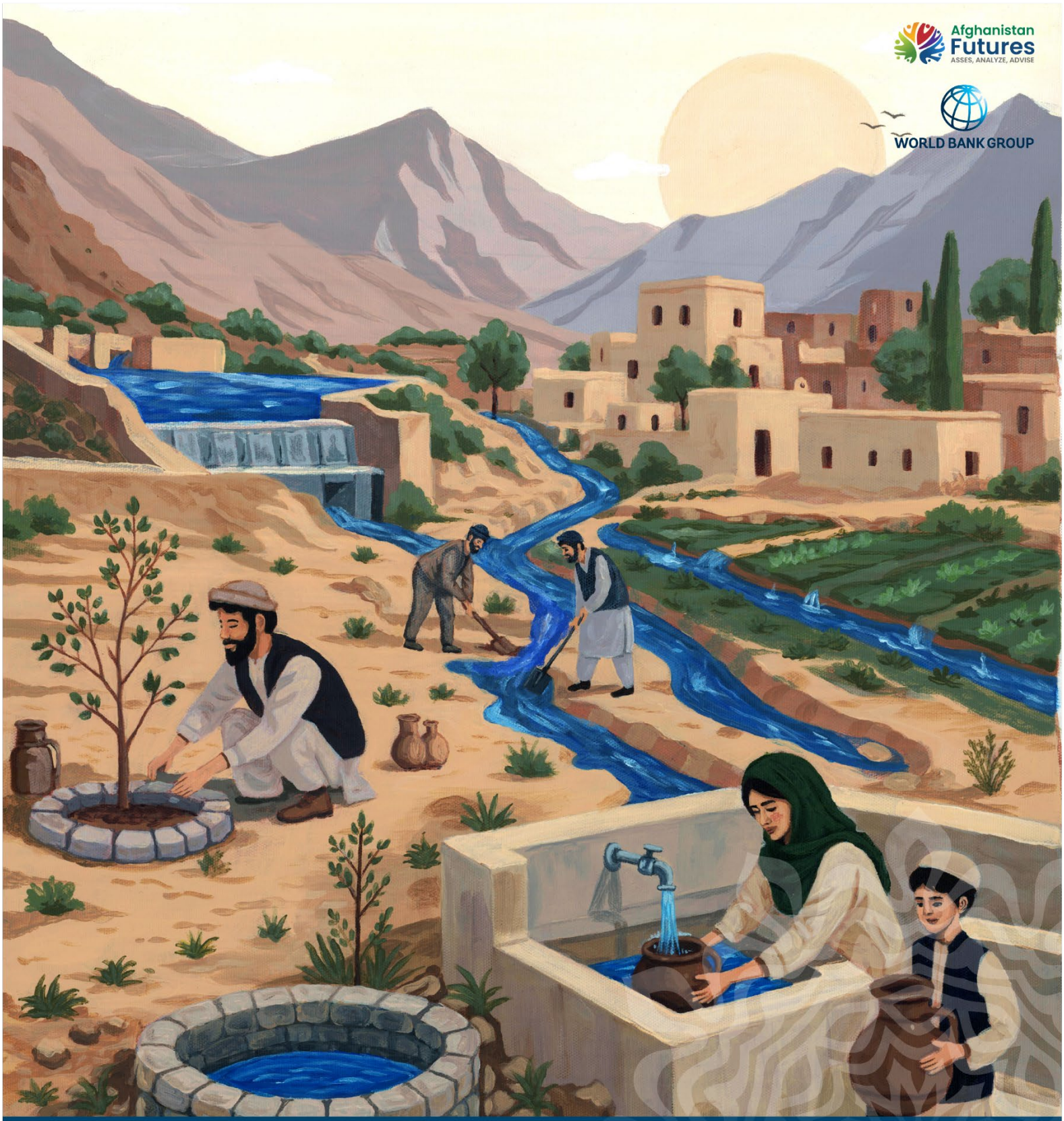

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WORLD BANK GROUP

AFGHANISTAN DEVELOPMENT UPDATE

Water for Recovery and Sustainability

November 2026

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PREFACE

The Afghanistan Development Update provides a comprehensive assessment of recent economic developments and the medium-term outlook for Afghanistan. It is intended for a broad audience, including policymakers, Basic Human Needs partners, the private sector, analysts, and other professionals engaged in Afghanistan's economy.

Each edition includes a Special Focus section examining a key development challenge. This edition focuses on Afghanistan's growing water crisis and its implications for economic recovery, livelihoods, human capital, and resilience. It examines the pressures on the country's freshwater resources, the institutional and investment gaps that compound water insecurity, and the associated economic and social costs. It also sets out a phased agenda for strengthening water security, combining measures to restore essential services and infrastructure in the near term with longer-term actions to strengthen institutions, capacity, and sustainable resource management. The central message is that water security is not simply an outcome of recovery, but an essential foundation for sustained economic and social development.

The cover artwork was created by Nadima Rustam, an Afghan female artist whose work captures the importance of water for recovery, resilience, and sustainability.

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LIST OF ABBREVIATIONS

ADIC	Afghanistan Deposit Insurance Corporation
ADU	Afghanistan Development Update
AFN	Afghan Afghani (currency)
API	Active Pharmaceutical Ingredient
APS	Afghanistan Payment System
ASYCUDA	Automated System for Customs Data
ATM	Automated Teller Machine
BMA	Bank-e-Millie Afghan
DAB	Da Afghanistan Bank
ECA	Europe and Central Asia
ES	Enterprise Survey
FMFB	First MicroFinance Bank
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GEP	Global Economic Prospects
H1	First Half of the Year
HS	Harmonized System (commodity classification)
ID	Identity Document
IOM	International Organization for Migration
ITA	Interim Taliban Administration
LDR	Loan-to-Deposit Ratio
M1	Narrow Money
M2	Broad Money
MENAAP	Middle East, North Africa, Afghanistan, and Pakistan
MOCI	Ministry of Commerce and Industry
MOF	Ministry of Finance
MPO	Macro Poverty Outlook
NEER	Nominal Effective Exchange Rate
NPL	Non-Performing Loan
NSIA	National Statistics and Information Authority
PSRS	Private Sector Rapid Survey
REER	Real Effective Exchange Rate
ROA	Return on Assets
ROE	Return on Equity
SA	South Asia
SOB	State-Owned Bank
UAE	United Arab Emirates
UN	United Nations
US$	United States Dollar
VAM	Vulnerability Analysis and Mapping (WFP)
WB	World Bank
WBG	World Bank Group
WFP	World Food Programme
YoY	Year-on-Year
2030 WRG	2030 Water Resources Group
ABA	Afghanistan Bankers Association
ACSS	Afghanistan Clearing and Settlement System
AQUASTAT	FAO Global Information System on Water and Agriculture

AUWSSC	Afghanistan Urban Water Supply and Sewerage Corporation	AWD	Acute Watery Diarrhea
BACI	Base pour l'Analyse du Commerce International	BOOST	World Bank Public Expenditure Database
BPHS	Basic Package of Health Services	CRS	Creditor Reporting System
CRU	Climatic Research Unit	DAC	Development Assistance Committee
DACAAR	Danish Committee for Aid to Afghan Refugees	DALY	Disability-Adjusted Life Year
EMI	Electronic Money Institution	EMRO	Eastern Mediterranean Regional Office
EPHS	Essential Package of Hospital Services	FAO	Food and Agriculture Organization of the United Nations
FCV	Fragility, Conflict, and Violence	FEWS NET	Famine Early Warning Systems Network
GRACE	Gravity Recovery and Climate Experiment	GRACE-FO	GRACE Follow-On
ICIMOD	International Centre for Integrated Mountain Development	IMF	International Monetary Fund
IPC	Integrated Food Security Phase Classification	ISES	Informal Sector Enterprise Survey
IWRM	Integrated Water Resources Management	JICA	Japan International Cooperation Agency
JMP	Joint Monitoring Programme for Water Supply, Sanitation and Hygiene	KIT	KIT Institute
MAIL	Ministry of Agriculture, Irrigation and Livestock	MDG	Millennium Development Goal
MENA-AP	Middle East, North Africa, Afghanistan, and Pakistan	MFP	Microfinance Provider
MICS	Multiple Indicator Cluster Survey	MTP1	Kabul Water Supply Project, Phase 1
NEPA	National Environmental Protection Agency	NGO	Non-Governmental Organization
OCHA	United Nations Office for the Coordination of Humanitarian Affairs	ODA	Official Development Assistance

OEC	Observatory of Economic Complexity	OECD	Organisation for Economic Co-operation and Development
OSS	Operational Self-Sufficiency	PET	Potential Evapotranspiration
POS	Point of Sale	PPP	Purchasing Power Parity
PSWA	Private Sector Water Access	QR	Quick Response
SDG	Sustainable Development Goal	SIWI	Stockholm International Water Institute
SPEI	Standardized Precipitation Evapotranspiration Index	UN DESA	United Nations Department of Economic and Social Affairs
UNEP	United Nations Environment Programme	UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	United Nations High Commissioner for Refugees	UNICEF	United Nations Children's Fund
UNOPS	United Nations Office for Project Services	USAID	United States Agency for International Development
USDA	United States Department of Agriculture	USGS	United States Geological Survey
USSD	Unstructured Supplementary Service Data	UZCARD	Uzbekistan Interbank Payment System
WASH	Water, Sanitation, and Hygiene	WDI	World Development Indicators
WHO	World Health Organization	XCEPT	Cross-Border Conflict Evidence, Policy and Trends

EXECUTIVE SUMMARY

Recent Economic Developments and Outlook: *The economy is growing in size but shrinking per person.*

Afghanistan's economy is expected to grow by 3 percent in FY2026, but population growth of more than 6 percent means output per person will decline for a third consecutive year. The recovery remains narrow: a favorable harvest accounts for most growth, private investment and exports have contracted, and weaker labor demand and higher food prices are reducing household purchasing power. Imports have adapted to the closure of the border with Pakistan, but their growing concentration in routes through Central Asia and Iran, combined with declining aid and remittances, leaves the economy highly exposed to further shocks.

Recent Economic Performance: *Growth slowed under overlapping shocks and rested on a single good harvest.*

Real GDP growth is now expected at 3.0 percent in FY2026, one percentage point below the Spring 2026 projection. Agriculture rebounded by about 8 percent after the 2025 drought and provided almost 90 percent of growth, while services contracted by 1.5 percent. Consumption carried demand, as private investment fell by about 15 percent and real exports by 22 percent.

Population growth outpaced output, and inflation has returned. With about 1 million returns in April–September 2026, population is now projected to grow by 6.6 percent and GDP per capita to fall by 3.3 percent, after 5.6 percent in FY2025. Inflation is projected to average 7.0 percent in FY2026, almost double FY2025, as higher costs on longer trade routes and fuel prices offset the harvest.

Poverty and Food Insecurity: *Households are absorbing the shock through fewer days of work and higher prices.*

Purchasing power has fallen sharply, especially for unskilled workers and returnees. In September 2026, casual laborers found 14 percent fewer days of work than a year earlier, and a week's earnings bought 27 percent less wheat flour; purchasing power fell in 31 of 34 provinces. Despite good harvests, the Integrated Food Security Phase Classification (IPC) estimates that 15.9 million people continue to face acute food insecurity in Fall 2026, and WFP indicated that more than half of returnee households cannot meet basic needs from their income.

Fiscal Challenges: *Revenue is holding up, but the budget remains cash-constrained and invests too little.*

Domestic revenue has proved resilient despite the trade shocks. First-half FY2026 revenue rose by 10.2 percent, as non-tax revenue and domestic taxes offset a 16.9 percent fall in customs duties. At a projected 19.3 percent of GDP, domestic revenue is above the regional median.

Fiscal space remains narrow, and public investment very low. Capital spending, at about 1.3 percent of GDP, is less than half the regional median. With no access to borrowing and off-budget grants falling to about 10 percent of GDP, any deficit must be closed within the year from cash balances or spending cuts.

Trade and External Pressures: *Trade has been rerouted, but external imbalances remain extreme.*

The current account deficit is projected to remain above one-third of GDP. It is projected at 34.2 percent of GDP in FY2026, after 36.1 percent in FY2025, and widens in US dollar terms to about US$7.9 billion. The trade deficit, about 64 percent of GDP, is among the largest in the world, while remittances and aid-related transfers decline.

Imports adjusted to the border closure; exports did not. First-half imports rose by 2.2 percent as Central Asia and Iran replaced the Pakistan routes, but these two corridors now carry 97 percent of imports. Exports fell by 15.1 percent, with fresh fruit and vegetables losing almost 90 percent of their volume.

Monetary and Banking Sector: *The Afghani remains strong, but policy tools and financial intermediation remain very limited.*

A strong Afghani has helped contain imported inflation, but buffers are thin. The Afghani appreciated by about 12 percent against the US dollar in FY2025 and has been broadly stable since, supported by foreign exchange inflows and tight central bank controls. With very limited active monetary policy instruments and bank lending, the financial system offers little support to investment or protection against shocks.

Economic Outlook and Risks: *Growth is projected to recover only modestly, with risks tilted to the downside.*

Growth is projected at 3.3 percent in FY2027 and 3.5 percent in FY2028, too slow to restore living standards. GDP per capita is projected to rise by only 0.6–0.8 percent a year and to remain about 7 percent below its FY2024 level in FY2028.

Corridor shocks, the 2027 harvest, further returns and aid cuts are the main risks. FY2027 growth could fall to about 0.5 percent if the harvest fails, or about 1.2 percent if trade corridors are disrupted again. A reopening of the border with Pakistan is the main upside risk. Securing trade corridors, protecting the harvest and improving water management, raising labor demand in high-return provinces and restoring women's access to education and work would do most to turn growth into better living standards.

Water Security and Recovery: *Water security is a foundation for economic and social recovery, not a service to restore later.*

Afghanistan cannot achieve lasting economic recovery without greater water security. Water sustains agriculture and livelihoods, supplies households and businesses, supports electricity generation, and protects health. Yet drought, population growth, depleted groundwater, pollution, and weak management are placing these functions under increasing strain. The crisis is not only a shortage of water; it is also a failure to store, allocate, protect, and deliver the water available.

Pressure on Water Resources: *Water reserves are declining as drought, floods, population growth, and returnees intensify pressure nationwide.*

Afghanistan has lost approximately 4.9 billion cubic meters of freshwater reserves annually since 2003, with losses recorded in all 34 provinces. Drought has become more widespread, while floods have grown more disruptive. At the same time, population

growth and the arrival of returnees are increasing demand. In Kabul, groundwater extraction is estimated at nearly four times natural recharge, leaving households increasingly exposed to falling water tables and unreliable supply.

Economic and Human Costs: *Water insecurity is already weakening growth, jobs, energy supply, health, and human development.*

Agriculture accounts for 46 percent of employment and 95 percent of water withdrawals, so shortages directly threaten crops, livestock, and rural incomes. Reduced river flows can constrain hydropower, while unreliable water and electricity interrupt other productive activity. Unsafe drinking water and inadequate sanitation damage health and children's development. Drought reduced GDP per capita growth by 0.23 percentage points a year during 1994–2024, threatening long-term growth and job creation.

Priorities for Water Security: *A sustainable response should advance water for people, water for food, and water for the planet.*

Restoring reliable water supply, sanitation, and wastewater services is the immediate priority where households lack safe and affordable alternatives. Irrigation systems should be rehabilitated, agricultural water-use efficiency improved, and local arrangements for fair allocation and maintenance strengthened. Watersheds and aquifers should be protected, flood and drought risks managed, and planning organized at basin scale. Stronger governance, private-sector delivery, and coordinated donor support are needed to make investments across all three priorities effective.

Implementation and Sequencing: *Immediate restoration and stronger local delivery should come first, while larger investments proceed only when capacity, financing, and operating arrangements are credible.*

Near-term measures should restore essential services and maintenance capacity, improve conservation and early warning, and test carefully designed recharge and nature-based solutions. As capacity grows, priorities should include rehabilitating canals and karezes (underground irrigation channels), upgrading irrigation and water control, strengthening water-user institutions, protecting aquifers, clarifying responsibility for groundwater management, improving urban water delivery, and working through established local institutions such as mirabs (water managers). Larger infrastructure should proceed only with sound feasibility, financing, and operational plans. This sequencing is essential in an exceptionally tight fiscal environment, with low capital spending, no access to borrowing, and declining off-budget grants.

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	8.0	3.2	3.2
Industry	-4.6	-12.8	-5.7	1.8	1.9	10.0	7.0	4.0	3.0
Services	-5.9	-30.1	-6.5	1.5	0.5	10.3	-1.5	3.1	4.1
Real GDP	-2.4	-20.7	-6.2	2.3	1.9	4.8	3.0	3.3	3.5
Domestic prices									
Consumer prices (annual average)	5.6	7.8	10.6	-7.7	-4.3	3.6	7.0	5.0	5.0
Exchange Rate (annual average)	76.9	87.7	88.5	77.3	70.3	67.8	65.0		
	In % of nominal GDP								
Fiscal									
Revenue and Grants	49.4	36.5	40.6	33.9	35.3	33.6	29.4	28.7	28.4
Domestic Revenue	11.3	11.1	15.1	15.6	19.2	20.3	19.3	20.3	21.3
External Grants	38.1	25.4	25.5	18.3	16.1	13.3	10.1	8.4	7.1
Total Expenditures	51.7	36.0	41.6	35.1	35.8	33.8	31.5	29.7	29.0
Current Expenditures	17.8	13.4	15.3	15.5	17.8	19.1	20.1	20.0	20.5
Capital Expenditures Domestically Financed	10.4	4.1	0.8	1.3	1.8	1.3	1.3	1.3	1.4
Externally Financed Expenditure	23.5	18.4	25.5	18.3	16.1	13.3	10.1	8.4	7.1
ITA Fiscal Balance	-2.3	0.5	-1.0	-1.2	-0.4	-0.2	-2.1	-1.0	-0.6
General Fiscal Balance (incl. off-budget)	-2.3	0.5	-1.0	-1.2	-0.4	-0.2	-2.1	-1.0	-0.6
Balance of Payments									
Current Account Balance	-21.6	-15.8	-18.8	-17.6	-28.3	-36.1	-34.2	-34.5	-36.2
Trade Balance (Goods and Services)	-39.1	-34.8	-42.2	-44.6	-62.9	-68.9	-64.4	-63.4	-64.1
Primary and Secondary Incomes	17.5	19.0	23.4	27.0	34.5	32.8	30.2	28.9	28.0
Memorandum items									
Real GDP (constant 2015 USD)	20,622	16,345	15,325	15,673	15,966	16,738	17,246	17,811	18,429
Nominal GDP (USD million)	19,956	14,266	14,502	17,476	17,940	20,301	23,080	24,755	25,792
Population (million)	39.1	40.0	40.6	41.5	42.6	47.3	50.4	51.8	53.1
GDP per capita (real 2015 USD)	527.8	408.6	377.7	378.1	374.4	353.6	342.1	344.0	346.9
GDP per capita growth	-5.4	-22.6	-7.6	0.1	-1.0	-5.6	-3.3	0.6	0.8

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

The external environment has become less supportive for Afghanistan. Weak global and regional demand is limiting export opportunities, while higher energy, freight, fertilizer, and insurance costs are raising the cost of trade. These pressures have been amplified by disruptions to established trade routes: after commercial flows shifted away from the Pakistan corridor, instability affecting the Iranian route increased the cost and concentration of Afghanistan's external trade. The immediate consequences are higher import and transit costs, weaker prospects for exports and investment, and greater risks to inflation and food security.

Weak global and regional demand is constraining Afghanistan's recovery. The June 2026 Global Economic Prospects projects global growth at 2.5 percent in 2026, down from 2.9 percent in 2025, while the September 2026 Consensus Economics survey projects 2.6 percent. In the Middle East, North Africa, Afghanistan, and Pakistan region, the October 2026 update projects a contraction of 1.8 percent in 2026, concentrated in hydrocarbon exporters. Although developing oil importers are projected to grow by 4.2 percent, subdued regional activity and tight financing conditions weaken demand for Afghan exports and limit the scope for investment-led recovery.

Higher energy and transport costs are being transmitted through Afghanistan's import-dependent economy. Disruptions in the Middle East raised oil, fertilizer, freight, and insurance costs across the region. Afghanistan is particularly exposed because imported food, fuel, and production inputs account for a large share of domestic supply, while firms and households have limited capacity to absorb additional costs. The resulting pressure is visible in higher logistics expenses, weaker business margins, and increased risks to food and non-food inflation.

Trade rerouting preserved essential supplies but increased dependence on fewer corridors. The main crossings with Pakistan have remained largely closed to normal commercial traffic since October 2025. Imports were redirected through Central Asia, Iran, and air corridors, preventing a collapse in essential supplies but increasing transport costs and delivery times. By August 2026, Uzbekistan, Kazakhstan, and Turkmenistan together supplied 23 percent of Afghanistan's imports. The northern routes have supported access to food, fuel, and production inputs, but the adjustment remains weighted toward imports and transit rather than Afghan exports.

Disruption of the Iranian route compounded the earlier corridor shock. After trade had shifted away from Pakistan, escalation in the Middle East from late February 2026 affected the alternative routes on which Afghanistan had become more reliant. Higher oil and shipping costs, together with disruption along the Iranian corridor, raised import and production costs. Exporters of perishable and bulky products faced greater difficulty adapting because longer routes and air freight were often uneconomic,

while importers of essential goods were better able to reroute trade, albeit at higher cost.

The net effect is continued access to imports, but a more fragile recovery. Higher trade costs are adding to inflation and weakening household purchasing power. Export losses are weighing on rural incomes and foreign-exchange earnings, while costlier inputs are constraining private investment and raising risks for the next agricultural season. These external pressures are therefore transmitted through four channels examined in the sections that follow: growth and investment, domestic prices, household welfare and food security, and the external accounts.

REAL SECTOR DEVELOPMENTS: ECONOMIC GROWTH INSUFFICIENT TO ABSORB DEMOGRAPHIC PRESSURES

Afghanistan entered FY2026 under continued strain from large-scale returns, falling aid, and regional disruptions. Growth has remained positive, but it has not kept pace with population growth, so per capita income has fallen again and the economy's limited capacity to create jobs has become more evident.

Growth remained positive in FY2026, extending the recovery that began after the 2021–22 collapse. Real GDP is expected to expand by 3.0 percent in FY2026, after 4.8 percent in FY2025, the fourth consecutive year of growth since 2021. Output is now 12.5 percent above its 2022 low but still about 18 percent below its 2019 level.

Living standards, however, continued to decline because population growth has outpaced output. Population has grown by an estimated 24 percent since 2022, largely because more than 6 million Afghans have returned from Iran and Pakistan since 2024. Real GDP per capita is expected to fall by 3.3 percent in FY2026, a third consecutive decline, to about US$342 in constant 2015 prices. This is 9.4 percent below its 2022 level and nearly 39 percent below its 2019 level, and on current projections it will remain below its 2024 level through at least 2028.

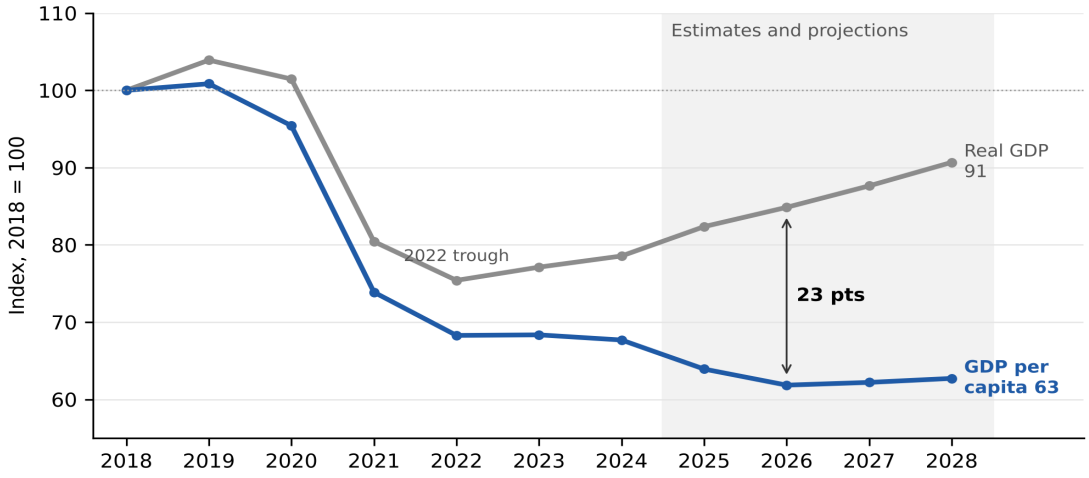
This divergence between output and living standards is the defining feature of the recovery. Before 2021, total output and output per person moved together; since 2022 they have moved in opposite directions. The economy is growing because more people are consuming, building homes, and farming, but average incomes are falling because the larger population has not been matched by new investment, productive assets, or export opportunities.

Growth was one percentage point weaker than projected in the Spring, as four overlapping shocks with different drivers disrupted trade, raised costs, and weakened demand and financing. The Spring 2026 ADU projected growth of 4.0

percent, assuming stronger household spending, a gradual recovery in private investment, and steady integration of returnees into the labor market. None of these assumptions materialized. The four shocks differ in origin and in how they reached the economy, which matters for how long they are likely to last and how they can be mitigated.

The first shock, the closure of the border with Pakistan, is bilateral in origin. Driven by political and security considerations between the two countries, the border has been largely closed since October 2025, and military tensions from late February 2026 further reduced cross-border trade. Exports to Pakistan, historically the largest market for Afghan coal, fresh fruit, and vegetables, largely ceased, and imports were rerouted through Iran and Central Asia at higher cost and with delays.

Figure 1: Real GDP and real GDP per capita, 2018–2028 (index, 2018 = 100)



Source: World Bank staff estimates (macro-fiscal framework, October 2026).

The second shock, the Middle East conflict, is global in origin and impacted the alternative routes on which Afghanistan had come to depend. Unlike the border closure, it works through world energy, freight, and insurance prices and through disruption of the Iranian corridor. After the escalation in late February 2026, oil prices and shipping costs rose across the region. Because trade had already shifted from Pakistan toward Iran, the escalation affected Afghanistan more than it otherwise would have: the first shock increased exposure to the second, raising import prices and costs for businesses and households.

The third shock, a second year of large-scale returns, is demographic and added more to labor supply than to demand. Returns were driven mainly by deportation and repatriation policies in Iran and Pakistan. About 1 million Afghans returned between April and September 2026, fewer than initially expected. In FY2025 the first wave of returns had boosted consumption and construction; in FY2026 that impulse faded, while a growing

number of job seekers competed for limited work.

The fourth shock, declining aid, has steadily eroded the external financing that sustains consumption and basic services. Driven by donor funding decisions, aid fell from 16.1 percent of GDP in FY2024 to 13.3 percent in FY2025 and are projected at 10.1 percent in FY2026. Because the trade deficit is financed largely by transfers, falling aid also limits how much the economy can import, and it weakens demand for services linked to humanitarian operations.

Despite their different drivers, all four shocks reached the economy through the same structural exposure. Afghanistan imports about two-thirds of its GDP, depends on a few trade corridors, and finances a large trade deficit through external transfers. Disruptions to trade routes, higher global prices, or lower external inflows are therefore transmitted quickly to domestic prices, economic activity, and household welfare. The distinction between drivers nonetheless matters for the outlook: the border closure could be reversed by a political settlement, the Middle East shock depends on global developments, while returns and aid cuts are likely to persist.

On the production side, growth rested on a rebound in agriculture, while services contracted. Agriculture contributed 2.6 percentage points, almost 90 percent of total growth, and industry 1.1 points, mostly from construction, while services subtracted 0.7 points. The pattern highlights the narrow base of the recovery and its dependence on weather and construction.

Figure 2: Contribution to Real GDP Growth by Sector (percentage points)

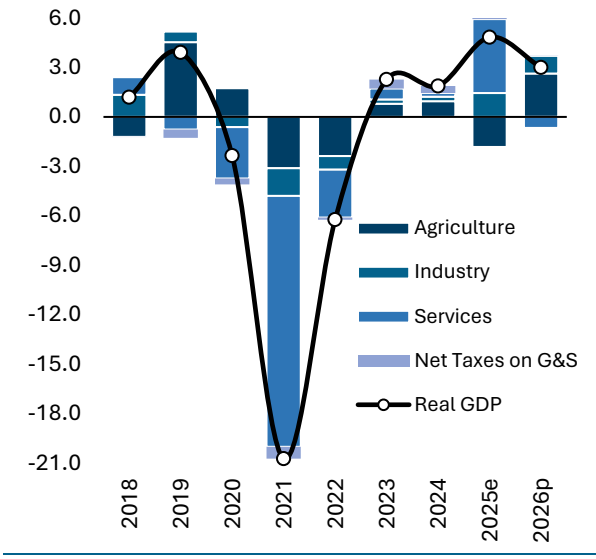
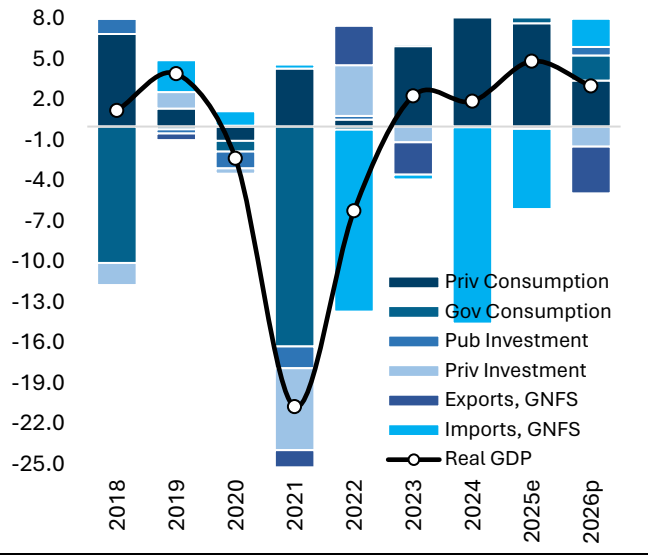


Figure 3: Contribution to Real GDP Growth by Demand Component (percentage points)



Source: National Statistics and Information Authority (NSIA) up to 2024 and World Bank estimates for 2025–2026.

Agriculture rebounded strongly from the FY2025 drought. Agricultural output is expected to grow by 8 percent in FY2026 [1], after contracting by 5 percent in FY2025. Early-season conditions were mixed, with below-average winter wheat planting and rainfall deficits in the north and east, but improved spring precipitation supported a good wheat harvest. Against the depressed 2025 base, even an average harvest would have produced strong growth. Higher fertilizer prices after the Middle East escalation came too late to affect the 2026 crop, but they are a significant risk for 2027. This volatility, driven largely by water availability, is examined in the Special Focus on water.

Industry expanded by an estimated 7 percent, led by construction. Construction benefited from housing demand linked to returnees and from public works. Mining proved resilient despite the collapse of coal exports to Pakistan, as domestic demand and higher output of gold, gemstones, and other precious stones offset part of the loss. Manufacturing faced higher fuel and imported-input costs and competition from imports made cheaper by the strong Afghani, although some activities, notably pharmaceuticals, benefited from import substitution and localization policies (Box 1).

Services contracted by 1.5 percent as trade disruptions and lower aid weighed on activity. Trade and transport, which account for a large share of services, were hit directly by the border closure and by higher transport and insurance costs on alternative routes, and lower humanitarian funding reduced demand for logistics, rental, and other services.

This narrow sectoral base leaves growth highly vulnerable. Without the harvest rebound, growth would have been only about 0.4 percent in FY2026. With agriculture dependent on rainfall and increasingly exposed to the cost of imported inputs, the current growth pattern remains volatile.

On the demand side, consumption remained the main driver, while the external drag shifted from imports to exports. Domestic demand contributed 4.4 percentage points to growth and net exports subtracted 1.4 points. Compared with FY2025, household consumption grew much more slowly, and the external drag came from collapsing exports rather than surging imports.

Household consumption slowed sharply as the boost from the first wave of returns faded. Private consumption is expected to grow by 3.0 percent in FY2026, down from 9.1 percent, contributing 3.4 percentage points to growth. The FY2025 surge reflected returnee spending on housing, food, and basic goods, partly financed by savings brought from abroad. In FY2026 those savings decreased, inflation eroded purchasing power, and remittances weakened as refugees and migrants themselves returned, so real consumption per person fell by 3.3 percent. At

[1] The ITA's ministry of agriculture estimates production at 5.15 million tons, up 13.4 percent from 2025 and about 10 percent above the five-year average. Most of the gain came from irrigated winter wheat in the south and west, where good early-2026 rains and snowmelt lifted irrigated yields to an estimated 3.4 t/ha; Helmand alone produced over 0.9 million tons. Rainfed output rose 56 percent, but from a near-failed 2025 base, and northern and northeastern provinces remained below average.

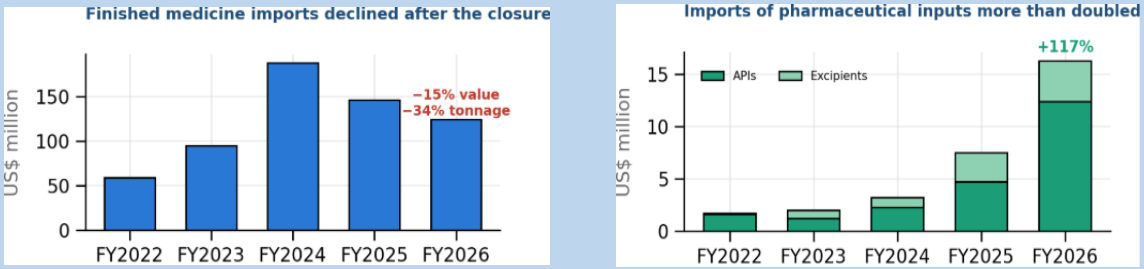
around 124 percent of GDP, private consumption can be sustained only through continued remittances, humanitarian assistance, and other transfers.

Box 1: Afghanistan Pharmaceutical Supply Chain: Increased Domestic Processing, Not Full Import Substitution

Afghanistan's pharmaceutical trade patterns shifted markedly following the closure of the border with Pakistan in October 2025. Between April and September 2026, imports of pharmaceutical inputs increased by 117 percent, from US$7.5 million to US$16.2 million, with active pharmaceutical ingredients accounting for most of the increase. Over the same period, imports of finished medicines, measured by volume, declined by 34 percent. Pakistan had previously supplied about 72 percent of Afghanistan's imported medicine tonnage, and alternative routes replaced only part of the volume lost following disruptions to trade through Pakistan.

The shift from finished medicines toward pharmaceutical inputs suggests growing domestic production capacity. The simultaneous increase in imports of active ingredients and decline in imports of finished products is consistent with increased local formulation, packaging, and processing by domestic manufacturers. Customs data, however, do not measure domestic pharmaceutical output directly and therefore cannot quantify the increase in local production. Nevertheless, industry representatives report substantial growth in domestic pharmaceutical manufacturing over the past two years, supported by import substitution opportunities and policies aimed at promoting local production.

Figure 4: Pharmaceutical imports are shifting toward production inputs



Source: ASYCUDA, January 2022–September 2026; World Bank staff calculations. FY data cover April–September. Finished medicines: HS 3002 and 3004–3006. Inputs: selected pharmaceutical HS 29 APIs, HS 3001/3003, and selected excipients; the input estimate is an upper bound.

Public spending provided important support to demand. Public consumption contributed 1.9 percentage points to growth and public investment 0.6 points, financed by resilient domestic revenue (see the fiscal section). This support offset part of the weakness in private demand, but it will be difficult to sustain if revenue growth slows.

Private investment was the weakest component of demand. It is estimated to have contracted by 15 percent, subtracting 1.5 percentage points from growth, as border

disruptions, higher transport and input costs, and regional uncertainty weighed on business confidence. Residential construction linked to returnees provided only partial support, and private investment fell to about 8 percent of GDP, its lowest level since FY2021.

Exports became the largest drag on growth. Real exports are expected to fall by 22 percent, subtracting 3.5 percentage points. Coal and perishable produce could not be rerouted economically through longer corridors, and higher sales to India and Central Asia offset only a small part of the loss. Exports fell to about 12 percent of GDP, from almost 17 percent in FY2024.

Imports proved far more resilient, and their small decline flattered measured growth. Real imports are expected to fall by only 3 percent, adding 2.1 percentage points to measured growth. This reflects weaker purchasing power rather than stronger domestic production, since fuel, wheat, and consumer goods could be rerouted through Iran and Central Asia. Imports remained about 66 percent of GDP.

Overall, the recovery remains driven by consumption rather than investment or exports. Without a revival of private investment and exports, productive capacity will expand only slowly, and reversing the decline in per capita income will remain difficult.

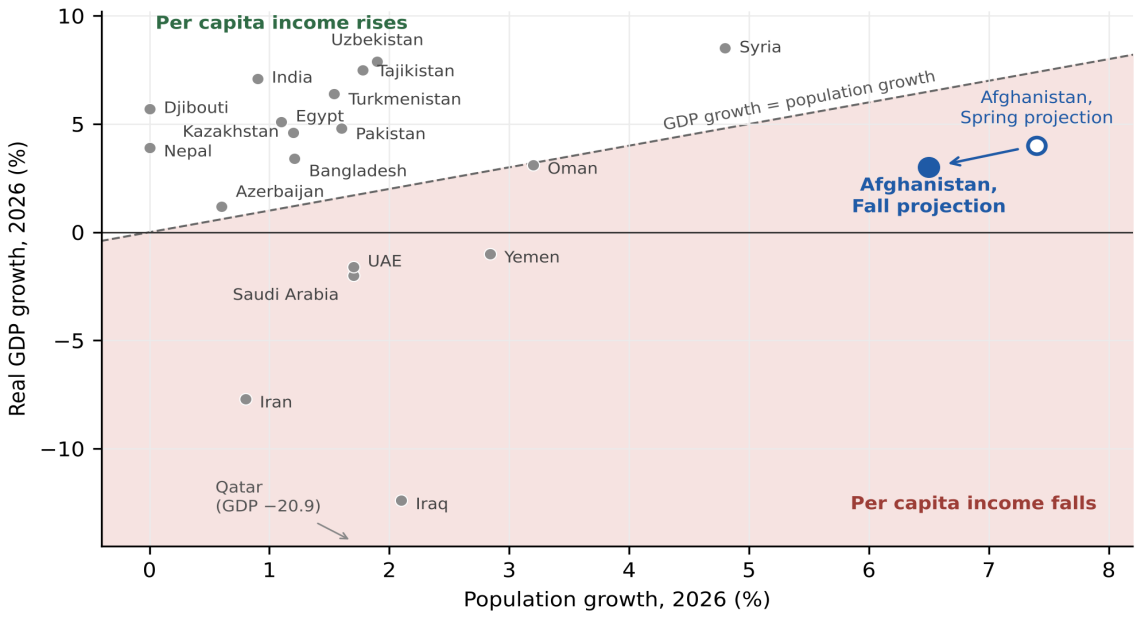
Regional benchmarking confirms how unusual this pattern is. At 3.0 percent, Afghanistan's growth in FY2026 is somewhat below the median of 3.9 percent among 19 comparator economies. Its population growth, however, is by far the highest in the group, four times the median of 1.6 percent. As a result, GDP per capita falls by 3.3 percent, while the median comparator records a gain of about 3 percent. Afghanistan is the only economy in the group with a per capita decline of this size despite positive growth.

Compared with South Asian peers, the difference lies in population growth rather than output growth. Afghanistan's growth is similar to that of Bangladesh and Nepal and somewhat below Pakistan's, but population growth of between zero and 1.5 percent in these economies allows per capita incomes to rise by 2 to 6 percent.

Among fragile and conflict-affected economies, falling per capita income usually reflects outright contraction. Yemen records a per capita decline similar to that of Afghanistan, but in a shrinking economy. Syria, by contrast, is absorbing large numbers of returnees while per capita income rises, because output is growing faster than population. The comparison illustrates that the effect of returns on living standards depends critically on the economy’s capacity to expand investment, employment, and productive assets, although country circumstances are not directly comparable.

The sharpest contrast is with Central Asia, where sustained growth is raising living standards. Uzbekistan, Tajikistan, Kazakhstan, and Turkmenistan combine strong growth with moderate demographic pressure. These fast-growing neighbors are also becoming Afghanistan's main trading partners and transit routes, which makes them both a benchmark and an opportunity.

Figure 5: Real GDP growth in Afghanistan and regional peers (FY2026p)



Source: World Bank Macro Poverty Outlook (MPO October 2026[2]), World Bank Regional Economic Updates (MENAAP, SA, ECA), UN Population Prospects, Shaded area: per capita income falls.

Box 2: Afghanistan's informal businesses — who they are and why they lag formal firms

The 2025 Informal Sector Enterprise Survey (ISES), the first representative survey of unregistered businesses in Afghanistan since 2008, covers 3,411 businesses in Kabul, Kandahar, Herat, Jalalabad and Mazar-e-Sharif.

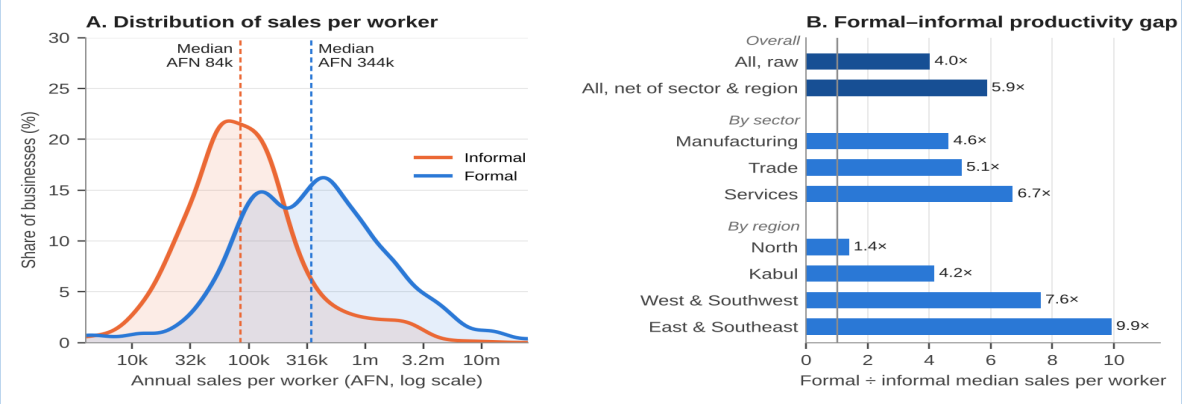
Micro-scale, necessity-driven and unbanked. Half of informal businesses are run by one person and 60 percent resell goods; almost half of owners were unemployed before starting. Two-thirds are registered with a municipality, yet fewer than 1 percent have heard of the Commercial Registrar: informality reflects a lack of information about, and access to, national registration more than deliberate avoidance. Only 3 percent have a bank account. They rely instead on trade credit (56 percent), family (43 percent) and moneylenders (27 percent), and 85 percent of grid-connected businesses had a power outage in the previous month.

A large productivity gap, driven by formality rather than size. Median sales per worker are AFN 84,000 a year, a quarter of the formal-firm median of AFN 344,000 (Figure B.1, panel A). Holding sector and region constant, formal firms sell about 6 times as much per worker, and the gap is similar for small, medium and large formal firms (5.5–6.1 times). Three factors explain it. First, *capital*: only 22 percent of informal businesses use machinery, and almost none can borrow from banks. Second, *labor absorption*: informal

[2] World Bank. 2026. Macro Poverty Outlook: Country-by-Country Analysis and Projections for the Developing World, Annual Meetings 2026. Washington, DC: World Bank.https://thedocs.worldbank.org/en/doc/77351105a334213c64122e44c2efe523-0500072021/related/mpo-sm25.pdf?utm_source=chatgpt.com

businesses grow by adding unpaid family members, so sales per worker fall with size, from AFN 108,000 in one-person businesses to AFN 30,000 in those with five or more workers. Third, *market reach*: only 18 percent sell under contract, while 40 percent of formal firms use imported inputs. Within the informal sector, businesses with a bank account or written records are markedly more productive. The gap ranges from 1.4 times in the North to about 10 times in the East (panel B), where Jalalabad's informal businesses are the weakest. Because informal sales appear under-reported, these gaps are likely upper bounds.

Figure 6: Informal and formal firms sales per worker, and productivity gaps by sector and region



Source: World Bank Enterprise Survey and Informal Sector Enterprise Survey, Afghanistan 2025 (microdata), weighted. Panel A: weighted kernel density of log sales per worker (bandwidth 0.13 log10 units), scaled to the share of businesses per quarter-log band. Panel B: ratio of weighted medians; "net of sector & region" is from a pooled weighted regression. Sector comparisons use small formal firms (5–19 workers) in major cities; regional comparisons use all formal firms.

Implications. The top tenth of informal businesses already match the median small formal firm and are realistic candidates for simplified registration. For the rest, formal employment offers no exit: formal labor costs of AFN 5,600–7,800 per worker a month are well below the AFN 12,000–13,000 owners say they would need to give up their business. Raising informal productivity through bank accounts and digital payments, record-keeping and reliable electricity matters more than registration alone. Detailed indicators are in Annex Table 6.

PRICES: INFLATION RETURNS AS INCOMES FALL

Inflation returned in FY2026 as trade disruptions and higher global commodity prices raised import costs. Its level is now close to the regional median, but its effect on households is more severe because incomes are falling. Afghanistan's dependence on imports and on a few trade corridors continues to transmit external shocks directly into domestic prices.

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Inflation nearly doubled in FY2026, ending two years of deflation. Consumer price inflation is projected to average 7.0 percent in FY2026, up from 3.6 percent in FY2025, after deflation in 2023 and 2024. Non-food prices turned first, from late 2024, as returnee

demand pushed up rents and housing costs. Food prices took over after the border closure: food inflation swung from −0.8 percent in September 2025 to 8.0 percent in January 2026 and reached 9.0 percent in August. In September 2026, food prices were 8.5 percent and non-food prices 7.4 percent higher than a year earlier. The good 2026 harvest did not bring food prices down, as higher import costs outweighed domestic supply.

Afghanistan's inflation is now at the regional median, but it has accelerated faster than almost all comparators. At 7.0 percent, it is close to the median of 7.1 percent for 14 regional economies, whereas a year earlier it was well below the median. The 3.4 percentage point increase is one of the largest in the group. Pakistan, on the other side of the closed border, saw a similar rise, from 4.5 to 7.1 percent, reflecting common shocks: higher transport and supply costs after the border closure and higher fuel and fertilizer prices linked to the Middle East crisis.

By contrast, inflation is easing in Central Asia and in most of the region. It is projected to decline in Uzbekistan and Kazakhstan and to remain contained in Tajikistan and Turkmenistan, which have become a source of relatively stable wheat and staple supplies as Afghan trade shifted north. Inflation is also easing in Bangladesh, Nepal, and several Middle Eastern economies, so Afghanistan's acceleration runs against the regional trend.

Reliance on the Iranian corridor is a further inflation risk. Iran handles a large share of Afghanistan's imports, including fuel. Afghanistan has not imported Iran's very high inflation, because imports are priced in foreign currency and the Afghani has remained strong, but instability along this route could quickly raise domestic fuel and food prices.

Inflation impacts more in Afghanistan because incomes are falling. Pakistan and Uzbekistan have similar inflation rates, but rising incomes cushion the impact. In Afghanistan, per capita incomes, wages, and working days are all declining, so even moderate inflation translates into a large loss of purchasing power, as the next section shows.

With few policy tools to counter inflation, the most effective responses lie on the supply side. Unlike most comparators, Afghanistan cannot rely on interest rates or fiscal transfers to cushion higher prices. The strong Afghani has helped contain imported inflation, but the financial system is shallow and fiscal space is narrow. Maintaining access to trade corridors, lowering transport and border costs, and securing reliable supplies of fuel, wheat, and fertilizer matter most.

Figure 7: Monthly Food and Non-food Inflation (%, year-on-year)

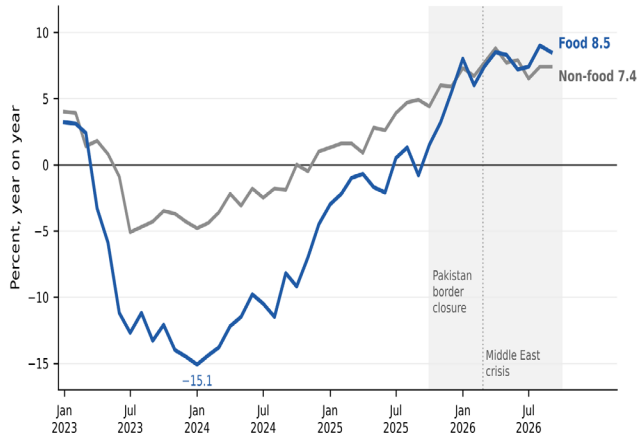
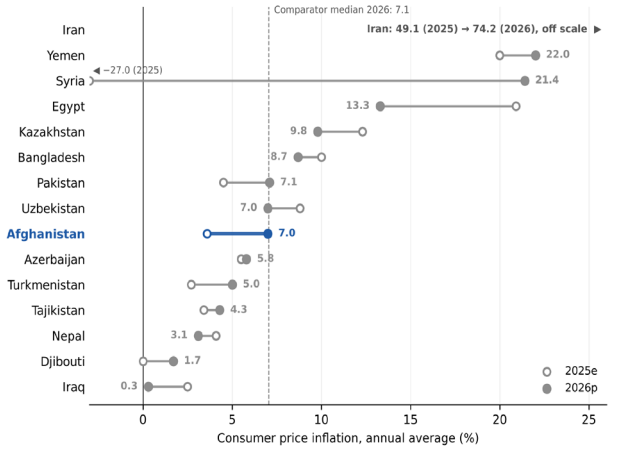


Figure 8: Average Inflation Rate in Afghanistan and Regional Peers (%)



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

LABOR MARKETS AND HOUSEHOLD WELFARE: A GROWING LABOR FORCE MEETS WEAK LABOR DEMAND

Labor-force growth continues to outpace job creation. Despite positive growth, casual laborers worked fewer days in FY2026 and the purchasing power of their weekly earnings fell by 27 percent, highlighting weak labor demand and deteriorating living standards.

The labor market is where the gap between growth and living standards is most visible. WFP weekly market monitoring across all 34 provinces shows that casual laborers found work on 1.97 days a week in September 2026, 14 percent fewer than a year earlier. The unskilled daily wage fell by 4 percent, to about AFN 300, while the price of low-cost wheat flour rose by 13 percent. As a result, a casual laborer's weekly earnings bought 20 kilograms of flour, compared with 28 kilograms a year earlier, a decline of 27 percent.

Conditions worsened sharply after the border closure and recovered only partly with the harvest. Working days fell from about 2.3 a week in September 2025 to 1.7 in the first quarter of 2026, 22 percent below a year earlier, and weekly purchasing power was 31 percent lower. Seasonal work and the harvest lifted working days to 2.05 in August, but the dip to 1.97 in September suggests that the recovery is stalling ahead of the winter lean season. Over January–September, working days were 19 percent lower and purchasing power 29 percent lower than in the same period of 2025.

Fewer working days were the main cause of the loss in purchasing power, ahead of

higher prices. Of the 27 percent decline, fewer days of work account for about half, higher flour prices for about 40 percent, and lower daily wages for the remainder. Skilled wages were broadly unchanged, so the burden fell mainly on unskilled workers, the segment that absorbs most returnees.

The deterioration was widespread, with the largest losses in the north and northeast. Purchasing power declined in 31 of 34 provinces, with a median fall of 33 percent. The steepest declines were in Takhar, Jawzjan, Kunar, Nuristan, and Laghman, where reported work fell to about one day a week, and the nine northern and northeastern provinces lost 39 percent on average, compared with 24 percent elsewhere. Fewer working days were the main driver in 17 provinces, higher prices in 11, and lower wages in 3. Where employment held up, as in Kabul, Kapisa, and Sari Pul, losses were limited to the effect of higher flour prices.

The distinction between fewer jobs and higher prices matters for the policy response. Reliable corridors and stable food supplies can contain prices, but a shortage of working days can only be addressed by raising labor demand. In the near term, labor-intensive public works, such as rehabilitating irrigation canals, karez systems, and watersheds, and livelihood support can provide relief; over time, improvement will depend on private investment and the growth of firms that create productive jobs.

Returnees are especially exposed, and food insecurity remains severe. IOM reports that 54 percent of assessed returnees cannot meet their basic needs from current income and that only 5 percent have productive assets. Many acquired skills in Iran or Pakistan, but weak local networks and limited labor demand prevent the economy from using them. More broadly, IPC estimates that 15.9 million people, about 32 percent of the assessed population, faced acute food insecurity in September – October 2026.

On the supply side, the labor force has grown much faster than effective employment. The working-age population grew by an estimated 7.7 percent in FY2026, after 13 percent in FY2025, as returnees entered the labor force, but the labor actually used by the economy grew far less, because many people found work on only a few days a week.

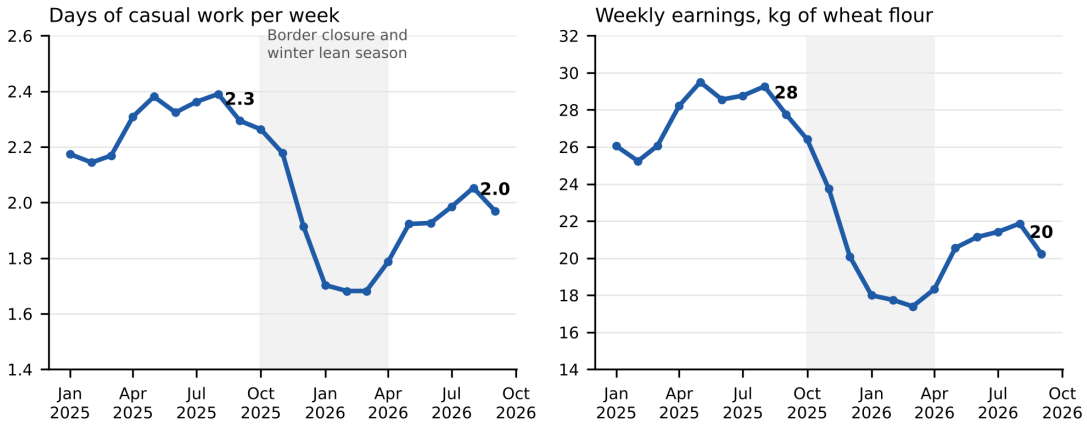
Meanwhile, investment barely replaced the capital that wore out. Gross fixed investment of about 17 percent of GDP was largely absorbed by depreciation, leaving net investment close to zero (about 0.3 percent of GDP) and the capital stock almost unchanged. With the working-age population rising rapidly, capital per working-age person fell by about 11 percent in FY2025 and 7 percent in FY2026, and is now about 30 percent below its 2018 level.

Productivity has also stagnated. Total factor productivity is expected to remain broadly unchanged in FY2026, after falling by more than 20 percent between 2018 and 2025. Trade disruptions, limited access to finance, and restrictions on women's education and employment continue to hold back efficiency, and the exclusion of women leaves a large share of the country's skills unused.

Afghanistan therefore faces both a weak demand for workers today and a declining

capacity per worker over time. The persistent negative output gap shows that weak demand still holds back activity, but each additional worker now has less capital, infrastructure, and finance to work with. Unless investment and productivity recover, labor-force growth will translate mainly into fewer working days and lower earnings rather than higher output. These pressures also shape public finances.

Figure 9: Casual labor: days of work and weekly earnings in wheat flour, January 2025–September 2026



Source: WFP VAM weekly market monitoring, 34 provinces; staff calculations. Monthly values are averages of weekly observations; weeks reported as zero are treated as missing. Weekly earnings = unskilled daily wage × days of work per week ÷ price of low-price wheat flour, averaged across provinces.

FOOD SECURITY: A BETTER HARVEST, MEETS WEAKER ACCESS TO FOOD

Afghanistan harvested its largest wheat crop in several years, yet acute food insecurity has deepened. Wheat production rose by 13 percent to 5.15 million tons, but the number of people in crisis or worse rose to 15.9 million in September–October 2026 and is projected to reach 19.2 million during the winter lean season, as weak incomes, higher flour prices, and the absorption of returnees limit access to food.

The 2026 wheat harvest was the strongest in several years. The ITA's Ministry of Agriculture, Irrigation and Livestock (MAIL [3]) estimates wheat production at 5.15 million tons, 13.4 percent more than in 2025 and about 10 percent above the five-year average.

[3] ITA's Ministry of Agriculture, Irrigation and Livestock (MAIL). 2026. *Gozārish-i Tawlīdāt-i Gandum, Sāl-i 1405* (Wheat Production Report, 14050. Directorate of Agricultural Statistics and Information Management. Kabul: MAIL. Mizan 1405 (September–October 2026). Unpublished report, in Dari.

Irrigated wheat, which accounts for almost 90 percent of output, rose by 9.3 percent to 4.52 million tons, with yields estimated at 3.4 tons per hectare. Rainfed production rose by 56 percent to 0.63 million tons, but from a near-failed 2025 base. After a dry start to the season, above-average rains in early 2026, spring snowmelt, and the distribution of improved seed and fertilizer supported yields. FAO [4] and Famine Early Warning Systems Network [5] (FEWS NET) also assess the harvest as above average.

The gains were concentrated in the irrigated south and west, while most provinces remain in deficit. Helmand alone produced 0.95 million tons, about 18 percent of national output, and recorded a surplus of 0.51 million tons. Kunduz, Farah, Takhar, Kandahar, Baghlan, and Nimroz were the only other provinces in surplus. The remaining 27 provinces were in deficit. Kabul's deficit of about 1 million tons is equivalent to half the national net deficit, and the rainfed north and northeast again harvested below-average crops.

Domestic production covers only part of national needs, and the official balance understates import dependence. MAIL puts total wheat requirements at 7.09 million tons and the deficit at 1.94 million tons, down from 2.33 million tons in 2025. This balance, however, assumes a population of 37.2 million. Applying MAIL's own consumption norm to the 50.5 million people used in the latest IPC analysis raises requirements to about 9.3 million tons and the deficit to about 4.1 million tons. That is close to FAO's forecast of 4.6 million tons of cereal imports, mainly wheat flour, and U.S. Department of Agriculture (USDA's [6]) 4.5 million tons for 2026/27. Imports, mostly from Kazakhstan and other Central Asian suppliers, will therefore need to cover more than 40 percent of consumption.

Despite the better harvest, acute food insecurity has increased compared with a year earlier. According to the September 2026 IPC [7] analysis, 15.9 million people, 32 percent of the population, were in Crisis or worse (IPC Phase 3+) in September–October 2026. That is up from 13.8 million (28 percent) in the same period of 2025. The number in Emergency (Phase 4) rose from 2.9 million to 3.4 million, or 6.8 percent of the population. The increase came in a post-harvest period, when food stocks and seasonal labor demand are normally at their peak.

The outlook for the winter lean season is worse than last year. During November 2026–April 2027, 19.2 million people (38

[4] FAO (Food and Agriculture Organization of the United Nations). 2026. "GIEWS Country Brief: Afghanistan." Global Information and Early Warning System on Food and Agriculture. Reference date: 15 September 2026. https://www.fao.org/giews/countrybrief/country.jsp?code=AFG .

[5] FEWS NET. 2026. *Afghanistan*. Famine Early Warning Systems Network. https://fews.net/middle-east-and-asia/afghanistan.

[6] USDA FAS (United States Department of Agriculture, Foreign Agricultural Service). 2026. *Grain: World Markets and Trade*. October 2026. Washington, DC: USDA. https://apps.fas.usda.gov/psdonline/circulars/grain.pdf.

[7] IPC (Integrated Food Security Phase Classification). 2026. "Afghanistan: Acute Food Insecurity Situation for September–October 2026 and Projections for November 2026–April 2027 and May–September 2027." IPC Country Analysis, released October 13, 2026. Rome: IPC Global Support Unit. https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1165462/?iso3=AFG

percent) are projected to be in crisis or worse, including 5.1 million in emergency. During the comparable 2025/26 lean season, the figures were 17.4 million (36 percent) and 4.7 million. Seven areas are projected to be in Emergency: Badakhshan, Badghis, Daykundi, rural Ghazni, Ghor, Samangan, and Sar-e-Pul. Faryab and Jawzjan, both in emergency last year, improved with the rainfed recovery, but Badghis, Sar-e-Pul, and rural Ghazni deteriorated.

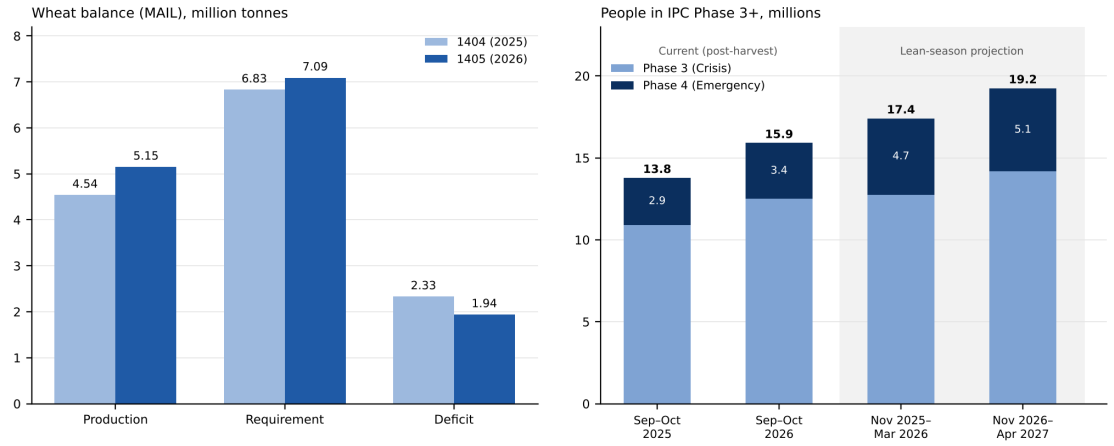
Population growth explains only part of the increase. The population covered by the IPC grew by 1.9 million, or 3.9 percent, between the two analyses, driven partly by the return of Afghans from Iran and Pakistan. At last year's prevalence rates, this growth alone would have added about 0.5–0.7 million people to Phase 3+. That is a quarter to a third of the observed increase; the rest reflects a rising share of households unable to meet minimum food needs.

The divergence between better availability and worse outcomes points to access constraints. Across provinces, the wheat surplus per person is only weakly associated with the share of the population in Phase 3+. In Helmand, the largest surplus province, 31 percent of the population is projected to be in Crisis or worse during the lean season, and in Takhar and Baghlan the share is 44 percent. The highest shares, 55–65 percent, are in Daykundi, Jawzjan, Samangan, Sar-e-Pul, and Laghman. Households are constrained less by the availability of wheat than by their ability to buy it. Casual laborers are finding fewer days of work, wheat flour prices are 10–20 percent higher than a year ago in several markets, humanitarian assistance has been sharply reduced, and communities are absorbing large numbers of returnees.

Afghanistan remains one of the world's most severe food crises. Among the 32 countries with a current IPC analysis, Afghanistan has the largest number of people in Emergency, accounting for about one-fifth of the total across these countries. Its 15.9 million people in Phase 3+ rank third, after Nigeria and Bangladesh, whose populations are far larger. Its Phase 3+ share is twice the cross-country median, comparable to the Central African Republic and Somalia, though below the conflict-driven crises in Gaza, Sudan, South Sudan, and Yemen. Because Afghanistan's figures refer to the post-harvest period, its lean-season projection would rank it higher still.

The outlook for the 2027 harvest is mixed, and access will remain the binding constraint. The El Niño event is expected to bring above-average rainfall between October 2026 and January 2027, supporting timely winter wheat planting. However, high fertilizer prices, linked to shipping disruptions in the Strait of Hormuz, may limit input use. Because the binding constraint is access rather than supply, food security will depend on keeping import corridors open and flour prices stable, and on raising household incomes. Assistance targeted to emergency areas and labor-intensive public works can provide relief in the near term.

Figure 10: Wheat balance and acute food insecurity, 2025 and 2026



Source: ITA's MAIL Wheat Production Report 1405 (Mizan 1405); IPC Acute Food Insecurity Analyses, October 2025 and September 2026; staff calculations. Requirement = food (population × per-capita norm) + seed + post-harvest losses, as estimated by MAIL. Projection periods: November 2025–March 2026 and November 2026–April 2027.

FISCAL DEVELOPMENTS: DOMESTIC REVENUE HOLDS UP AS AID FALLS, BUT FISCAL SPACE REMAINS NARROW

Fiscal developments in the first half of FY2026 show a budget that is coping with shocks but has little room to absorb new ones. Domestic revenue grew by about 10 percent despite the trade disruptions, and spending shifted toward investment. But aid continue to fall, capital spending remains among the lowest in the region, and the ITA cannot borrow, so any deficit must be closed within the year through spending restraint.

FISCAL REVENUE AND GRANTS[8]

Total public resources are expected to decline further in FY2026 as aid shrinks. Revenue and aid are projected to fall from 33.6 percent of GDP in FY2025 to 29.4 percent, mainly because aid declines from 13.3 to 10.1 percent of GDP, after 16.1 percent in FY2024. Even so, aid still finances about one-third of total public resources.

Domestic revenue is projected to ease slightly from its FY2025 record. After rising to an estimated 20.3 percent of GDP in FY2025, the highest level since 2010, domestic revenue is projected at 19.3 percent in FY2026. The decline is concentrated in customs duties, which fall from 4.1 to 3.2 percent of GDP as trade through Pakistan and transit through Iran remain disrupted. Tax revenue is projected at 11.8 percent of GDP and non-tax revenue at 7.5 percent.

First-half collections nevertheless point to resilience. Revenue reached AFN 143.5 billion in the first six months of FY2026, 10.2 percent more than a year earlier, with growth of 11.4 percent in the first quarter and 9.2 percent in the second. With inflation of about 7–8 percent, this represents real growth of roughly 2 percent. That is slower than the 15 percent real growth of the first half of FY2025,[9] but it was achieved in a weaker economy and despite the loss of trade with Pakistan.

Domestic taxes grew broadly in line with the nominal economy. Collections rose 9.9 percent year-on-year (YoY), to AFN 56.8 billion, contributing 3.9 percentage points to revenue growth. In the framework, taxes on goods and services rise from 3.8 to 4.0 percent of GDP and direct taxes from 2.2 to 2.3 percent. September collections were 38 percent above a year earlier, which may reflect one-off payments or timing and should be confirmed in later months.

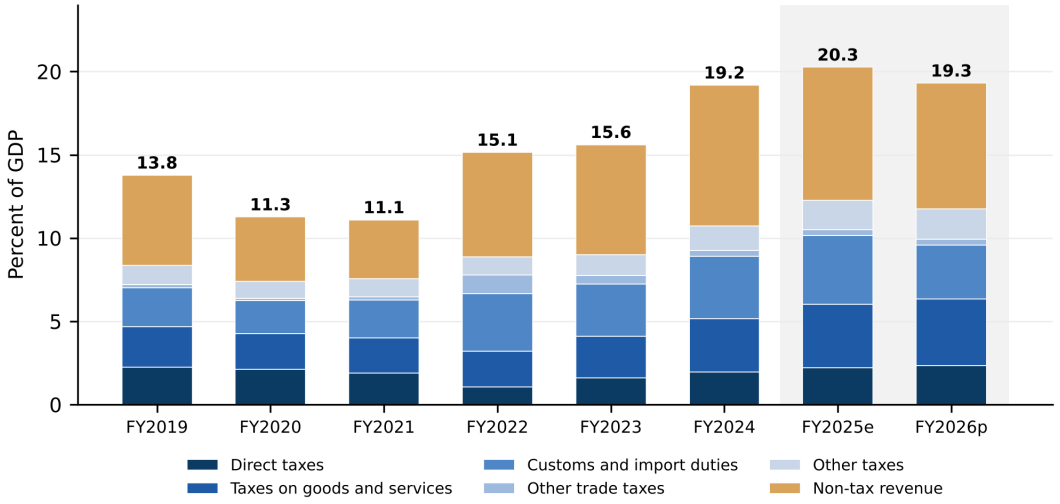
Customs revenue has borne the cost of trade disruptions, mostly since the Middle East escalation. Customs duties fell 16.9 percent YoY, to AFN 28.6 billion, subtracting 4.5 percentage points from revenue growth. In the five months after the border closure, collections held up at AFN 6.1 billion a month, 8.5 percent more than a year earlier, as imports were rerouted. They fell to AFN 4.5

[8] 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.
[9] In the first half of FY2025, domestic revenue grew by 16.8 percent in nominal terms with an inflation rate at 1.4 percent.

billion a month in March–August 2026, after the Middle East crisis disrupted the Iran corridor as well, before recovering to AFN 6.4 billion in September. Lower customs valuations and fewer imports of high-duty vehicle parts also narrowed the duty base (see the external sector section). The share of customs in total revenue fell from 26.5 to 20.0 percent.

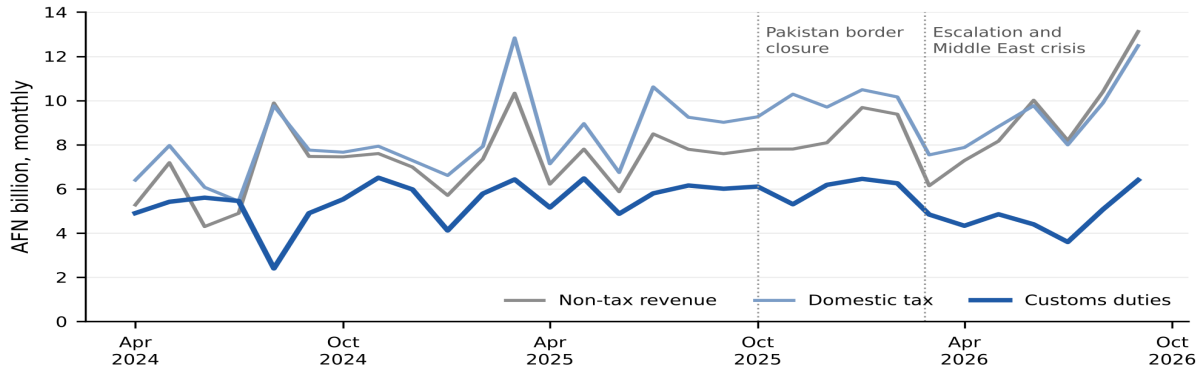
Non-tax revenue more than offset the loss, but it is volatile. Non-tax revenue rose 30.6 percent YoY, to AFN 57.2 billion, contributing 10.3 percentage points to revenue growth and now matching domestic taxes as a source of revenue. These receipts, which come largely from administrative fees, state-owned enterprises, natural resource rents, and service charges, are less predictable than taxes; the framework projects them to fall from 8.0 to 7.5 percent of GDP.

Figure 11: Domestic Revenue by Component (Percent of GDP)



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

Figure 12: Monthly Revenue by Source, FY2024–FY2026 (AFN billion)



Source: Ministry of Finance monthly fiscal data; World Bank staff calculations.
Note: Months are labelled by the Gregorian month in which each solar month ends.

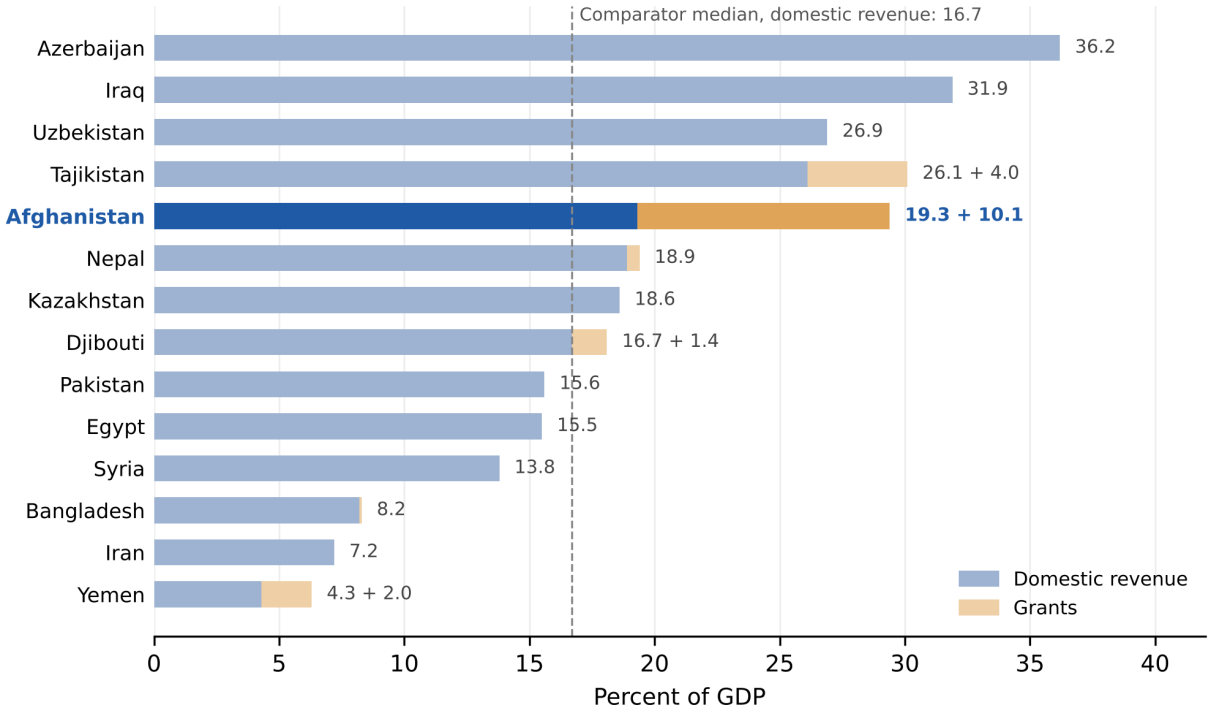
Afghanistan's revenue effort compares favorably with most regional and fragile peers. At 19.3 percent of GDP, domestic revenue is above the median of 16.7 percent for 13 comparators. It is higher than in Pakistan (15.6 percent), Nepal (18.9 percent), and Egypt (15.5 percent), more than twice the level in Bangladesh (8.2 percent) and Iran (7.2 percent), and far above Syria (13.8 percent) and Yemen (4.3 percent). For a low-income, largely informal economy, this reflects strong customs and sales-tax collection and a large non-tax component.

It nonetheless remains below the strongest performers in the region. Kazakhstan (18.6 percent) collects about as much as Afghanistan, while Uzbekistan (26.9 percent) and Tajikistan (26.1 percent) collect substantially more, and Iraq (31.9 percent) and Azerbaijan (36.2 percent) far more, largely from hydrocarbons.

Dependence on grants remains exceptional, even as aid declines. Grants of 10.1 percent of GDP in FY2026 are two and a half times those of the next most grant-dependent comparator, Tajikistan (4.0 percent), and most comparators receive none. The decline since FY2024, about 6 percentage points of GDP, exceeds the total grants received by any comparator. Unlike elsewhere, these grants are channeled outside the budget, through humanitarian and basic-needs programs delivered by partners.

Sustaining revenue will require a broader tax base and less reliance on trade taxes. FY2026 shows how quickly border-based revenue can fall when corridors are disrupted. Direct taxes, still close to 2 percent of GDP, offer the most room: strengthening personal and corporate income taxation, introducing effective property taxation, formalizing activities outside the tax net, and investing in digital tax administration would make revenue more resilient.

Figure 13: Domestic Revenue and Grants in 2026 (Percent of GDP)



Source: World Bank Macro Poverty Outlook (MPO April 2026).
Note: Labels show domestic revenue plus grants where grants exceed 1 percent of GDP.

FISCAL EXPENDITURE

On the spending side, falling external financing is reducing total expenditure, while on-budget spending rises. Total expenditure is projected to fall from 33.8 percent of GDP in FY2025 to 31.5 percent in FY2026. The reduction comes entirely from grant-financed off-budget spending, which falls with grants from 13.3 to 10.1 percent of GDP, while on-budget spending rises from about 20.4 to 21.4 percent of GDP.

Recurrent spending dominates the budget and continues to rise. Current expenditure is projected to increase from 19.1 to 20.1 percent of GDP. Wages and compensation, about 12.2 percent of GDP, account for roughly three-fifths of the total. Current transfers rise from 2.5 to 2.7 percent of GDP, driven by social assistance of about 1.6 percent of GDP, a line that barely existed before FY2025 and now supports returnees and other vulnerable households. Spending on goods and services remains at about 4.6 percent of GDP.

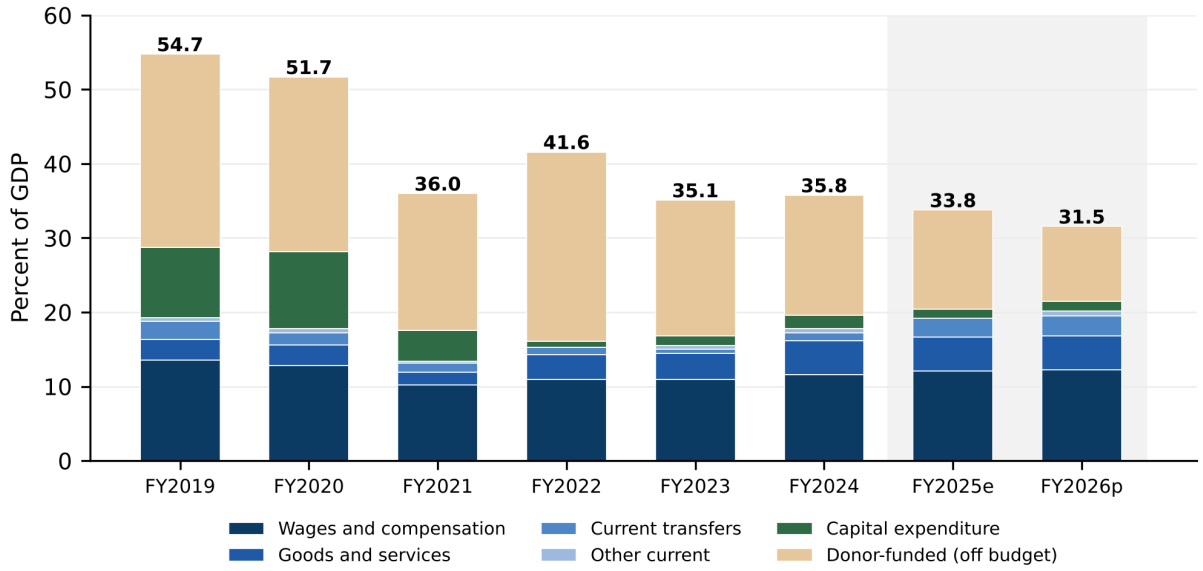
In the first half of FY2026, spending grew at the same pace as revenue, but its composition shifted. Expenditure reached AFN 144.9 billion, 10.3 percent more than a year earlier, after a 6.2 percent fall in the first quarter and a 24.9 percent rise in the second. Spending on goods and services rose 37.5 percent, to AFN 32.6 billion, and subsidies, grants, and social benefits rose 7.5 percent, to AFN 12.0 billion, reflecting continued support to returnees and other vulnerable groups.

The wage bill was lower, but mainly because of the timing of payments. Wages and salaries fell 14.4 percent YoY, to AFN 76.1 billion, subtracting 9.7 percentage points from spending growth. Most of the decline reflects an unusually large payment of AFN 22.2 billion in the third month of FY2025. Comparing the fourth to sixth months, when payments were regular in both years, the wage bill was 1.3 percent higher than a year earlier, a real decline of about 6 percent consistent with continued restraint on pay and hiring.

Capital spending rose sharply, though from a very low base. Acquisition of assets, the main capital spending line, more than tripled, from AFN 7.3 billion to AFN 24.2 billion, contributing 12.8 percentage points to spending growth and raising its share of total spending from 5.6 to 16.7 percent. If sustained, this would lift capital spending well above the 1.3 percent of GDP projected in the framework.

The decline in off-budget spending puts pressure on service delivery. Because the ITA's fiscal space is limited, the fall in donor-funded spending cannot be offset from domestic resources. Health, education, and social protection, long supported by international assistance, face tighter operating conditions, with consequences for women, children, and returnees.

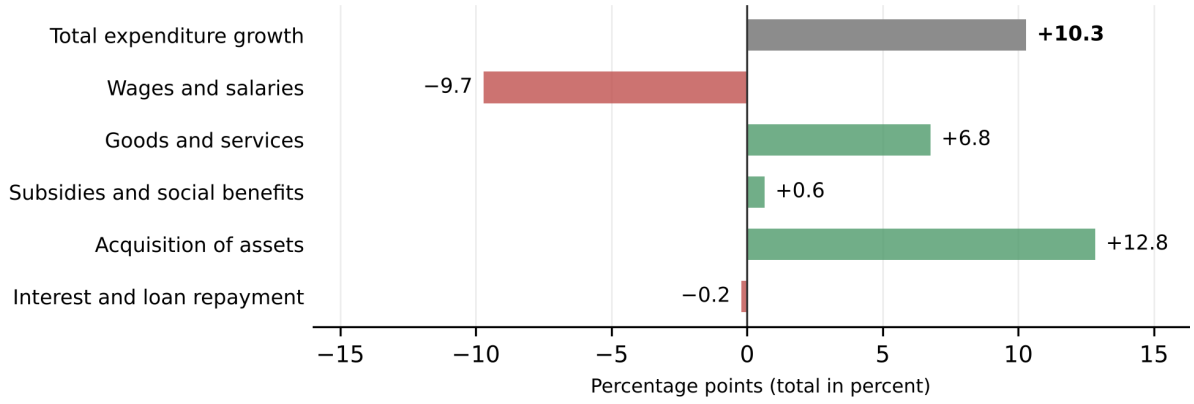
Figure 14: Fiscal Expenditure by Component (Percent of GDP)[10]



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.

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

Figure 15: Contributions to YoY Expenditure Growth, First Half of FY2026 (Percentage Points)



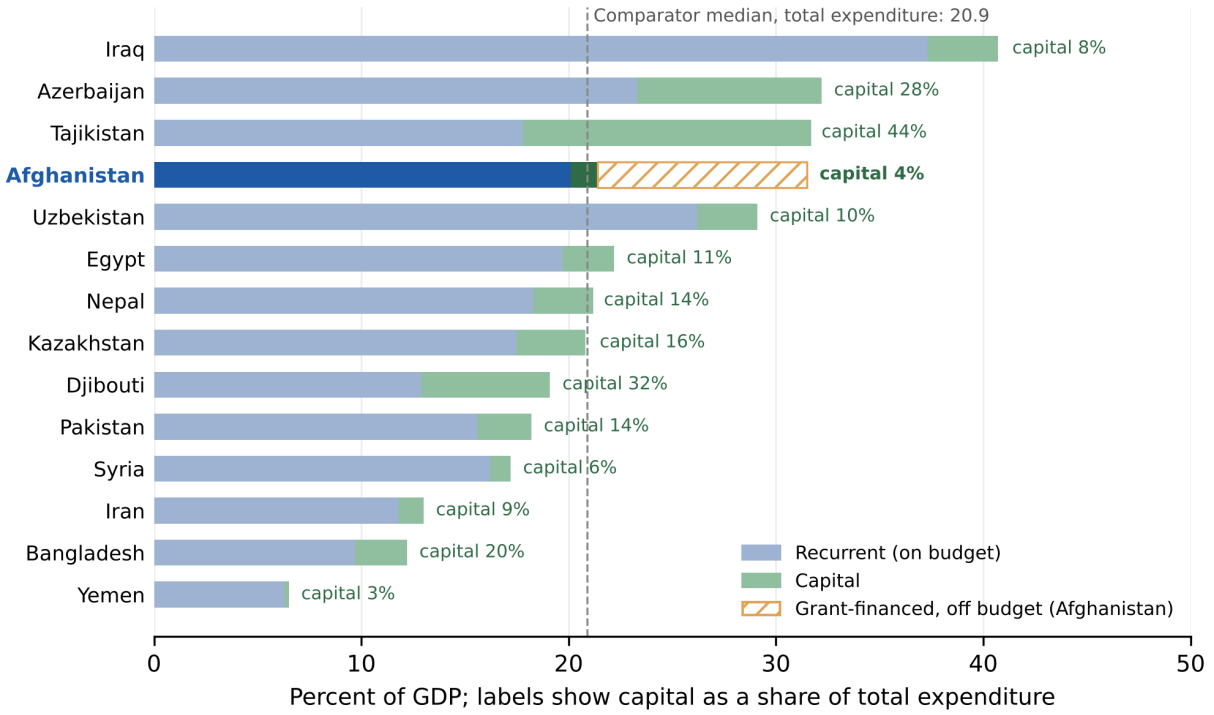
Source: Ministry of Finance monthly fiscal data; World Bank staff calculations.
Note: Each bar is the change in a component divided by total expenditure in the first half of FY2025; the top bar is total growth in percent.

Benchmarking shows that on-budget spending is close to the regional norm. Headline expenditure of 31.5 percent of GDP is the third highest among comparators, after Iraq (40.8 percent) and Azerbaijan (32.2 percent), but about a third of it is donor-funded spending outside the budget. On-budget spending, about 21.4 percent of GDP, is close to the comparator median of 20.9 percent and comparable to Nepal (21.1 percent), Kazakhstan (20.9 percent), and Egypt (22.2 percent).

The composition of spending, however, is heavily tilted toward recurrent outlays. On-budget current spending, about 20.1 percent of GDP, exceeds the comparator median of 17.5 percent and the levels in Pakistan (15.6 percent), Nepal (18.3 percent), and Kazakhstan (17.5 percent). The wage bill of about 12 percent of GDP accounts for most of the gap and limits flexibility in spending allocation.

Capital spending, by contrast, remains among the lowest in the region. At 1.3 percent of GDP in the framework, it is less than half the comparator median of 2.9 percent and about 4 percent of total expenditure, against a median of about 14 percent. It is well below Pakistan (2.6 percent), Kazakhstan (3.3 percent), and Uzbekistan (2.9 percent), and far below Tajikistan (13.9 percent) and Azerbaijan (8.9 percent); only Yemen, Syria, and Iran invest less. This narrow capital envelope limits the state's capacity to close infrastructure gaps and reinforces the capital dilution discussed in the real sector section.

Figure 16: Composition of Expenditure in 2026 (Percent of GDP)



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

The budget remained close to balance in the first half of FY2026. The ITA recorded a deficit of AFN 1.4 billion, compared with AFN 1.1 billion a year earlier, equivalent to about 1 percent of revenue. Revenue exceeded expenditure in three of the six months, and the deficit was financed from ITA cash balances.

The framework nevertheless projects a wider deficit, of 2.1 percent of GDP, for the full year. If the second half followed the FY2025 seasonal pattern, full-year revenue would reach about AFN 300 billion, close to 20 percent of GDP, and the deficit only about AFN 7 billion, or 0.5 percent of GDP. The first-half outturn, however, likely overstates the underlying position: September revenue was exceptionally strong and may not be repeated, some deferred salary payments may need to be regularized, and the second half usually brings most capital spending and faster execution.

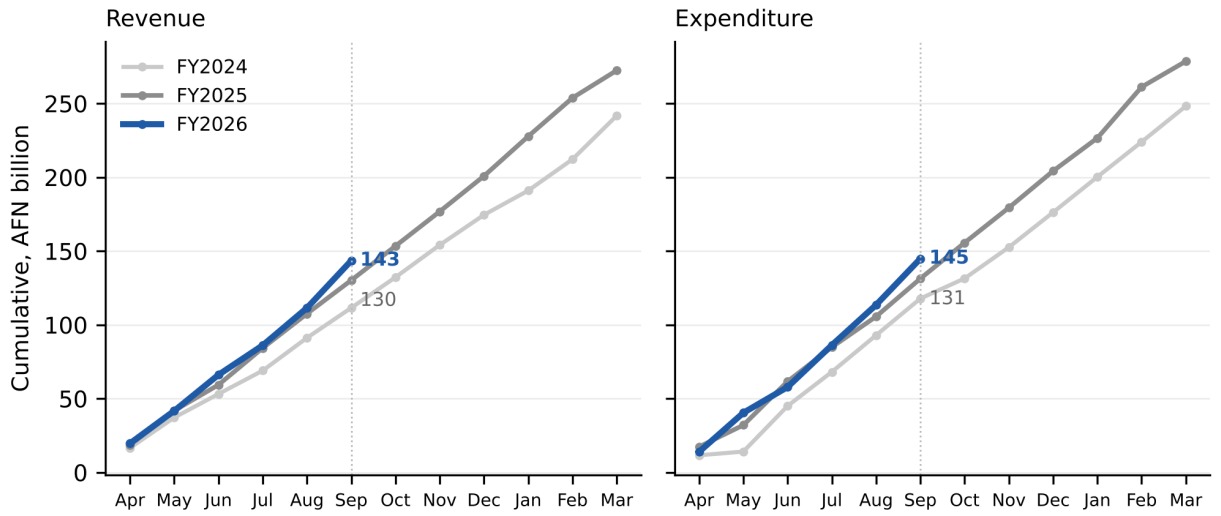
The projected deficit is typical of the region, but the financing constraint is unique. A deficit of 2.1 percent of GDP is almost exactly the comparator median (2.2 percent), similar to Kazakhstan and Uzbekistan (2.2 percent each), Nepal (1.7 percent), and Pakistan (2.6 percent), and far smaller than in Iraq (8.9 percent), Egypt (6.8 percent), and Iran (5.8 percent). Unlike its peers, however, Afghanistan cannot borrow, so a shortfall that would be routine elsewhere must be closed within the year by restraining spending.

Excluding grants, Afghanistan's fiscal gap is the largest in the region. Without grants, the balance would be −12.2 percent of GDP, larger than Iraq's overall deficit and more than twice Tajikistan's balance excluding grants

(−5.5 percent). This measures how far basic services depend on external financing that the ITA does not control, and that is declining.

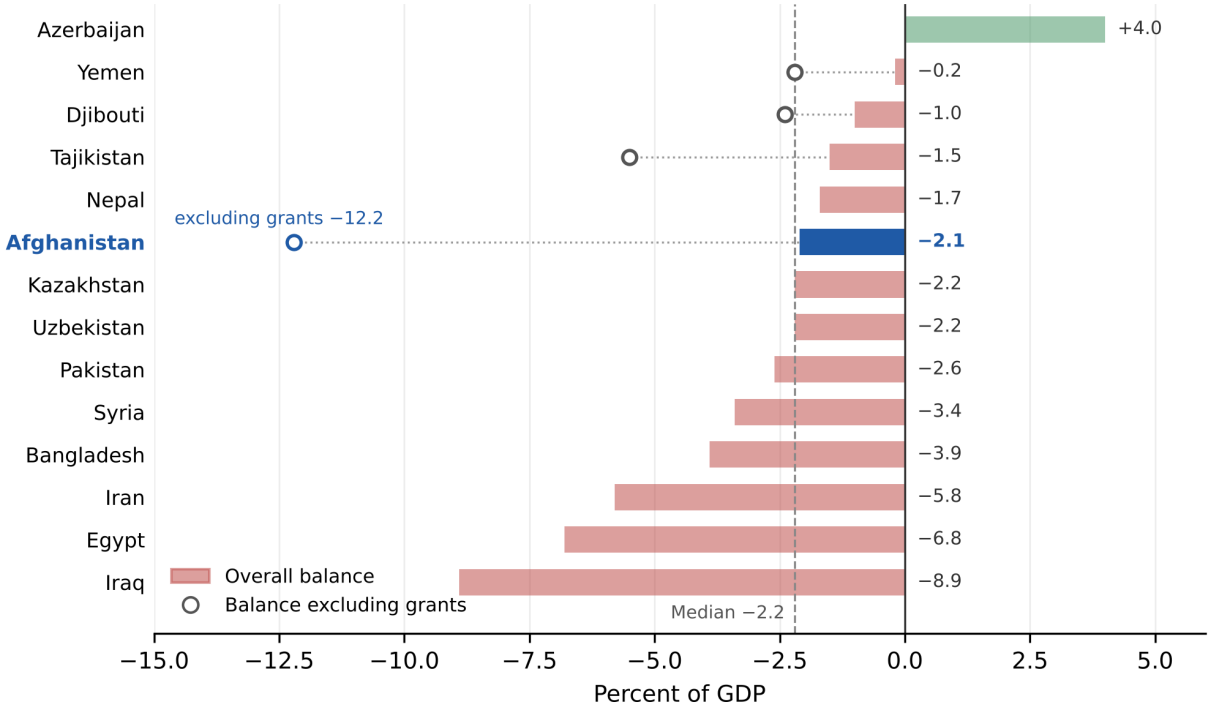
Overall, the cash-based budget has preserved stability at the cost of fiscal space and investment. Near-balanced budgets have avoided new debt, but they rely on spending restraint rather than buffers. High recurrent commitments and minimal capital spending limit service delivery and the state's ability to respond to economic, humanitarian, and climate shocks. Sustaining the recent rise in capital spending while protecting social assistance will depend on further revenue mobilization and on rebalancing spending toward investment. The external accounts, discussed next, show how far the economy as a whole depends on the same declining external inflows.

Figure 17: Cumulative Revenue and Expenditure by Month of the Fiscal Year (AFN billion))



Source: Ministry of Finance monthly fiscal data; World Bank staff calculations.
Note: FY2026 covers the first six months of the fiscal year.

Figure 18: Fiscal Balance in 2026 (Percent of GDP)



Source: World Bank Macro Poverty Outlook and staff estimates.
Note: Open circles show the balance excluding grants for economies receiving grants of 1 percent of GDP or more.

EXTERNAL SECTOR: TRADE REROUTED, NOT REVERSED, AS EXTERNAL VULNERABILITIES SHIFT

A year after the closure of the border with Pakistan, Afghanistan's import system has adjusted, but its export base has not. Imports in April–September 2026 were 2.2 percent higher than a year earlier, as the Central Asian and Iranian corridors absorbed virtually all trade previously routed through Pakistan, while exports fell by 15.1 percent. The current account deficit remains above one-third of GDP, and resilience has come at the cost of concentration: two corridors now carry 97 percent of imports.

The current account deficit widened to 36.1 percent of GDP in FY2025 and is expected to narrow only marginally, to 34.2 percent, in FY2026. [11] The FY2025 deficit, about US$7.3 billion, was up from 28.3 percent of GDP in FY2024, driven by a wider trade deficit (68.9

11 Balance of payments data are on a fiscal-year basis. FY2025 figures are estimates and FY2026–FY2028 figures are World Bank staff projections. Shares of GDP are based on nominal GDP in US dollars.

percent of GDP, from 62.9 percent) and lower net income and transfers (32.8 percent, from 34.5 percent). The improvement in FY2026 reflects a larger denominator, as nominal GDP in US dollars rises by about 14 percent with the strong Afghani and higher prices; in dollar terms, the deficit widens to about US$7.9 billion.

The trade deficit is projected to narrow to 64.4 percent of GDP, but because of a larger GDP rather than stronger exports. Exports of goods and services fall from 10.5 to 7.6 percent of GDP (from US$2.1 billion to US$1.8 billion), as merchandise exports drop by about 11 percent in dollar terms and services exports fall to 0.3 percent of GDP. Imports decline to 72.1 percent of GDP but rise by about 3 percent in dollar terms, to US$16.6 billion, consistent with the customs data discussed below. Merchandise imports remain about eight times larger than merchandise exports.

Remittances are falling relative to GDP, eroding an important source of household income. They fell from 17.8 percent of GDP in FY2024 to 15.7 percent in FY2025 and are projected at 14.1 percent in FY2026 (about US$3.3 billion), as returns reduce the number of Afghans working abroad. Other current credits, largely aid-related transfers, decline from 5.4 to 4.8 percent of GDP. External financing per person is therefore falling just as the population has grown, adding to pressure on household consumption.

Afghanistan's merchandise trade deficit is the second largest among regional and fragile comparators. At 56.8 percent of GDP in FY2025, it is exceeded only by Yemen's (61.6 percent) and is twice as large as Tajikistan's (27.9 percent). Most comparators run far smaller deficits, among them Egypt (14.0 percent), Uzbekistan (11.0 percent), Pakistan (6.6 percent), and Bangladesh (4.5 percent), while hydrocarbon exporters such as Kazakhstan, Iran, and Iraq record surpluses.

The gap reflects an exceptionally large import bill more than unusually weak exports. Merchandise exports, at about 9 percent of GDP, are comparable to those of Bangladesh (9.6 percent) and Pakistan (7.9 percent), although well below Uzbekistan's (16.6 percent). Merchandise imports, at about 66 percent of GDP, are matched only by Yemen (65.9 percent) and far exceed those of other landlocked economies such as Tajikistan (40.9 percent) and Uzbekistan (27.6 percent). Rerouting has preserved import volumes but not changed this imbalance, which is financed by aid, remittances, and other transfers rather than by export earnings.

Figure 19: Current Account Balance and Components (Percent of GDP)

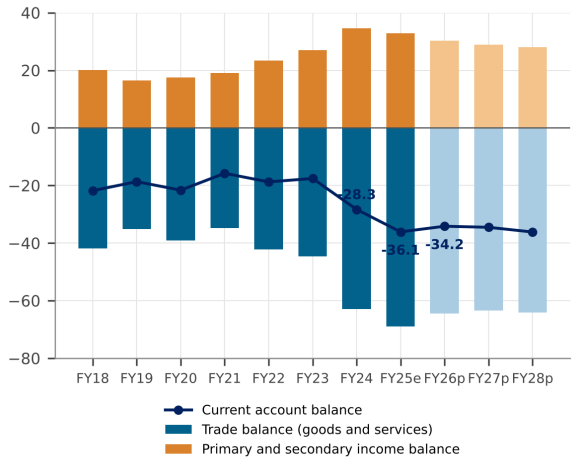
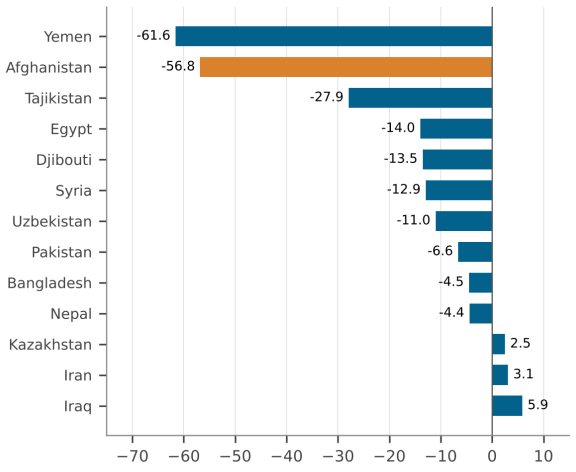


Figure 20: Merchandise Trade Balance by Country, 2025 (Percent of GDP)



Source: GSIA, MoF, and DAB for actuals; World Bank staff estimates and projections (left); World Bank Macro Poverty Outlook, October 2025 (right).

TRADE CORRIDORS: REROUTED, NOT REVERSED

Total trade held up after the border closure, but the balance shifted further toward imports. [12] From April to September 2026, recorded imports reached US$6.6 billion, 2.2 percent more than a year earlier, while exports fell 15.1 percent to US$667 million, widening the six-month trade deficit to US$5.89 billion from US$5.63 billion. Over the 12 months since the closure, imports rose 4.6 percent and exports fell 10.7 percent. Import growth has nevertheless slowed sharply from 25–33 percent a year in the same period of FY2023–FY2025, suggesting that the cost and limited capacity of alternative routes now restrain imports.

The reallocation of imports across corridors was abrupt and nearly complete. The Pakistan corridors delivered US$150–250 million of imports a month before the closure; these flows stopped in October 2025 and were replaced within one to two months, mainly by Central Asian routes and direct trade with Iran. Pakistan's share of imports fell from 20.1 to 0.3 percent, while Central Asia's rose from 27.2 to 42.2 percent (an increase of US$1.02 billion) and direct trade with Iran rose 22.7 percent, to a 32.7 percent share. Transit through Iranian ports fell 4.9 percent, indicating that third-country cargo once shipped through Karachi now arrives mainly overland through Central Asia.

Resilience has come at the price of concentration. Before the closure, no single corridor carried more than 28 percent of imports. Today Central Asia carries 42 percent and the two Iranian channels together 55 percent. A disruption on either axis, such as further sanctions on Iran, an escalation of the

12 The trade analysis uses transaction-level Afghan customs data at the HS8 level (January 2017–September 2026). Year-to-date comparisons cover April–September of each year, approximating the first half of the solar fiscal year, which begins on about 21 March. Because the comparison period, April–September 2025, ended just before the border closure of 11 October 2025, the comparison captures the full effect of the closure.

Middle East conflict, or a rail or transit dispute at Hairatan or Torghundi, would now hit Afghanistan's supply of food, fuel, and inputs harder than the closure of the border with Pakistan did.

Exports were far more exposed, and only about two-thirds of the lost market has been replaced. In the first half of FY2025, 43.7 percent of exports (US$344 million) went to or through Pakistan, mainly fresh fruit and vegetables, coal, and cotton. These flows have stopped. Exports through Central Asia more than doubled to US$210 million, air exports rose 65 percent to US$183 million, and direct exports to Iran rose from US$13 million to US$59 million, together adding about US$235 million. Transit through Iran took over during the 2025 harvest, at about US$125 million a month in October–November, collapsed to US$11–26 million a month after the Middle East conflict began, and recovered to US$86 million in September 2026 with the new harvest.

Figure 21: Monthly Imports by Corridor (US$ million)

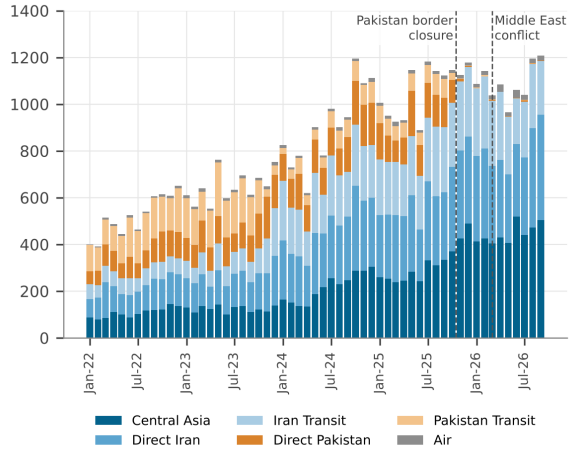
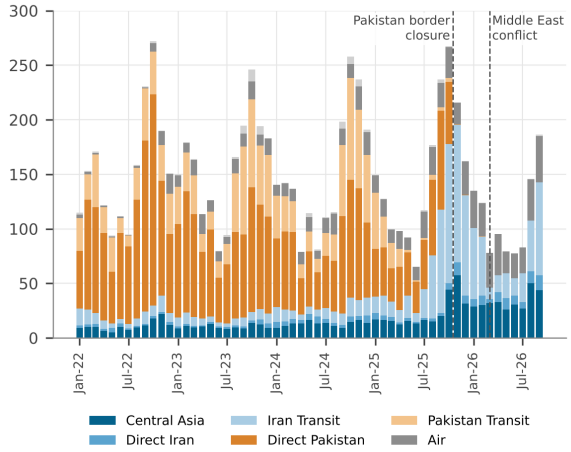


Figure 22: Monthly Exports by Corridor (US$ million)



Left: Source: World Bank staff calculations based on ASYCUDA data (HS8), January 2022–September 2026. Dashed lines mark the Pakistan border closure (mid-October 2025) and the start of the Middle East conflict (end-February 2026).

Right: Source: World Bank staff calculations based on Afghan customs transaction data (HS8), January 2022–September 2026.

EXPORTS

Food exports lost a quarter of their value and almost three-quarters of their volume. Food, about 70–80 percent of the export basket, fell 25.8 percent in value in the first half of FY2026 (from US$620 million to US$460 million), while food tonnage fell about 73 percent (from 745,000 to 200,000 tons). The lost trade was low-value, bulky fresh produce trucked to Pakistan, which had absorbed 96 percent of fresh fruit and 87 percent of vegetable export tonnage. Fresh fruit exports fell 88 percent in tons and vegetables and pulses 89 percent, and other routes replaced only 9 percent of the lost

fresh-fruit tonnage and none of the vegetable tonnage. At US$0.28–0.31 per kilogram, tomatoes, onions, melons, and grapes cannot cover the cost of air freight or long overland routes.

Higher-value, storable products adjusted better, and some new export lines emerged. Dried fruit tonnage fell 18.5 percent but value only 6 percent, with dried figs (US$96 million, from US$27 million), raisins (US$69 million), and saffron (US$43 million) finding new buyers through Iran transit, Central Asia, and air freight. Textile exports more than doubled to US$113 million, led by carded cotton to Central Asia (US$94 million, from US$21 million), and other exports rose 51 percent with new shipments of lead and zinc ores and meat. Coal exports, worth US$57 million a year earlier and entirely dependent on Pakistan, have ceased.

Higher export prices reflect a changed product mix rather than better terms, and the income loss is concentrated in rural areas. The export price index rose 24.1 percent YoY while export volume fell 31.6 percent, so the fall in exports is entirely a volume effect, partly masked by a shift to fewer, higher-value products. Exports picked up seasonally to US$146 million in August and US$186 million in September 2026 but remained about one-fifth below the same months of 2025. About 490,000 tons of fresh produce lost their outlet in six months, concentrating the shock on farmers in Kandahar, Nangarhar, and other eastern and southern provinces, where farm-gate prices have very likely fallen.

Figure 23: Monthly Merchandise Exports by Category (US$ million)

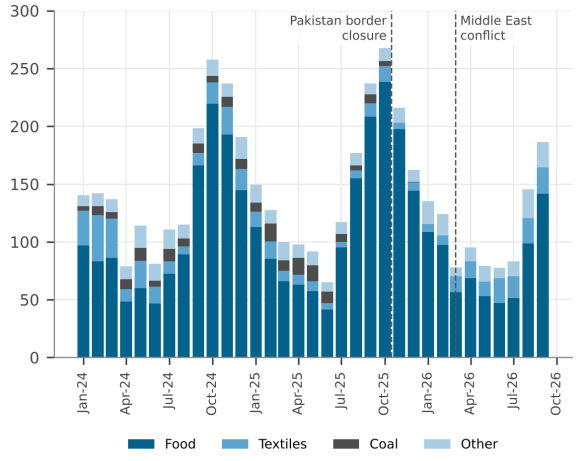
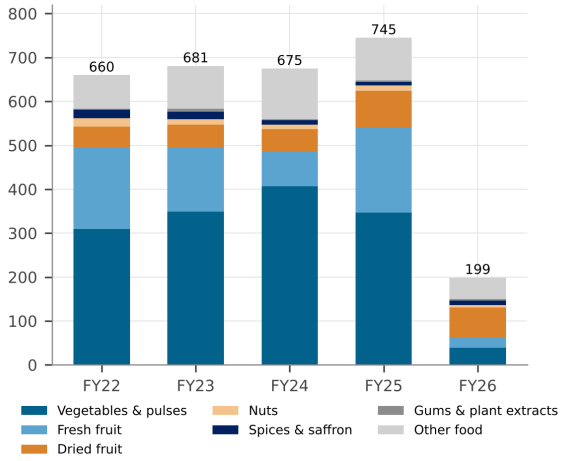


Figure 24: Food Exports by Product Group, April–September (thousand tons)



Left: Source: World Bank staff calculations based on **ASYCUDA)**data (HS8), January 2022–September 2026. Coal = 2701.
Right: Source: World Bank staff calculations based on Afghan customs transaction data (HS8), January 2022–Septeml 2026. FY26 = April–September 2026.

IMPORTS

Imports continued to grow in the first half of FY2026, led by food staples, fuel, and construction inputs. After rising 15.1 percent to US$13.1 billion in FY2025, imports increased 2.2 percent YoY to US$6.6 billion in April–September 2026. Food imports rose 30.2 percent (from US$1.16 billion to US$1.51 billion), contributing 5.5 percentage points to import growth, and chemicals rose 21.4 percent. By HS chapter, the largest increases were in mineral fuels, iron and steel, and cereals (about US$140 million each), followed by wheat flour, sugar, and fertilizers. The rise in staples is consistent with higher demand from a larger population and with precautionary stockbuilding on less reliable routes. Imports of transport equipment (−31.4 percent), textiles (−25.5 percent), and machinery and electrical goods (−20.5 percent) declined.

The sharp fall in capital goods imports is linked to the Middle East conflict rather than to the Pakistan closure. Capital goods imports fell 63 percent (from US$389 million to US$143 million), almost entirely because of vehicle parts, which arrive mainly through Iran. These imports averaged US$57 million a month between October 2025 and February 2026, about the same as a year earlier, but dropped to US$25 million a month from March 2026 and to US$11–14 million in July–September, pointing to disruptions in shipping, payments, or sourcing on the Iranian route.

Rerouting worked for bulky imports, but only partly for medicines. Cement imports more than fully replaced the 1.17 million tons previously supplied by Pakistan, rising 17.2 percent to 3.39 million tons, and fertilizer imports, which never depended much on Pakistan, rebounded 165 percent to 425,000 tons, in time for autumn wheat planting. Finished-medicine imports, by contrast, fell 34 percent in tons, with only about half the lost tonnage replaced from India, Türkiye, Iran, China, and the UAE. Imports of pharmaceutical raw materials more than doubled, pointing to growing domestic production (Box 1), but from a base too small to offset the loss of low-cost Pakistani generics, so access to medicines, particularly in the east, warrants close monitoring.

Recorded import prices have been flat since the closure, but customs valuation changes are lowering the duty base. [13] The import price index (2022 = 100) averaged 142.1 in April–September 2026, only 0.5 percent above a year earlier, so import growth since the closure has come from higher volumes. The cumulative 40 percent rise since 2022 occurred mostly in 2024–25 and partly reflects updates to customs reference values rather than transaction prices. The recorded unit value of cement halved, from US$89 to US$44 per ton, partly because higher-valued Pakistani cement was replaced and partly because of a simultaneous, uniform drop

13 Price indices are fixed-base Fisher unit-value indices built at the HS8 level (2022 = 100); volume indices are derived by dividing value indices by price indices. Customs unit values partly reflect administrative reference values. For example, the recorded unit value of wheat flour rose from US$0.10 per kg in 2022–23 to US$0.30 in 2025–26, which is not consistent with world wheat prices. The indices should therefore be read as recorded customs unit-value indices.

across all corridors in November–December 2025, typical of a cut in reference values. Together with fewer imports of high-duty vehicle parts, these changes help explain why customs revenue fell even as import values rose (see the fiscal section).

Figure 25: Monthly Merchandise Imports by Product Group (US$ million)

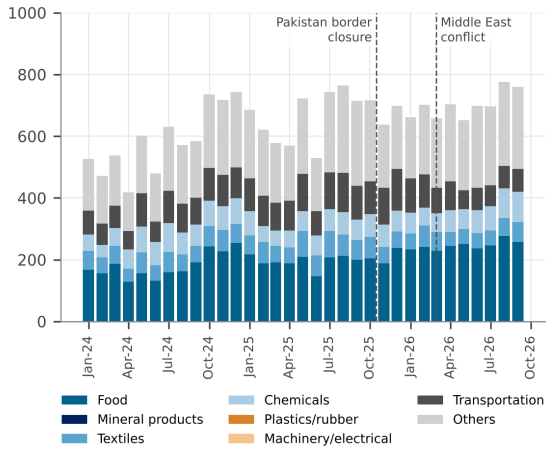
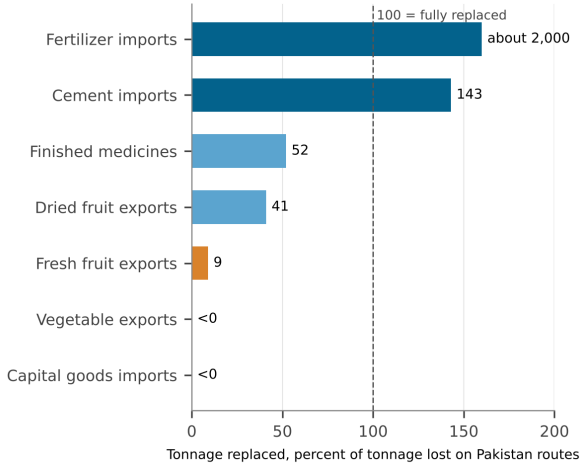


Figure 26: Rerouting Scorecard for Strategic Products, April–September 2026 vs. 2025



Left: Source: World Bank staff calculations based on ASYCUDA data (HS8), January 2022–September 2026.
Right: Source: World Bank staff calculations based on Afghan customs transaction data (HS8), January 2022–September 2026. Tonnage on non-Pakistan routes gained, divided by tonnage lost on Pakistan routes. <0: other routes also fell.

TERMS OF TRADE AND EXCHANGE RATE

Recorded terms of trade improved, but the purchasing power of exports fell to its lowest level since 2022. The terms of trade rose about 23 percent YoY in April–September 2026 (from an index of 70 to 86), as export prices rose 24 percent and import prices were flat. This is a composition effect: low-value produce sold to Pakistan has dropped out of the export basket. A better measure of what exports can buy, export value deflated by import prices, fell 16 percent, and the terms of trade remain about 14 percent below their 2022 level.

The Afghani appreciated strongly in FY2025 and has been broadly stable since March 2026. The average market rate strengthened from 71.6 Afghanis per US dollar in April 2025 to 64.2 in March 2026, an appreciation of about 12 percent, and the nominal effective exchange rate (NEER) rose by 10.6 percent. Between March and August 2026, the NEER eased by only 1.8 percent. The currency's strength rests on continued foreign exchange inflows, including humanitarian disbursements and remittances, tight controls on foreign exchange markets, and regular foreign exchange auctions by Da Afghanistan Bank (DAB).

The real effective exchange rate has depreciated by about 11 percent since March 2026, improving price competitiveness. After hovering around 82–

84 through FY2025, the REER fell to 74.7 in August 2026, its lowest level since July 2021. With the NEER broadly unchanged, the decline reflects faster price increases in trading partners, notably Iran, than in Afghanistan, and could reverse if domestic inflation keeps rising. Maintaining a stable currency will also become harder as aid and remittances decline relative to the economy and export earnings weaken.

Figure 27: Nominal and Real Effective Exchange Rate – Index (July 2021 = 100)

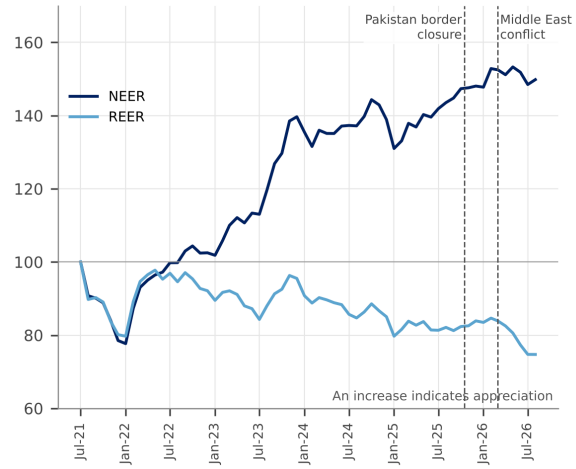
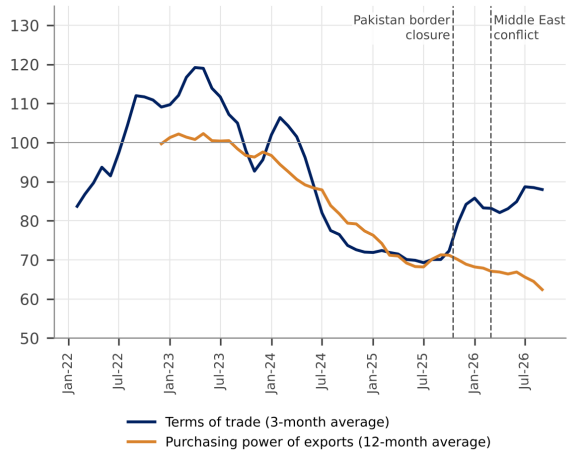


Figure 28: Terms of Trade and Purchasing Power of Exports (Index, 2022 = 100)



Left: Source: Da Afghanistan Bank (DAB) and World Bank staff calculations. Data through August 2026.
Right: Source: World Bank staff calculations based on Afghan customs transaction data (HS8), January 2022–September 2026. Terms of trade = export ÷ import price index; purchasing power = export value ÷ import price index..

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

Afghanistan's financial sector remains constrained by structural challenges, and severe capacity deficits. Financial inclusion is among the lowest globally, the banking sector is risk-averse, the payment ecosystem still requires massive investments, and the microfinance sector is constrained by regulation and liquidity.

LIQUIDITY AND MONETARY SECTOR DEVELOPMENTS

Monetary expansion stalled, amid a continued shift toward cash. Broad money (M2) reached AFN 591 billion in August 2026, only 0.1 percent higher than a year earlier, while narrow money (M1) rose by just 0.2 percent to AFN 568 billion. Currency in circulation increased by 3.7 percent year-on-year to AFN 396 billion, whereas transferable deposits contracted by 7.2 percent. This divergence underscores the continued shift toward cash holdings and the weakness of deposit-based financial intermediation.

Domestic credit conditions remained highly constrained. Net domestic credit stood at AFN −109 billion in August 2026, compared with AFN −96 billion a year earlier, as liabilities to the ITA rose by 11.1 percent to AFN 141 billion. Private sector credit increased by 2.9 percent year-on-year to AFN 32 billion but remained small relative to the financing needs of the economy. Formal credit therefore continued to provide only limited support to private investment and job creation.

External buffers improved modestly but remained vulnerable to shocks. Net foreign assets rose by 1.4 percent year-on-year to AFN 880 billion in August 2026, while gross reserves increased by 3.2 percent to AFN 802 billion. Both indicators eased slightly from July, and the limited gains underscore the economy's continued exposure to external financing and balance-of-payments pressures.

Figure 29: Change in Broad Money (M2), Narrow Money and Currency in Circulation (%, Y-o-Y)

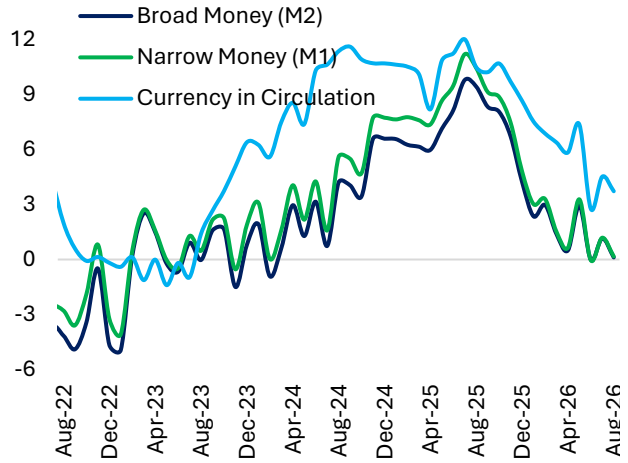
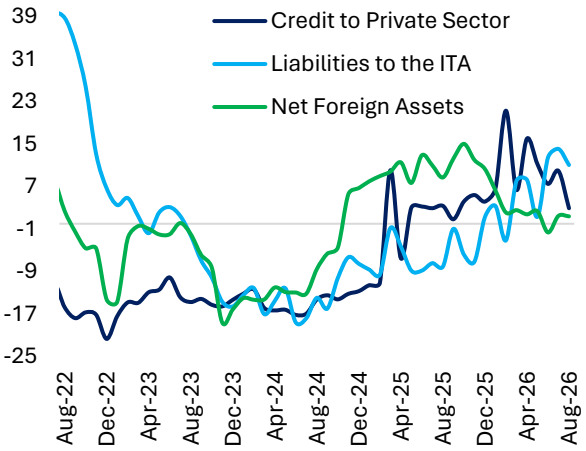


Figure 30: Change in Net Foreign Assets, Credit to Private Sector and Liabilities to the ITA (%, Y-o-Y)

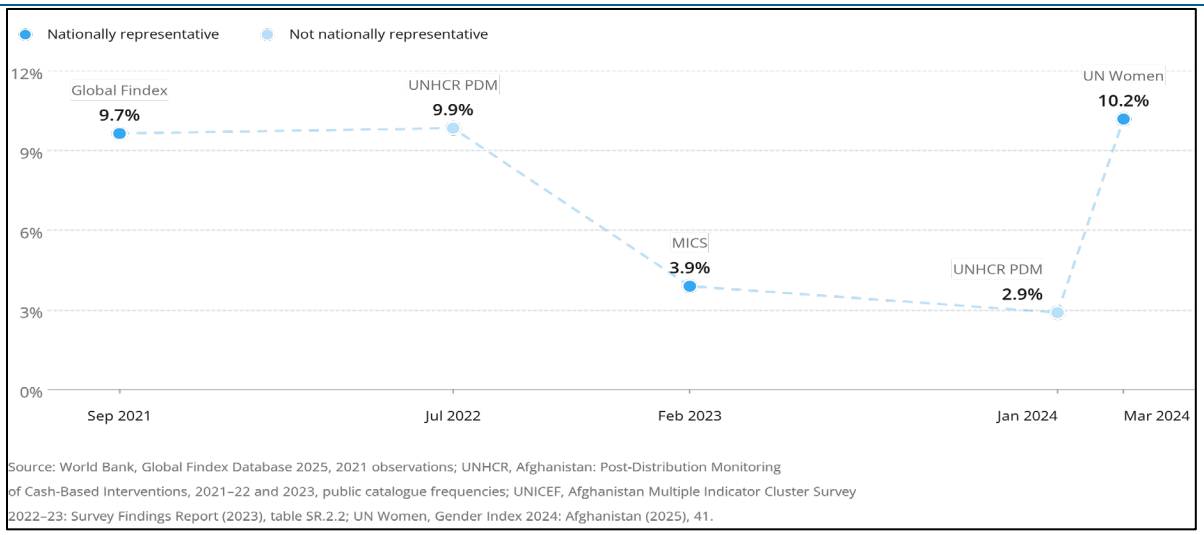


Source: Da Afghanistan Bank (DAB) and World Bank staff estimates.

BANKING SECTOR INDICATORS

Afghanistan's banking sector remains very small and continues to face structural constraints that limit liquidity utilization and credit expansion. Only a handful of banks are profitable, and banks primarily invest their assets abroad. As of Q2 2026, total assets stood at approximately US$3.54 billion (AFN 235.6 billion), and total deposits reached US$2.9 billion (AFN 195.6 billion), both up 1.2 percent from December 2025. State-owned banks represent 45 percent of total assets, an increase from 32 percent in 2022. Structural constraints faced by banks across the sector are multiple. In October 2025, DAB mandated an increase in the financing-to-deposit ratio from 10 to 30 percent over three years. While this directive signals a regulatory intent to stimulate credit intermediation, its practical implementation faces considerable impediments, including high legacy non-performing loans (NPLs at 27%), a weak credit infrastructure, and a lack of financial safety net. Achieving the target ratio requires a fundamental reorientation of banks' credit-risk appetite and underwriting capacity. The ongoing transition to Shariah-compliant financing, mandated since 2021, adds further challenges with fragmented regulatory and supervisory frameworks, weak conversion plans and compliance timelines. Addressing these gaps will require the sector to build the specialized expertise needed to underwrite, price, manage, and supervise a widening range of Islamic finance products, but the sector's ability to expand remains limited by its workforce. The number of female staff has declined for lack of qualified women, especially at junior levels, given restriction on education, hampering the outreach to female clients. Some banks are starting to extend liquidity to microfinance providers, which would contribute to meeting the financing-to-deposit ratio mandate though not resolve the sector's structural issues.

Figure 31: Share of Respondents or Households with a Bank Account or a Mobile Wallet



Source: World Bank, global Findex Database, 2025, 2021 observations; UNHCR, Afghanistan: Post-Distribution Monitoring of Cash-Based Interventions, 2021-22, and 2023, public catalogue frequencies; UNICEF, Afghanistan Multiple Indicator Cluster Survey 2022-23, Survey Findings Report (2023), table SR.2.2; UN Women, Fender Index 2024; Afghanistan (2025) 41.

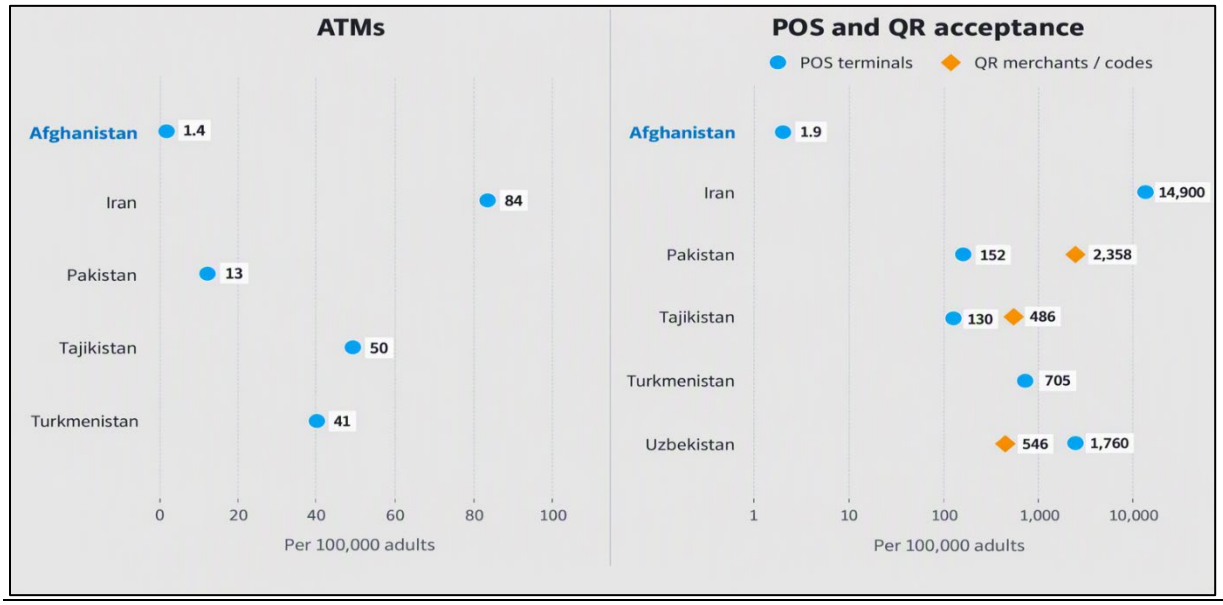
Access to formal finance remains limited, amidst widespread mistrust and limited payment networks. Less than 10 percent of adults have a bank account, and many of those who do use it only to cash out salaries or social protection benefits. Businesses other than larger formal enterprises likewise seldom use formal financial services: in a survey of five Afghan cities, only 3 percent of informal businesses and 10 percent of registered microenterprises reported owning an account. Although the limits on cash withdrawals imposed after August 2021 have been progressively lifted, trust in the banking system has not fully recovered. Having been unable to access their funds during that period, Afghans use banks and electronic payments mostly where they have no alternative: to receive salaries from, and sell goods and services to, INGOs and UN agencies; to pay for some essential imports; and to make selected ITA payments. Digital payment acceptance is too low to sustain viable digital payment businesses: Afghanistan has only 1.9 POS terminals per 100,000 adults, about 80 times less than neighboring Pakistan, and most are reportedly used for cash withdrawals rather than purchases.

DIGITAL PAYMENTS AND INFRASTRUCTURE

Foundations for digital financial services are gradually being laid, but scaling acceptance through cards alone would be very costly and lower-cost alternatives have yet to be actively pursued. Many new entrants have received Electronic Money Institution (EMI) licenses, virtually all civil servants are paid through bank accounts, tax and customs payments can be made digitally, and regulation of money service providers is tightening. DAB has also brought the central clearing infrastructure back online, including the Afghanistan Payment System (APS), which acts as the Automated Teller Machine (ATM)

and Point-of-Sale (POS) switch, and the Afghanistan Clearing and Settlement System (ACSS) for real-time gross settlement. Yet, connectivity and access to data centers remains a challenge, particularly for State-owned banks. Most EMIs have not broken even and cannot offset losses with earnings on customer float, given the lack of workable Sharia-compliant mechanisms, and a large network of liquid and trusted cash-in cash-out points is still needed. Reaching Pakistan's level of acceptance through cards alone would require an estimated US$60-100 million in POS terminals, against a minimum capital requirement of US$1 million for an EMI license. Quick Response (QR) codes processed through instant payment rails, or Unstructured Supplementary Service Data (USSD) short codes for feature phones, could be more accessible, but no policy or industry decision has yet been taken to develop them.

Figure 32: Access to ATMs, Acceptance of POS and QR codes per 100,000 adults



Source: IMF Financial Access survey and World Bank Global Payment Systems Survey, Central Bank of Iran, Shaparak, State Bank of Pakistan, National Bank of Tajikistan, Central Bank of Uzbekistan, UZCARD, Central Bank of Turkmenistan, via Trend, World Bank (2025 population).

MICROFINANCE SECTOR DEVELOPMENTS

Against a backdrop of widespread informality, the microfinance sector remains a critical channel for expanding access to finance, financial inclusion, and women's economic participation. Although the sector is very small relative to the scale needed, it continues to grow meaningfully in terms of outreach, portfolio size, and geographic coverage. As of June 2026, ten reporting providers (seven microfinance providers -MFPs- and three banks with microfinance windows) served over 72,000 active clients –a nearly 50% increase in a single year– with its gross Islamic financing portfolio reaching US$77 million (AFN 5.1 billion). Over the same period, the sector expanded to 132 branches across 26 provinces, compared with 108 branches in 16

provinces in June 2025, although outreach remains heavily urban, with 78 percent of clients concentrated in urban areas and a very nascent client base in some covered provinces (e.g. Nuristan has 15 active clients and Helmand has one). The absolute number of female clients has grown alongside overall sector expansion. The overall female share of the total client base has however remained stagnant since mid-2025 with women accounting for 43 percent of all active clients. High market concentration also persists at an institutional level, as newer providers find their footing: the three MFPs already present in the market before 2021 constitute 84 percent of the sector's portfolio and 94 percent of clients. Six reporting institutions recorded OSS above 100 percent in Q2 2026, comprising three MFPs and three banks, signaling a trend towards sustainability which could sustain additional growth from newer institutions. Further expansion remains constrained due to the mandatory transition to Islamic finance since 2021 and regulation introduced in 2025 leading to higher operating and compliance costs, regulatory caps on rates and loan sizes, limited institutional capacity and a narrow range of authorized suite of products.

OUTLOOK AND MEDIUM-TERM PROSPECTS: GROWING IN SIZE, NOT YET IN LIVING STANDARDS

Growth is projected to recover only modestly, to 3.3 percent in FY2027 and 3.5 percent in FY2028, driven by consumption and services. As returns slow, GDP per capita is projected to rise again, but only by 0.6–0.8 percent a year, leaving it about 7 percent below its FY2024 level in FY2028. With trade concentrated on two corridors, the 2027 harvest dependent on costly fertilizer, and aid declining, risks are tilted to the downside; a reopening of the Pakistan border is the main upside risk.

MEDIUM-TERM OUTLOOK

The baseline assumes that the shocks of FY2026 persist but do not intensify. It assumes that the border with Pakistan remains largely closed and trade continues to adapt through Iran and Central Asia, a normal 2027 harvest, a moderate recovery in private investment, and returns well below their FY2025–FY2026 levels. On this basis, growth recovers to 3.3 percent in FY2027 and 3.5 percent in FY2028. The output lost in FY2026 is not recovered, and the output gap narrows only gradually, from about −4 percent of potential to −2 percent by FY2028.

Weak structural foundations limit potential growth. Potential growth comes almost entirely from a larger labor force, as investment barely covers depreciation and productivity has stagnated (see the labor market section). Without stronger investment, better trade access, and the inclusion of women, growth of 3–3.5 percent a year will absorb new workers mainly through fewer working days and lower wages rather than higher output per worker.

Consumption will continue to drive demand, while investment and exports will only recover partly. Private consumption is projected to grow by 3.5 percent in FY2027 and 3.8 percent in FY2028, supported by population growth and continued transfers. Gross fixed investment recovers by 4.0 and 6.1 percent after contracting by 4.7 percent in FY2026, with private investment growing by about 2 percent a year from a low base. Exports grow by 4 and 6 percent, far from recovering their 22 percent fall in FY2026, while imports grow by 5 percent a year.

Services are expected to return as the main driver of growth, with agriculture providing steady but weather-dependent support. Services are projected to contribute 1.4 percentage points to growth in FY2027 and 1.8 points in FY2028 as trade adapts to the new corridors. Agriculture is assumed to contribute about 1.1 points a year under normal weather, and industry 0.5–0.6 points, constrained by energy shortages, costly imported inputs, and the loss of the coal export market.

Slower returns will allow per capita income to stabilize, but not to recover. Population growth is projected to slow from 6.6 percent in FY2026 to about 2.8 percent in FY2027 and 2.5 percent in FY2028. GDP per capita is projected to rise by only 0.6 percent in FY2027 and 0.8 percent in FY2028, leaving it about 7 percent below its FY2024 level and more than a third below its 2019 level. If returns

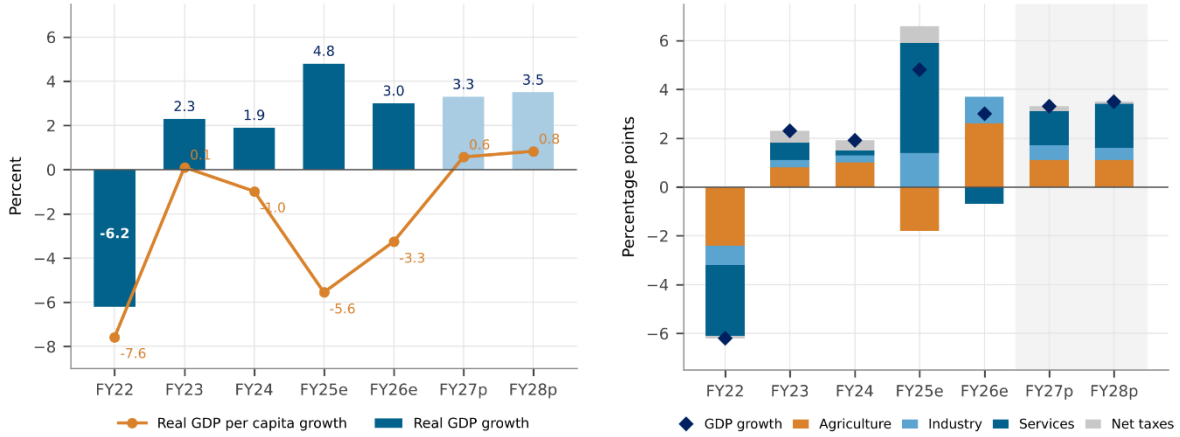
continued at the FY2026 pace, output would need to grow by 6–7 percent a year just to keep per capita income constant.

Inflation is expected to remain elevated in the near term. Higher costs on longer trade corridors, fuel and fertilizer prices linked to the Middle East crisis, and very high inflation in Iran are expected to keep price pressures elevated into FY2027. A good harvest and stable corridors would allow inflation to ease gradually from 7.0 percent in FY2026.

External deficits will remain very large and dependent on declining transfers. The current account deficit is projected at 34.5 percent of GDP in FY2027 and 36.2 percent in FY2028, with the trade deficit at around 64 percent of GDP. Remittances are projected to decline to about 13 percent of GDP by FY2028 and other transfers to keep falling, increasing reliance on volatile inflows.

Fiscal space will remain very narrow. With no access to borrowing, declining grants, and rising returnee-related demands on social assistance, education, and health, the budget will remain close to balance and focused on recurrent spending, leaving little room to raise capital spending from about 1.3 percent of GDP or to respond to new shocks.

Figure 33: Real GDP Growth, GDP per Capita Growth and Sectoral Contributions, FY2022–FY2028



Source: NSIA (FY2022–FY2024); World Bank staff estimates (FY2025–FY2026) and projections (FY2027–FY2028), macro-fiscal framework (October 2026).
Note: Left panel: real GDP growth (bars; lighter bars are projections) and real GDP per capita growth (line), percent. Right panel: sectoral contributions to real GDP growth, percentage points; the shaded area marks projections.

RISKS TO THE OUTLOOK

Risks to the outlook are tilted to the downside and concentrated in the channels that shaped FY2026. The economy is exposed to shocks to its trade corridors, its harvest, its population, and its external financing, and it has few buffers to absorb them. Illustrative scenarios suggest that FY2027 growth could range from about 0.5 percent if the harvest fails to about 4.5 percent if the border with Pakistan reopens. Under every downside scenario, GDP per capita falls for a fourth consecutive year.

Greater concentration of trade has raised exposure to corridor shocks. About 97 percent of imports now move through Central Asia and Iran. An escalation of the Middle East conflict, further sanctions on Iran, or bottlenecks on the northern rail and border crossings would disrupt supplies of food, fuel, and fertilizer more severely than the closure of the border with Pakistan did. . If services are impacted as in FY2026, growth in FY2027 would fall to about 1.2 percent and GDP per capita would decline by about 1.4 percent.

The 2027 harvest is the most immediate risk to growth. Agriculture drove almost all FY2026 growth, but fertilizer remains expensive: urea was 27 percent more expensive in September 2026 than a year earlier, after peaking 53 percent higher in June. Fertilizer imports have recovered strongly, but if farmers cut fertilizer use during autumn planting, or if rainfall is poor, the 2027 wheat crop could fall short. An agricultural contraction similar to the FY2025 drought would cut FY2027 growth to about 0.5 percent and lower GDP per capita by more than 2 percent.

Returns could again exceed expectations. About 1 million Afghans returned between January and September 2026, and further large-scale returns remain possible.. An additional 1 million returnees in FY2027 would raise population growth by almost 2 percentage points; even allowing for the additional output they generate, GDP per capita would fall by about 0.5 percent instead of rising, and by about 2.4 percent if combined with a corridor disruption. The pressure would fall mostly on unskilled casual labor, housing, and basic services in high-return provinces.

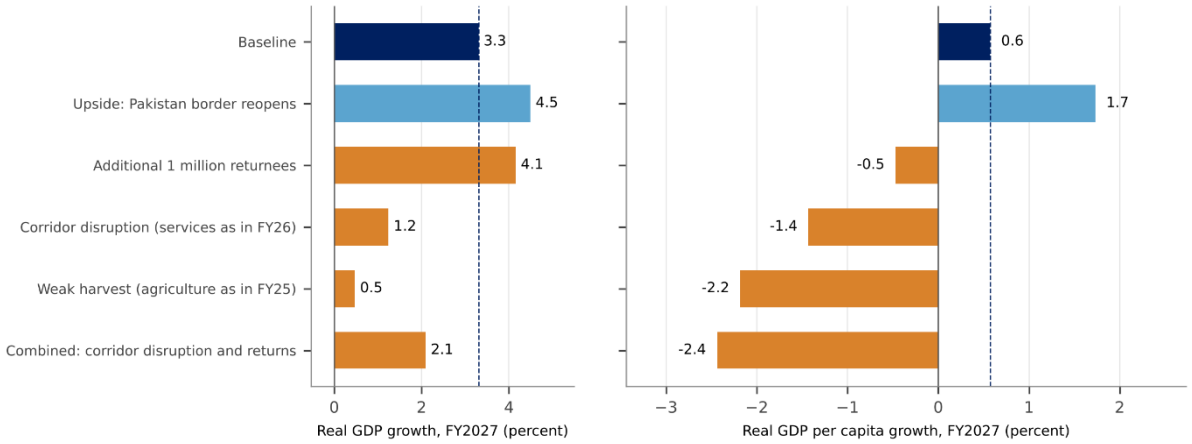
Further cuts in aid would weaken external financing, consumption, and services. Grants and other transfers finance most of the trade deficit and a large share of basic services outside the budget. Further cuts would reduce imports, weigh on consumption, which accounts for almost all demand, and put pressure on the foreign exchange market and the Afghani, adding to imported inflation.

A reopening of the border with Pakistan is the main upside risk. It would restore the main outlet for fresh produce, about 490,000 tons of which lost their market in the first half of FY2026, and for coal, while lowering transport costs for imports and supporting customs revenue. If real exports recovered about half of their FY2026 loss, growth in FY2027 could reach about 4.5 percent and GDP per capita could rise by about 1.7 percent.

Limited policy buffers put a premium on building resilience. With no access to borrowing, limited active monetary policy instruments, and a shallow financial system, Afghanistan cannot respond countercyclically, and overlapping shocks would deepen the decline in living standards. Five areas would do most to reduce these vulnerabilities: (i) securing and diversifying trade corridors, including transit facilitation with Central Asia, investment in northern and western routes, and contingency stocks of wheat, fuel, and fertilizer; (ii) reducing risks to the 2027 harvest by monitoring fertilizer affordability and availability during planting, maintaining seed distribution in deficit areas, protecting import corridors, and prioritizing rehabilitation of existing irrigation systems; (iii) raising labor demand in high-return

provinces through labor-intensive investment; (iv) restoring women's access to education and work; and (v) improving high-frequency data on trade, prices, and labor markets.

Figure 34: Real GDP Growth and Real GDP per Capita Growth in FY2027 Under Baseline and Alternative Scenarios



Source: World Bank staff estimates based on the macro-fiscal framework (October 2026).
Note: Illustrative scenarios for FY2027 only. Weak harvest: agriculture contracts by 5 percent, as in FY2025, instead of growing by about 3 percent. Corridor disruption: services contract by 1.5 percent, as in FY2026, instead of growing by about 3 percent. Additional returns: 1 million more returnees (about 1.9 percent of the population), with output rising by 0.44 percent for each 1 percent of population, the FY2025 ratio. Upside: real exports grow by 14 percent instead of 4 percent. Sector weights are FY2026 shares of GDP.

02 Special Focus on Water for Recovery and Sustainability

A GROWING WATER CRISIS

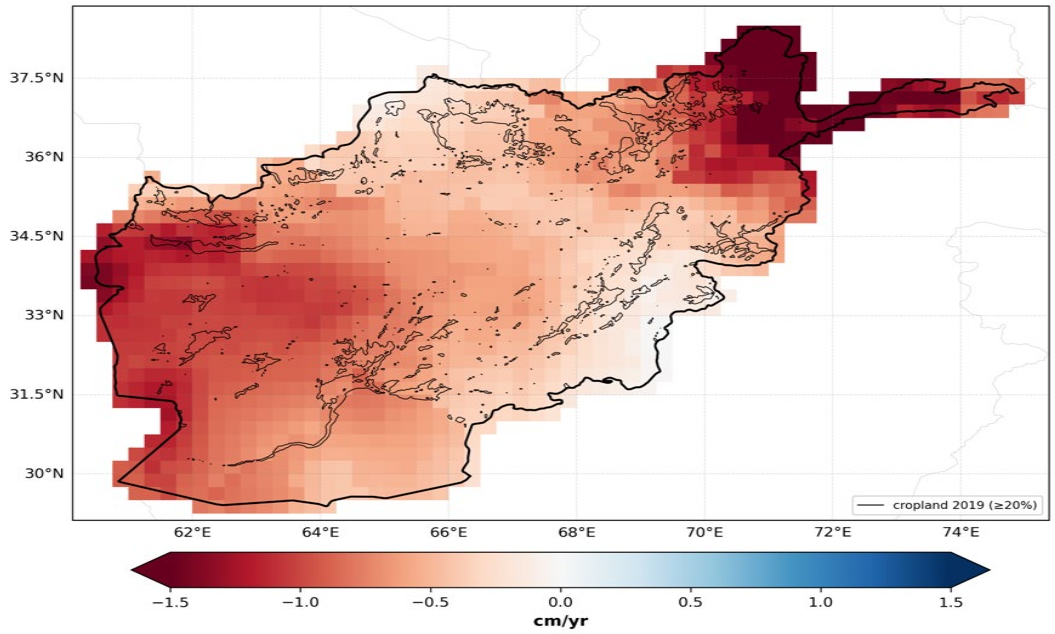
AFGHANISTAN'S FRESHWATER RESERVES ARE SHRINKING

Afghanistan is becoming increasingly dry, drawing down its freshwater reserves. These reserves known as terrestrial water storage include all water stored above and below ground: in groundwater, rivers, lakes, reservoirs, soil, vegetation, snow, and glaciers. The GRACE satellite mission and its successor, GRACE Follow-On, track changes in these reserves by measuring small changes in Earth's gravity as water accumulates or disappears. Building on the satellite observations used in Continental Drying: A Threat to Our Common Future (Zhang et al., 2025), the updated analysis estimates that Afghanistan is losing about 4.9 billion cubic meters of freshwater annually, with cumulative losses of roughly 119 billion cubic meters since February 2003. To put this in perspective, the annual loss is equivalent to about 7.5 percent of the country's long-term average annual renewable water resources (World Bank staff calculations based on FAO AQUASTAT, 2026). Like a bank account with withdrawals exceeding deposits, Afghanistan's water reserves are being depleted, weakening its buffer against drought. The overall decline has accelerated since 2020.

Freshwater reserves are declining across all 34 provinces, with the largest losses concentrated in the northeast, west, and southwest (Figure 35). In the northeast, Badakhshan's glacier-fed systems supply the upper Panj and Amu Darya basins, where water-storage infrastructure remains limited. Rapid drying also affects Farah and Herat in the western drought corridor and Nimroz and Helmand in the southern endorheic basin. Together with Takhar, these provinces account for roughly 38 percent of national freshwater loss. The economic stakes are substantial: these areas support irrigated wheat production, planned hydropower development, and the transboundary flows on which Afghanistan's renewable freshwater resources depend.

The decline in freshwater storage likely reflects a combination of glacier mass loss, groundwater depletion, and drought-induced reductions in recharge. Although further analysis is needed to distinguish their respective contributions, the evidence of accelerating glacier retreat is clear. Between 2000 and 2020, the annual rate of glacier retreat nearly quadrupled, from 6.6 km^2 in 2000–07 to 24.3 km^2 in 2017–20. Small, low-elevation glaciers account for four-fifths of the loss; the Koh-e Baba ice fields above Bamyan and glaciers in the headwaters of the Helmand, Harirud, and Kunduz lost 28 percent of their area over two decades (Shokory and Lane, 2024). These losses have important implications for future water supply in a country where snow and glacier melt provide about 80 percent of water resources. Snow alone supplies 74 percent of the Amu Darya's flow and 77 percent of the Helmand's—two rivers that underpin much of Afghanistan's irrigation and hydropower (Shokory et al., 2023).

Figure 35: Afghanistan's terrestrial-water-storage trend, February 2003 – June 2026 (cm/yr).



Source: Zhang et al. (2025), Continental Drying: A Threat to Our Common Future, updated with GRACE/GRACE-FO data through November 2025. The satellites' native footprint of about 300 km also captures signals from across the borders — glacier loss to the north and east and groundwater depletion on the plains to the west — which further analysis would be needed to isolate.

Note: Red indicates freshwater loss; blue, gain. Every province shows a drying signal; the fastest losses lie in the northeast and west.

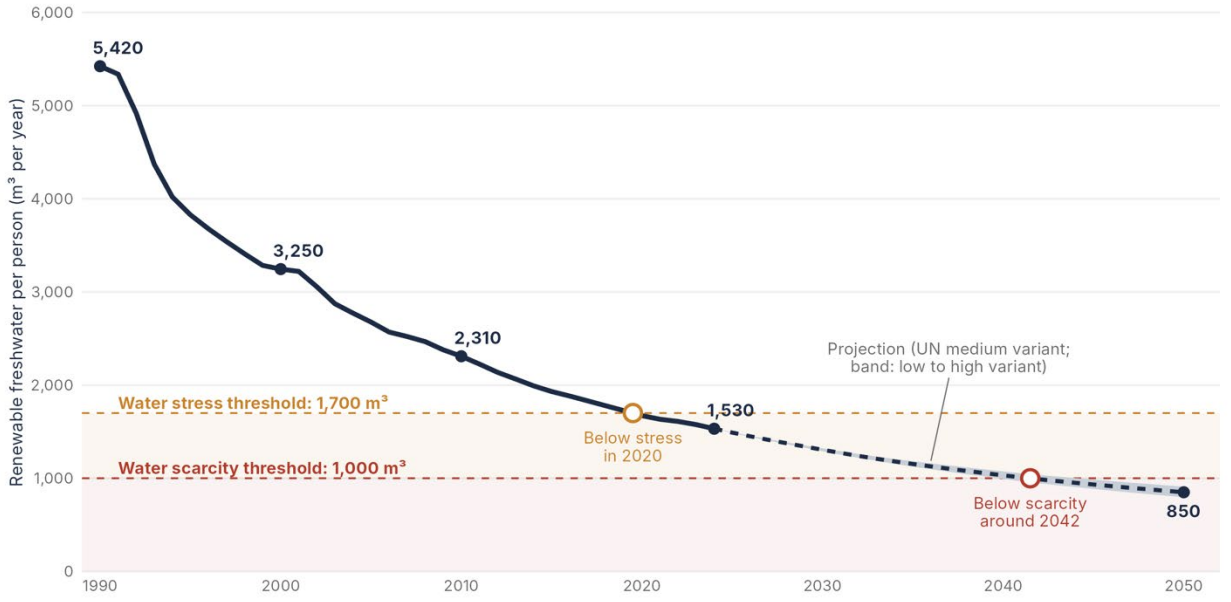
POPULATION GROWTH ADDS PRESSURE ON ALREADY SHRINKING WATER RESOURCES

Afghanistan's water resources are shrinking just as demand is rising. The population has more than doubled since 2000, from 20 million to 44 million in 2025, and is projected to grow by a further 75 percent by 2050 (UN DESA, 2024). The National Statistics and Information Authority estimates a smaller population, 36.4 million in 2025, but its series shows the same rapid growth (NSIA, 2025). Large-scale returns from Iran and Pakistan have added an immediate surge in demand to these longer-term demographic pressures. The 2025 Afghanistan Development Update estimates that between 4.0 and 4.7 million Afghans returned between late 2023 and mid-2025, with Kabul alone absorbing roughly one in ten returnees (World Bank, 2025a; World Bank estimates). Together, population growth and returnee arrivals are placing additional strain on an already constrained water supply.

As a result, water availability per person is falling sharply. Annual renewable freshwater resources declined from 5,400 cubic meters per person in 1990 to roughly 1,530 in 2024, taking Afghanistan below the Falkenmark water-stress threshold of 1,700 cubic meters around 2020 (Falkenmark et al., 1989; World Bank staff calculations based on FAO AQUASTAT, 2026, and UN DESA, 2024). If current demographic trends and declining

water endowments continue, freshwater availability per person is projected to fall below the water-scarcity threshold of 1,000 cubic meters a year by the early 2040s.

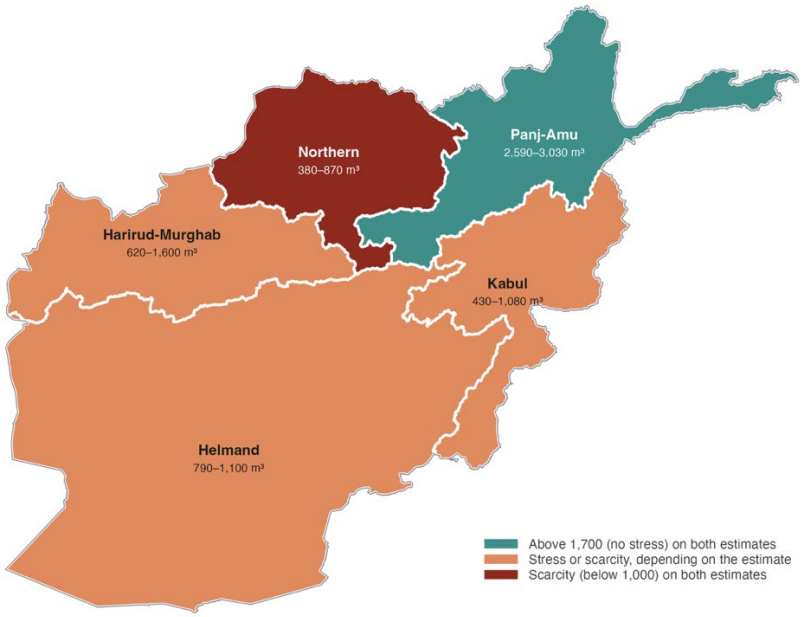
Figure 36: Per-capita renewable freshwater, 1990–2050.



Source: World Bank staff calculations. Total renewable water resources from FAO AQUASTAT (65,330 Mm^3/yr); population from UN World Population Prospects (UN DESA, 2024) and the November 2025 Afghanistan Development Update (World Bank, 2025a).
Note: Afghanistan crossed below the Falkenmark stress threshold around 2020 and is on track to approach the scarcity threshold within the next decade.
The projection holds renewable water resources fixed at their long-term average and varies only population. Because Afghanistan's freshwater reserves are shrinking (Section 1), it understates the decline; if those losses continue, the scarcity threshold will be reached sooner.

The national average conceals stark differences in water availability across river basins. Based on measured flows, annual per capita surface water availability ranges from about 3,000 cubic meters in the Panj-Amu basin to less than 400 in the Northern basin (Shokory et al., 2023). Availability is also low in the Harirud-Murghab and Helmand basins, at roughly 600 and 800 cubic meters per person, respectively, and in the Kabul basin, at about 1,100. Estimates based on modelled runoff place the Northern and Harirud-Murghab basins higher, at 900–1,600 cubic meters per person, but the Kabul basin much lower, at about 430 (Karim et al., 2024). Under either measure, every basin except the Panj-Amu is water-stressed. Measured flows are also 11–26 percent below the 1969–80 baseline in four of the five basins (Shokory et al., 2023). These statistics mean that the south, west, and north, home to nearly half the population, already face water stress, and in places scarcity.

Figure 37: Renewable surface water per person by river basin, 2024 (m^3/person/year).



Source: Renewable surface water by basin from Shokory et al. (2023), 2007–2016 means, cross-checked against FAO AQUASTAT; population from WorldPop 2025 (1 km); basins from HydroBASINS clipped to Afghanistan. Groundwater is excluded because it cannot be reliably allocated by basin.
Note: Basins below 1,000 m^3 are in scarcity; 1,000–1,700 in stress.

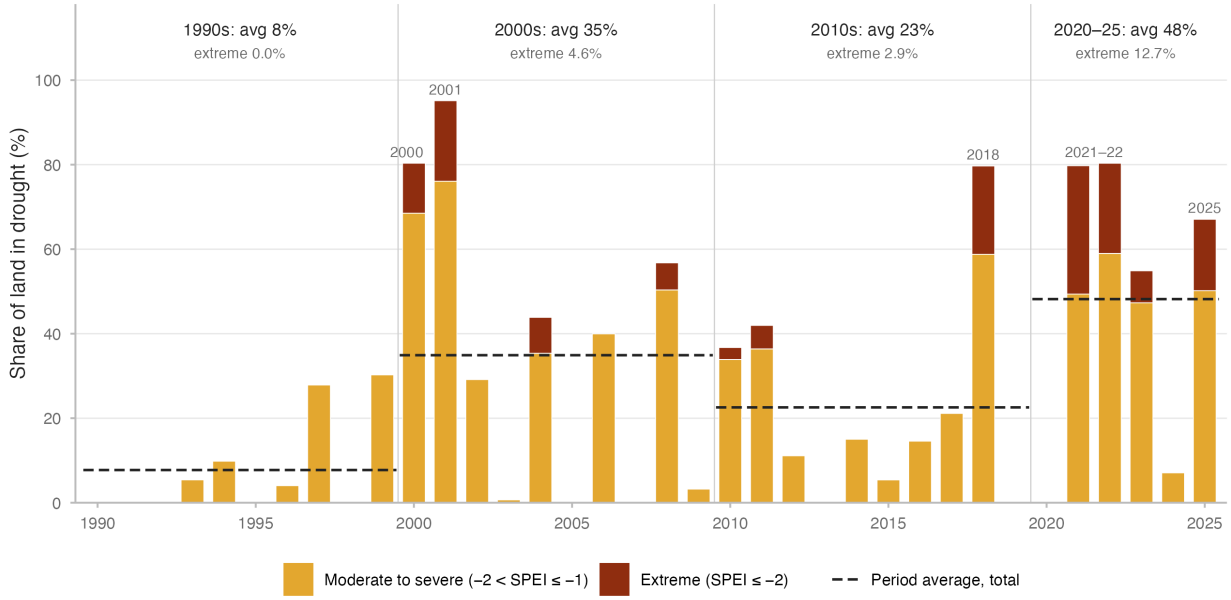
INTENSIFYING DROUGHTS AND WORSENING FLOODS DEEPEN THE CRISIS

Droughts and floods are becoming more frequent and severe, deepening Afghanistan's water crisis. The share of national territory in agricultural drought, measured by the six-month Standardized Precipitation Evapotranspiration Index (SPEI) over the growing season, rose from about 8 percent in the 1990s to roughly 48 percent in 2020–25 (Figure 38). Major droughts in 2000–01, 2008, 2018, 2021–23, and 2025 each affected more than half the country. In the worst years (2018, 2021, and 2022), about four-fifths of Afghan land was in drought, and up to 30 percent was in extreme drought. The 2024/25 drought hit 12 provinces hardest (OCHA, 2025a) and affected about 3.4 million people across the north and west (OCHA, 2025b). Floods are also lasting longer: average duration more than doubled, from 3.8 days in 2000–10 to 7.7 days in 2011–21 (Zhang and Borja-Vega, 2024). Afghanistan ranks fourth among 19 MENA-AP countries by share of population at high flood risk (Rentschler et al., 2022). Between January and August 2026, floods affected around 97,000 people in all 34 provinces (OCHA, 2026).

Droughts and floods can compound one another's impacts on the same land. Prolonged dry periods can leave soils hardened and less able to absorb water, increasing runoff and flood risk when intense rain arrives. World Bank staff estimates for Afghanistan show that, since 1990, extreme rainfall has occurred in 21 percent of drought-ending months, compared with 7 percent of months overall. This finding points to the risk of an abrupt transition from drought to heavy rainfall; it does not, by itself, establish that flooding occurred. Where drought has

reduced infiltration, however, heavy rain can heighten flood risk rather than simply relieve water shortages. Resilience investments therefore need to address both extremes: canals, reservoirs, and watershed management must help retain water during dry periods while managing excess flows during heavy rainfall.

Figure 38: Share of Afghan land in agricultural drought by year, 1990–2025.



Source: World Bank staff calculations. 6-month SPEI computed from CRU TS 4.10 precipitation and PET, standardized against the full 1901-2025 record; growing-season (April) window. Flood indicators from Rentschler et al. (2022) and Zhang and Borja-Vega (2024).

Note: The baseline of the 2020s is roughly six times that of the 1990s; the visible spikes mark the national droughts of 2000–01, 2008, 2018, 2021–22, and 2025

HOW WEAK WATER MANAGEMENT AMPLIFIES THE CRISIS

AFGHANISTAN'S WATER-MANAGEMENT CAPACITY LAGS BEHIND ITS PEERS

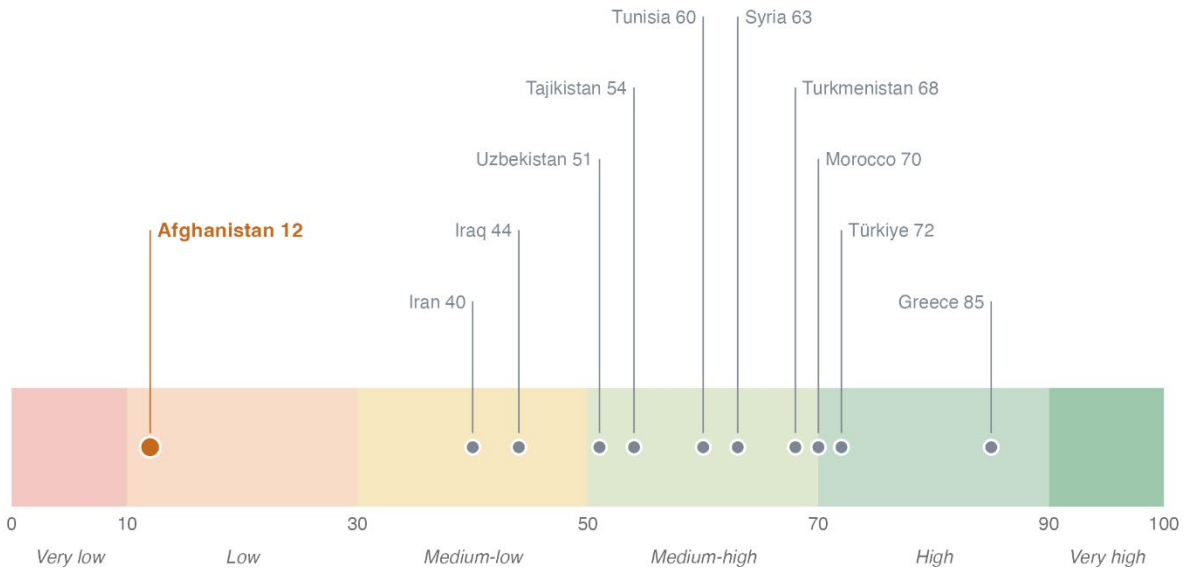
Climate and demographic pressures alone do not explain Afghanistan's water crisis. Weak water management amplifies these pressures and makes their impacts harder to absorb. Understanding the crisis therefore requires examining not only the pressures on water resources, but also how water is used and managed.

Weak Integrated Water Resources Management (IWRM) amplifies freshwater depletion. Zhang et al. (2025) show that freshwater depletion is lower in countries where IWRM is effective at balancing the competing demands for freshwater by agriculture, urban development, and replenishment of water resources. Combining more than two decades of satellite water-storage observations with the SDG 6.5.1 IWRM score, an indicator reported by UNEP that rates a country's enabling environment,

institutions, management instruments and financing on a 0 to 100 scale, they find that countries in the bottom 30 percent of the IWRM distribution lose freshwater two to three times faster than better-managed countries, all else being equal.

Afghanistan's IWRM score of 12 out of 100 places it at the bottom of its climate comparison group and in the bottom decile globally. Its score is well below Pakistan's 63 and the Central and South Asia average of 55 (Figure 39). These comparisons highlight how limited Afghanistan's water-management capacity is relative to its peers and the wider region.

Figure 39: Afghanistan on the global IWRM scale (SDG 6.5.1)



Source: World Bank staff calculations based on UN SDG Global Database (2026), indicator 6.5.1, degree of integrated water resources management implementation (custodian UNEP); latest reporting round (2020 for Afghanistan and Iran; 2023 for all other countries).

Notes: Climate peers are the ten countries of at least 50,000 km^2 closest to Afghanistan in aridity, mean temperature and winter-half precipitation share. The bottom-decile position is directly linked, in the Continental Drying analysis, to a two- to three-fold acceleration of freshwater depletion.

UNCHECKED GROUNDWATER EXTRACTION ACCELERATES FRESHWATER DEPLETION

Groundwater depletion is one channel through which weak water management amplifies climate pressures. Warming and drought put pressure on water stores and reduce recharge, while less reliable rainfall increases reliance on groundwater. Across the world's non-glaciated drying regions, groundwater accounted for about 68 percent of freshwater losses between 2003 and 2024, compared with 18 percent from surface water and 9 percent from soil moisture (Figure 40; Zhang et al., 2025). These global findings highlight the importance of groundwater management. Abstraction decisions influence how quickly aquifers are depleted. While climate conditions cannot be changed in the short run, water-use decisions can:

better policy can help curb depletion and strengthen resilience.

Figure 40: Climate pressures and human decisions drive freshwater depletion.



Source: Zhang et al. (2025), Continental Drying: A Threat to Our Common Future. Global Water Monitoring Report, World Bank.
Note: Global findings for non-glaciated areas, 2003–2024: groundwater accounts for 68 percent of losses.

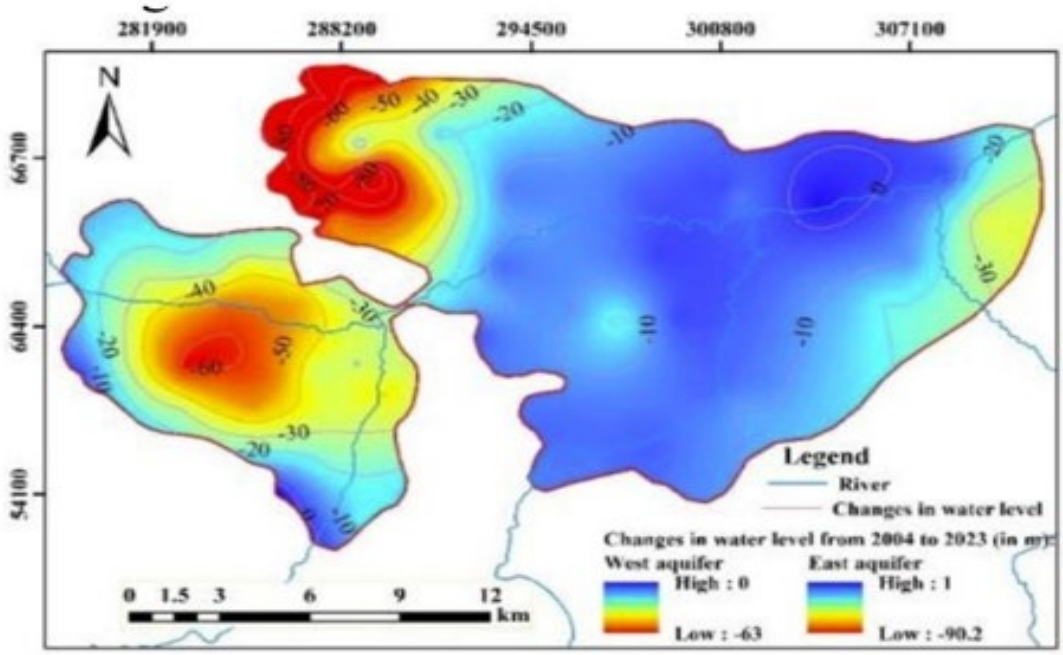
Studies show that Afghanistan's groundwater, stable until about 2012, has declined since, and the losses accelerated after 2016. By 2024, groundwater storage had fallen by about 13–16 centimeters of water across the country, a statistically significant decline in all five river basins and most significant in the Helmand and Harirud-Murghab (Nabizada and Köylü, 2026; Jawadi et al., 2024). The decline is part of Afghanistan's wider drying trend. In the south-western deserts, where solar-powered pumping has spread since 2019, farmers report the water table falling by up to 3 meters a year (Pearce, 2024). Only about one in six of the country's 1,557 monitoring wells is suitable for tracking these trends, so the true extent of depletion remains poorly measured (World Bank, 2025b).

Kabul illustrates the consequences of largely unmonitored and unregulated groundwater abstraction in Afghanistan. In Kabul, more than 120,000 unregulated boreholes draw an estimated 127 million cubic meters a year from aquifers whose natural recharge lies between 25 and 37 million cubic meters — about 33 million on the most recent projection — so that abstraction runs at nearly four times times recharge and the annual overdraft is on the order of 94 million cubic meters (World Bank, 2025b; Mercy Corps, 2025). The Ministry of Energy and Water's groundwater department estimates that about 936 million cubic meters of non-renewable groundwater were depleted from the Kabul aquifers over 19 years, an average of 49 million cubic meters a year, when abstraction was lower than today (UNOPS & 2030 WRG, 2026). Across the urban aquifers, water levels fell by about 25 meters on average between 2004 and 2023, roughly 1.3 meters a year, and by more than 80 meters in the north-western part of the city, beneath some of Kabul's densest and poorest neighborhoods (Zaryab et al., 2022; UNOPS & 2030 WRG, 2026) (Figure 41).

Rapid urbanization has further reduced Kabul's natural capacity to replenish groundwater. Expansion of roads, buildings, and other impervious surfaces has replaced

open land and agricultural areas that historically facilitated infiltration and aquifer recharge (Zaryab et al., 2022). The loss of permeable surfaces, combined with increasing groundwater abstraction, has weakened the natural recharge function of the Kabul Basin. This trend is particularly concerning because the Kabul River, which flows through the city and has historically contributed to aquifer recharge, is itself under growing pressure. Climate change has altered the basin's hydrology through rising temperatures, changing precipitation patterns, and reduced snow accumulation in surrounding mountains. Historically, higher precipitation and cooler temperatures sustained snowmelt and river flows for longer periods, supporting groundwater recharge throughout much of the year. Today, warmer conditions accelerate snowmelt, shorten the duration of seasonal flows, and reduce opportunities for aquifer recharge (Shokory et al., 2023).

Figure 41: Kabul water-level change, 2004–2023, in meters.



Source: Mapping based on Kabul municipality and USAID (2021) piezometric records; Samuel Hall (2012); JICA Kabul groundwater study series.

Note: The western and northern aquifers coincide with the densest and poorest neighborhoods, with declines of up to 60–90 meters.

WATER POLLUTION LIMITS SAFE WATER AVAILABILITY

Depletion is not the only problem: pollution also reduces the water that is safe to use. Only 6 percent of domestic wastewater in Afghanistan was safely treated in 2024. The remaining 94 percent was discharged untreated or inadequately treated, creating risks for rivers and shallow aquifers (UN-Water, 2020). The most recent national water-quality test, in the 2019–20 Income and Expenditure and Labour Force Survey, found

E. coli in 82 percent of household drinking water at the point of consumption and in 67 percent of source water (NSIA, 2021). In Kabul, where roughly 80 percent of residents use pit latrines that seep into shallow aquifers, as much as 80 percent of groundwater is reportedly contaminated with sewage, nitrates, and arsenic (Mercy Corps, 2025). Pollution removes water from safe use even when the water table does not fall. It increases illness, reduces productive time, and raises treatment and alternative-supply costs, weakening the returns on water-supply investment and adding to the health burden discussed in Part 3.

LIMITED STORAGE, IRRIGATION AND INEFFICIENT AGRICULTURAL WATER USE HEIGHTEN AFGHANISTAN'S CLIMATE VULNERABILITY

Afghanistan has one of the lowest water storage capacities in the world. Installed storage is about 48 cubic meters per person, half the level of 2000, because total capacity has stayed near 2 billion cubic meters while the population has doubled (FAO AQUASTAT, 2026; World Bank, 2025c). Central Asia stores about 2,000 cubic meters per person, roughly forty times as much, and even Pakistan stores more than twice as much per person. Severe sedimentation of existing dams and the long disrepair of medium-scale reservoirs mean that the country can capture no more than a quarter of its surface water potential. With so little capacity to store water in wet years, Afghanistan faces a sharpening seasonal flood-and-drought cycle on the same land, accelerating groundwater depletion where surface water is unavailable or unreliable, and food and economic insecurity when shocks cannot be buffered. The same shortage also caps hydropower output, so it affects energy security as well as drought resilience.

Irrigation plays a critical role in supporting water supply during dry years. During 2024-25 droughts, irrigated land produced a record 4.8 million tons of wheat, about 98 percent of the harvest, while rainfed output collapsed to 85,000 tons, about 12 percent of its potential (World Bank, 2025a). However, irrigation potential is not fully achieved. Afghanistan has about 3.2–3.5 million hectares of land equipped for irrigation (FAO land cover 1993, 2010 and 2024–25), but only around 2.1 million hectares are actually irrigated in a normal year (NSIA, 2025) and as little as 1.5 million in drought years, against 2.5 million in years of record snowpack (USGS, 2000–2013). Roughly a third of the irrigable stock therefore lies idle each year, and up to half when the snow fails, because intakes, canals and karezes are damaged or water no longer reaches the tail end of the system. At the same time the mix is shifting from canal-fed to groundwater-fed land: solar-powered pumping has brought large areas of former desert in the south-west under cultivation since 2014, adding irrigated area while drawing down aquifers. The binding constraint is maintenance, not only hydrology.

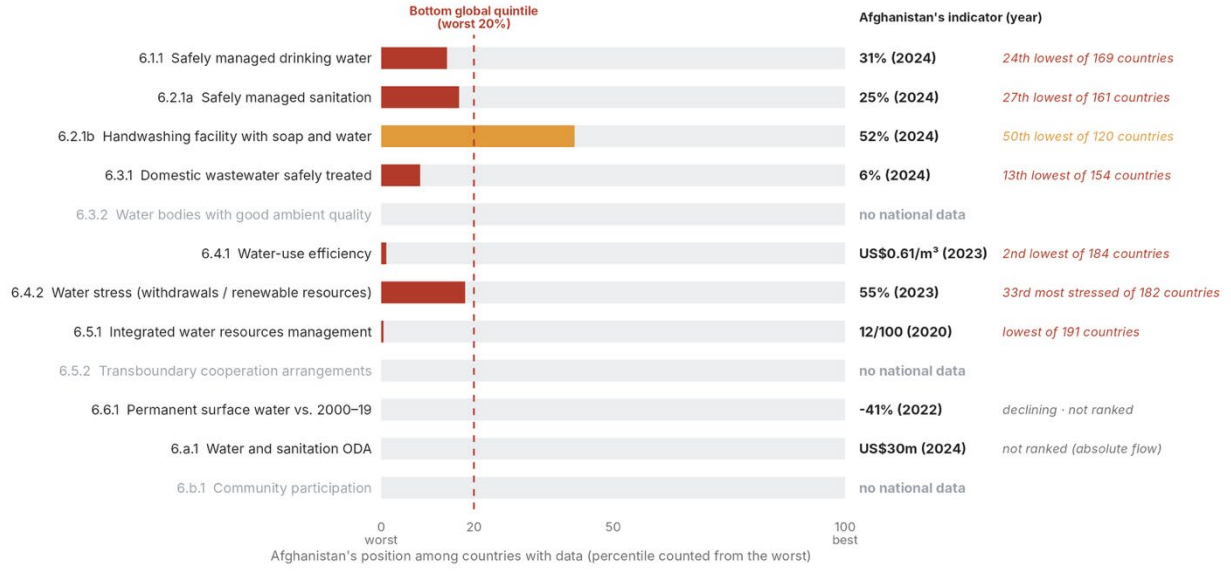
About 95 percent of the water withdrawn in Afghanistan goes to irrigation, yet much of it is used inefficiently. Roughly 76.5 percent of irrigated output is produced with more water per ton than the median producer in comparable climate zones, meaning that it

consumes more water per ton than at least half of global producers using the same technology in the same climate zone (Zhang et al., 2025). This is a legacy of flood irrigation, unlined canals, and the absence of scheduling or metering. Bringing Afghan farms to the median benchmark would save an estimated 2,944 million cubic meters a year on irrigated crops, and close to 3,963 million once rainfed systems are included (World Bank staff estimates). Efficiency gains alone do not guarantee savings, however. Without proper regulation, they may encourage expanded agricultural activity or the adoption of more water-intensive crops, ultimately intensifying water use and depletion. Efficiency upgrades therefore need to be paired with allocation rules and groundwater regulation.

ACCESS TO SAFELY MANAGED WATER, SANITATION, AND HYGIENE REMAINS LIMITED

In 2024, 81 percent of Afghans used at least basic drinking water, but only 31 percent had safely managed drinking water. Sanitation and hygiene fare no better: only 55 percent had basic sanitation, 11 percent still practiced open defecation (15 percent in rural areas), and nearly half lacked a handwashing facility with soap and water at home (WHO and UNICEF, 2025). Every SDG 6 water indicator is off track (Figure 42). Handwashing facilities, at 49 percent, come closest to the 2030 universal target, but even this relative bright spot is stagnant. The remaining indicators sit in the worst-performing global tier, showing how far essential services remain from meeting household needs.

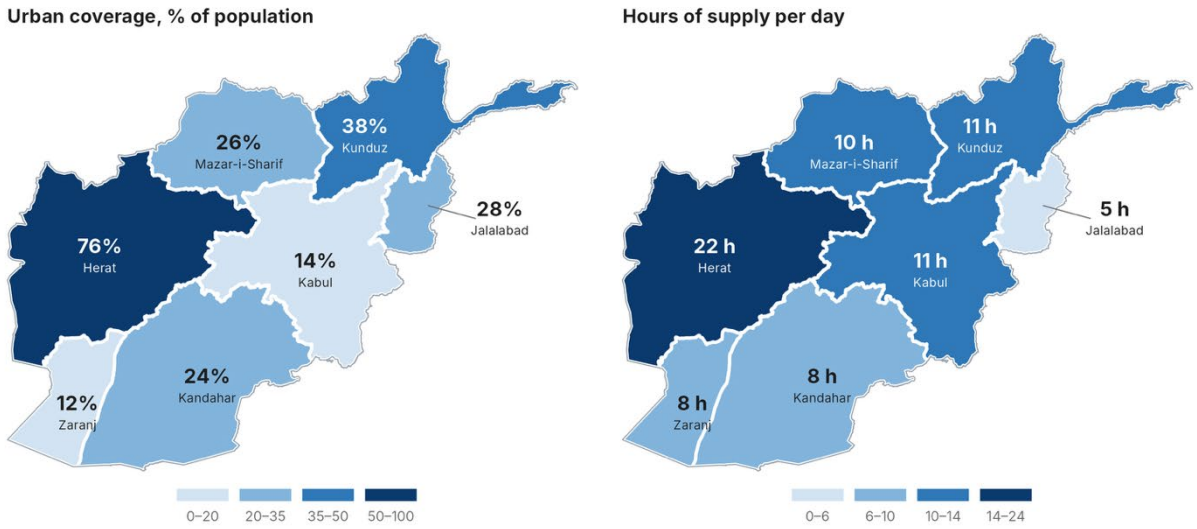
Figure 42: Progress against 8 SDG 6 indicators for Afghanistan (percentile among reporting countries (0 = worst)).



Source: World Bank staff calculations based on UN SDG Global Database (2026).
Note: Afghanistan ranks in the bottom fifth of countries on six of the seven SDG 6 indicators that can be compared internationally.

Having a water connection does not mean having reliable water. Operational reports of the Afghanistan Urban Water Supply and Sewerage Corporation (AUWSSC) for its seven service zones show that hours of water supply range from 5 to 22 a day. In four of the seven zones, water flows for 10 hours a day or less (AUWSSC, 2018–2020). Coverage also varies significantly, from 12 percent of the population in Zaranj to 76 percent in Herat (Figure 2.5). Herat — high coverage and near-continuous supply — is the exception that shows what a functioning utility looks like. In contrast, Jalalabad serves about 28 percent of its population for 5 hours a day, and Kabul 14 percent for 11 hours. Nationally, the utility serves less than 20 percent of residents in major cities, and in 2019 it reported that roughly 60 percent of its water systems were non-functional or had dried up (World Bank, 2025c; UNOPS & 2030 WRG, 2026). Intermittent supply pushes households back to private wells and vendors, which contributes to the overdraft of Kabul's aquifer.

Figure 43: Urban water coverage and hours of supply per day by AUWSSC zone, FY1397 (2018).



Source: AUWSSC annual reports (Dari), auwssc.gov.af: FY1397 (2018) operations edition; FY1398 (2019) and FY1399 (2020) achievement reports.
Note: Values describe the piped networks in each zone's provincial capitals, not rural areas. These detailed zone-level observations provide a historical baseline, not a measure of today's service conditions.

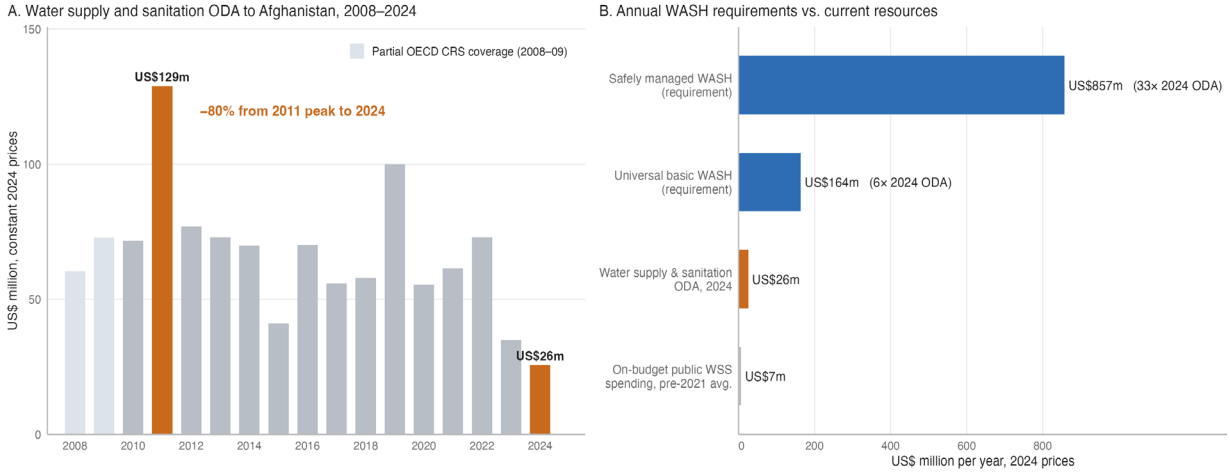
A WIDENING FINANCING GAP LEAVES WASH NEEDS LARGELY UNFUNDED

Service gaps are compounded by a financing shortfall that has widened as climate and demographic pressures intensify. Under the current operating environment, official development assistance (ODA) is the main channel for investment in and maintenance of water supply and sanitation, and it has contracted sharply: from US$129 million at its 2011 peak to US$26 million in 2024 (constant 2024 dollars), an 80 percent decline, steeper than the 72 percent fall in aid overall. ODA has more than halved since 2021 alone, from US$61 million (OECD, 2026a, 2026b). Public resources offer little offset. On-budget capital expenditure is projected at just 1.7 percent of GDP in FY2025,

up marginally from 1.6 percent in 2024 but far below the 9.5–10.4 percent spent in 2018–2020, which leaves scant room for public investment in water infrastructure (World Bank, 2025a).

Achieving universal basic water, sanitation, and hygiene services in Afghanistan would require US$130 million per year (0.7 percent of GDP), and safely managed services would require US$683 million per year (3.6 percent of GDP), in 2017 constant dollars (Joseph et al., 2024). Against these needs, on-budget public spending on water supply and sanitation averaged only about US$5.4 million a year before 2021 (constant 2017 USD), roughly 4 percent of the requirement for basic services and less than 1 percent of that for safely managed services (Figure 2.6). In 2024 prices, the requirements are roughly US$164 million and US$857 million per year, or 6 and 33 times the US$26 million in water supply and sanitation ODA that Afghanistan received in 2024. These estimates are indicative, since the requirements come from a global costing model and no Afghan budget data are available after 2021. Even so, the order of magnitude is clear: no reallocation of existing resources can close gaps of this size, and with inadequate services and shrinking external support, households bear the consequences of the shortfall.

Figure 44: WASH needs dwarf both aid and public spending



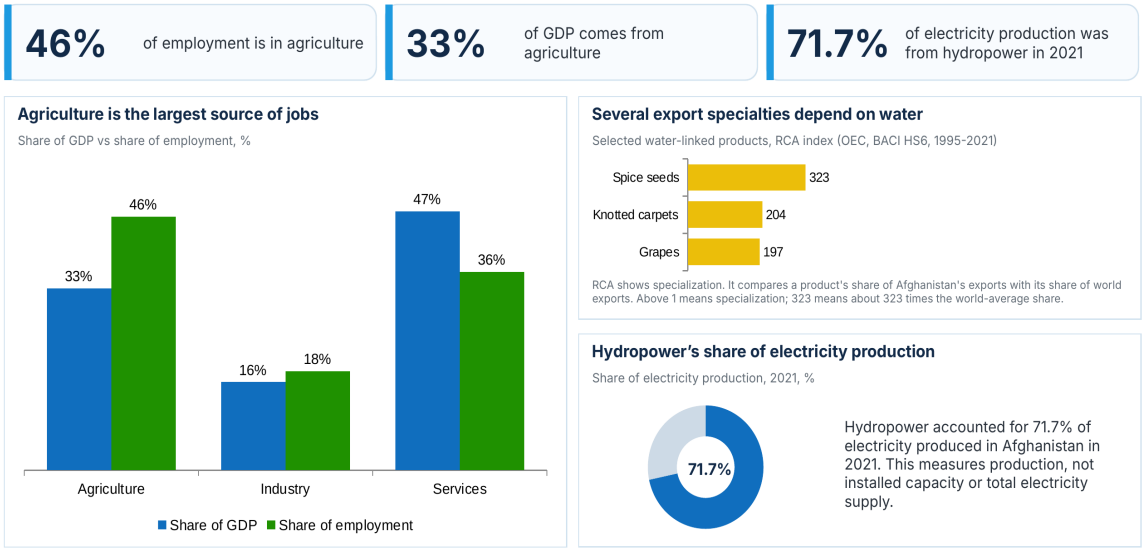
Source: World Bank calculations using OECD (2026a), Creditor Reporting System; Joseph et al. (2024), Funding a Water-Secure Future (World Bank).
Notes: Panel A shows gross ODA disbursements to Afghanistan for water supply and sanitation (OECD CRS sector 140), in constant 2024 US dollars. In 2008–09 the CRS project data do not yet cover almost all of Afghanistan's total ODA, so those two years (shown lighter) are not fully comparable with 2010 onward. On Panel B, the needs and the spending figure come from Joseph et al. (2024), and the spending figure is the 2009–2020 average from BOOST public expenditure data. Joseph et al. report in 2017 US dollars, so these values were converted to 2024 prices with the US GDP deflator.

THE COST OF THE WATER CRISIS

WATER UNDERPINS AFGHANISTAN'S ECONOMY AND JOBS

Water is the foundation of Afghanistan's economic growth, jobs, and livelihoods, so shortages do not stay confined to the water sector. They reach farms, exporters, and power generation at the same time. Agriculture is the country's largest source of jobs, employing 46 percent of the workforce and generating 33 percent of GDP, and it accounts for more than 95 percent of water withdrawals (World Bank, 2026c). Because most rural households earn their living from irrigated and rain-fed farming, the reliability of water largely determines how much they produce, earn, and spend, and the growth that follows. Energy depends on water as well: hydropower is the backbone of domestic electricity generation (Danish et al., 2017), and hydropower supplied 71.7 percent of the electricity produced domestically in 2021 (World Bank, 2026c). Water also supports the export base. Specialty exports such as spice seeds, carpets, and grapes are sensitive to water availability, which links the water supply to trade earnings and to the livelihoods of the producers and suppliers behind them (OEC, 2025). When water falls short, losses therefore spread from farm output to jobs, incomes, power, and exports. Securing water is thus a condition for sustaining growth and employment, not only a sectoral goal.

Figure 45: Sectoral shares of GDP and employment, water-linked export specialties, and hydropower's share of electricity production



Source: World Bank CLEAR Water Dashboard (sectoral composition); Observatory of Economic Complexity, BACI HS6 (exports, 1995–2021); electricity production from hydroelectric sources, 2021.

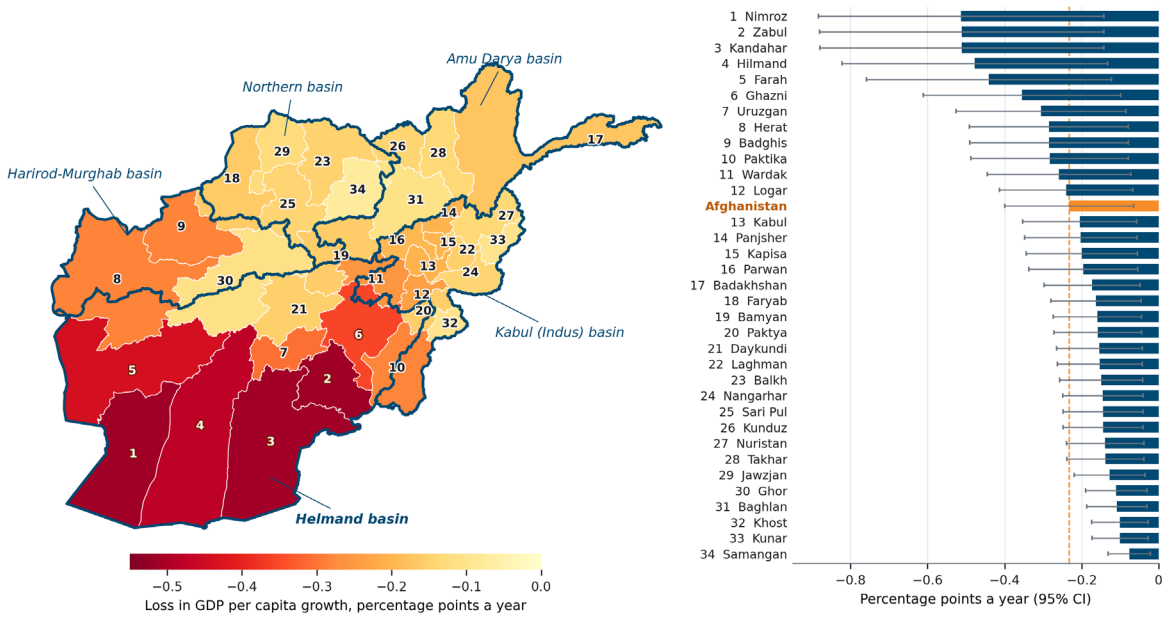
The effect of water shortages on economic growth is measurable. Linking drought episodes to GDP per capita growth, we estimate that drought reduced Afghanistan's

annual per capita growth rate by an average of 0.23 percentage points over 1994–2024 (see Annex X for details). In the severe droughts of 2000, 2001, 2018, and 2021, the estimated loss reached 0.7–0.9 percentage points. These losses are large relative to Afghanistan's growth: over 2003–2023, the average annual loss of 0.20 percentage points was equivalent to about 28 percent of average GDP per capita growth of 0.7 percent.

The impact of droughts on growth varies significantly across provinces, ranging from 0.08 points a year in Samangan to about 0.50 in Nimroz, Zabul, and Kandahar (Figure 3.2). Kandahar, Helmand, Herat, and Zabul—major crop-producing provinces—together account for 38 percent of the national loss. At the basin level, the Helmand basin has the largest estimated loss, averaging 0.41 percentage points a year and accounting for nearly half of the national total.

Because drought lowers the growth rate rather than only output in a single year, its effects can compound into substantial economic losses over time. Water shortages work through several channels: they reduce crop and livestock output, constrain hydropower generation, and interrupt manufacturing when water and electricity are scarce. Earlier research points the same way, finding that a single dry shock can depress growth for several years in poor, agriculture-dependent economies, with the poorest regions hit hardest (Damania et al., 2017).

Figure 46: Estimated loss in GDP per capita growth PPP from droughts, by province, Afghanistan, 1994–2024 (percentage points a year)



Source: World Bank staff calculations. The estimate comes from a panel of 70 low and lower-middle income countries over 1981–2023, which relates annual growth in GDP per capita (IMF World Economic Outlook, PPP) to the share of each country's cropland in drought.

WATER INSECURITY HARMS HEALTH AND EDUCATION, ESPECIALLY FOR WOMEN AND GIRLS

Unsafe water and sanitation add to repeated illness and malnutrition, with children and women and girls most vulnerable. Nearly 45 percent of Afghan children under five were stunted in 2022–23, including 21.7 percent severely stunted (UNICEF, 2024). On comparable UNICEF/WHO/World Bank estimates for 2024, this is the tenth-highest rate among 162 countries and the highest in South Asia (UNICEF, WHO, and World Bank, 2025). Preliminary results from the 2025 Afghanistan Health Survey put the rate at 42.8 percent, a modest decline that still leaves Afghanistan with one of the highest stunting rates in the region (KIT, 2025). The burden is unevenly distributed. Child stunting ranges from about 31 percent in Balkh to 67 percent in Ghor and 66 percent in Urozgan, and is 26 percentage points higher among children in the poorest households than in the richest (UNICEF, 2024; World Bank staff calculations).

Stunting is primarily a nutritional outcome, but access to water and sanitation matters. Repeated diarrhea and environmental enteric dysfunction, a gut condition caused by chronic exposure to fecal pathogens, impair children's ability to absorb nutrients, one pathway through which unsafe water and sanitation contribute to stunting (Humphrey, 2009; Budge et al., 2019).

Health surveillance data show this pathway operating in real time. Acute watery diarrhea (AWD) among children follows a pronounced seasonal cycle that peaks with summer heat and water scarcity: four-year monthly averages (2022–25) rise from roughly 170,000 cases in January to 485,000 in August. Admissions for severe acute malnutrition track the same curve almost exactly, climbing from about 44,000 to 68,000 over the same months, which is what repeated infection and impaired nutrient absorption would produce. The 2026 series show both indicators rising in parallel through July. Household-level data from the 2025 Afghanistan Health Survey and the 2026 Whole of Afghanistan Assessment point to the exposures behind these trends: two-thirds of caregivers report not washing their hands, 47 percent of households are water insecure (58 percent among drought-affected households), and 38 percent report unacceptable water quality from their main source (45 percent where drought has struck). These exposures also help explain the uneven geography of stunting described above. The 34 polio high-risk districts of the south and southwest overlap with the areas of lowest WASH coverage and highest malnutrition risk, while the 82 districts certified open-defecation-free lie largely in the center and north.

The costs extend beyond output. Unsafe water, sanitation, and hygiene impose a human toll and a recurring charge on public, donor, and household budgets. Unsafe water, sanitation and hygiene cause an estimated 7,100 deaths a year in Afghanistan — the WHO mortality rate of 16.6 per 100,000 attributed to unsafe WASH services in 2019, applied to today's population — and roughly 374,000 years of healthy life lost, most of them among children under five. The morbidity behind these deaths is extensive: in the 2022–23 Multiple Indicator Cluster Survey, 38 percent

of children under five had suffered diarrhea in the preceding two weeks, a share that rises to 46 percent in households practicing open defecation and to 42 percent in the poorest quintile (UNICEF, 2024; World Bank staff calculations). The acute watery diarrhea outbreaks of 2024 and 2025, with 175,000 and 165,000 dehydrating cases respectively, more than half of them in children under five, show that this burden is growing as groundwater quality and service reliability deteriorate (WHO, 2024; MoPH, 2025).

The burden of unsafe water also costs time, and women and girls bear most of it. Close to half of Afghans have no drinking water on their premises, and in 60 percent of those households a woman or girl usually collects it. Women who haul water spend an average of 10 hours a week on it, and children 11 to 12 hours (World Bank staff calculations based on UNICEF, 2024), time that is lost to study and productive work. The task also carries risks to personal safety: in nine provinces (Badghis, Baghlan, Ghazni, Herat, Jawzjan, Kunduz, Nuristan, Takhar, and Zabul), more than a quarter of women and girls reported feeling unsafe using water points or latrines in the 2023 Whole of Afghanistan Assessment, a level humanitarian standards classify as "catastrophic" (OCHA, 2023). Education suffers as a result. Water collection, illness and inadequate WASH facilities in schools make attendance and learning harder, especially for girls. In 2021, 3.5 million children were out of school, 75% of them girls.

Over a lifetime, these burdens add up to a human-capital shortfall that hinders Afghanistan's growth prospects. On the World Bank's Human Capital Index Plus, Afghanistan scores 80 out of a possible 325, the lowest of 161 countries, and has the widest gender gap in the world (41 for women versus 121 for men). The gap is driven by schooling and work rather than just health: girls can expect about 2.6 years of schooling against 5.9 for boys, and only about one in five young women participates in the labor force (World Bank, 2026d). It persists into adulthood, with female-headed households earning around a third of what male-headed households earn (US$51 versus US$147 a month). Unsafe water and sanitation are not the only cause of these outcomes, but through repeated illness, stunting, hours spent hauling water, and lost school days, they are among the most direct and most preventable.

THE FISCAL COST OF POOR WASH ACCESS

Poor WASH imposes a recurring charge on public, donor, and household budgets. Households without piped water often pay far more for alternative sources (Box 3.1), and the illness that unsafe WASH causes adds further costs. Afghan data place the annual economic cost of WASH-related disease at up to US$630 million, or 3.5 percent of GDP (Table 3.1). Half of the total is the welfare value of premature death and disability. The remainder is the cost of treating some 31 million attributable diarrhea episodes a year, responding to outbreaks, and the caregiver and patient time that these illnesses consume.

Treatment in public- and donor-financed facilities, together with outbreak response,

costs about US$144 million a year, or 0.8 percent of GDP, roughly a quarter of all ITA and donor health spending combined. Because domestic public health expenditure has fallen to US$1–3 per person since 2021, this cost does not appear as a line in the national budget. Instead, it is absorbed by the donor-financed primary care system, where it crowds out other services. Households bear a further US$81 million in out-of-pocket spending on drugs, transport, and private care.

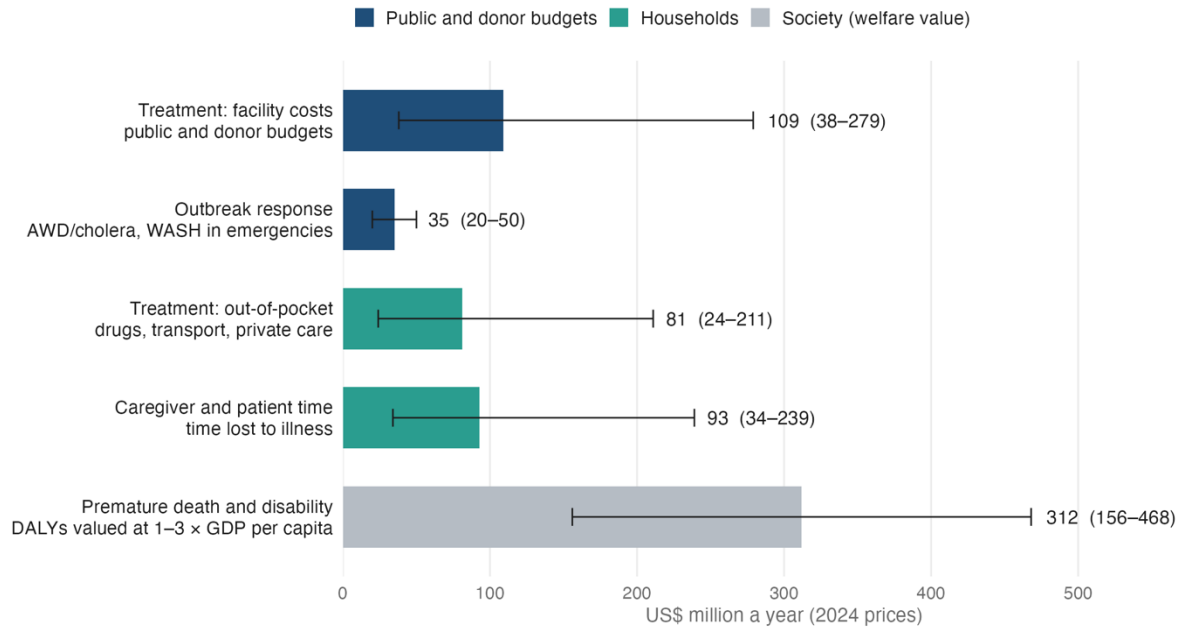
The investment case is therefore clear. The avoidable fiscal cost of water-related , 0.8 percent of GDP, is of the same order as the cost of closing the basic service gap, estimated at 0.7 percent of GDP a year (Joseph et al., 2024). The literature also finds returns of two to five dollars for every dollar invested in water and sanitation in South Asia, before human-capital benefits are counted. Reducing the burden will require safely managed services rather than basic access, targeted first at children under five, the poorest households, households practicing open defecation, and the provinces where outbreaks have concentrated: Kabul, Paktya, Farah, Paktika, and Nimroz (WHO, 2024).

Box 3: Kabul's Water Ladder: the poorest pay the most

Kabul's water supply is a fragmented and unequal system. The public utility reaches only 14 percent of the city's population, down from 21 percent in 2016, against 76 percent in Herat, and supplies water for about 11 hours a day where its network functions (AUWSSC, 2018–2020). Its tariff is low, historically AFN 25–35 per cubic meter (UNOPS and 2030 WRG, 2026), but service in poor neighborhoods averages about 20 liters per person a day, delivered for one to two hours every one to two weeks, through ageing networks that include leak-prone asbestos-cement pipes. Private piped networks serve around 10 percent of residents at minimum tariffs of AFN 35–90 per cubic meter, varying with pumping costs and terrain, and generally supply water more reliably (UNOPS and 2030 WRG, 2026). Most other households rely on private wells. Those that cannot afford to drill, or that live where groundwater is saline or drilling is difficult, buy water from tankers at around AFN 500 per cubic meter. For drinking, many residents buy purified groundwater sold from small tanks on three-wheeled vehicles (zaranj) at about AFN 1 per liter.

The result is a water ladder on which each step up is more expensive and the poorest households often buy at the top. Tanker water costs roughly 15 to 20 times the public tariff, and purified drinking water up to 40 times. Households in Kabul's informal settlements spend 15 to 30 percent of their income on water, six to ten times the usual affordability benchmark of 3 to 5 percent, and more than two-thirds of the city's households have taken on debt to pay for it (UNOPS and 2030 WRG, 2026; Mercy Corps, 2025).

Figure 47: Annual cost of water-related disease by component with low–high ranges in Afghanistan, 2023.



Source: World Bank staff estimates; WHO Global Health Expenditure Database via WDI.

Table 2. Annual cost of WASH-attributable disease, US$ million (2024 prices)

Component	US$ million (range)	Who bears it
Treatment — facility costs (BPHS/EPHS, hospitals)	109 (38-279)	Donor-financed health system; fiscal
Outbreak response (AWD/cholera, WASH-in-emergency)	35 (20-50)	Humanitarian appeals; quasi-fiscal
Treatment — out-of-pocket (drugs, transport, private care)	81 (24-211)	Households
Caregiver and patient time	93 (34-239)	Households; economy
Premature death and disability (DALYs × 1–3 GDP p.c.)	312 (156-468)	Society (welfare value)
Total	630 (272-1,247)	1.5% / 3.5% of GDP
of which fiscal and quasi-fiscal (rows 1–2)	144 (58-329)	0.3% / 0.8% of GDP

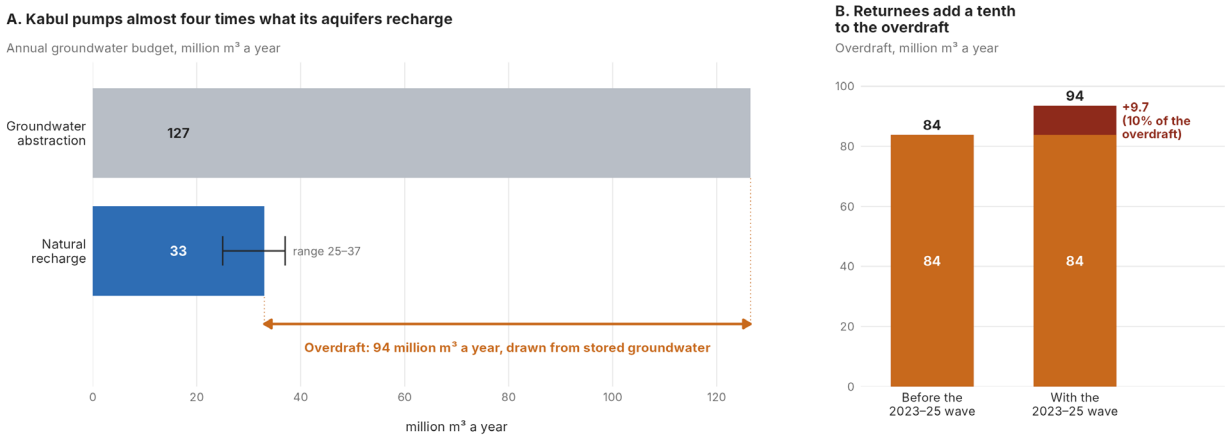
Source: World Bank staff estimates based on WHO (2023), WHO/UNICEF JMP (2024), MICS 2022–23, WHO EMRO outbreak surveillance (2024–25), WHO Global Health Expenditure Database and WHO-CHOICE unit costs; unit costs and care-seeking rates are transferred from the South Asia literature; low and high cases combine all parameters at their low or high values; 69 percent of diarrhea attributed to unsafe WASH (WHO 2023).

WATER STRESS CAN COMPOUND GRIEVANCES AND INSTABILITY

Water stress can also deepen grievances and raise the risk of local instability. Kabul's groundwater was already being depleted before the recent returnee wave, in which 4.0 to 4.7 million Afghans returned from Iran and Pakistan between late 2023 and mid-2025 (World Bank, 2025a). We estimate that the additional demand from returnees has increased Kabul's annual groundwater overdraft by almost 12 percent, from roughly 84 to 94 million cubic meters (World Bank staff estimates) (Figure 48).

As wells run dry and water becomes more expensive, both host communities and returning families face greater hardship. Many Kabul families now spend 15 to 30 percent of their monthly income on water, up from about 5 percent before 2021, and 68 percent have taken on water-related debt (Mercy Corps, 2025). Unequal access could intensify competition and erode trust, and where disputes remain unresolved, they could add to existing tensions. This makes fair access to water and support for affected communities important for both water security and social stability.

Figure 48: Kabul's groundwater overdraft and the returnee contribution



Source: World Bank staff estimates. The numbers are estimates not direct before-and-after measurements. Abstraction is estimated from per capita use of about 55 liters a day from AUWSSC (2018–2020), based on 2018 Kabul production, plus commercial and other uses; recharge range of 25–37 Mm^3 a year from World Bank (2025b), with 33 Mm^3 a year adopted from the JICA projection for 2025 cited there; returnee numbers from World Bank (2025a), with Kabul's share (about one in ten) from World Bank staff estimates.

WATER INSECURITY WEAKENS URBAN RESILIENCE

Groundwater depletion is also a long-term urban-resilience issue because it contributes to land subsidence. Satellite radar measurements for 2014–2019 identified four subsidence bowls, each over a separate Kabul aquifer basin, with a maximum rate of 5.3 centimeters a year in the Upper Kabul basin. The authors attribute the sinking to groundwater over-extraction acting on compressible clay soils (Meldebekova et al., 2020). As land settles, buildings, roads, and water pipelines can be damaged. Compaction

of clay layers is largely irreversible and permanently reduces the aquifer's capacity to store water. Kabul's location near the Chaman–Paghman fault system adds a further concern: uneven settlement may increase the vulnerability of buildings and infrastructure to earthquakes, although this interaction has not yet been studied. Over-extraction therefore weakens resilience on several fronts and complicates disaster-risk management in Afghanistan's largest city.

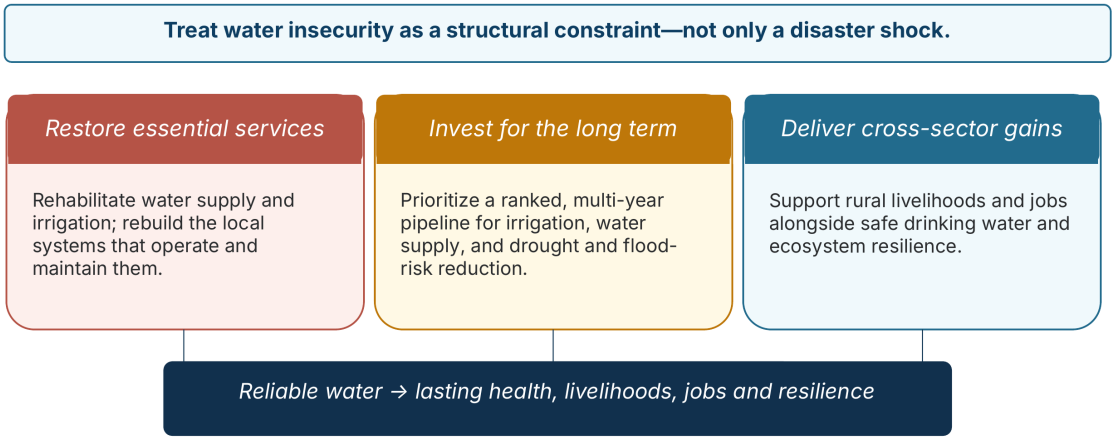
WHAT CAN BE DONE?

FROM CRISIS TO SUSTAINABLE RECOVERY

The central shift is to treat water as a foundation for recovery rather than an input delivered only during emergencies (Figure 49). Reliable water supports health and daily life, farming and jobs, and the ability to withstand the next drought or flood. The recovery agenda follows three principles: restore essential services where climate pressure and weak management compound; invest for the long term, including stronger institutional coordination; and scale solutions that deliver gains across sectors. Addressing climate pressure alone leaves management gaps unchecked; addressing management alone leaves the physical resource base under pressure. With public-sector delivery constrained, NGOs, UN agencies, and private operators provide practical channels for turning these principles into results.

In the near term, the priority is to restore essential water supply and irrigation services and the local capacity to operate and maintain them. This means rehabilitating assets and supporting the mirabs, water-user associations, and AUWSSC's urban utility zones that keep them working. Over time, a ranked, multi-year pipeline for water supply, irrigation, and drought- and flood-risk reduction can connect immediate improvements to durable systems. A pipeline allows projects to be prepared in the right sequence rather than selected only when a crisis or funding opportunity appears, so that each year's financing builds on the last. The objective is lasting gains in health, rural livelihoods, jobs, and ecosystem resilience—not simply the delivery of more infrastructure.

Figure 49: Water as a foundation for Afghanistan's recovery: restore essential services, invest for the long term, deliver cross-sector gains.

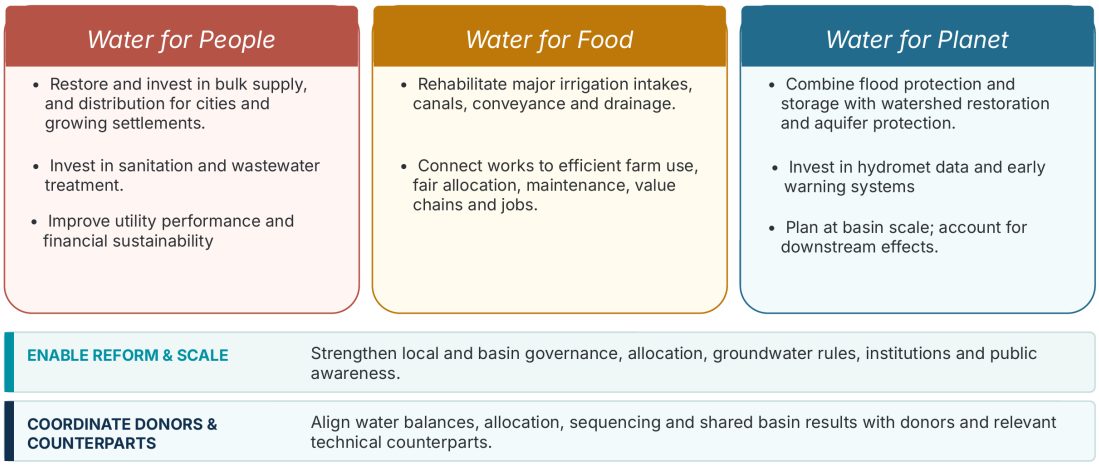


Source: World Bank Group staff

Organizing essential investment and policies

The agenda has three integrated priorities (Figure 50). Water for People restores and extends reliable bulk supply and distribution for cities and growing settlements, alongside sanitation and wastewater treatment. It also improves utility performance and financial sustainability, because new assets alone do not guarantee continuous or safe service. Water for Food rehabilitates major irrigation intakes, canals, conveyance, and drainage, connecting the works to fair allocation, maintenance, efficient farm use, agricultural value chains, and jobs. The objective is not just to move more water, but to support more resilient livelihoods with the water available. Water for Planet combines flood protection and storage with watershed restoration, aquifer protection, hydrometeorological data, and early warning. Basin-scale planning accounts for downstream effects. Two cross-cutting themes support all three priorities: enabling reform and scale through stronger local and basin governance, allocation rules, groundwater regulation, institutions, and public awareness; and coordinating donors and technical counterparts around shared evidence, water balances, sequencing, and basin-level results. The following sub-sections examine prioritization, coordination, and scalability.

Figure 50: Three integrated recovery priorities and two cross-cutting themes — enable reform and scale; coordinate donors and counterparts.



Source: World Bank Group staff, World Bank (2026b) Water Forward.

Restoring essential services should follow a clear sequence: prioritizing underserved areas, maximizing the performance of existing infrastructure through rehabilitation, operations and maintenance, and leakage reduction, replacing aging and unsafe asbestos pipes, protecting and restoring water sources and only then investing in new infrastructure where service gaps cannot be addressed through existing systems.

A further priority is the completion of strategic water infrastructure investments that were initiated before August 2021 and subsequently suspended. In many cases, substantial financial and technical resources have already been invested, and some projects had reached advanced stages of construction before being halted. For example, under the KfW-funded MTP1 project, Lot 1 was approximately 67 percent complete, Lot 2 was approximately 71 percent complete, and Lot 3 was approximately 11 percent complete at the time of suspension. Prioritizing the completion of such projects would safeguard previous investments, prevent the deterioration of partially completed assets, accelerate service delivery, and generate development benefits more rapidly and cost-effectively than initiating entirely new infrastructure projects.

Within Water for People, the first priority is targeted WASH climate-resilience investments where the stunting and waterborne-disease burden is highest, such as the provinces with the highest child stunting (Ghor and Urozgan) and those where diarrhea outbreaks have concentrated (Kabul, Paktya, Farah, Paktika, and Nimroz), as identified in Part 3. The second priority is performance-based urban management contracts, layered with output-based aid, for the small number of Afghan urban water entities that can be placed under third-party technical management. The international benchmark is Liberia, where a performance-based management arrangement at the Liberia Water and Sewer Corporation under its post-conflict urban water project reduced non-revenue water from more than 70 percent toward about 53 percent over several years (World Bank, 2024a). The third priority is a Kabul last-mile package: licensed trucking and standpipe operators on prepaid or pay-as-you-fetch models, informed by Somalia's

prepaid private-operator experience that sustains 90 to 98 percent effective billing without a strong central state (Hashmi and Sturzenegger, 2020), paired with managed aquifer recharge pilots to begin stabilizing the water table while abstraction registration gets underway.

In parallel, strengthening groundwater governance through abstraction registration, monitoring, licensing, and enforcement is essential to prevent continued overexploitation of aquifers, particularly in Kabul. Public awareness and behavior-change programs should complement infrastructure and regulatory measures by promoting water conservation, efficient household water use, and protection of water resources. Water-quality management and protection of drinking-water sources should also accompany service-delivery improvements to reduce health risks and improve long-term sustainability.

Within Water for Food, the priority is sustaining the water-control delivery that underpinned the 2025 record wheat harvest. The 2.3 million smallholder households that received cultivation support between 2021 and 2024 are the operational network through which that harvest was produced (World Bank, 2025a); losing continuity on this channel would reverse the single clearest resilience gain the sector has delivered in the post-2021 period. The second is rehabilitation of existing canals and conveyance rather than new construction. Maintenance and rehabilitation typically yield benefit-cost ratios three to five times those of new builds in any water sector before any FCV risk premium is applied, and in the Afghan context they carry the lowest political-economy exposure: no land acquisition, no statutory change, no central-budget execution. The third is a targeted push for aquifer recharge and borehole registries in stressed basins that can help improve the water-productivity gap. Afghanistan's unit water footprint fell from 2,032 cubic meters per ton in 2000 to 1,063 in 2019, a 48 percent gain in water productivity, but rice water productivity remains roughly twice the MENA-AP average (Akhundzadah & Kassam, 2025). Bringing low-efficiency producers up to global median efficiency would reduce irrigation water use in drying regions by about 18 percent, equivalent for Afghanistan to savings on the order of 3 cubic kilometers per year (Zhang et al., 2025).

Improving on-farm water management, irrigation efficiency, and crop-water productivity should complement infrastructure rehabilitation to maximize economic output per unit of water consumed, particularly in water-stressed basins. Public awareness and agricultural extension services can further support the adoption of water-efficient irrigation practices, technologies, and cropping patterns.

Within Water for the Planet, the priority is drought and flood risk reduction on the same land, through combined early-warning, soil-management, and small-scale buffering investments that address the compounding pattern directly. The second is storage rehabilitation, which doubles as hydropower buffering and brings a drought-resilience benefit through the same investment. The third is technical engagement for river and aquifer protection where the environmental standards can anchor the broader restoration agenda. Managed aquifer recharge pilots and borehole abstraction registries as well as environmental standards are planned and implemented in basins, but with different objectives under the water for planet and water for food pillars.

Catchment and ecosystem restoration measures, including watershed rehabilitation, rangeland management, wetland protection, and reforestation, should complement structural investments to improve natural water storage, reduce erosion, enhance groundwater recharge, and strengthen climate resilience. Particular attention should be given to the impacts of climate change, including changing precipitation patterns, declining snowpack, glacier retreat, and increasing drought frequency, which are expected to further exacerbate water insecurity. Public awareness and community engagement can also help strengthen stewardship of watersheds, rivers, aquifers, and other environmentally sensitive areas.

Across all three pillars, strengthening water governance, data systems, monitoring networks, groundwater monitoring, regulatory enforcement, public awareness, and inter-institutional coordination is essential to ensure that investments deliver sustainable water-security outcomes. Increased public understanding of water scarcity, groundwater depletion, water conservation, water quality, and source protection can help reduce demand pressures and build support for sustainable water-management practices.

Coordination is a prerequisite for scaling solutions

Coordination and local knowledge help turn individual investments into durable systems. Local knowledge needs to shape decisions from the planning stage. In the karez system, local knowledge is critical for designing and planning the tunnels in a way that would minimize evaporation losses, without external energy input, and with abstraction use rates limited by the recharge rate of the source aquifer — a form of passive, physically self-regulating groundwater management. Afghanistan is estimated to have had several thousand active karezes historically, concentrated in the south and east, with each karez supporting an identifiable farming community of dozens to hundreds of households. The system has been in significant decline — through conflict damage, sedimentation, abandonment during displacement cycles, and competition from diesel-pumped boreholes that extract from the same aquifers at unsustainable rates — but a meaningful share of the physical infrastructure survives. Karez rehabilitation falls squarely within the "actionable now" category: it is small-scale, locally governed, can be implemented by a third party, is cost-effective relative to new tubewell drilling, and directly addresses the groundwater depletion problem by replacing uncontrolled pumping with recharge-limited gravity flow.

The gender-coordination strand complements these. In communities where cultural norms require female service providers, coordination with women-led civil-society networks and NGO WASH partners can preserve service reach, quality, and inclusivity through the current period, until the broader workforce environment permits deeper engagement. Social inclusivity can be also deliver results in other forms of policies and investments outside WASH like irrigation upgrading and institutional strengthening.

Scalability for cross-sectoral gains and a sustainable recovery

Scaling water investments in Afghanistan is best understood as a multiplication rather than a sum: finance, standards and instruments must each be in place, because a shortfall in anyone nullifies the others. The international reference set includes Somalia, where prepaid private operators sustain 90 to 98 percent effective billing without a central

state (Hashmi and Sturzenegger, 2020); Kenya, where output-based aid tied disbursement to verified connections delivered by licensed micro-operators (Water and Sanitation Program, 2010s); and Liberia, where performance-based management of the national urban water utility produced the non-revenue-water trajectory noted above (World Bank, 2024a). In applying these precedents to Afghanistan, there needs to be a comprehensive mapping of institutional and regulatory conditions under which the women-run last-mile component becomes operationally viable.

Scaling Water for People requires financing that supports reliable services, not just construction. Output-based aid can pay private operators for verified connections, alongside microfinance where workable financing channels exist. Green Climate Fund and Global Environment Facility windows offer routes to co-mobilize climate finance for resilient WASH, aligning multilateral, bilateral, and private support around a shared delivery plan. Every investment needs a verifiable operations-and-maintenance arrangement: cost recovery, a dedicated recurrent-funding commitment, or a performance-based service contract. Without it, new assets deteriorate and service gains do not last. Inadequate maintenance financing helps explain why past infrastructure investments have fallen short of design capacity; securing that financing is therefore central to scalability. Public awareness and behavior-change programs should reinforce these investments by promoting conservation, reducing wastage, and supporting sustainable service delivery.

Within Water for Food, cross sectoral gains runs through governance and quality standards for the irrigation stack rather than through the stack itself. Basin management and environmental standards verified before capital allocation address the design-quality to avoid cost overruns. For this pillar, the design and environmental quality are confirmed before funds are committed, water-use efficiency is pursued through canal lining, irrigation scheduling and metering, and dam safety is monitored with data shared among partners. Where feasible, treated wastewater reuse and improved drainage management should also be encouraged to increase water productivity and reduce pressure on freshwater resources. Those standards in turn define what qualifies to scale under Water for Planet: rehabilitation-first storage in preference to new construction, managed aquifer recharge pilots paired with an abstraction registry in Kabul, and solar pumping subject to abstraction caps, with women-run distribution serving the last mile.

Within Water for the Planet, cross-sectoral gains are materialized through rehabilitation-first storage incentives, regulated kiosks and women-run last-mile within the PSWA structure, managed aquifer recharge pilots paired with abstraction registries in Kabul, solar pumping conditional on abstraction caps, and institutional readiness to the water-resources-planning workstream. Strengthening groundwater governance, abstraction monitoring, and enforcement mechanisms is particularly important in urban centers such as Kabul, where groundwater depletion is increasingly threatening long-term water security. The common thread is that each of these instruments can be deployed at pilot scale now, built up through verified operation, and scaled through the coalition financing architecture — without requiring a prior resolution of the structural political-economy constraints that bound the readiness agenda.

Box 4: Conditions required for the women-run distribution model in Afghanistan

Licensed trucking, kiosks, and women-run last-mile distribution are high-return instruments in principle, with strong FCV precedents in Somalia and Kenya. In Afghanistan, operational viability depends on a specific set of conditions that currently constrain the model and must be addressed in sequence rather than assumed away. The first condition is a workable modality for women's economic participation. Current ITA restrictions on women working for NGOs and in public roles directly constrain who can operate a vended water point in communities where cultural norms require female service providers; the model is viable at scale only where community-level arrangements, often brokered by respected local actors and faith leaders, allow women to continue delivering water services. The second condition is a functioning retail-finance channel for working capital and household connections. Formal financial intermediation in Afghanistan is near-collapsed, and the Kenya precedent of microfinance-backed last-mile delivery cannot be imported without an alternative financing substrate — likely a hybrid of trust-fund-backed revolving funds, NGO-delivered output-based aid, and informal hawala-based remittance infrastructure. The third condition is a protective physical and legal environment for women moving between home and vended points, which overlaps directly with the "catastrophic" safety ratings in the nine provinces identified in Part 3. We flag these conditions here rather than assuming them, because the credibility of the scalable solution rests on honest treatment of what has to hold for it to work.

Sequencing priorities: what to deliver now and what to prepare

This section brings together the water sector priorities and the coordination and scalability conditions discussed above, into a single view of what to do first. Actions are sorted by two criteria. Urgency reflects the risk to welfare and the cost of inaction. Feasibility reflects the ability to deliver under current counterpart, financing, and mandate conditions, and is shaped by the coordination, local knowledge, and financing arrangements described in the preceding sections. Together, the two criteria yield four groups that link what can start immediately to the capacity and investment needed for longer-term recovery (Figure 51).

Delivery and scale (high urgency, high feasibility). These actions can proceed now, phased across sites with vetted partners and shared plans. They include restoring irrigation and essential water services; targeted nature-based management of drought and flood risk; early warning and the Kabul aquifer-recharge pilots; expanded nature-based watershed and source protection; water-conservation and public-awareness campaigns; and multi-stakeholder platforms for water dialogue and coordination. Each can be delivered through third parties, verified independently, and scaled as results are demonstrated.

Prepare and de-risk (high urgency, low feasibility). These are the investments and reforms that the crisis most requires and the operating environment does not yet permit. They include major irrigation and bulk water-supply investments; expanded wastewater treatment and collection in the major cities; priority large flood-protection works; water-allocation and groundwater-governance reform to curb aquifer depletion; groundwater monitoring and abstraction-control systems, and urban water-loss reduction in the major cities. Because the capacity, mandates, and financing they need are not yet in place, the immediate task is preparation: feasibility studies, designs, safeguards, and financing structures that allow these actions to move as soon as conditions permit.

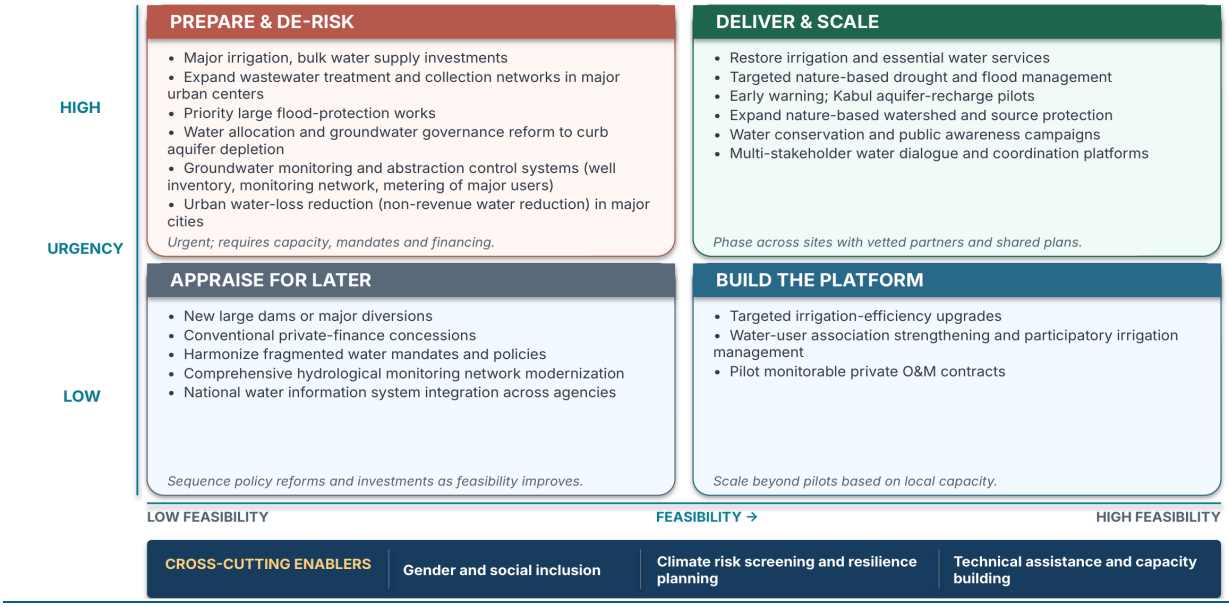
Build the platform (lower urgency, high feasibility). These actions are feasible today and lay the groundwork for scale. They include stronger water-user associations and participatory irrigation management; and pilots of monitorable private operation-and-

maintenance contracts. Their value lies in the local capacity, performance data, and contracting precedents they generate. These in turn increase the feasibility of next round of investment.

Appraise for later (lower urgency, low feasibility). The last group actions, including new large dams or major diversions, conventional private-finance concessions, harmonization of fragmented water mandates and policies, comprehensive modernization of the hydrological monitoring network, and integration of a national water information system across agencies, remain under appraisal and can be sequenced as feasibility improves.

Across every quadrant, gender and social inclusion, climate-risk screening, and technical capacity building are conditions for sustained delivery. Inclusion ensures that women, girls, and poorer households share in the benefits of new services; climate-risk screening keeps investments resilient to drought and flood; and technical capacity ensures that the assets and systems built today can be operated and maintained over time. These conditions, together with stronger coordination and local capacity, are what make the matrix dynamic. With each step, today's constraints can become tomorrow's opportunities, laying the groundwork for near-term delivery, advancing proposals under appraisal, and building toward a water-secure Afghanistan.

Figure 51: Water priorities: urgency × feasibility.



Source: World Bank staff. Afghanistan Pivot Engagement Note FY2027–FY2029 (World Bank, 2026a).

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ANNEX TABLES

Table 3. 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	8.0	3.2	3.2
Industry	11.1	4.8	-4.6	-12.8	-5.7	1.8	1.9	10.0	7.0	4.0	3.0
Services	1.9	-1.4	-5.9	-30.1	-6.5	1.5	0.5	10.3	-1.5	3.1	4.1
Net Taxes on Production	-0.1	-9.4	-7.8	-16.5	-3.0	11.4	8.2	13.0	0.0	3.0	1.6
Real GDP	1.2	3.9	-2.4	-20.7	-6.2	2.3	1.9	4.8	3.0	3.3	3.5
Domestic prices											
Consumer prices (annual average)	0.6	2.3	5.6	7.8	10.6	-7.7	-4.3	3.6	7.0	5.0	5.0
Consumer prices (end of period)	1.8	3.0	4.4	15.1	1.9	-9.0	-0.3	7.6	6.4	5.0	5.0
Exchange Rate (annual average)	73.5	78.2	76.9	87.7	88.5	77.3	70.3	67.8	65.0		
Exchange Rate (end of period)	75.5	76.1	77.2	87.7	87.1	71.4	70.6	64.2	65.2		
					In % of nominal GDP						
Demand											
Private Consumption	89.2	83.7	88.9	100.5	103.7	108.1	122.2	127.0	124.2	123.8	124.0
Government Consumption	34.7	33.2	33.2	21.3	21.8	21.2	23.6	24.3	24.7	24.5	24.4
Public Investment	7.4	6.9	6.0	6.4	6.4	6.2	6.6	7.1	7.2	7.1	7.5
Private Investment	10.6	11.3	11.0	6.6	10.2	9.1	10.4	10.5	8.4	8.0	8.2
Exports, GNFS	9.1	8.2	7.0	10.4	14.1	11.6	11.0	10.5	7.6	7.4	7.6
Imports, GNFS	51.1	43.4	46.1	45.2	56.3	56.1	73.8	79.4	72.0	70.9	71.7
Fiscal											
Revenue and Grants	58.1	53.0	49.4	36.5	40.6	33.9	35.3	33.6	29.4	28.7	28.4
Domestic Revenue	14.0	14.2	11.3	11.1	15.1	15.6	19.2	20.3	19.3	20.3	21.3
Tax Revenue	9.4	8.8	7.4	7.6	8.9	9.0	10.7	12.3	11.8	12.3	12.8
Non-tax and other Revenues	4.7	5.4	3.9	3.5	6.3	6.6	8.5	8.0	7.5	8.0	8.5
External Grants	44.1	38.8	38.1	25.4	25.5	18.3	16.1	13.3	10.1	8.4	7.1
Total Expenditures	56.8	54.7	51.7	36.0	41.6	35.1	35.8	33.8	31.5	29.7	29.0
Current Expenditures	19.4	19.3	17.8	13.4	15.3	15.5	17.8	19.1	20.1	20.0	20.5
Capital Expenditures	9.5	9.5	10.4	4.1	0.8	1.3	1.8	1.3	1.3	1.3	1.4
Externally Financed Expenditure	27.8	26.0	23.5	18.4	25.5	18.3	16.1	13.3	10.1	8.4	7.1
General Fiscal Balance	1.3	-1.7	-2.3	0.5	-1.0	-1.2	-0.4	-0.2	-2.1	-1.0	-0.6
General Public Debt	5.8	7.1	8.2	12.7	13.9	13.6	14.7	13.6	13.6	12.1	12.1
Balance of Payments											
Current Account Balance	-21.8	-18.7	-21.6	-15.8	-18.8	-17.6	-28.3	-36.1	-34.2	-34.5	-36.2
Trade Balance (Goods and Services)	-41.9	-35.1	-39.1	-34.8	-42.2	-44.6	-62.9	-68.9	-64.4	-63.4	-64.1
Primary and Secondary Incomes	20.1	16.5	17.5	19.0	23.4	27.0	34.5	32.8	30.2	28.9	28.0
Memorandum items											
Nominal GDP (AFN billion)	1,328	1,470	1,535	1,251	1,283	1,351	1,262	1,376	1,500	1,634	1,728
Nominal GDP (USD million)	18,053	18,799	19,956	14,266	14,502	17,476	17,940	20,301	23,080	24,755	25,792
Population (million)	36.7	37.9	39.1	40.0	40.6	41.5	42.6	47.3	50.4	51.8	53.1
GDP per capita (real LCU)	37,273	37,592	35,569	27,536	25,450	25,477	25,228	23,827	23,051	23,183	23,376
GDP per capita (real 2015 USD)	553	558	528	409	378	378	374	354	342	344	347
GDP per capita growth	-1.7	0.9	-5.4	-22.6	-7.6	0.1	-1.0	-5.6	-3.3	0.6	0.8
GDP at market prices (real 2015 USD)	20,323	21,118	20,622	16,345	15,325	15,673	15,966	16,738	17,246	17,811	18,429

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

Table 4. 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	8.0	3.2	3.2
Industry	11.1	4.8	-4.6	-12.8	-5.7	1.8	1.9	10.0	7.0	4.0	3.0
Services	1.9	-1.4	-5.9	-30.1	-6.5	1.5	0.5	10.3	-1.5	3.1	4.1
Net Taxes on Production	-0.1	-9.4	-7.8	-16.5	-3.0	11.4	8.2	13.0	0.0	3.0	1.6
Real GDP	**1.2**	**3.9**	**-2.4**	**-20.7**	**-6.2**	**2.3**	**1.9**	**4.8**	**3.0**	**3.3**	**3.5**
				Contribution to GDP growth							
Supply											
Agriculture	-1.2	4.5	1.7	-3.1	-2.4	0.8	1.0	-1.8	2.6	1.1	1.1
Industry	1.3	0.6	-0.6	-1.7	-0.8	0.3	0.3	1.4	1.1	0.6	0.5
Services	1.1	-0.8	-3.1	-15.2	-2.9	0.7	0.2	4.5	-0.7	1.4	1.8
Net Taxes on Production	0.0	-0.5	-0.4	-0.7	-0.1	0.5	0.4	0.7	0.0	0.2	0.1
Demand											
Private Consumption	6.9	1.3	-1.1	4.3	0.5	6.0	14.3	9.9	3.4	4.0	4.3
Government Consumption	-10.1	-0.2	-0.8	-16.3	-0.2	0.1	1.7	0.9	1.9	1.4	0.7
Public Investment	1.1	-0.3	-1.2	-1.6	0.3	0.1	0.0	1.0	0.6	0.5	0.9
Private Investment	-1.6	1.2	-0.4	-6.1	3.8	-1.2	0.4	0.5	-1.5	0.2	0.2
Exports, GNFS	3.2	-0.5	0.1	-1.4	2.9	-2.4	-0.1	-0.2	-3.5	0.5	0.7
Imports, GNFS	1.8	2.4	1.1	0.3	-13.5	-0.4	-14.5	-7.3	2.1	-3.3	-3.3
Real GDP	**1.2**	**3.9**	**-2.4**	**-20.7**	**-6.2**	**2.3**	**1.9**	**4.8**	**3.0**	**3.3**	**3.5**
				In % of nominal GDP							
Supply											
Agriculture	23.2	27.0	31.4	35.4	35.5	36.7	36.5	36.8	37.0	35.7	35.5
Industry	14.1	14.8	13.6	15.0	16.9	14.2	15.5	16.4	16.7	16.5	16.7
Services	62.7	58.2	55.0	49.6	47.5	49.0	48.1	46.9	46.3	47.8	47.8
Real GDP (Constant AFN billion)	**1,370**	**1,423**	**1,390**	**1,101**	**1,033**	**1,056**	**1,076**	**1,128**	**1,162**	**1,200**	**1,242**
Nominal GDP (AFN billion)	**1,328**	**1,470**	**1,535**	**1,251**	**1,283**	**1,351**	**1,262**	**1,376**	**1,500**	**1,634**	**1,728**
Nominal GDP (USD million)	**18,053**	**18,799**	**19,956**	**14,266**	**14,502**	**17,476**	**17,940**	**20,301**	**23,080**	**24,755**	**25,792**
Population (million)	**37**	**38**	**39**	**40**	**41**	**41**	**43**	**47**	**50**	**52**	**53**
GDP per capita (real LCU)	**37,273**	**37,592**	**35,569**	**27,536**	**25,450**	**25,477**	**25,228**	**23,827**	**23,051**	**23,183**	**23,376**
GDP per capita (real 2015 USD)	**553**	**558**	**528**	**409**	**378**	**378**	**374**	**354**	**342**	**344**	**347**
GDP at market prices (real 2015 USD)	**20,323**	**21,118**	**20,622**	**16,345**	**15,325**	**15,673**	**15,966**	**16,738**	**17,246**	**17,811**	**18,429**

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

Table 5. 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**	**33.6**	**29.4**	**28.7**	**28.4**
Domestic Revenue	**14.0**	**14.2**	**11.3**	**11.1**	**15.1**	**15.6**	**19.2**	**20.3**	**19.3**	**20.3**	**21.3**
Tax Revenue	9.4	8.8	7.4	7.6	8.9	9.0	10.7	12.3	11.8	12.3	12.8
Direct Taxes	2.6	2.2	2.1	1.9	1.1	1.6	2.0	2.2	2.3	2.4	2.5
Income Taxes (Corporate and Personal)	1.7	1.5	1.2	1.4	0.7	1.1	1.2	1.4	1.4	1.4	1.5
Personal Income Tax	1.1	1.2	1.0	0.9	0.5	0.6	0.8	0.9	0.9	0.9	0.9
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	0.8	0.8	0.9
Taxes on Goods and Services	2.5	2.4	2.2	2.1	2.2	2.5	3.2	3.8	4.0	4.0	4.0
Taxes on Int Trade and Transactions	2.7	2.5	2.1	2.5	4.6	3.7	4.1	4.5	3.6	4.1	4.5
Customs and Other Import Duties	2.5	2.3	2.0	2.3	3.5	3.1	3.8	4.1	3.2	3.7	4.1
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	1.8	1.8
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	8.0	7.5	8.0	8.5
External Grants	**44.1**	**38.8**	**38.1**	**25.4**	**25.5**	**18.3**	**16.1**	**13.3**	**10.1**	**8.4**	**7.1**
Total Expenditures	**56.8**	**54.7**	**51.7**	**36.0**	**41.6**	**35.1**	**35.8**	**33.8**	**31.5**	**29.7**	**29.0**
Current Expenditures	**19.4**	**19.3**	**17.8**	**13.4**	**15.3**	**15.5**	**17.8**	**19.1**	**20.1**	**20.0**	**20.5**
Wages and Compensation	13.8	13.5	12.8	10.2	10.9	11.0	11.6	12.0	12.2	12.1	12.0
Use of Goods and Services	2.8	2.8	2.7	1.7	3.4	3.5	4.6	4.6	4.6	4.7	4.7
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	2.5	2.7	2.7	2.7
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**	**1.3**	**1.3**	**1.3**	**1.4**
Externally Financed Expenditure	**27.8**	**26.0**	**23.5**	**18.4**	**25.5**	**18.3**	**16.1**	**13.3**	**10.1**	**8.4**	**7.1**
General Fiscal Balance (including grants)	**1.3**	**-1.7**	**-2.3**	**0.5**	**-1.0**	**-1.2**	**-0.4**	**-0.2**	**-2.1**	**-1.0**	**-0.6**
ITA General Fiscal Balance*	**-14.9**	**-14.6**	**-16.9**	**-6.4**	**-1.0**	**-1.2**	**-0.4**	**-0.2**	**-2.1**	**-1.0**	**-0.6**
General Public Debt	**5.8**	**7.1**	**8.2**	**12.7**	**13.9**	**13.6**	**14.7**	**13.6**	**13.6**	**12.1**	**12.1**
Nominal GDP (AFN billion)	**1,328**	**1,470**	**1,535**	**1,251**	**1,283**	**1,351**	**1,262**	**1,376**	**1,500**	**1,634**	**1,728**

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

Table 6. 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	-34.2	-34.5	-36.2
Trade Balance	-41.9	-35.1	-39.1	-34.8	-42.2	-44.6	-62.9	-68.9	-64.4	-63.4	-64.1
Exports, GNFS	9.1	8.2	7.0	10.4	14.1	11.6	11.0	10.5	7.6	7.4	7.6
Merchandise Exports	4.9	4.7	3.9	7.8	12.7	10.2	9.7	9.4	7.4	7.1	7.0
Service Exports	4.2	3.5	3.1	2.6	1.4	1.4	1.3	1.0	0.3	0.4	0.6
Imports, GNFS	51.1	43.4	46.1	45.2	56.3	56.1	73.8	79.4	72.0	70.9	71.7
Merchandise Imports	43.5	37.4	40.6	39.7	48.3	49.1	65.3	66.3	60.0	58.6	57.4
Service Imports	7.5	6.0	5.5	5.5	8.0	7.1	8.5	13.1	12.0	12.3	14.4
Primary and Secondary Incomes Balance	20.1	16.5	17.5	19.0	23.4	27.0	34.5	32.8	30.2	28.9	28.0
Credits	20.7	16.7	17.7	19.2	26.3	26.8	24.5	21.1	18.9	17.4	16.5
Remittance Inflows	4.0	3.9	3.6	9.1	14.5	17.7	17.8	15.7	14.1	13.5	13.1
Other Credits	16.7	12.8	14.1	10.1	11.8	9.1	6.7	5.4	4.8	4.0	3.4
Debits	0.6	0.3	0.3	0.2	2.9	-0.2	-10.0	-11.8	-11.3	-11.4	-11.5
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	-11.4	-11.5	-11.6
Nominal GDP (USD million)	**18,053**	**18,799**	**19,956**	**14,266**	**14,502**	**17,476**	**17,940**	**20,301**	**23,080**	**24,755**	**25,792**

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

Table 7. Informal and formal businesses, 2025

Panel A. Key indicators

Indicator	Informal (ISES)	Formal (ES)
Businesses covered (weighted)	5 cities	national, 5+ employees
Median workers	1	18
One-person businesses	50%	—
Owner unemployed before starting	48%	—
Has a bank account	3%	65%
Borrows from moneylenders for operations	27%	—
Power outages	85% of grid-connected (last month)	42% (last year)
Median annual sales (AFN)	120,000	5,000,000
Median annual sales per worker (AFN)	84,000	344,000
Sales per worker, 90th percentile (AFN)	400,000	2,230,000
Formal ÷ informal sales per worker: raw / net of sector and region	**—**	**4.0× / 5.9×**

Panel B. Informal businesses compared with formal firms by size

Indicator	Informal (all)	Informal, 5+ workers	Formal small (5–19)	Formal medium (20–99)	Formal large (100+)
Sample size	3,411	139	226	164	36
Median workers	1	6	10	30	180
Median annual sales (AFN)	120,000	180,000	3.0 million	12.0 million	65.0 million
Median sales per worker (AFN)	84,000	30,000	333,000	417,000	273,000
Sales per worker gap vs. informal, net of sector and region	**—**	**—**	**5.8×**	**6.1×**	**5.5×**
Manufacturing value added per worker (AFN)	54,000 (gross sales)	—	115,000	140,000	175,000
Labor cost per worker per month (AFN)	—	—	6,700	5,600	7,800
Has a bank account	3%	10%	69%	59%	72%
Female participation in ownership	4%	5%	27%	19%	8%
Uses imported inputs	—	—	37%	43%	54%
Access to finance a major obstacle	—	—	35%	24%	17%

Sources: World Bank Informal Sector Enterprise Survey Afghanistan 2025 and Enterprise Survey Afghanistan 2025 (microdata), weighted with median-eligibility weights. Informal coverage is five cities; the formal survey is national. Sales per worker = annual sales / workers (formal: permanent and temporary full-time; informal: all who worked last month, including owner and unpaid family). Formal sales refer to the last fiscal year; informal sales are a regular month in 2025/26 × months operated. Formal size classes are defined by actual full-time workforce. Gaps from pooled weighted regressions of log sales per worker, each survey trimmed at its 1st/99th percentiles; the large-firm estimate rests on 36 firms (18 for manufacturing value added) and is imprecise.