Country Insight Snapshot

Afghanistan

August 2021

Written 13 August 2021

OVERVIEW

OVERALL COUNTRY RISK RATING: DB7

Highest risk: Returns are almost impossible to predict with any accuracy. Business infrastructure has, in effect, broken down.

R

Rating Outlook: Deteriorating rapidly

CORE OUTLOOK

+ The development of Afghanistan's natural resources - notably copper, iron ore and oil - could feed into higher real GDP growth over the long term.

- The collapse of the Ghani government and subsequent takeover by the Taliban threaten to further significantly undermine all aspects of doing business in Afghanistan.

- Institutional constraints and weak implementation capacity severely limit the prospect of meaningful structural reforms.

KEY DEVELOPMENT

The overall rating outlook, as well as the credit, supply, market and political outlooks, have all been downgraded to 'deteriorating rapidly' as a result of the assumption of power by the Taliban.

CREDIT ENVIRONMENT OUTLOOK

R

Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

R

Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

R

Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

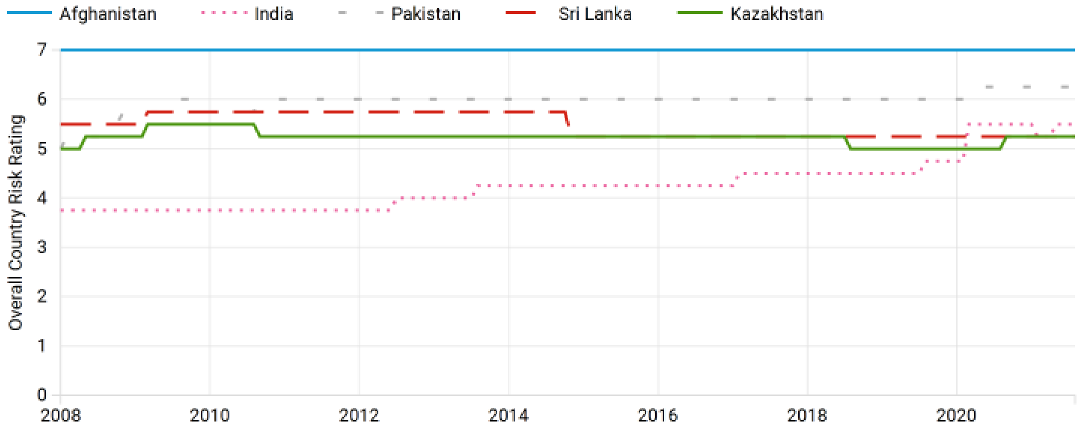
R

Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

KEY INDICATORS

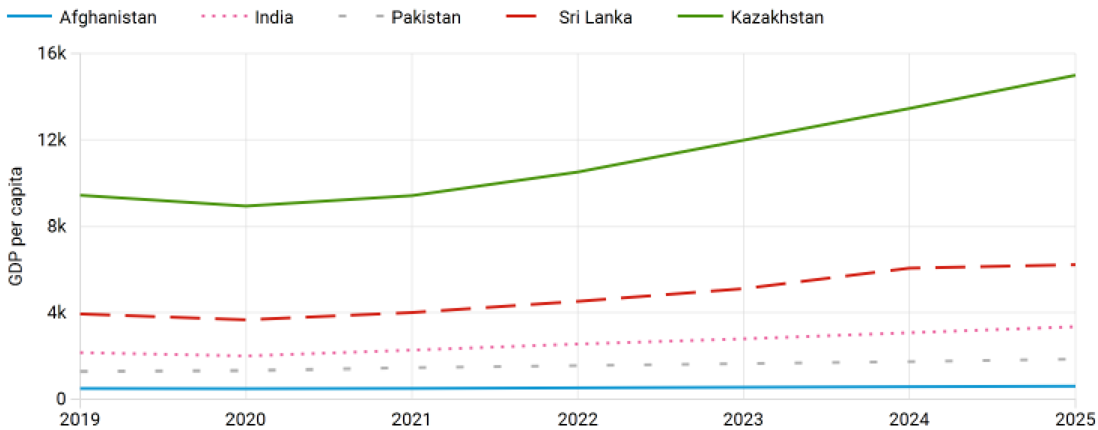
Rating History and Comparison



Source: Dun & Bradstreet

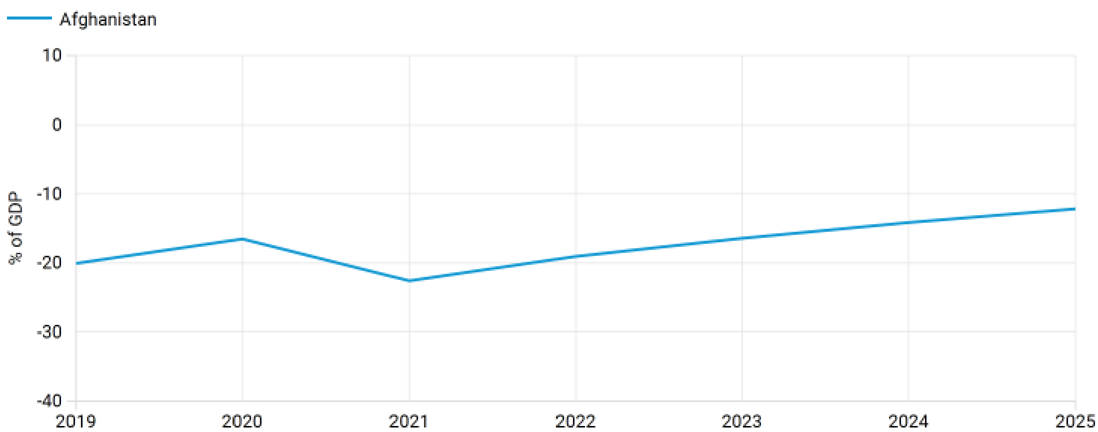
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Current Account (Percentage of GDP)



Source: Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2018	2019	2020	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	-21.2	-20.1	-16.5	-22.6	-19.1	-16.4	-14.2	-12.2
Govt balance, % GDP	1.6	-1.1	-2.3	-4.5	-3.5	-2.5	-1.5	-0.5
Inflation, annual avge %	0.6	2.3	5.4	8.0	7.0	6.0	5.0	4.0
Oil Price, USD/b	71.1	64.0	42.3	67.9	64.4	58.9	60.2	62.0
Real GDP Growth, %	1.2	3.9	-5.0	-3.0	1.0	1.5	2.0	2.3

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Afghanistan’s stock of FX reserves was an estimated USD8.4bn in 2020; we forecast a decline to around USD7.7bn in 2021 and USD7.5bn in 2022 as import demand picks up and exports begin to falter under the new Taliban regime. Import cover is healthy at 11.8 months, well above the 3.0-month minimum recommended by the IMF for emerging economies, but is expected to steadily decline over the medium term. Meanwhile, FDI inflows were USD13m in 2020, down from USD39m in 2019 and well below a recent high of USD163m in 2015. The total stock of FDI inflows was recorded at USD1.59bn in 2020. With the Taliban now in charge, FDI inflows are expected to weaken significantly very quickly.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: CiA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: CiA

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 120-180 days

Normal period of credit associated with transactions with companies in the stated country.

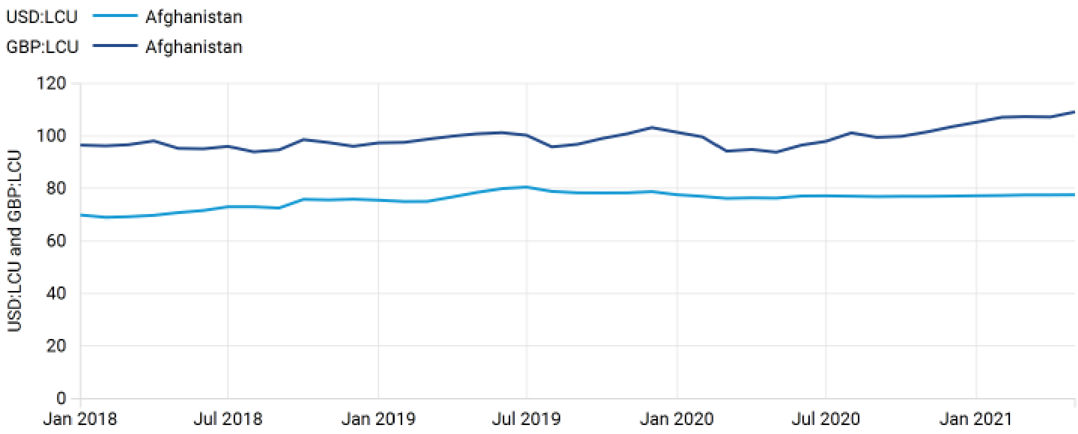
Local Delays: 5-6 months

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 5-6 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

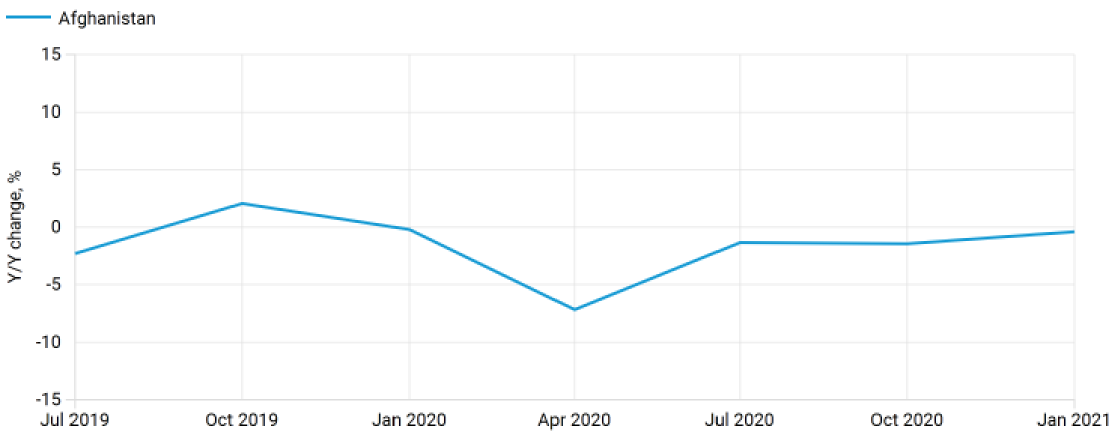
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Afghan afghani

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics

RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Downgrades across the board following Taliban takeover

Dun & Bradstreet has implemented rating outlook downgrades across the board for Afghanistan as a result of the rapid advance of the Taliban across the country, culminating in the mid-August toppling of the government of President Ashraf Ghani, who has fled the country. The speed of the Taliban takeover was a surprise to almost all observers and was in part due to the almost total lack of resistance put up by the Afghan military. For its part, the US and other NATO forces have been trying to evacuate as many of their nationals as possible, although this effort has been impeded by chaos at Hamid Karzai International Airport in Kabul as Afghans try to board departing aircraft. This aside, one silver lining is that there appears to be little chance of a civil war in Afghanistan. Meanwhile, the Taliban has indicated that its regime will not be as brutal as the one that was in power in the 1990s. However, it is still likely to be the case that human rights will be severely curtailed, especially for women.

On the economic front, Afghanistan's prospects look increasingly dim as it remains to be seen which countries will actually recognise the Taliban as a legitimate government. In terms of macroeconomic performance, we expect a near-term weakening of real GDP compared to previous projections, higher inflationary pressures, and a deterioration in the fiscal finances. Over the long term, much will depend on whether the Taliban will look to develop Afghanistan's mineral resources.

Regional powers might still have a say in how things ultimately play out. One reason for this is that countries such as Iran and Pakistan will be reluctant to take in what could be hundreds of thousands of Afghans trying to flee into neighbouring countries to avoid life under the Taliban. Meanwhile, China has stated that it looks forward to building deeper ties with Afghanistan, this perhaps with one eye on what are estimated to be the latter's USD1 to 3trn-worth of mineral resources.

Business Continuity

Vaccination roll-out to slow even further under Taliban rule

Whatever the complexion of the Afghan government, it will be faced with a multitude of challenges. Apart from keeping the country together politically, Afghanistan is currently dealing with a serious drought, affecting 80% of the country. On top of this, there are also food shortages. Finally, coronavirus remains a threat. Granted, the seven-day average of daily new infections was around 300 in mid-August and seemed to be under reasonable control. However, official data is notoriously unreliable. Moreover, vaccination rates are low: As of mid-August, only a tiny percentage had been fully inoculated. According to the Afghan authorities, without an acceleration in the pace of vaccination, it will take another 18 months before the official target of vaccinating three-fifths of adults is reached. With the chaos of the Taliban takeover, even this timeline now looks to be overly-optimistic.

COUNTRY PROFILE AND STATISTICS

Overview

Afghanistan lies in the heart of Asia, and is bounded on the north by Turkmenistan, Uzbekistan and Tajikistan, on the east and south by Pakistan, by China in the east and Iran in the west.

The country was invaded by Soviet forces in 1979, which were forced to withdraw ten years later by anti-Communist rebels backed by Pakistan and the US. The fundamentalist Taliban seized Kabul in 1996 and captured most of the country, but were in turn toppled by the US and the Taliban's northern-based rivals in Afghanistan in 2001. The Taliban subsequently regrouped in the ethnic-Pashtun region that straddles Afghanistan and Pakistan and overthrew the government of President Ashraf Ghani in August 2021.

The country remains poor and highly dependent upon foreign aid and security, in contrast to the 1970s when a small, educated wealthy class thrived under a weak monarchy. The orchards for which Afghanistan was famous have largely been destroyed by the constant civil war that has raged since the 1980s.

Key Facts

Key Fact	Detail
Head of state	Emir Hibatullah AKHUNDZADA (de facto)
Capital	Kabul
Timezone	GMT +04-30
Official languages	Pashto, Dari
Population (millions)	38.9
GDP (USD billions)	19.0
GDP per capita (USD)	487
Life expectancy (years)	64.3
Literacy (% of adult pop.)	43.0
Surface area (sq km)	652,090

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	2.2	2.7	1.2	3.9	-5.0
Nominal GDP in USDbn	18	19	18	19	19
Nominal GDP in local currency (bn)	1,221	1,286	1,326	1,468	1,456
GDP per Capita in USD	508	521	495	496	487
Population (year-end, m)	35.4	36.3	37.2	38.0	38.9
Exchange rate (yr avge, USD-LCU)	67.9	68.0	72.1	77.7	76.8
Current Account in USDbn	-2.7	-3.6	-3.9	-3.8	-3.1
Current Account (% of GDP)	-15.1	-18.8	-21.2	-20.1	-16.5
FX reserves (year-end, USDbn)	6.5	7.2	7.3	7.4	8.4
Import Cover (months)	10.6	10.8	11.0	12.1	14.5
Inflation (annual avge, %)	4.4	5.0	0.6	2.3	5.4
Govt Balance (% GDP)	0.1	-0.7	1.6	-1.1	-2.3

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	-3.0	1.0	1.5	2.0	2.3
Nominal GDP in USDbn	20	21	23	25	26
Nominal GDP in local currency (bn)	1,652	1,870	2,080	2,349	2,628
GDP per Capita in USD	500	527	554	580	604
Population (year-end, m)	39.8	40.8	41.7	42.6	43.5
Exchange rate (yr avge, USD-LCU)	83.0	87.0	90.0	95.0	100.0
Current Account in USDbn	-4.5	-4.1	-3.8	-3.5	-3.2
Current Account (% of GDP)	-22.6	-19.1	-16.4	-14.2	-12.2
FX reserves (year-end, USDbn)	7.7	7.5	7.6	7.7	7.8
Import Cover (months)	11.8	11.3	11.0	10.7	10.5
Inflation (annual avge, %)	8.0	7.0	6.0	5.0	4.0
Govt Balance (% GDP)	-4.5	-3.5	-2.5	-1.5	-0.5

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Afghanistan	India	Pakistan	Sri Lanka	Kazakhstan
Income per Capita (USD)	500	2,258	1,443	4,005	9,417
Country Population (m)	39.8	1,351.1	225.2	21.5	19.0
Internet users (% of population)	13.5	34.5	15.5	34.1	78.9
Real GDP Growth (% p.a., 2021 - 2030)	2.0 - 5.0	4.0 - 6.0	3.0 - 4.5	1.0 - 5.0	0.5 - 6.0

Source: Various sources/Dun & Bradstreet

LINKS

User Guide

Please click here to visit our online user guide.

Other Dun & Bradstreet Products and Services

Sales

Email: countryinsight@dnb.com
Telephone
UK: +44 20 7149 5000
US: +1 800 234 3867
Rest of World
contact your local office
or call +44 20 7149 5000

Publisher

Dun & Bradstreet
The Point
37 North Wharf Road
London W2 1AF
United Kingdom
Tel: +44 20 7149 5000
Email: countryinsight@dnb.com

Dun & Bradstreet, a leading global provider of business decisioning data and analytics, enables companies around the world to improve their business performance. Dun & Bradstreet's Data Cloud fuels solutions and delivers insights that empower customers to accelerate revenue, lower cost, mitigate risk, and transform their businesses. Since 1841, companies of every size have relied on Dun & Bradstreet to help them manage risk and reveal opportunity. Visit www.dnb.com for details.

Additional information relevant to country risk can be found in the online *International Risk & Payment Review*, which provides timely and concise economic, political and commercial information and analysis on 132 countries. This subscription-based service (www.dnbcountryrisk.com) carries essential information on payment terms and delays. It also includes the unique Dun & Bradstreet Country Risk Indicator to help monitor changing market conditions.

Legal and Copyright Notices

While the editors endeavour to ensure the accuracy of all information and data contained in this Country Insight Report, neither they nor Dun & Bradstreet Limited accept responsibility for any loss or damage (whether direct or indirect) whatsoever to the customer or any third party resulting or arising therefrom.

Disclaimer

Whilst Dun & Bradstreet attempts to ensure that the information provided in our country reports is as accurate and complete as possible, the quantity of detailed information used and the fact that some of the information (which cannot always be verified or validated) is supplied by third parties and sources not controlled by Dun & Bradstreet means that we cannot always guarantee the accuracy, completeness or originality of the information in some reports, and we are therefore not responsible for any errors or omissions in those reports. The recipients of these reports are responsible for determining whether the information contained therein is sufficient for use and shall use their own skill and judgement when choosing to rely upon the reports.