

AFGHANISTAN

NAVIGATING UNCERTAINTY UNDER THE TALIBAN 2.0 RULE

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INTRODUCTION

In the wake of significant political changes and the withdrawal of international forces in 2021, Afghanistan stands at a critical juncture in its economic trajectory. The sudden political transition, coupled with international sanctions and the withdrawal of foreign aid, has profoundly impacted the country's already fragile economy. In addition, the return of Afghan refugees from Pakistan and Iran and the climate-induced vulnerabilities, including frequent floods, drought, and earthquakes, have exacerbated these challenges. At present, the country, a victim of decades of conflict and instability, faces daunting challenges as it navigates its future path toward economic recovery and sustainability.

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OVERVIEW OF AFGHANISTAN'S ECONOMY UNDER THE TALIBAN 2.0 REGIME

Afghanistan's economy, heavily reliant on foreign aid and international support, experienced a sharp decline following the Afghan Taliban's takeover of Kabul in mid-2021. According to SIGAR (Special Inspector General for Afghanistan Reconstruction), for approximately 20 years (until mid-2021), foreign assistance to support Afghanistan totalled almost US\$8 billion per year, which accounted for nearly 40 per cent of the country's Gross Domestic Product (GDP), and financed three-quarters of the former Afghan Republican government's public expenditures¹ (i.e. 75 per cent of its total public expenditures).² However, the immediate cessation of international financial assistance after the fall of Kabul led to a severe fiscal crisis. A United Nations Development Programme (UNDP) report stated that "...the Afghan economy lost US\$5 billion after August 2021, wiping out in 10 months what had taken it 10 years to accumulate."³ As a result, the country's economy collapsed, and Afghanistan was drawn towards a severe economic and humanitarian crisis. According to the World Bank, "After a severe 20.7 per cent GDP contraction in 2021, the Afghan economy further contracted by 6.2 per cent in 2022."⁴ The freezing of Afghanistan's foreign reserves by the US further contributed to the economic downturn, triggering a liquidity crisis. But as foreign assistance to Afghanistan resumed by 2022, albeit on a smaller scale,⁵ the rapid deterioration of economic conditions slowed down by the summer of 2022.⁶ According to an August 2023 World Bank Afghanistan Economic Monitor report, the UN has purchased, transported, and

1. "Cash Shipments to Afghanistan: The UN Has Purchased and Transported More than \$2.9 Billion to Afghanistan to Implement Humanitarian Assistance", SIGAR 24-12 Evaluation Report, January 2024, <https://www.sigar.mil/pdf/evaluations/SIGAR-24-12-IP.pdf>. Accessed on July 10, 2024.
2. World Bank Group, "Afghanistan will Need Continued International Support after Political Settlement", December 2019, <https://www.worldbank.org/en/news/press-release/2019/12/05/afghanistan-will-need-continued-international-support-after-political-settlement>. Accessed on July 10, 2024.
3. UN Development Programme, "One Year in Review: Afghanistan Since August 2021", Socio-Economic Snapshot, October 2022, p. 4.
4. World Bank Group, "World Bank Report on Afghanistan", April 2024, <https://www.worldbank.org/en/country/afghanistan/overview>. Accessed on July 10, 2024.
5. n. 1.
6. n. 4

transferred more than \$2.9 billion in US currency to Afghanistan since August 2021,⁷ delivered primarily under the coordination of the UN Assistance Mission in Afghanistan (UNAMA). It helped in preventing a greater humanitarian disaster in the country to a considerable extent.

Nevertheless, according to the 2024 Humanitarian Needs and Response Plan for Afghanistan, approximately 23.7 million people, more than half of the country's population, are in need of humanitarian assistance in 2024.⁸ The 2024 reports by the UN Office for the Coordination of Humanitarian Affairs (OCHA) and the US Agency for International Development (USAID) stated that an estimated 15.8 million people are experiencing acute crisis and emergency levels of food insecurity⁹ in Afghanistan, with 22.1 million requiring protection assistance, and 8.7 million children needing education support this year.¹⁰ It is reported that in reality, 69 per cent of Afghans are "subsistence insecure," i.e., lacking basic resources for livelihood.¹¹

Recently, the United Nations has also cautioned that it has received only 6 per cent of the requested humanitarian aid (just US\$290 million of the US\$3.06 billion required) from its donors, which is directed towards assisting the millions of people in Afghanistan for the year 2024. These statistics provide a grim picture of this war-torn country. Furthermore, the World Bank has stated that Afghanistan's economic stagnation will continue until at least 2025, which is a worrying sign for its population.

By May 2024, headline inflation had plummeted to -7.5 per cent Year-Over-Year (YoY), propelled primarily by substantial reductions

7. World Bank, "Afghanistan Economic Monitor", August 31, 2023.

8. United States Agency for International Development (USAID), "USAID Report on Afghanistan", June 2024, <https://www.usaid.gov/humanitarian-assistance/afghanistan>. Accessed on July 10, 2024.

9. "United Nations in Afghanistan Annual Report 2023", Relief Web, April 2024, <https://reliefweb.int/report/afghanistan/united-nations-afghanistan-annual-report-2023>. Accessed on July 11, 2024.

10. Daniel F. Runde, et al., "The Future of Assistance for Afghanistan: A Dilemma", Centre for Strategic and International Studies (CSIS), June 2024, <https://www.csis.org/analysis/future-assistance-afghanistan-dilemma>. Accessed on July 10, 2024.

11. United Nations, "Afghanistan's Economy has 'Basically Collapsed': UNDP", United Nations News, <https://news.un.org/en/story/2024/03/1147387>. Accessed on July 14, 2024.

in food (-11.5 per cent YoY) and non-food (-3.1 per cent YoY) prices.¹² According to the World Bank, core inflation, excluding volatile food and energy prices, was also negative at -2.5 per cent YoY, reflecting sluggish demand.¹³ The same report further illustrated that in the first five months of 2024, Afghanistan's exports declined by 16 per cent, totalling US\$613.5 million compared to US\$731.6 million in the same period in 2023.¹⁴ On the other hand, Afghanistan's imports surged by 22 per cent in the first five months of 2024, reaching US\$3.8 billion, up from US\$3.1 billion in the same period the previous year.¹⁵

Pakistan remained Afghanistan's primary export source, accounting for 48 per cent of exports, followed by India at 28 per cent during January-May 2024; while Iran is the most significant import destination, constituting 30 per cent of Afghanistan's imports.¹⁶ After achieving the revenue target of AFN 210 billion in Financial Year (FY) 2023-24, Afghanistan's total revenue reached AFN (Afghani) 31.2 billion in the first two months of FY 2024-25.¹⁷ It is reported that in the first half of 2024, the currency Afghani remained stable, "depreciating slightly by 1.3 percent against the US dollar, ... Afghanistan's foreign exchange market appeared balanced, as remittances and unidentified sources of foreign exchange inflow counterpoise the growing trade deficit and reduced aid inflows."¹⁸

In Afghanistan, remittances play a critical role in the country's wider national economy. But international sanctions and the freezing of foreign reserves have crippled the country's banking sector, making it difficult for Afghans abroad to send money home through formal channels. Therefore, remittances and international transactions at the current juncture flow mostly through the Informal Funds Transfer (IFT) system, generally referred to as *hawala*. The *hawala* system has always been an important money transfer system in Afghanistan—a

12. World Bank Group, "Afghanistan Economic Monitor", June 2024, <https://thedocs.worldbank.org/en/doc/08aa5c9c95d741b348dfb93f6e4f3225-0310042024/original/Afghanistan-Economic-Monitor-June-2024.pdf>. Accessed on July 10, 2024.

13. Ibid.

14. Ibid.

15. n. 12.

16. Ibid.

17. Ibid.

18. Ibid.

country where reportedly only 15 per cent¹⁹ of the people have bank accounts.²⁰ At present, rural households in the country are highly dependent on the remittances sent to them by their family members living abroad. With the current economic challenges faced by the country, the reliance on remittances has become even more pronounced, and these remittances play a vital role in sustaining Afghanistan's economy under the Taliban regime.

According to the United Nation's Office on Drugs and Crime (UNODC), under the Taliban interim administration, the opiate informal economy's value has contracted by 90 per cent, the area under opium poppy cultivation has declined by 95 per cent, and this has cost the Afghans 450,000 jobs at the farm level alone.²¹ No doubt, the opium trade continues to thrive with most of the benefits/profits enjoyed by the drug traders, processors, and exporters.²² All in all, the ban on opium cultivation resulted in a staggering US\$1.3 billion loss in farmers' incomes, equivalent to approximately 8 per cent of the GDP.²³ According to the World Bank's Afghanistan Welfare Monitoring Survey, the unemployment rate among the surveyed households was close to 20 per cent as of April-June 2023,²⁴ which is expected to rise rather than decline in the coming days.

19. World Bank Group, "The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19", <https://www.worldbank.org/en/publication/globalindex>. Accessed on July 10, 2024.

20. Migration Data Portal, "Remittances to Afghanistan are Lifelines: They are Needed More Than Ever in a Time of Crisis", August 2022, <https://www.migrationdataportal.org/blog/remittances-afghanistan-lifelines>. Accessed on July 10, 2024.

21. World Bank Group, "Afghanistan Development Update", April 2024, <https://thedocs.worldbank.org/en/doc/18a1ccff0457effb0a456c0d4af7cce2-0310012024/original/Afghanistan-Development-Update-April-2024.pdf>. Accessed on July 10, 2024.

22. William Byrd, "Two Years into Taliban Rule, New Shocks Weaken Afghan Economy", United States Institute of Peace (USIP), August 10, 2023, <https://www.usip.org/publications/2023/08/two-years-taliban-rule-new-shocks-weaken-afghan-economy>. Accessed on July 10, 2024.

23. n. 21.

24. William Byrd, "Despite Daunting Economic Headwinds, Afghan Private Sector Shows Signs of Life", United States Institute of Peace (USIP), May 02, 2024, <https://www.usip.org/publications/2024/05/despite-daunting-economic-headwinds-afghan-private-sector-shows-signs-life>. Accessed on July 10, 2024.

CURRENT ECONOMIC POLICIES OF THE REGIME AND ITS SOURCES OF REVENUE

But despite these challenges and unfavourable circumstances, the Taliban Interim Administration has sought to revive domestic revenue, which reached US\$2.2 billion or 15 per cent of the GDP in 2022, mainly through imposing taxation and levying customs duties.²⁵ According to analysts, the interim government is performing much better in the economic domain than expected by the international community. It has also managed to reduce some forms of corruption and streamline the revenue collection processes. The regime is trying its best to restart stalled infrastructure projects, especially in the transportation and energy sectors, to create more job opportunities for the locals and, thus, aiming to stimulate economic activity. Since their takeover of Kabul, time and again, the acting commerce minister of the Taliban has emphasised economic self-sufficiency/reliance and increasing domestic production.²⁶ In addition, the interim government is trying to attract international investors from different countries, especially regional countries like China, the Central Asian countries, and the Gulf states, to invest in the country's economy. The new rulers of Kabul have announced more than 200 mining deals worth billions of dollars with local Afghans as well as investors from China, Iran, Russia, Türkiye, and beyond.²⁷ It is estimated that Afghanistan's domestic revenue increased 22 per cent (YoY) in April and May this year due to the auction of mines and resources such as nephrite, emeralds, oil, etc.²⁸ Furthermore, Afghanistan under the Taliban regime also participated in the Belt and Road Initiative (BRI) forum meeting held in China in October 2023 and expressed interest in joining the BRI—a massive infrastructure investment project undertaken by Beijing. However, for China, much of the investment

25. n. 4.

26. Mohammad Yunus Yawar, "Taliban Seeks Economic Self-Sufficiency and Foreign Investment for Afghanistan, Minister says", Reuters, January 3, 2023, <https://www.reuters.com/world/asia-pacific/taliban-seeks-economic-self-sufficiency-foreign-investment-afghanistan-minister-2023-01-02/>. Accessed on July 10, 2024.

27. Benjamin Parkin et.al, "How the Taliban Took Over Afghanistan's Mines", *Financial Times*, June 26, 2024, <https://ig.ft.com/afghan-mining/>. Accessed on July 10, 2024.

28. Ibid.

under the BRI framework will depend on the security scenario in Kabul.

In May 2022, the interim government unveiled the country's first annual budget, totalling 231.4 billion Afghanis (about US\$2.6 billion), with a deficit of around 44 billion Afghanis, or nearly US\$500 million.²⁹ In the same month this year, the Taliban-run Finance Ministry announced that the budget document for the 2024-25 fiscal year (1403 solar fiscal year) had been ratified by the Taliban's supreme leader, without revealing the amount of budget approved to be spent until March 2025.³⁰ According to a leaked document, the Taliban's Ministry of Defence has requested a budget for 2024 that is "double in value than that of the previous year."³¹ Sources cited that in 2023, the Taliban's defence budget was close to 40 billion Afghanis, but this year's request has surpassed 80 billion Afghanis.³² However, a significantly huge portion of the budget being given to the security sector in a war-torn/poverty-ridden country like Afghanistan has been severely criticised by different groups. While the document outlines their priorities and aspirations, it also represents the Afghan Taliban's quest for governance and legitimacy.

29. Muhammed Yasin Gungor and Riyaz ul Khaliq, "Interim Taliban Government Approves 3rd Annual Budget for Afghanistan", AA, May 21, 2024, <https://www.aa.com.tr/en/asia-pacific/interim-taliban-government-approves-3rd-annual-budget-for-afghanistan/3226407>. Accessed on July 10, 2024.

30. Ibid.

31. "Political Group Claims Taliban's Defence Ministry's Budget For 2024 Double Than Last Year", Afghanistan International, April 13, 2024, <https://www.afintl.com/en/202404139897>. Accessed on July 10, 2024.

32. Ibid.