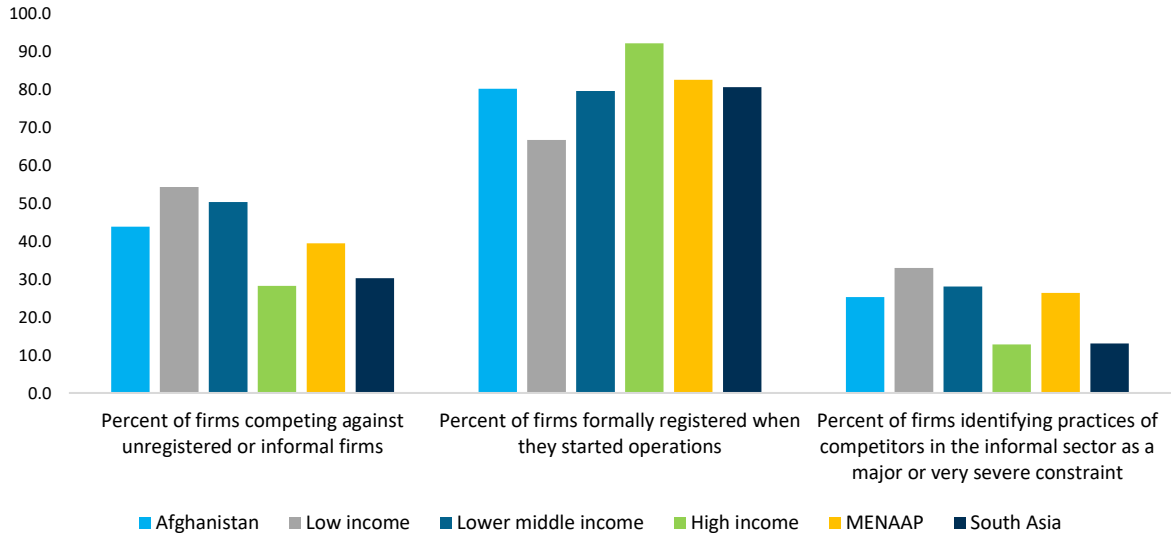
The drivers of informality have shifted over time. Poor governance and corruption pushed firms out of the formal economy in the early 2010s, while more recent years have seen heightened uncertainty and political unpredictability compound the challenge. Recent analytical work, including the PSRS, further highlights how the volatility following 2021 has driven firms toward informality as a short-term coping mechanism. Addressing this will require tackling the underlying cost-benefit imbalance through simplified registration and tax regimes for micro enterprises, alongside broader improvements to the business environment to make formalization a genuinely attractive option rather than an administrative burden.

The informal sector acts as a buffer in difficult operating environments and has contributed to the resilience that characterizes the country's private sector; however, it also creates an uneven playing field. Informal firms can undercut prices by sidestepping taxes, standards, and regulatory requirements. This places a disproportionate burden on formal private sector firms, particularly in Afghanistan's low-margin context. The problem is especially severe for small and medium-sized enterprises, which lack the scale and market power to absorb higher operating costs, and for growth-

oriented firms that aim to invest, formalize their workforce, or enter new markets.

Despite improvements in parts of the business environment over time, informality has emerged as a major and increasingly binding constraint for Afghanistan's formal private sector. Results from the ES 2025 show that competitive pressures from informal firms are widespread with about 44 percent of formal firms reporting competing directly with unregistered or informal businesses, while approximately 25 percent of firms identifying the practices of informal competitors as a major or very severe obstacle to their operations, a share higher than in South Asia and far above that observed in higher-income comparator economies.

Figure 39: Informality as a Constraint



Source: Afghanistan ES 2025

CONCLUSION

Overall, the evidence from the 2025 ES — read alongside the 2022–2024 PSRSs— shows an Afghan private sector that has stabilized and, in parts, rebounded from the post-2021 shock, but at a much lower level of activity and under a shifting set of binding constraints. The formal sector remains dominated by small and medium firms with limited export participation, while informality continues to define the broader economy and create strong competitive pressures for registered businesses; women's ownership remains low, yet women-managed firms that remain active report comparatively strong growth, underscoring constrained potential rather than underperformance. Recent improvements relative to 2014 in licensing timelines, reported bribery incidence, access to basic financial services, and trade facilitation point to meaningful longer-run progress, but these gains require cautious interpretation and are insufficient to place the economy on a durable growth path. Looking forward, the key obstacles firms face are increasingly structural such as unreliable electricity, shallow and uneven access to

finance, informality, and taxation, suggesting that impactful near-term support should prioritize practical, incremental interventions that lower operating costs, expand MSME and household access to (digital) financial services, strengthen firm capabilities and skills, and deepen market linkages along targeted value chains, consistent with the WBG private sector Pivot's focus on sustaining BHN services while enabling jobs and private investment where space exists.

The new Private Sector Resilience Program (PSRP) will focus on: (i) expanding access to finance and digital payments for productive MSMEs, with a focus on women-led firms; (ii) strengthening resilience and productivity in selected value chains through targeted firms, and group-level support; (iii) mobilize private capital and expertise through risk-sharing and co-financing instruments; and (iv) building firm capabilities through demand-driven skills and accelerator programs that are feasible within current constraints and directly linked to job creation and market access. The PSRP is cross-cutting pillar and will work hand in hand with Human Capital and Jobs pillar, Rural Livelihoods Pillar and Resilience to Shocks Pillar.

Annexes

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ANNEX TABLES

Table 2. Afghanistan Selected Economic and Financial Indicators, 2018-2028

Fiscal Year	2018	2019	2020	2021	2022	2023	2024 Act.	2025 Est.	2026 Proj.	2027 Proj.	2028 Proj.
				Change in %							
Supply											
Agriculture	-4.4	17.5	5.9	-9.8	-6.6	2.2	2.6	-5.0	3.0	3.2	3.2
Industry	11.1	4.8	-4.6	-12.8	-5.7	1.8	1.9	10.0	5.0	5.0	5.0
Services	1.9	-1.4	-5.9	-30.1	-6.5	1.5	0.5	10.3	4.4	4.0	3.7
Net Taxes on Production	-0.1	-9.4	-7.8	-16.5	-3.0	11.4	8.2	13.0	4.0	4.0	4.0
Real GDP	1.2	3.9	-2.4	-20.7	-6.2	2.3	1.9	4.8	4.0	3.9	3.8
Domestic prices											
Consumer prices (annual average)	0.6	2.3	5.6	7.8	10.6	-7.7	-4.3	3.6	7.2	6.0	5.0
Consumer prices (end of period)	1.8	3.0	4.4	15.1	1.9	-9.0	-0.3	7.6	6.8	5.2	4.8
Exchange Rate (annual average)	73.5	78.2	76.9	87.7	88.5	77.3	70.3	67.8			
Exchange Rate (end of period)	75.5	76.1	77.2	87.7	87.1	71.4	70.6	64.2			
				In % of nominal GDP							
Demand											
Private Consumption	89.2	83.7	88.9	100.5	103.7	108.1	122.2	127.0	127.3	126.6	126.4
Government Consumption	34.7	33.2	33.2	21.3	21.8	21.2	23.6	24.3	24.5	24.9	26.2
Public Investment	7.4	6.9	6.0	6.4	6.4	6.2	6.6	7.1	7.1	7.0	6.9
Private Investment	10.6	11.3	11.0	6.6	10.2	9.1	10.4	10.5	10.8	9.8	9.1
Exports, GNFS	9.1	8.2	7.0	10.4	14.1	11.6	11.0	10.5	9.9	9.6	9.8
Imports, GNFS	51.1	43.4	46.1	45.2	56.3	56.1	73.8	79.4	79.7	77.9	78.5
Fiscal											
Revenue and Grants	58.1	53.0	49.4	36.5	40.6	33.9	35.3	33.1	32.8	32.2	33.2
Domestic Revenue	14.0	14.2	11.3	11.1	15.1	15.6	19.2	19.8	21.0	21.8	23.4
Tax Revenue	9.4	8.8	7.4	7.6	8.9	9.0	10.7	13.0	12.6	13.0	13.9
Non-tax and other Revenues	4.7	5.4	3.9	3.5	6.3	6.6	8.5	6.7	8.4	8.8	9.5
External Grants	44.1	38.8	38.1	25.4	25.5	18.3	16.1	13.3	11.8	10.4	9.8
Total Expenditures	56.8	54.7	51.7	36.0	41.6	35.1	35.8	33.6	33.1	32.1	32.8
Current Expenditures	19.4	19.3	17.8	13.4	15.3	15.5	17.8	18.2	19.0	19.4	21.2
Capital Expenditures	9.5	9.5	10.4	4.1	0.8	1.3	1.8	2.1	2.3	2.3	2.3
Externally Financed Expenditure	27.8	26.0	23.5	18.4	25.5	18.3	16.1	13.3	11.8	10.4	9.4
General Fiscal Balance	1.3	-1.7	-2.3	0.5	-1.0	-1.2	-0.4	-0.5	-0.3	0.1	0.4
General Public Debt	5.8	7.1	8.2	12.7	13.9	13.6	14.7	13.6	11.7	9.1	8.3
Balance of Payments											
Current Account Balance	-21.8	-18.7	-21.6	-15.8	-18.8	-17.6	-28.3	-36.1	-38.5	-37.6	-38.5
Trade Balance (Goods and Services)	-41.9	-35.1	-39.1	-34.8	-42.2	-44.6	-62.9	-68.9	-69.8	-68.3	-68.7
Primary and Secondary Incomes	20.1	16.5	17.5	19.0	23.4	27.0	34.5	32.8	31.3	30.7	30.2
Memorandum items											
Nominal GDP (AFN billion)	1,328	1,470	1,535	1,251	1,283	1,351	1,262	1,376	1,510	1,655	1,759
Nominal GDP (USD million)	18,053	18,799	19,956	14,266	14,502	17,476	17,940	20,301	22,200	23,989	25,129
Population (million)	36.7	37.9	39.1	40.0	40.6	41.5	42.6	47.4	51.1	52.2	53.3
GDP per capita (real LCU)	37,273	37,592	35,569	27,536	25,450	25,477	25,228	23,805	23,916	24,127	24,393
GDP per capita (real 2015 USD)	553	558	528	409	378	378	374	353	341	347	352
GDP at market prices (real 2015 USD)	20,323	21,118	20,622	16,345	15,325	15,673	15,966	16,738	17,405	18,085	18,763

Sources: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections.

Table 3. Afghanistan Real Sector, 2018-2028

Fiscal Year	2018	2019	2020	2021	2022	2023	2024 Act.	2025 Est.	2026 Proj.	2027 Proj.	2028 Proj.
					Change in %						
Agriculture	-4.4	17.5	5.9	-9.8	-6.6	2.2	2.6	-5.0	3.0	3.2	3.2
Industry	11.1	4.8	-4.6	-12.8	-5.7	1.8	1.9	10.0	5.0	5.0	5.0
Services	1.9	-1.4	-5.9	-30.1	-6.5	1.5	0.5	10.3	4.4	4.0	3.7
Net Taxes on Production	-0.1	-9.4	-7.8	-16.5	-3.0	11.4	8.2	13.0	4.0	4.0	4.0
Real GDP	**1.2**	**3.9**	**-2.4**	**-20.7**	**-6.2**	**2.3**	**1.9**	**4.8**	**4.0**	**3.9**	**3.8**
					Contribution to GDP growth						
Supply											
Agriculture	-1.2	4.5	1.7	-3.1	-2.4	0.8	1.0	-1.8	1.0	1.0	1.0
Industry	1.3	0.6	-0.6	-1.7	-0.8	0.3	0.3	1.4	0.8	0.8	0.8
Services	1.1	-0.8	-3.1	-15.2	-2.9	0.7	0.2	4.5	2.0	1.9	1.7
Net Taxes on Production	0.0	-0.5	-0.4	-0.7	-0.1	0.5	0.4	0.7	0.2	0.2	0.2
Demand											
Private Consumption	6.9	1.3	-1.1	4.3	0.5	6.0	14.3	7.6	5.6	4.5	4.5
Government Consumption	-10.1	-0.2	-0.8	-16.3	-0.2	0.1	1.7	1.1	1.7	1.9	1.9
Public Investment	1.1	-0.3	-1.2	-1.6	0.3	0.1	0.0	0.3	0.3	0.3	0.4
Private Investment	-1.6	1.2	-0.4	-6.1	3.8	-1.2	0.4	1.9	0.8	0.9	1.0
Exports, GNFS	3.2	-0.5	0.1	-1.4	2.9	-2.4	-0.1	-0.2	0.3	0.6	0.9
Imports, GNFS	1.8	2.4	1.1	0.3	-13.5	-0.4	-14.5	-5.9	-4.8	-4.2	-5.0
Real GDP	**1.2**	**3.9**	**-2.4**	**-20.7**	**-6.2**	**2.3**	**1.9**	**4.8**	**4.0**	**3.9**	**3.8**
					In % of nominal GDP						
Supply											
Agriculture	23.2	27.0	31.4	35.4	35.5	36.7	36.5	36.8	35.8	34.2	33.8
Industry	14.1	14.8	13.6	15.0	16.9	14.2	15.5	16.4	16.3	15.9	16.0
Services	62.7	58.2	55.0	49.6	47.5	49.0	48.1	46.9	48.0	49.9	50.2
Real GDP (Constant AFN billion)	**1,370**	**1,423**	**1,390**	**1,101**	**1,033**	**1,056**	**1,076**	**1,128**	**1,173**	**1,219**	**1,264**
Nominal GDP (AFN billion)	**1,328**	**1,470**	**1,535**	**1,251**	**1,283**	**1,351**	**1,262**	**1,376**	**1,510**	**1,655**	**1,759**
Nominal GDP (USD million)	**18,053**	**18,799**	**19,956**	**14,266**	**14,502**	**17,476**	**17,940**	**20,301**	**22,200**	**23,989**	**25,129**
Population (million)	**37**	**38**	**39**	**40**	**41**	**41**	**43**	**47**	**51**	**52**	**53**
GDP per capita (real LCU)	**37,273**	**37,592**	**35,569**	**27,536**	**25,450**	**25,477**	**25,228**	**23,805**	**23,916**	**24,127**	**24,393**
GDP per capita (real 2015 USD)	**553**	**558**	**528**	**409**	**378**	**378**	**374**	**353**	**341**	**347**	**352**
GDP at market prices (real 2015 USD)	**20,323**	**21,118**	**20,622**	**16,345**	**15,325**	**15,673**	**15,966**	**16,738**	**17,405**	**18,085**	**18,763**

Sources: ITA (NSIA, MOCI); and WBG staff estimates and projections.

Table 4. Afghanistan Fiscal Table (2018-2028)

Fiscal Year	2018	2019	2020	2021	2022	2023	2024 Act.	2025 Est.	2026 Proj.	2027 Proj.	2028 Proj.
	In percentage of GDP										
Revenue and Grants	**58.1**	**53.0**	**49.4**	**36.5**	**40.6**	**33.9**	**35.3**	**33.1**	**32.8**	**32.2**	**33.2**
Domestic Revenue	**14.0**	**14.2**	**11.3**	**11.1**	**15.1**	**15.6**	**19.2**	**19.8**	**21.0**	**21.8**	**23.4**
Tax Revenue	9.4	8.8	7.4	7.6	8.9	9.0	10.7	13.0	12.6	13.0	13.9
Direct Taxes	2.6	2.2	2.1	1.9	1.1	1.6	2.0	2.2	2.3	2.4	2.6
Income Taxes (Corporate and Personal)	1.7	1.5	1.2	1.4	0.7	1.1	1.2	1.4	1.4	1.5	1.6
Personal Income Tax	1.1	1.2	1.0	0.9	0.5	0.6	0.8	0.9	0.9	1.0	1.0
Corporate Income Tax	0.7	0.4	0.2	0.5	0.1	0.5	0.4	0.5	0.5	0.5	0.6
Taxes on Property	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2
Other Direct Taxes	0.9	0.7	0.8	0.5	0.3	0.4	0.6	0.7	0.7	0.8	0.8
Taxes on Goods and Services	2.5	2.4	2.2	2.1	2.2	2.5	3.2	4.1	4.0	4.2	4.5
Taxes on Int Trade and Transactions	2.7	2.5	2.1	2.5	4.6	3.7	4.1	5.0	4.5	4.5	4.7
Customs and Other Import Duties	2.5	2.3	2.0	2.3	3.5	3.1	3.8	4.7	4.1	4.2	4.3
Taxes on Exports	0.1	0.1	0.0	0.1	0.9	0.4	0.2	0.2	0.2	0.2	0.2
Other Int Trade Taxes	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other Taxes	1.1	1.2	1.0	1.1	1.1	1.2	1.5	1.7	1.8	1.9	2.1
Social Contributions	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax and other Revenue	4.7	5.4	3.9	3.5	6.3	6.6	8.5	6.7	8.4	8.8	9.5
External Grants	**44.1**	**38.8**	**38.1**	**25.4**	**25.5**	**18.3**	**16.1**	**13.3**	**11.8**	**10.4**	**9.8**
Total Expenditures	**56.8**	**54.7**	**51.7**	**36.0**	**41.6**	**35.1**	**35.8**	**33.6**	**33.1**	**32.1**	**32.8**
Current Expenditures	**19.4**	**19.3**	**17.8**	**13.4**	**15.3**	**15.5**	**17.8**	**18.2**	**19.0**	**19.4**	**21.2**
Wages and Compensation	13.8	13.5	12.8	10.2	10.9	11.0	11.6	12.0	12.1	12.1	12.8
Use of Goods and Services	2.8	2.8	2.7	1.7	3.4	3.5	4.6	4.7	4.7	4.9	5.1
Interest Payments	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Transfers	2.3	2.4	1.6	1.2	1.0	0.6	1.1	1.4	1.7	1.9	2.1
Other Current Expenditures	0.5	0.5	0.5	0.3	0.0	0.5	0.6	0.0	0.6	0.6	1.2
Capital Expenditures	**9.5**	**9.5**	**10.4**	**4.1**	**0.8**	**1.3**	**1.8**	**2.1**	**2.3**	**2.3**	**2.3**
Externally Financed Expenditure	**27.8**	**26.0**	**23.5**	**18.4**	**25.5**	**18.3**	**16.1**	**13.3**	**11.8**	**10.4**	**9.4**
General Fiscal Balance (including grants)	**1.3**	**-1.7**	**-2.3**	**0.5**	**-1.0**	**-1.2**	**-0.4**	**-0.5**	**-0.3**	**0.1**	**0.4**
ITA General Fiscal Balance*	**-14.9**	**-14.6**	**-16.9**	**-6.4**	**-1.0**	**-1.2**	**-0.4**	**-0.5**	**-0.3**	**0.1**	**0.0**
General Public Debt	**5.8**	**7.1**	**8.2**	**12.7**	**13.9**	**13.6**	**14.7**	**13.6**	**11.7**	**9.1**	**8.3**
Nominal GDP (AFN billion)	**1,328**	**1,470**	**1,535**	**1,251**	**1,283**	**1,351**	**1,262**	**1,376**	**1,510**	**1,655**	**1,759**

Sources: ITA (MOF); and WBG staff estimates and projections.

Table 5. Afghanistan Balance of Payments, (2018- 2028)

Fiscal Year	2018	2019	2020	2021	2022	2023	2024	2025 Est.	2026 Proj.	2027 Proj.	2028 Proj.
	In percentage of GDP, unless otherwise indicated										
Current Account Balance	-21.8	-18.7	-21.6	-15.8	-18.8	-17.6	-28.3	-36.1	-38.5	-37.6	-38.5
Trade Balance	-41.9	-35.1	-39.1	-34.8	-42.2	-44.6	-62.9	-68.9	-69.8	-68.3	-68.7
Exports, GNFS	9.1	8.2	7.0	10.4	14.1	11.6	11.0	10.5	9.9	9.6	9.8
Merchandise Exports	4.9	4.7	3.9	7.8	12.7	10.2	9.7	10.0	10.2	10.4	11.4
Service Exports	4.2	3.5	3.1	2.6	1.4	1.4	1.3	0.5	-0.3	-0.8	-1.6
Imports, GNFS	51.1	43.4	46.1	45.2	56.3	56.1	73.8	79.4	79.7	77.9	78.5
Merchandise Imports	43.5	37.4	40.6	39.7	48.3	49.1	65.3	65.5	65.5	65.5	65.5
Service Imports	7.5	6.0	5.5	5.5	8.0	7.1	8.5	13.9	14.2	12.4	13.0
Primary and Secondary Incomes Balance	20.1	16.5	17.5	19.0	23.4	27.0	34.5	32.8	31.3	30.7	30.2
Credits	20.7	16.7	17.7	19.2	26.3	26.8	24.5	21.1	19.5	18.9	18.4
Remittance Inflows	4.0	3.9	3.6	9.1	14.5	17.7	17.8	15.7	14.7	13.9	13.4
Other Credits	16.7	12.8	14.1	10.1	11.8	9.1	6.7	5.4	4.8	5.0	5.0
Debits	0.6	0.3	0.3	0.2	2.9	-0.2	-10.0	-11.8	-11.8	-11.8	-11.8
Remittance Outflows	0.3	0.3	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Other Debits	0.3	0.0	0.1	0.1	2.7	-0.3	-10.2	-11.9	-11.9	-11.9	-11.9
Nominal GDP (USD million)	**18,053**	**18,799**	**19,956**	**14,266**	**14,502**	**17,476**	**17,940**	**20,301**	**22,200**	**23,989**	**25,129**

Sources: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections.