

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Afghanistan

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8 April 2020

Key messages

- With 423 COVID-19 cases and 14 deaths, coupled with a weak health care system, Afghanistan is in a dire situation.
- The government has imposed various social distancing measures, including a lockdown in Herat, Kabul and Ghazni.
- The economy is expected to contract by up to 4% in 2020.
- The government has allocated \$25 million in the budget to battle the pandemic, but this will be inadequate.
- The World Bank has approved a grant of \$104.5 million for the emergency response to COVID-19 and to improve health infrastructure.

Introduction

There have been [423 confirmed COVID-19 cases and 14 casualties](#) in Afghanistan as of 8 April 2020. The COVID-19 situation in the country has been evolving quickly, with high transmission rates owing to [its porous border with Iran](#), which has seen a severe outbreak of the pandemic. Herat province, bordering Iran, has seen large number of Afghan returnees and as a result has emerged as the [epicentre of Afghanistan's infections](#).

Afghanistan has a severely [overstretched health care system](#): per capita [allocations to health are at about \\$5 annually](#) for each of the country's 35 million citizens and there are only [three doctors for every 10,000 patients](#). The domestic government's health expenditure per capita and external health expenditure per capita, both in PPP (current international \$), were [\\$8.35](#) and [\\$28.44](#) in 2016.

To combat the pandemic, the government has [adopted screening at ports of entry](#) and closed public places for gatherings, and has ordered a [three-week lockdown in Kabul and Herat](#) provinces starting from 28 March, shutting down businesses, restaurants and wedding halls. The Taliban has said it [will allow government medical teams to enter](#) areas it controls to treat virus-stricken patients. However, the government's advice to practise [social distancing has not been widely accepted](#).

Afghanistan's economy grew by [2.9% in 2019](#), driven by rapid agricultural growth. Inflation was modest, at 2.3%. The trade deficit, at 31% of GDP, was extremely large as a result of grant inflows. However, the country

continues to reel from political uncertainties, including the contested presidential election held in 2019. The basic needs poverty rate was 55% at the time of the last household survey (2016/17) and is compounded by internal displacement and conflict.

Economic and social impacts

Trade and production impacts

Afghanistan's economy is [expected to contract by up to 4% in 2020](#) with the negative impacts of the COVID-19 pandemic. Political instability, security risks and disruptions in established aid flows all continue to be additional risk factors for the national economy.

On the positive side, [GDP growth is projected to rise to 4% in 2021](#). Inflation should remain unchanged, at 2.3% in 2020, then increase to 3.5% in 2021 as economic activity improves and domestic demand strengthens. The fiscal deficit is expected to increase slightly in both 2020 and 2021 as revenue declines. Total revenue is expected to come in at 27.7% of GDP in 2021 after the implementation of VAT.

[The current account surplus will likely narrow in 2020 and 2021](#). Exports are expected to trend upward with stronger agriculture exports, enhanced as a consequence of efforts by the government to facilitate trade and the development of new trade corridors. However, export growth will be insufficient to offset import growth and lower grants. International reserves are projected to remain comfortable over the next two years at cover for nearly 12 months of imports.

As landlocked Afghanistan's main food supply line is through Pakistan (which in mid-March shut its borders as part of measures to contain its own COVID-19 outbreak), epidemic [food prices have already soared](#), although the government has called on shopkeepers to not take advantage of the situation. [For instance, the price of wheat increased by 72% in a single day](#), prompting the government to replace wheat imports lost as a result of border closures with Pakistan [with purchases from Central Asia](#).

Social impact

The International Organization for Migration has recorded more than 198,000 Afghans returnees from Iran this year, [more than 145,000 of them in March](#) as the COVID-19 outbreak in Iran accelerated. At the height of the influx, 15,000 people a day were crossing the border.

Fiscal impacts

[The \\$25 million the government of Afghanistan has pledged](#) to spend fighting the virus is just 0.1% of its annual GDP of just under [\\$20 billion](#).

Newly announced [US aid cuts of \\$1 billion](#) have come at a time when the country is battling a public health crisis. US Secretary of State Mike Pompeo [announced the cuts](#) after a short visit to Kabul. This did nothing to resolve the dispute between President Ashraf Ghani, whose re-election was confirmed after a five-month delay, and his bitter rival Abdullah Abdullah, who has also claimed the presidency.

Monetary and financial policy

The [Financial Stability Committee](#) has been meeting regularly to assess the risks that could destabilise Afghanistan financially and monetarily. Da Afghanistan Bank (DaB), the central banking institution in Afghanistan, has stated its ability to meet liquidity needs as they arise and has intensified the monitoring of the banks to ensure smooth functioning of the banking system during the pandemic.

Money service providers in Afghanistan play a central role in financial transactions. [DaB has entered discussions with the money service providers](#) to make sure services such as transactions in foreign currency are not interrupted and remote services are provided as closures come into force to contain the pandemic.

Fiscal policy

In order to cover immediate expenses in health because of the pandemic, [the government has allocated \\$25 million](#) in the budget. This amounts to

[0.1% of its annual GDP](#) of just under [\\$20 billion](#). It is also working towards curtailing and delaying non-essential spending to be able to divert these funds to fight the pandemic, with increased spending in health, on relief for affected households and on policies to lessen the impact of the pandemic on the economy.

The Afghan administration has also constituted the Government's Emergency Committee for Prevention of COVID-19. This meets every two days to assess the situation and initiate relevant actions.

Donor support

The [World Bank approved a \\$100.4 million grant for Afghanistan's](#) COVID-19 Emergency Response and Health Systems Preparedness Project on 2 April 2020. This is aimed at supporting Afghanistan to take effective steps in order to tackle the threats posed by the pandemic and also to strengthen its public health infrastructure.

[ADB has also agreed to provide technical and financial assistance](#) to Afghanistan in the wake of the pandemic to support health measures.

The UN Humanitarian Coordinator, which is supported by the [Advisory Board of the Afghanistan Humanitarian Fund \(AHF\)](#), has also [allocated \\$1.5 million](#) to go towards urgent preparedness and the in-country response to COVID-19.

[Uzbekistan has sent 500 tonnes of food aid. China has also sent essential medical supplies and other items](#) including ventilators, masks, COVID-19 testing kits, flour, rice and other items of basic needs.

The government has also [requested financing from the Islamic Development Bank and the IMF](#).

Information in this note is correct as of 9 April 2020. The authors are ODI Fellows in Albania and Ghana; this note is written in a personal capacity. Comments welcome to i.baby.fs@odi.org.uk and communicate.sweta07@gmail.com