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Understanding Afghanistan's Economy - a Brief Guide for Journalists

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Data limitations present difficulties when it comes to measuring Afghanistan's economy. The following figures are from the International Monetary Fund's latest Country Report on Afghanistan, published in March 2006, and its April 2006 World Economic Database. All figures are for the legal economy only, unless otherwise indicated.

Key Economic Indicators At A-Glance:

Gross Domestic Product (real):	2004/5 (est.)	2005/6 (proj.)
(Annual Percentage change)	8.0	13.8
	2005	2006
GDP Per Capita	\$1310.22	\$1439.99
Inflation (Annual percentage change)	12.9	8.9
	2004/5 (est.)	2005/6 (proj.)
Current Account Balance	\$107mln	\$43mln
Public finances (In percent of GDP, Core Budget)		
Revenue (including grants)	9.8	10.0
Expenditure	9.4	9.4
Legal Trade (2005 total = \$5.4 bln)		
Imports	--	\$3.9 bln
Exports	--	\$1.7 bln
(Re-exports)	--	\$1.2 bln)

Gross Reserves	\$1.26bln	\$1.73 bln
Non-licit Trade		
Export earnings from opium (UNODC est.)	--	\$2.7 bln
Foreign Direct Investment	(In percent of GDP)	
	3.1	3.5

Understanding the detail

1. External Competitiveness = ↓

Afghanistan's external competitiveness is being impacted by a 20% appreciation (in real terms) in the value of the Afghani over the 30 months to September 2005. This appreciation of the Afghani appears to be the result of "Dutch Disease" stemming from drug and aid-related inflows.

Other factors affecting competitiveness are structural rigidities (ie obstacles to change), energy shortages, and a weak regulatory environment.

Although external competitiveness is not a major concern in the short term (because aid inflows support the economy), it will need addressing in the medium to longer term. This need is recognised in the Government's interim-Afghan National Development Strategy.

Q: What is "Dutch Disease"?

"Dutch Disease" is a term for explaining the impact on an economy of the seeming relationship between the exploitation of natural resources and a decline in the competitiveness of manufacturing resulting from a consequent rise in the exchange rate. While the term is normally used to refer to natural resource discovery, it can refer to any development that results in a large inflow of foreign currency, as in Afghanistan's case.

2. Trade: Total in 2005 = \$5.4 bln

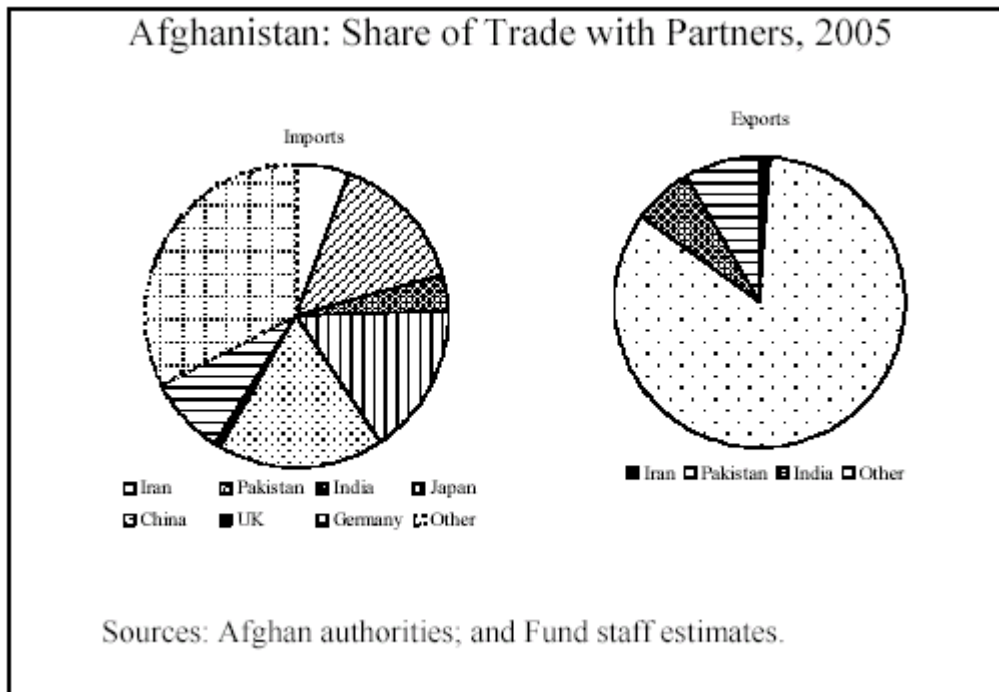
Afghanistan's economy remains heavily reliant on agriculture. This makes it vulnerable to external shocks (such as in climate).

Imports: \$3.9 billion in 2005
 Exports: \$1.7 billion in 2005 (including \$1.2 billion in re-exports).

Main Exports: Carpets, dried fruits and nuts, sheepskins, precious stones

Main Destination of Exports and re-Exports: Pakistan

Main Countries importing to Afghanistan: China, Japan, India, Pakistan



3. Consumer Prices = ↑ 36% between March 2003 and October 2005

Consumer prices rose 36% between March 2003 and October 2005. The main driving force behind this increase has been a rise in rents and energy prices. If rents and energy prices are excluded, Consumer Price Inflation rose 21% over this period.

4. Labour Costs – higher than Pakistan or Iran

Hourly wages in the manufacturing sector on average exceed those in Pakistan by a factor of 2.3 and 1.2 respectively. This reflects an acute shortage of skilled labour in Afghanistan and competition from the donor sector.

In the agricultural sector, hourly wages in Afghanistan are about \$1.90, compared with \$1.70 in Pakistan, \$1.10 in India, and \$1.25 in Iran. The higher level of wages in the licit rural economy reflects strong competition for labor from the drug sector, especially during the poppy harvest.

Interested in knowing more? Here's where to look:

IMF: Islamic Republic of Afghanistan: Selected Issues and Statistical Appendix.
16 March, 2006

- www.imf.org/external/pubs/cat/longres.cfm?sk=19051.0

The IMF World Economic Database, April 2006:

- www.imf.org/external/pubs/ft/weo/2006/01/data/index.htm

World Bank Country Update, April 2006

- <http://siteresources.worldbank.org/INTAFGHANISTAN/Resources/AFUpdateApril06.pdf>

World Bank: The Investment Climate in Afghanistan, December 2005

- http://siteresources.worldbank.org/INTAFGHANISTAN/Resources/AF_ICA_Report.pdf

UNDP: Afghanistan's Future Holds Promise and Peril, February 2005

- www.undp.org/dpa/pressrelease/releases/2005/february/pr21feb05.html
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