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POLICY DIRECTORATE GENERAL
(MFPD)**

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Sawar 1398



Ministry of Finance
Islamic Republic of Afghanistan

Annual Macroeconomic and Fiscal Bulletin

FY1397

Afghanistan's Macroeconomic and Fiscal Performance

Macroeconomic and Fiscal Policy Directorate General (MFPD)

Ministry of Finance, Afghanistan

Sawar 1398 (May 2019)



Preface

The Annual Macroeconomic and Fiscal Bulletin (AMFB), which is published annually in a fiscal year, outlines the country's macroeconomic and fiscal performance during a year and compare the fiscal performance of current year with the previous year. It covers recent economic developments, revenue collection performance, budget execution by sector, province and inputs, and presents the government financing of the year.

The Annual Macroeconomic and Fiscal Bulletin is intended for a wide audience, including policy makers, the donor community, the private sector, and the community of analysts and professionals engaged in Afghanistan's economy.

This document was prepared by the economists of Macroeconomic and Fiscal Policy Directorate General. Special topics and sections were written by Mr. Tamim Karimi (Macroeconomic and Expenditure Analyst), and Mr. Mohammad Moin Ibrahimi (Macroeconomic Analyst) under supervision of Mr. Abdul Rahman Rahimi (Fiscal Policy Director), and the overall guidance was provided by Shamsul Haq Noor (Director General). The authors are grateful for the cooperation, comments and suggestions received from the Government officials with respect to sharing of the data and statistics.

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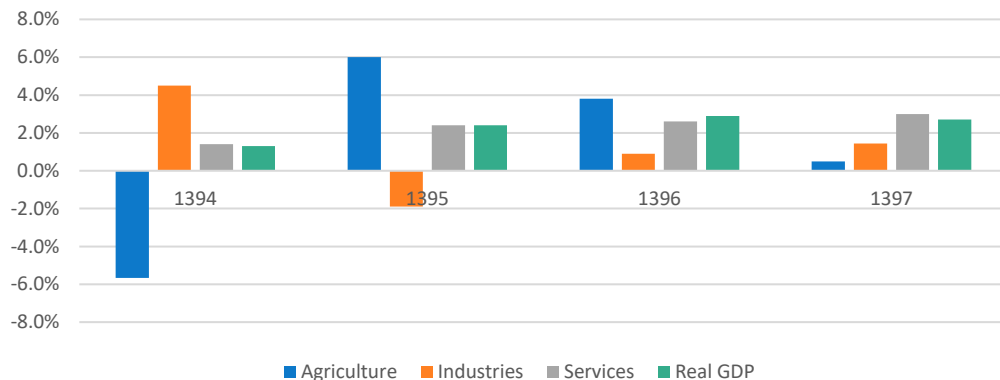
Glossary

Budget	An itemized summary of estimated intended expenditures for a given period along with proposals for financing them
Operating Budget	The budget for operating budget expenditures. These are mainly recurrent expenditures, and include wages and salaries for all public servants, running costs for Ministries, schools, barracks etc. A small amount of capital expenditure is also included in the Operating Budget in Afghanistan. The Operating Budget is sometimes referred to as the Recurrent Budget in other countries
Development Budget	The Government budget for development projects implemented by Government agencies. It contains recurrent and capital expenditure in Afghanistan. These projects are mainly donor funded. The Development Budget is sometimes referred to as the Capital Budget in other countries.
Core Budget	The operating budget plus the development budget
External Budget	The budget for all donor activities that are funded directly by donors, rather than channeling the funding through the Government
Integrated Budget	The core budget plus the external budget
Expenditure/Expense	The purchase of goods, services, assets. It also includes interest payments, and subsidies and transfers
Recurrent spending	Expenditure that is ongoing rather than one-off, and does not result in the acquisition of a fixed asset. For example payments for electricity or fuel, and the payment for salaries etc. Often equated with the operating budget. However development budget spending contains recurrent items and vice versa
Capital spending	Spending on a capital asset, for example, a tractor or irrigation pump
Compensation of Employees	The total remuneration, in cash or kind, payable to an employee for work done during the accounting period. It consists of wages, salaries, and social contributions made on behalf of employees to social insurance schemes. Excluded are amounts paid to contractors, self-employed out-workers, and other workers who are not employees
Goods and Services (use of)	Expenditure items such as electricity costs, maintenance and repair, consultancy services and items with a purchase value below Afs 50,000
Subsidies	Payments made to State-Owned Enterprises to help them cover their costs
Transfers	Payments to a person or organization for which no service is received, for which pension payments and subsidies
Interest payments	The interest paid on outstanding loans
Contingency Funds	Items listed in the operating and development budgets that may require funding. Throughout the year, funding from contingency reserve items may be allocated to the budgets of budgetary units during the year (increasing their original budget)

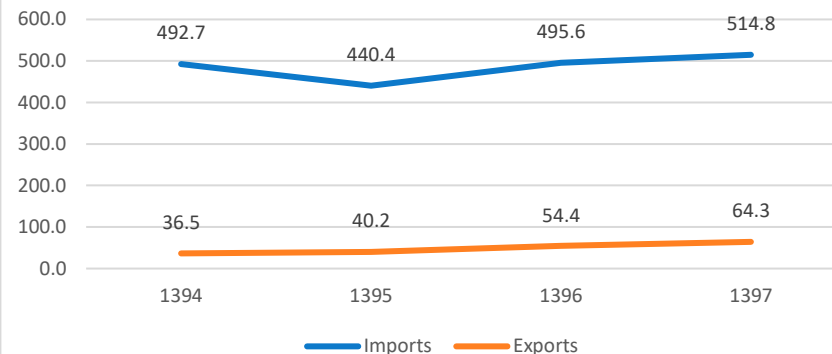
Assets	An entity over which ownership rights are enforced, and from which economic benefits may be derived by its owners by holding it or using it over a period of time.
Non-financial assets	Physical assets such as real estate and machinery
Financial assets	A financial claim on an asset that is usually documented by some type of legal representative. Examples include bonds and shares of stock, but not tangible assets such as real estate or gold. These are included below the line as financing items.
Revenues	Domestically raised revenues and donor grants (excludes loans)
Domestic Revenues	Revenues raised by the Government of Afghanistan (excludes donor grants). These are mainly revenues raised by the Afghanistan Revenue Department (taxes, customs duties etc.), and revenues rose by other Government agencies (fees and fines etc.)
Grants	Funds received from donors. Often the money can only be spent on a certain project or activities, but sometimes can be spent at the discretion of the recipient Government
Balances	The difference between revenues and expenditures
Operating Budget Balance (excluding grants)	Domestic revenues (excluding donor grants to the operating budget) minus operating budget expenditures
Operating Budget Balance (including grants)	Domestic revenues plus donor grants to the operating budget, minus operating budget expenditures
Development Budget Balance	Donor Grants to development budget minus development budget expenditures
Core Budget balances	
Balance (excluding and including grants)	Total revenues (excluding and including grants) minus total expenditures
Net operating balance	Revenues (including donor grants) minus recurrent expenditures. It measures the change in net worth resulting from transactions (excluding capital expenditure)
Primary operating balance	Net operating balance plus interest expenditures
Surplus	A positive balance (revenues are greater than expenditures)
Deficit	A negative balance (revenues are less than expenditures)

Financing	How the government funds its deficit (or invests its surplus). For example, drawing down on foreign loans or withdrawing funds from the Central Bank. More generally, it describes transactions in financial assets.
Above the line	Refers to ‘real’ expenditure and revenue activities, for example the paying of salaries, the purchase of school books, the building of a dam etc.
Below the line	Refers to financing transactions, and transactions in financial assets, for example loan disbursements and repayments, transactions on the Treasury Single Account
Loans	Loans of money from foreign Governments, international organization and development banks. Afghanistan’s debt strategy allows only concessional loans to be taken out
Concessional loans	Loans that are offered at below market rates (e.g. a low-interest rate and with a long grace period)
Principal repayment	Repayment of the principal of a loan (as distinct from an interest payment)
Gross Domestic Product	The value of all the goods and services produced by a country in one year. This excludes the opium economy for Afghanistan
Budget target	The level of revenue or expenditure expected over a quarter or during the year. For expenditures we assume that the budget target for the quarter is 25 percent of the annual budget
Budget Variance	The difference between the actual outcome and the budget target
Treasury Single Account (TSA)	The main bank account of the Government. In Afghanistan, the TSA consists of the Afghani account, the US dollar account, provincial revenue and expenditure accounts, and ARTF and LOTFA accounts
AFMIS	Afghanistan Financial Management Information System. The central database that records every transaction made by Government
Euro trace	The computer database system for recording and classifying customs transactions

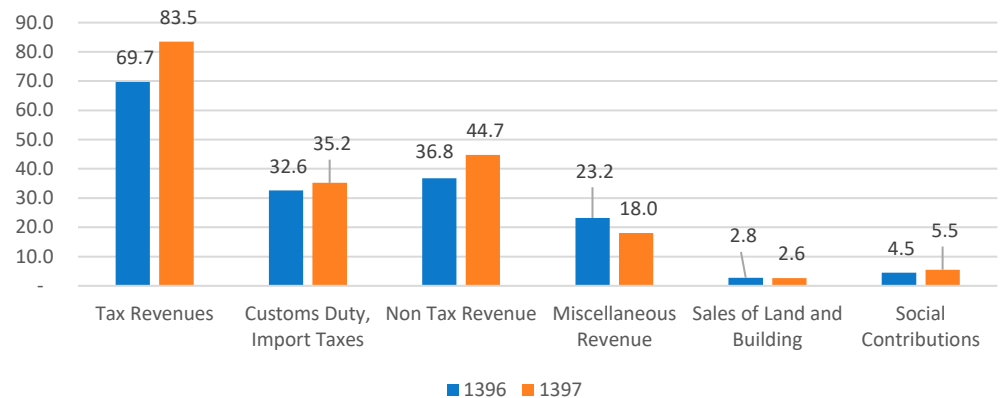
Sectoral GDP Growth



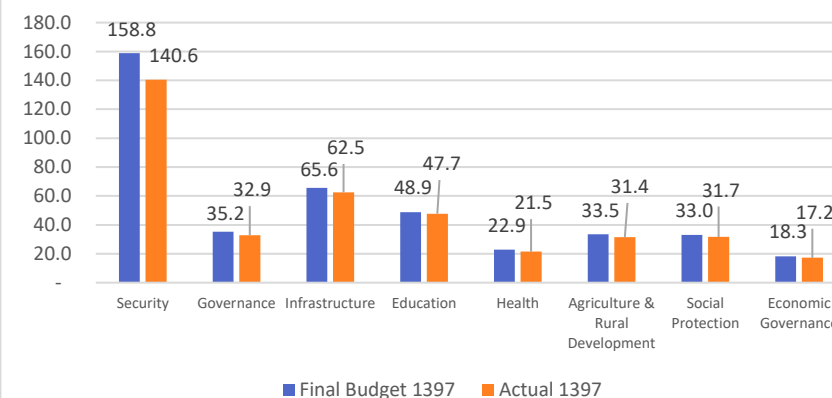
Exports & Imports (Afs Billion)



Domestic Revenue Collection by Major (Afs Billion)



Budget vs Actual Expenditure (Afs Billion)



Executive Summary

Macroeconomic Highlights

- In Fiscal Year FY1397, Afghanistan faced severe economic condition with slow growth at its lowest rate since the establishment of the government. The factors for slow growth was mainly driven by; (i) severe drought particularly in the North provinces that impact negatively on agriculture sector. Whereas agriculture production severely declined due to low snowfall and rain during end of FY1396 and beginning of FY1397 which led to loss of grain crops and livestock production, (ii) Low level of business and investor confidence that significantly worsened in the context of political uncertainty driven by the duration of international security aid, the result of upcoming presidential election as it delayed until September 2019, worsening election violence, and the peace negotiations with the Taliban.
- The low economic growth considerably lagged population growth that declined per capita incomes. The severe drought impacted negatively the livelihoods of poor people in rural areas that led to loss of grain crops and livestock and increased the number of internal displacement to high levels mainly to urban areas which as a result increased poverty rate.
- The Afghan economy deteriorated with insecurity, political uncertainty, and parliamentary election which created low business confidence that led to slight decline in economic growth to 2.7 percent in 1397 from 2.9 percent in 1396. In the medium-term, growth is expected to gradually accelerate to around 4.2 percent by 1400, assuming in political certainty and improvement in investors' confidence.
- Inflation rate in 1397 remained negative in the first half of the year and reached to lowest rate of -0.7 percent and began to rise in the second half of the year. Despite the impact of drought and local currency appreciation against the neighbor countries; food price inflation was negative during several months of the year due to decrease in regional grain prices and increase in imports of food items.
- The exchange rate of Afghani currency against the US dollar continued to depreciate highly by nine percent during the year 1397. Depreciation of local currency was largely driven by global strengthening of the US dollar. The local currency depreciated from 68.4 in 1396 to 73.5 in 1397.
- Trade balance continued to remain deficit by around 34 percent of GDP in 1397 due to less volume of exports and continued increases in imports. Export increased from Afs 54,416 million in FY1396 to Afs 64,279 million in FY1397, representing 18.1 percent growth. Growth in export was driven by the successful launch of air corridors to India, Turkey, Saudi Arabia, European Union, Kazakhstan, and United Arab Emirates. Similarly, imports increased in FY1397 with Afs 514,816 million from Afs 496,645 million in FY1396 let by strong increase in vegetable imports. The current account surplus narrowed, reflecting the widening trade deficit and declining grants.

Fiscal Highlights

- The National Budget for 1397 was estimated Afs 377 billion, representing 25 percent of GDP. Various changes took place in national budget during the year and finalized to Afs 416 billion. Out of which, Afs 280 billion for operating budget and Afs 135 billion for development budget. In Final Budget, Afs 238 billion (56.2 percent) of budget was planned to be financed from donor grants, and remaining Afs 173.5 billion (41.7 percent) of budget through domestic revenue.
- Despite slow economic growth, domestic revenue continued higher collection of Afs 189.5 billion, as the target was Afs 173.5 billion. Revenue collection increased 12 percent from the last year, and constitute 13.1 percent of GDP.
- Total government expenditure was Afs 285 billion makes 92 percent of the final budget. Operating and Development budget expenditure amounted to Afs 259.2 billion and Afs 126.4 billion. The execution rate for operating and development expenditures were 92 percent. Total budget spending increased by 9.3 percent compared with last year budget. The government spending makes 26.6 percent of the GDP.

1. Macroeconomic Performance

1.1. GDP Growth

After a period of continued economic growth from 2003 to 2013, the Afghan economy deteriorated with insecurity, political instability, internal displacement, and the partial withdrawal of International Security Force in 2014. The economic growth made a slow recovery from 1.3 percent in 1394 to 2.9 percent in 1396, but slightly decline to 2.7 percent in 1397. The growth is projected to gradually gain pace to reach 4.2 percent by 1400.

Table 1. Economic Growth

	Historic	Current	Outer Years		
	1396	1397	1398	1399	1400
Real GDP Growth	2.9%	2.7%	2.9%	3.5%	4.2%
Nominal GDP Level (Afs bn)	1,384.9	1,448.6	1,551.6	1,681.3	1,847.2
NGDP by Sector (Afs bn)					
Agriculture	281.5	284.0	337.6	377.4	425.4
Industries	307.5	353.3	362.4	379.3	407.8
Services	729.0	773.8	816.2	878.0	958.2
GDP Deflator	5.1%	4.6%	4.1%	4.7%	5.4%
CPI Inflation	4.4%	2.1%	4.5%	4.2%	3.8%

Source: Macro-Fiscal Model (MFM) 2019

The steady recovery was led by the agriculture and service sectors; as well as by taking macroeconomic management and reforms. The growth recovery was slightly lost in 1397, due to some political instability and parliamentary election which created low business confidence and persistent political uncertainty. In addition, the withdrawal of International Security Force and the decline in donor aid also extremely impacted in economic growth. With this situation, some social indicators worsened during the previous years, as the number of people who live below the poverty line increased. The official estimates for 2017 shows that 54.5 percent of population are poor.

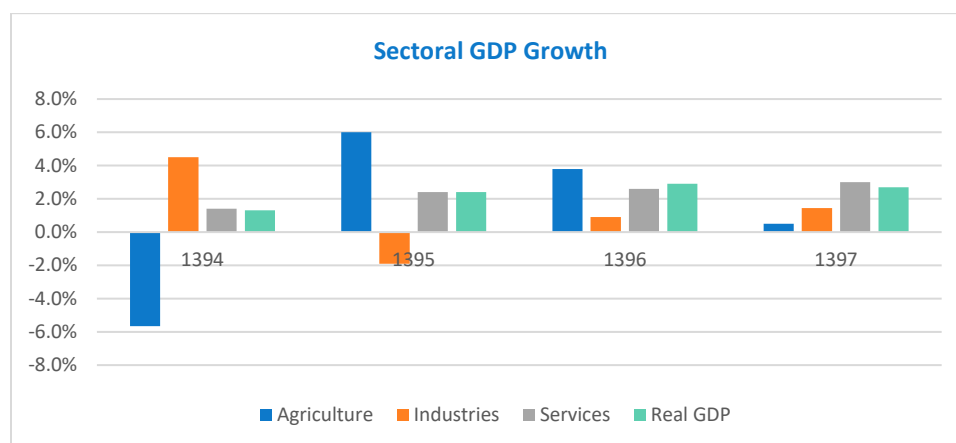
Sectoral Performance and Contribution to GDP

During 1397, both industry and service sector growth slightly pick up, while agriculture sector growth continued to decline significantly. Industrial sector improved from 0.9 percent to 1.4 percent, and service sector from 2.6 percent to 3 percent. The significant industrial growth in 1397 is attributed to growth in mining and quarrying, food, beverage and tobacco. Slow growth in both sectors reflected by weak confidence in the context of parliamentary elections and upcoming presidential elections. The weak confidence during 1397 expressed more negative view on business environment for all types of businesses, as a result the trade sectors have been affected heavily.

Agriculture sector declined by an estimate of 3 percent after growing at 3.8 percent in 1396. This is due to extreme low snow and rain fall between end of 1396 and beginning of 1397 that created

drought in most part of the country which heavily affect the crops and livestock productivity. Wheat production declined around 24 percent and livestock productions declined by 48 percent.

Figure 1: Sectoral GDP Growth



Source: Macro-Fiscal Model (MFM) 2019

In 1397, agriculture growth decreased highly from 3.8 percent to 0.5 percent. The high decline was in fruits production during this year. Industrial growth increased to 1.4 percent from 0.9 percent in 1396, and similarly service sector increased to 3 percent from 2.6 percent in 1396. The details breakdown of sectorial growth performance is listed in table below:

Table 2. Sectorial performance (%) in 1397

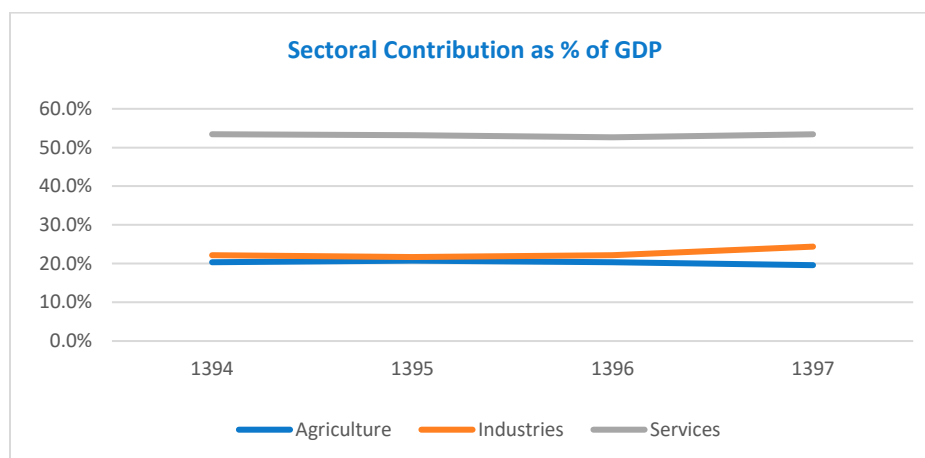
Average Percentage Growth	1397
Agriculture	0.5%
Cereals	0.2%
Fruits	0.1%
Livestock	0.0%
Others	0.1%
Industry	1.4%
Mining and quarrying	0.1%
Manufacturing	0.3%
Electricity, gas, and water	0.0%
Construction	1.0%
Services	3.0%
Wholesale & retail trade	-0.3%
Restaurants & hotels	0.2%
Transport & storage	1.6%
Post and telecommunications	0.2%
Finance, insurance, real estate and business	0.2%
Ownership of dwellings	0.1%

Community, social and personal service	0.0%
Producers of Government Services	0.8%
Other services	0.2%

Source: Macro-Fiscal Model (MFM) 2019

The service sector continued to be the highest contributor to GDP growth followed by industry sector, while the agriculture sector's contribution further declined. Service sector by 53.4 percent contribution to GDP, industry sector by 24.4 percent and agriculture by 19.6 percent only. Contrary to service sector, the share of agriculture remains 19.6 percent of GDP, whereas more than 70 percent of Afghan population are involve in this sector, which increased a home to most citizens living under poverty line. Hence, it remains an important sector as a source of livelihoods for the rural poor, in influencing the affordability of basic food items for the population, and its significant inputs into the manufacturing sector.

Figure 2. Sectoral Composition of GDP



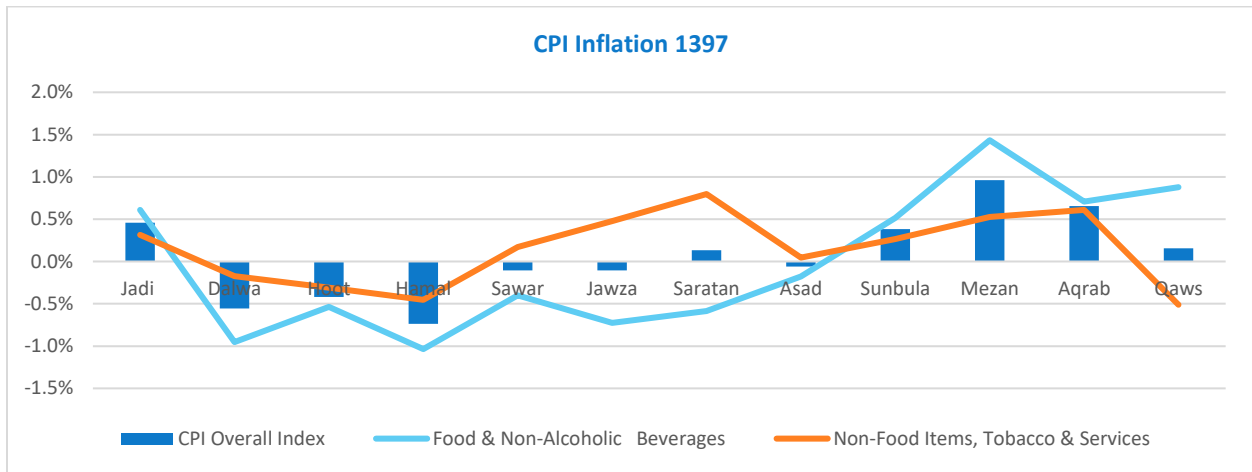
Source: Macro-Fiscal Model (MFM) 2019

1.2. Prices

Inflation rate measured by the overall consumer price index (CPI) and remained negative for half of 1397. Consumer prices declined throughout the first half of the year and began to rise from Saratan. Consumer prices reached their lowest point of -0.7 percent year on year in month of Hamal and reached top point of 1 percent in month of Mezan.

Fluctuations in CPI overall index were mainly driven by the weaker food prices, mostly vegetable and spices prices. The price of vegetable dropped to negative highly between months of Jadi to Sunbula of 1397. Food prices have been climbed up with vegetable price recovery during the second half of the year. Non-food prices started to increase in month of Sawar and reach to top point of 0.8 percent in month of Saratan, mainly driven by transportation prices, but fluctuate in the second half of the year and declined to 0.5 percent in final month of the fiscal year. The main issue behind the food prices were the impacts of drought conditions and currency appreciation against two neighbour countries that results in increased imports of food items during the year.

Figure 3. Inflation in Fiscal Year 1397

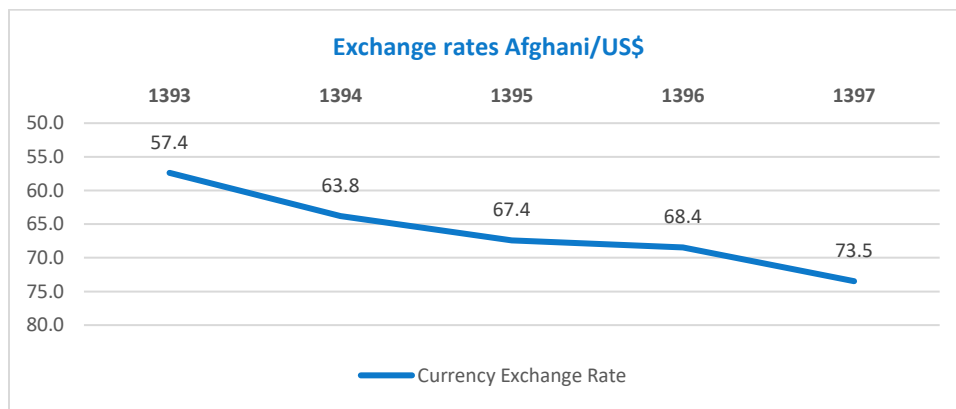


Source: Macro-Fiscal Model (MFM) 2019

1.3. Exchange Rate

The Afghani currency continued gradually depreciation against the US dollar in 1397. It depreciated by 9 percent against the US dollar through 1397, largely driven by global strengthening of the US dollar. The local currency depreciated from 68.4 in 1396 to 73.5 in 1397. The central bank of Afghanistan put its efforts to limit exchange rate volatility against the US dollar through increasing the sales of US dollar to around \$2.4 billion in 1397 while its sales was \$1.9 billion in 1396. It is estimated that current political uncertainty associated with the upcoming presidential election will likely put the value of the Afghani under continued downward pressure and might reach over 76 per US dollar in the next year.

Figure 4. Exchange Rates Trend



Source: Da Afghanistan Bank website, 1397

1.4. Current Account and Trade Balance

In 1397, the current account is expected to have recorded a minor surplus with aid flows entirely financing the widening trade deficit. Afghanistan’s export increased from Afs 54,416 million in FY1396 to Afs 64,279 million in FY1397, representing 18.1 percent growth. This amount does not include smuggling and re-export. Growth in export of goods was driven by the successful launch of air corridors to India, Turkey, Saudi Arabia, European Union, Kazakhstan, and United

Arab Emirates. The value of imported goods officially recorded during FY1397 was Afs 514,816 million which was excluding smuggling and duty-free goods. However, the imported value of goods was recorded Afs 496,645 million in FY1396.

The export-import trade balance was Afs 450,537 million, which shows a huge trade gap. The balance of trade is understood to show the strength of a country's economy in comparison to other countries. Afghanistan is heavily influenced by agricultural sector, but during this year faced difficulty in developing and modernizing this sector due to poor infrastructure, insecurity, and low performance. The trade balance shows a large deficit due to the high volume of agriculture needs imported to the country, not domestically available. The income and transfers account is positive partly due to remittances from family members outside of Afghanistan.

Afghanistan's Trade Partners

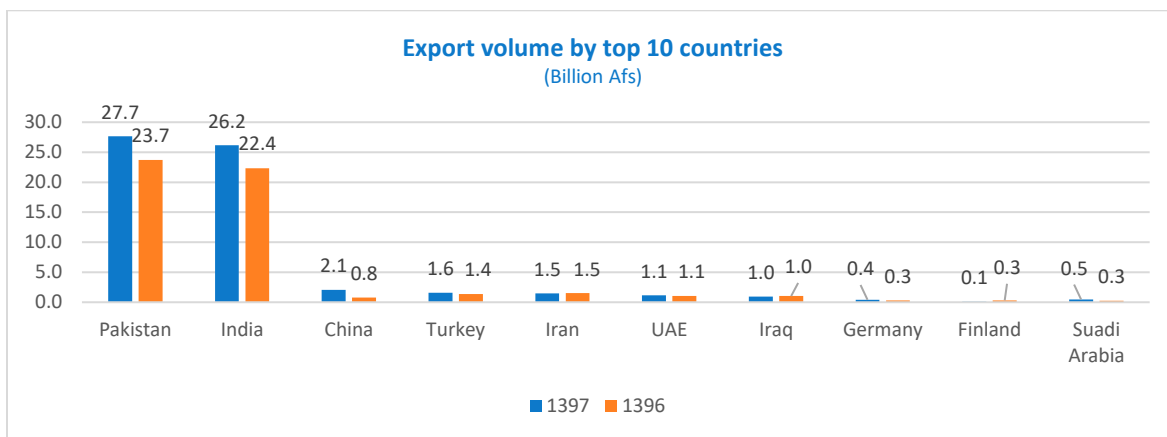
Both exports and imports in Afghanistan are exposed to political, security and economic shocks. Weaker exports and a moderate increase in imports widened the merchandise trade deficit in 1397. Continued trade deficit has depreciated local currency against foreign currencies and exposed Afghans domestic food and non-food prices to price shocks to exporting countries.

The two main trading partners of Afghanistan on exports side are Pakistan and India with Afs 27.7 billion and Afs 26.2 billion values. China is the third country as a major importer for Afghan products after Pakistan and India with Afs 2.1 billion. Exports in Afghanistan is showing strong growth by end of 1397. Compared with 1396, the volume of exports increased slightly. Following the successful launch of air corridor in 1396, the Afghan government continued to open more air corridors with other countries to showcase additional Afghan exports to the world.

By end of the fiscal year 1397, Afghanistan's National Air Corridor Program facilitated the export of goods to India, Turkey, Saudi Arabia, European Union, Kazakhstan, and the United Arab Emirates. The air cargo exports have more than doubled, from over 1,970 tons in FY1395 to more than 5,000 tons in Fy1397, with total value of goods jumping from nearly \$250 million in FY1395 to over \$500 million in FY1397.

The chart below shows top 10 destinations for Afghan product exports.

Figure 5. Export value by countries

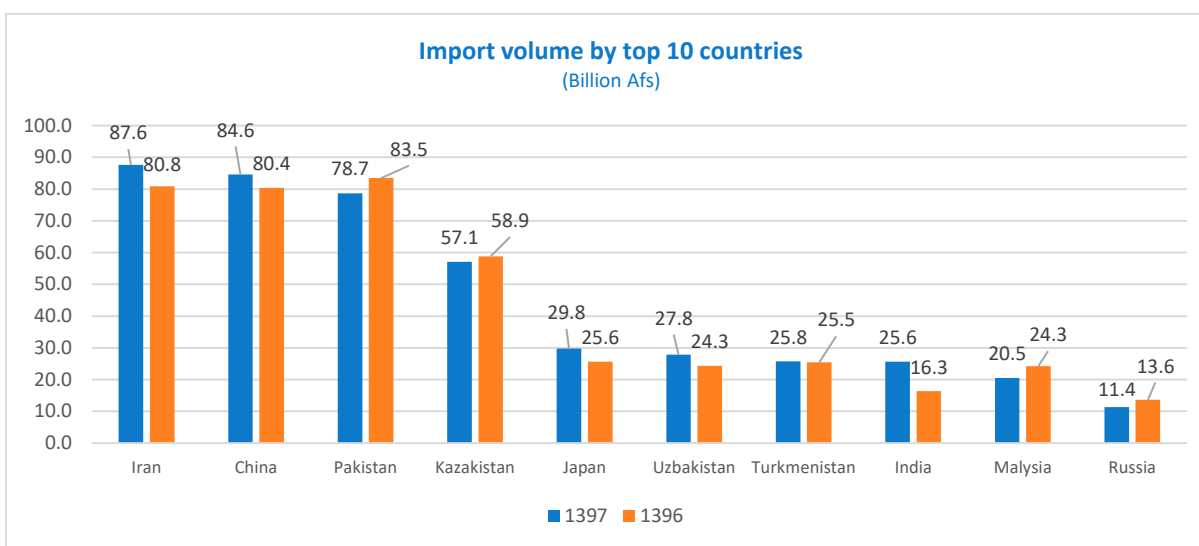


Source: ASYCUDA website, 2019

Similarly, total imports volume increased slightly in FY1397 compared with FY 1396. The slow growth of imports was driven by weak domestic demand and a sharp decline in regional food prices. Traditional trade partners remained the dominant import origins, with Iran, China, and Pakistan accounting for 48.7 percent of total imports.

Afghanistan's imports however, have been more diversified over the last five years, with gradually increasing imports from central Asian countries whose import share rose from 18 percent in 2013 to 23 percent in 2018. Similarly, export destinations slightly diversified with India now importing the same share of Afghan exports as Pakistan, thanks in large part to expanded air corridors. The following table presents major suppliers to Afghanistan.

Figure 6. Import values by countries



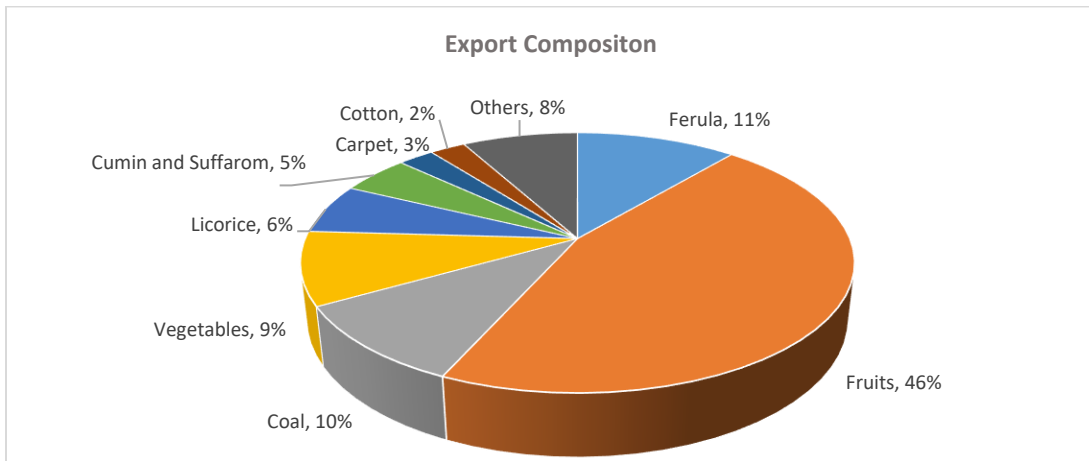
Source: ASYCUDA website, 2019

Main Exported and Imported Items during 1397

During FY1397 fruits products, which include fresh and dry fruits constituted 46% of total exports was recorded as the top exported item. The high volume of fruit exports is driven by surplus domestic production and supported by the highly subsidized air corridors, dry and fresh fruits exports amounted to Afs 29,301 million in 1397. Share of Ferula, coal, and vegetables reached 11 percent, 10 percent, and 9 percent accordingly.

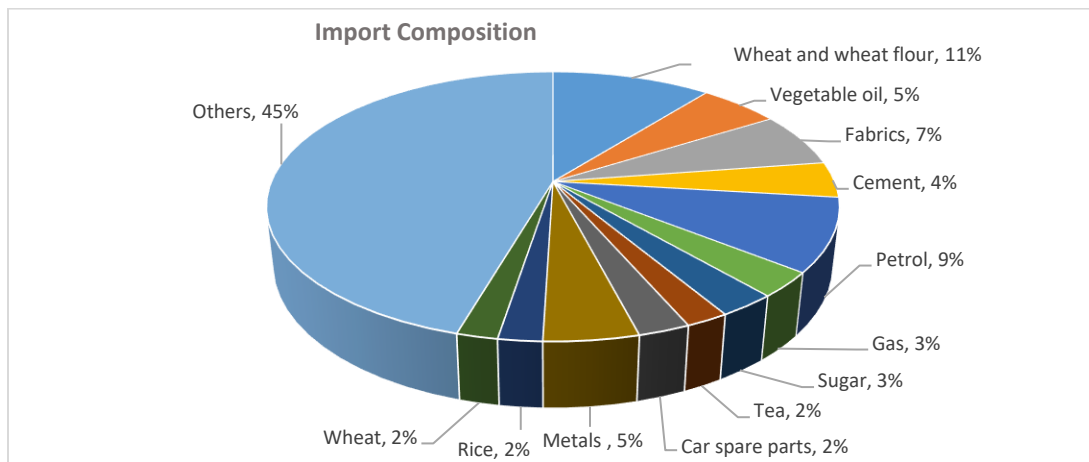
On the export side, wheat, vegetable oil, and sugar were the top three imported items during FY1396. The table below presents the top 15 exported and imported items in FY1396 as per their value.

Figure 7. Export and Import compositions of trade for Afghanistan



Source: ASYCUDA website, 2019

The volume of imports increased that constitute 37 percent of GDP, as concentrated in food, machinery, and fuel products. The impacts of drought on domestic food production causing the higher imports of food particularly Wheat and Wheat flour, which constitute 11 percent of imports, following Petrol oil with 9 percent, and Fabrics with 7 percent accordingly. Imports of other major items associated with investment dropped sharply, including mineral products and machinery.

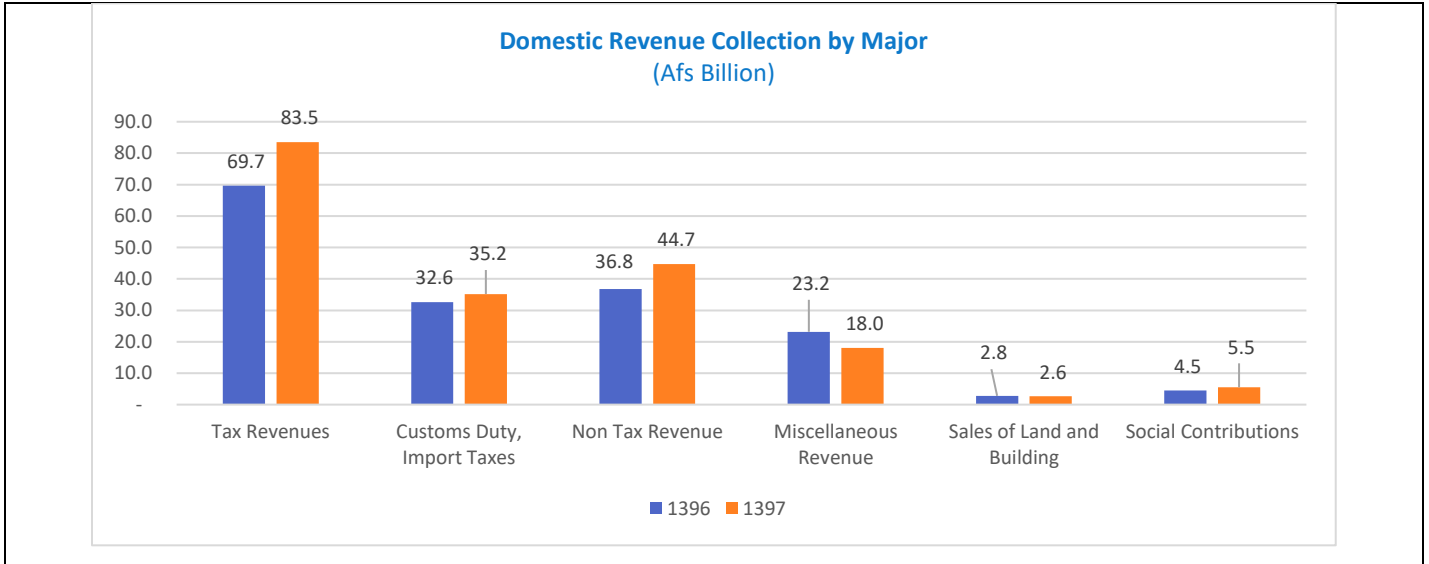


Source: ASYCUDA website, 2019

2. Fiscal Performance Overview

Fiscal Summary for FY 1396-1397

Summary Fiscal Outturn – End of Fiscal Year 1397																																								
<p>National Budget (Final): Afs 416,888 million</p> <p>Operating Budget (Final): Afs 280,490 million</p> <p>Development Budget (Final): Afs 136,398 million</p>																																								
<p>Total Domestic Revenue: Of Afs 173,500 million targeted revenue, total revenue collection was Afs 189,562 million, (9.9 percent higher collection)</p>																																								
<p>Total Expenditure: Total government expenditure was planned Afs 416,888 million, of which Afs 385,690 million was spent (92.5 percent of budget execution).</p>																																								
<p>Donor grants: Donors commitments was planned Afs 222,751 million towards the budget, of which Afs 205,632 million was actually spent.</p>																																								
<p><i>The following figures are all in billions of Afghanis</i></p>																																								
Spending by Inputs	Spending by Sectors																																							
<p>Spending by Major codes</p> <table border="1"> <caption>Spending by Major codes (Pie Chart)</caption> <thead> <tr> <th>Code</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>21 - Wages and Salaries Expenditure</td> <td>47.6%</td> </tr> <tr> <td>22 - Use of Goods and Services</td> <td>20.8%</td> </tr> <tr> <td>25 - Acquisition of Assets</td> <td>23.3%</td> </tr> <tr> <td>24 - Sub-SidiesGrants and Social Benefits</td> <td>7.8%</td> </tr> <tr> <td>23 - Interest & Repayment of Loans</td> <td>0.5%</td> </tr> </tbody> </table>	Code	Percentage	21 - Wages and Salaries Expenditure	47.6%	22 - Use of Goods and Services	20.8%	25 - Acquisition of Assets	23.3%	24 - Sub-SidiesGrants and Social Benefits	7.8%	23 - Interest & Repayment of Loans	0.5%	<table border="1"> <caption>Spending by Sectors (Billions of Afghanis)</caption> <thead> <tr> <th>Sector</th> <th>Final Budget 1397</th> <th>Actual 1397</th> </tr> </thead> <tbody> <tr> <td>Security</td> <td>158.8</td> <td>140.6</td> </tr> <tr> <td>Governance</td> <td>32.9</td> <td>35.2</td> </tr> <tr> <td>Infrastructure</td> <td>65.6</td> <td>62.5</td> </tr> <tr> <td>Education</td> <td>48.9</td> <td>47.7</td> </tr> <tr> <td>Health</td> <td>22.9</td> <td>21.5</td> </tr> <tr> <td>Agriculture & Rural Development</td> <td>33.5</td> <td>31.4</td> </tr> <tr> <td>Social Protection</td> <td>33.0</td> <td>31.7</td> </tr> <tr> <td>Economic Governance</td> <td>18.3</td> <td>17.2</td> </tr> </tbody> </table>	Sector	Final Budget 1397	Actual 1397	Security	158.8	140.6	Governance	32.9	35.2	Infrastructure	65.6	62.5	Education	48.9	47.7	Health	22.9	21.5	Agriculture & Rural Development	33.5	31.4	Social Protection	33.0	31.7	Economic Governance	18.3	17.2
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Agriculture & Rural Development	33.5	31.4																																						
Social Protection	33.0	31.7																																						
Economic Governance	18.3	17.2																																						
Domestic Revenue by Sources																																								



2.1 National Budget

The **National Budget** of the Government of Afghanistan consists of two types of budget. First, **Operating Budget** which covers the operating expenditure of the government, i.e. wages and salaries, fuel, and day to day expenditures. Second, **Development Budget** which covers the expenditures on all development projects such as road building, construction, rehabilitation of irrigation systems, and the National Priority Programs.

The National Budget for FY1397 represents a significant shift in the Government's approach to fiscal planning. For the first time, the Government presents a consolidated national budget over the medium-term with both the operating and development budgets in line with good international practices. The government is committed to open accountable and credible management of the national budget. These budget reforms will reduce corruption and strengthen public financial management.

Initially total budget expenditure for 1397 was estimated Afs 377 billion. Representing 25 percent of GDP. Out of which, Afs 266 billion for operating and Afs 111 billion for development. During the year, various changes took place in both operating and development. In the mid-year review, national budget was revised to Afs 407 billion, whereas operating changed to Afs 284 billion and development to Afs 122 billion. Finally by end of the year, the total national budget was finalized and increased to Afs 416 billion, out of which Afs 280 billion for operating and Afs 135 billion for development respectively. A modest positive change has occurred in both operating and development budget (Final Budget). Operating budget for FY1397 increased 1.9 percent, while development budget decreased by 10.7 percent compared to FY1396 budget. The reduction in national budget was due to less amount of external resources (donor grants) towards development projects on infrastructure, rehabilitation, energy and water.

The targeted revenue for FY1397 was Afs 173.5 billion (excluding grants). In the Final Budget of FY1397, Afs 238 billion (57.2% of the final budget) was received through donor financing, of which Afs 118.8 billion and Afs 119.3 billion were planned for Operating Budget and Development Budget respectively. Afs 173.5 billion (41.7% of the final budget) was planned to be financed by domestic sources. Integrated Budget balance including grants shows a deficit of Afs 5.3 billion which would be financed through debt financing. Budget balance excluding grants shows a deficit of Afs 243.3 billion. The table below presents budget summary for the Fiscal Year of 1397.

Table 3. Summary of Budget for Fiscal Year 1397

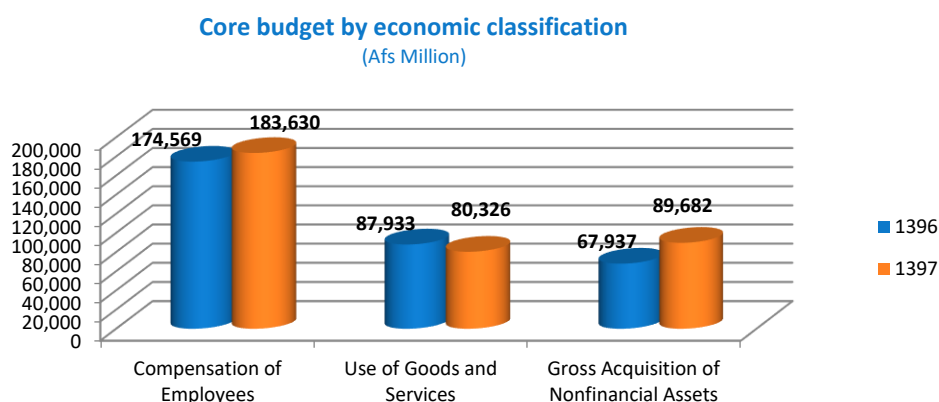
In millions of Afghanis	1396	1396	1397	1397	1397	1397
	Actual	%GDP	Prelim. Actual	%GDP	Final Budget (4)	% of Final Budget
Operating Budget Revenues	287,931	20.6	309,894	21.4	292,214	6.1
Domestic Revenues	169,564	12.1	189,562	13.1	173,500	9.3
Operating Grants	118,368	8.5	120,332	8.3	118,714	1.4
Operating Budget Expenditures	254,062	18.1	259,205	17.9	280,490	92
Operating Budget Balance (3)						
Excluding Grants	-84,498	-6.0	-69,643	-4.8	-106,990	65
Including Grants	33,870	2.4	50,689	3.5	11,724	432
Indicator of Fiscal Sustainability (domestic revenues/operating expenditures)	67%		73%		62%	
Development Grants (1)	63,306	4.5	85,301	5.9	119,354	71
Development Expenditures	103,555	7.4	126,486	8.7	136,398	93
Development Budget Balance (3)	-40,250	-2.9	-41,185	-2.8	-17,044	242
		0.0				
Revenues (1)	351,237	25.1	395,194	27.3	411,568	96
Domestic Revenues	169,564	12.1	189,562	13.1	173,500	109
Grants (1)	181,673	13.0	205,633	14.2	238,068	86
Expenditures	357,617	25.5	385,690	26.6	416,888	185
Integrated Budget Balance						
Excluding Grants	-188,053	-13.4	-196,129	-13.5	-243,388	81
Including Grants (3)	-6,380	-0.5	9,504	0.7	-5,320	-179
Financing Requirement						
Balance Including Grants	-6,380	-0.5	9,504			
Sale of Land and Buildings	94	0.0	22			
Lending/Borrowing	-6,286	-0.4	9,526			

Source: AFMIS database, April 2019

Notes:

- Budget data for core budget grants is not comparable to actuals, as Development Budget Grants listed in Budget do not distinguish between grants and loans, while the actuals shown above are only for grants.
- Actuals are interest only. However, budget figures include principal repayments and interest
- Does not equal the budget balances shown in budget documentation, as balances in budget documentation also include domestic revenues transferred between the operating and development budget, and development budget balance in budget documentation includes loans.
- Final Budget figures for expenditure available from AFMIS, except for interest (code 23), subsidies and transfers (code 24), as AFMIS data includes contingency reserves in these categories. Reconciliation of budget figures between categories is also not finalized, and so total of each category does not add to total budget of Afs 271 billion.

Figure 8. Core Budget by Economic Classification



Source: AFMIS database, April 2019

2.2 Revenue

Domestic Revenue

During fiscal year 1397, total domestic revenue collection increased remarkably, for the fourth consecutive year in a row. In FY1397 domestic revenue collection including one-off receipts was Afs 189.5¹ billion in total – given a target of Afs 173.5 billion. This shows around 11.8 percent increase compared to Afs 169.5 billion collections in FY1396. Domestic revenue constitutes 13.1 percent of GDP for FY1397.

Table 4. Revenue Summary

In millions of Afghanis	1396 Actual	1396 %GDP	1397 Actual	1397 %GDP	1397 Target (Original)	1397 % Greater/Less than target
REVENUES including grants (1)	351,237.0	25.1	395,194.5	27.3	411,567.9	-4.0
REVENUES excluding grants (2)	169,563.7	12.1	189,561.8	13.1	173,500.00	9.3
Tax Revenues	69,692.3	5.0	83,484.6	5.8	80,759.67	3.4
Fixed Taxes	11,269.7	0.8	12,691.5	0.9	13,835.37	-8.3
Income Taxes	24,772.8	1.8	34,625.9	2.4	27,468.54	26.1
Property Taxes	408.6	0.0	527.6	0.0	467.54	12.8
Sales Taxes	30,549.0	2.2	33,305.1	2.3	36,064.61	-7.7
Tax Penalties and Fines	2,692.1	0.2	2,334.5	0.2	2,923.60	-20.1
Customs Duty, Import Taxes	32,596.9	2.3	35,192.2	2.4	39,160.01	-10.1
Non Tax Revenue	36,807.4	2.6	44,724.4	3.1	42,951.15	4.1
Income from Capital Property (2)	1,728.8	0.1	2,358.6	0.2	2,019.55	16.8
Sales of Goods and Services	7,727.8	0.6	9,438.4	0.7	8,847.29	6.7
Administrative Fees	24,210.7	1.7	29,466.2	2.0	28,479.18	3.5
Royalties	379.8	0.0	432.9	0.0	451.53	-4.1
Non Tax Fines and Penalties	731.8	0.1	728.0	0.1	934.15	-22.1
Extractive Industries	2,028.5	0.1	2,300.2	0.2	2,219.44	0.0

¹ This figure also includes gain from exchange rate by Central Bank and arrear receipts by Ministry of Finance. Exact calculation of these effects can be found here <https://www.usip.org/publications/2017/02/revenue-growth-afghanistan-continues-strong-future-uncertain>

Other non-taxes						
Miscellaneous Revenue	23,171.3	1.7	18,024.3	1.2	5,296.40	240.3
Sales of Land and Building	2,776.3	0.2	2,639.2	0.2	99.02	
Social Contributions	4,519.5	0.3	5,497.1	0.4	5,233.75	5.0
Grants (1)	181,673.2	13.0	205,632.7	14.2	238,067.9	-13.6
<i>of which operating budget</i>	<i>118,367.6</i>	<i>8.5</i>	<i>120,332.1</i>	<i>8.3</i>	<i>118,714.2</i>	<i>1.4</i>
Foreign Governments	118,468.9	8.5	120,332.1	8.3		
International Organization	63,204.4	4.5	85,300.6	5.9		

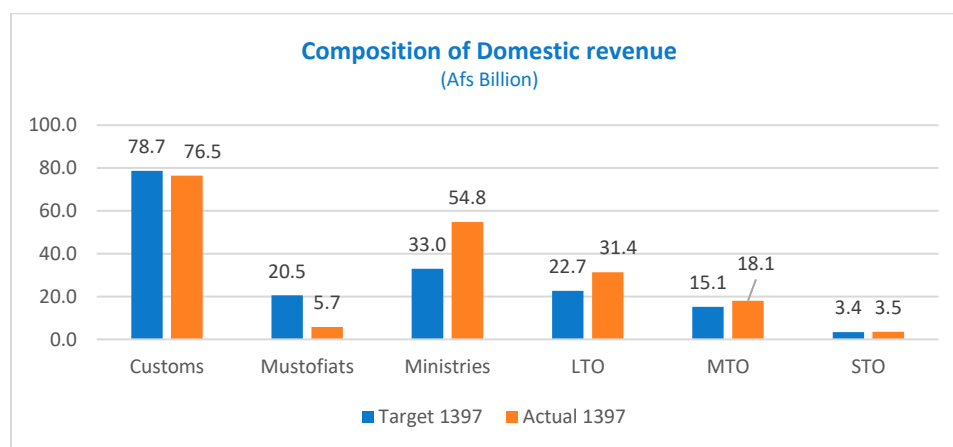
Source: AFMIS database, April 2019

1. Budget data for core budget grants is not comparable to actuals, as Development Budget Grants listed in Budget do not distinguish between grants and loans, while the actuals shown above are only for grants.
2. Revenues exclude proceeds from the sale of fixed assets (150), and loans (18). These items are included under financing.

The main contributors of revenue collection are tax revenue, non-tax revenue followed by customs revenue. Tax revenues as always is to be the major contributor to the total revenues collection. It constitutes 44 percent of the total domestic revenue, followed by non-tax revenue, which constitutes 23.5 percent of total domestic revenue. In 1397, tax revenue collection has increased by 19.8 percent over the fiscal year 1396, customs revenue has increased by 8 percent and non-tax revenue have increased by 21.5 percent.

The higher increase in the revenue collection, in addition to the implementation of new tax measures, was also due to improvement in the collection by the administration, enforcement, compliance, better system, and gains from exchange rate depreciation. The figure below shows the performance of domestic sources of revenue collection against their target for the year 1397.

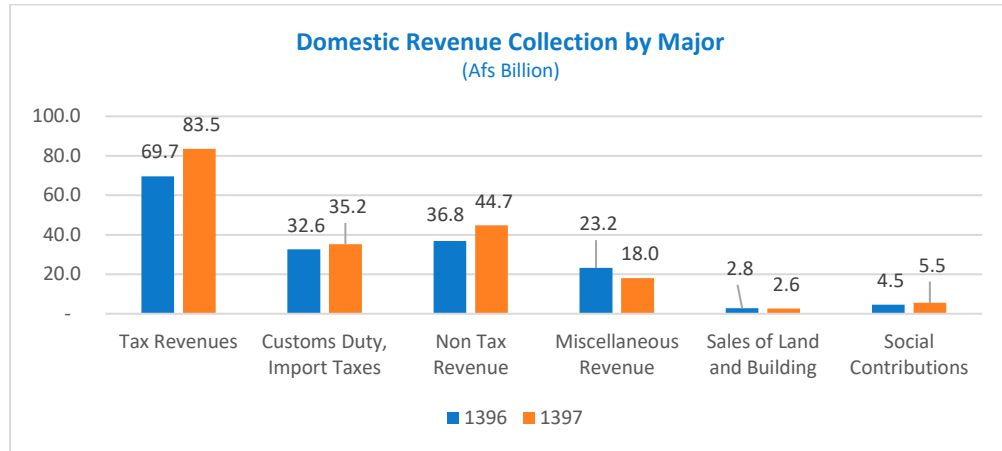
Figure 9. Share of domestic revenue lines



Source: AFMIS database, April 2019

Comparing figures of FY1397 with FY1396, it becomes clear that share of tax revenues in total revenue collection has increased slightly from 69.7 percent to 83.5 percent, and the same stands true about customs duty and import taxes, and non-tax revenue. The chart below clearly describes these differences of two years collections.

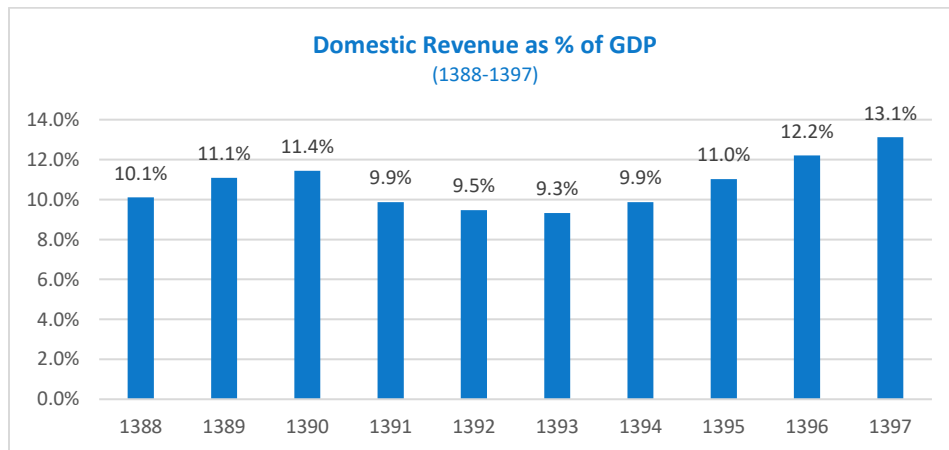
Figure 10. Revenue collection by major categories during FY1396 - FY1397



Source: AFMIS database, April 2019

Although the share of domestic revenue as a percentage of Gross Domestic Product (GDP) remains low, in 1397 this share marks the highest percentage, 13.1%, in the past decade. Total domestic revenue collection as a percentage of GDP indicates the share of a country's output that is collected domestically. This ratio measures the extent to which the government controls the economy's resources and moves toward the path of self-dependence.

Figure 11: Annual domestic revenue as percentage of GDP



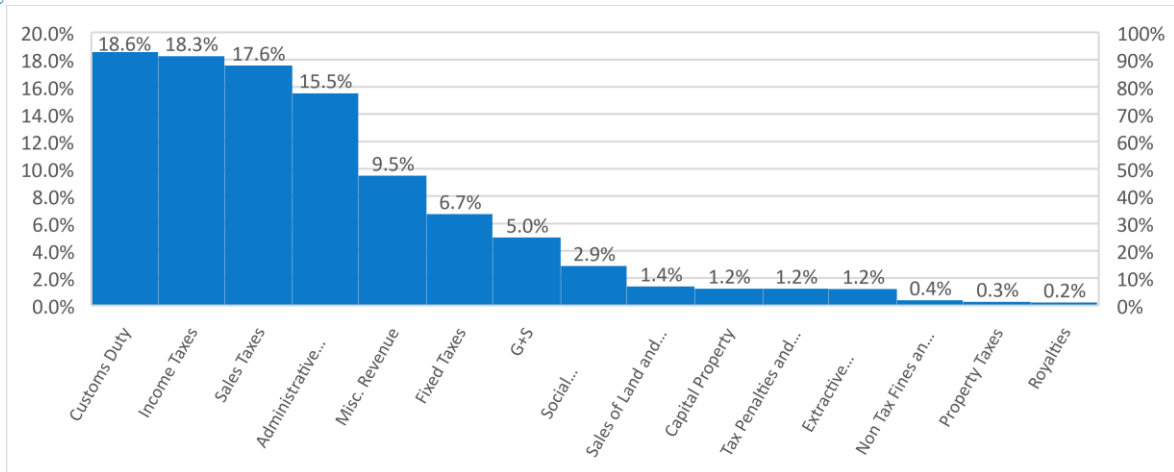
Source: Macro-Fiscal Model (MFM) 2019

Tax Revenue

The high portion of revenue collection comes from tax revenue. Higher tax revenue indicates a strong revenue-collection, the economic health of the country and an assurance of fiscal sustainability. As a result of reforms and changes in the tax policy, and introduction of new tax measures, there have been increases in the domestic revenue collection in general. In FY1397, tax revenue collection was Afs 83.5 billion compared to Afs 69.7 billion in FY1396. The share of tax

revenue in total domestic revenue collection has also increased from 41.1 percent to 44 percent in 1397.

Figure 12. Revenue Breakdown for Fiscal Year 1397



Source: AFMIS database, April 2019

The Major tax components include:

- **Fixed taxes:** Total revenue from fixed taxes was Afs 12.6 billion in FY 1397. In the previous fiscal year, revenue from this line was Afs 11.2 billion. In 1397, the share of fixed taxes in total domestic revenue was 6.7 percent.
- **Income Taxes:** Revenue from income taxes constitute the second largest tax component in 1397. Revenue from income taxes in FY 1397 was Afs 34.6 billion as compared to 24.7 billion in FY1396. Hence, income tax revenue increased by Afs 9.8 billion and the share in total revenue was 18.3 percent.
- **Sales Taxes:** Total tax revenue in FY1397 from sales tax was Afs 33.3 billion, whereas it was 30.5 billion in the previous year. The share in total revenue was 17.6 percent.
- **Customs Duties:** Custom duties collections is the largest tax component as it was Afs 35.1 billion in 1397, while in FY1396, it's collection was Afs 32.5 billion – showing an increase of marginal Afs 2.5 billion, and its share in total revenue was 18.6 percent.

Non-Tax Revenue

Non-tax revenue collection was Afs 44.7 billion in FY1397. This shows a significant increase compared to Afs 36.8 billion collected in FY1396. Within non-tax revenue, the administrative fees collected, of Afs 29.4 billion, makes the fees the largest contributor to non-tax revenue. The revenue collected from Sales of Goods and Services has increased in FY1397 to Afs 9.4 billion compared to Afs 7.7 billion collected in FY1396. Income from capital property has also increased from Afs 1.7 billion in FY1396 to Afs 2.3 billion in FY1397.

Revenue from Mustofiats

Revenue from Mustofiats along with other domestic sources constitute an important part of the revenue stream for government. Mustofiats revenue does not include revenues from provincial customs, Large Tax Payer (LTO), Medium Tax Payer (MTO), and Small Tax Payer (STO) organizations. In FY1397, the total revenue collected from Mustofiats were Afs 5.7 billion which is far below the target amount of Afs 20.5 billion. The map below shows the dispersion of provincial revenue collections.

Tax Expenditures

The Government has a number of tax expenditures, which are tax incentives that the Government provides for particular types of provision of services, goods, or to encourage a particular activity in line with policy goals.

As part of the commitment to full policy transparency, some of these are set out here, and some estimated costs of revenues foregone for trade tax expenditures are also provided below:

Trade Tax Expenditure

- An exemption on BRT for the provision of non-profit health services.
- An exemption on BRT for the provision of non-profit educational services.
- There are BRT exemptions for financial and insurance services (in line with Article 65 of the Income Tax Law).
- Income received from renting a residential property to a natural person for more than 6 months of the tax year is exempt from BRT.
- Religious services, humanitarian aid, G+S to the Government for natural disaster reconstruction, physical education and sports are all exempt from BRT providing as they are non-profit entities.

Certain firms incorporated under the Afghanistan Investment Law can also get exemptions on firm profit through depreciating the cost of assets on an accelerated timeline – buildings can be depreciated over four years, other assets over 2 years. Exports are not taxed by the Government, as part of a policy towards export promotion. If they were sold locally they would be eligible for the local sales tax (Business Rates Tax – BRT), which is charged at [4%] percent. Of these tax expenditures, the easiest way to get information on the revenue foregone is through the ASYCUDA reports for import exemptions. The Government records each import, the size of the tax paid on it, or if none is paid the exemption/reason applied and the amount of tax foregone as a result of that.

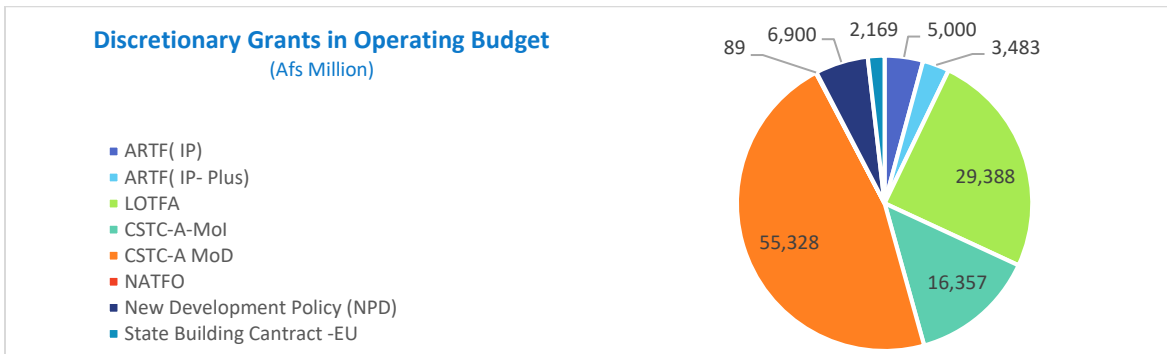
Grants to Integrated Core Budget

Total external resource received in FY1397 amounts to Afs 238 billion, which constitutes about 57 percent of the national budget and 16.4 percent of GDP.

Operating Budget Grants

Total operating grants received in FY1397 were Afs 118.7 billion. This constitutes 40.6 percent of funding sources of operating budget. The highest amount of grant in the operating expenditure is spent in the security sector. The following chart presents components of the operating grants in FY1397.

Figure 13. Discretionary Operating Grants in 1397



Source: Budget Directorate, MoF

The Law and Order Trust Fund for Afghanistan (LOTFA)

Law and Order Trust Fund mainly provides financing for the ANP’s wages, compensation, food cost and prison department, which was previously under the Ministry of Justice. Total grants from LOTFA were Afs 29.3 billion during FY1397.

The Combined Security Transitional Command – Afghanistan (CSTC - A)

CSTC-A grants mainly support ANA and a small portion of this grant is allocated for the ANP. Total grants receipts from CSTC-A for Ministry of Defense (MoD) in 1397 were Afs 55.3 billion, while for Ministry of Interior (MoI) were Afs 16.3 billion.

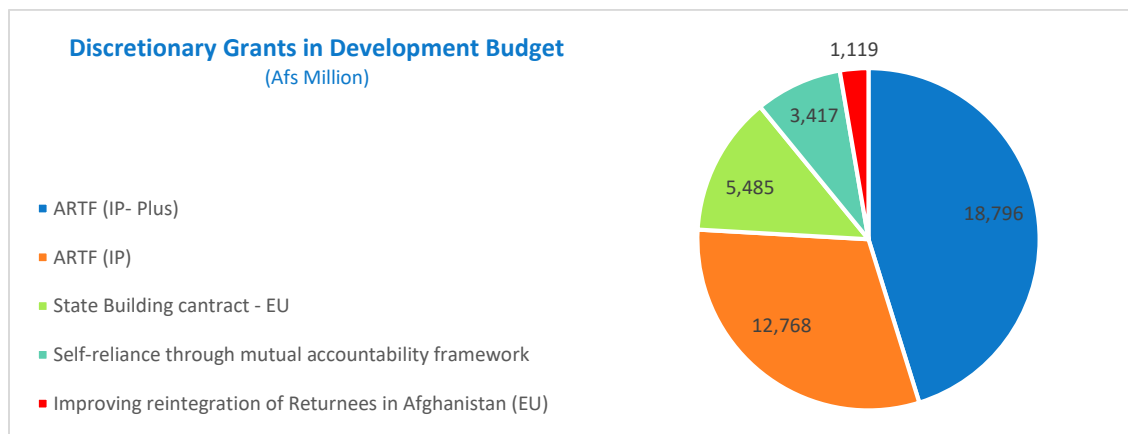
Operating Grants from the Afghanistan Reconstruction Trust Fund (ARTF)

The ARTF which is administered by the World Bank is used to support salaries of un-uniformed civil servants. Total receipts of ARTF in FY1397 were Afs 5 billion.

Development Budget Grants

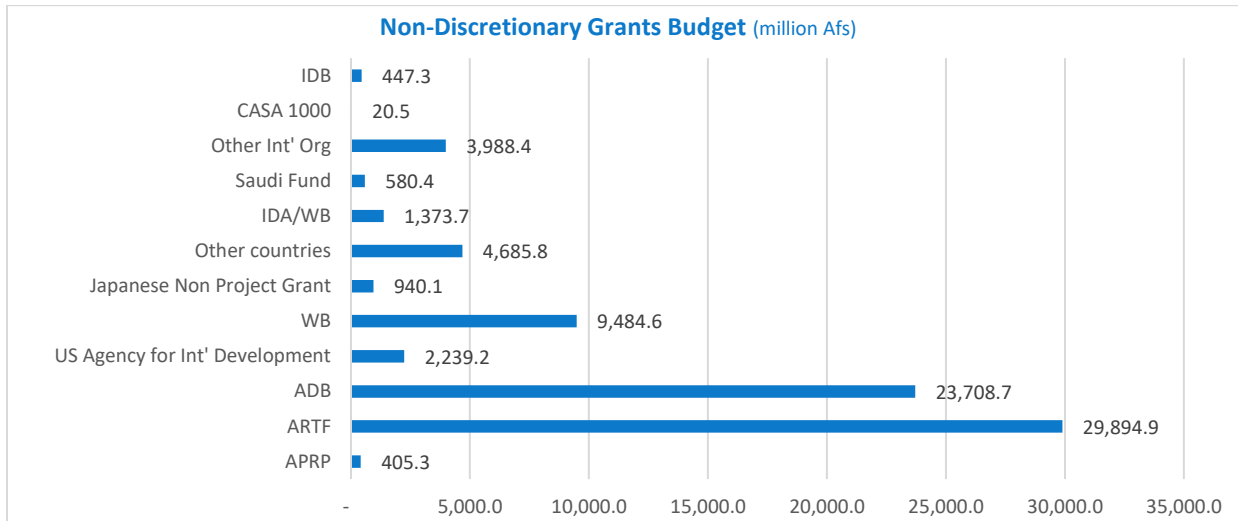
In FY1397, the total grants for development budget amounts to Afs 119.3 billion. This funds 87.5 percent of the FY1397 development budget. From the above mentioned amount Afs 41.5 billion was discretionary grants and Afs 77.7 billion was non-discretionary grants. The charts below show sources of discretionary and non-discretionary grants.

Figure 14. Discretionary Development Grants in 1397



Source: Budget Directorate, MoF

Figure 15. Non-Discretionary Grants in 1397



Source: Budget Directorate, MoF

2.3 Expenditure

Expenditure Summary

The Government budget consists of operating and development budgets. The final budget for fiscal year 1397 was Afs 416.89 billion, and total spending was Afs 385.69 billion (92.5% of the Final Budget). Operating Budget and Development Budget spending amounts to Afs 259.2 billion (92.4 % of the Operating Budget) and Afs 126.4 billion (92.7% of the Development Budget) respectively. Total budget spending increased by 9.3 percent compared to the FY1396 (83.2% in FY1396), the Operating Budget performance increased by 0.6 percent and Development Budget performance increased by 24.9 percent in 1397. Total spending in FY1397 amounts to 26.6 percent of the real GDP.

Table 5. Expenditure Summary

In millions of Afghanis	1396 Actual	1396 %GDP	1397 Actual	1397 %GDP	1397 Original Budget	1397 Final Budget	1397 Actual as % of Final Budget
TOTAL GROSS EXPENDITURES	357,617.0	25.5	385,690.2	26.6	377,190.2	416,888.0	92.5
Operating Budget	254,061.8	18.1	259,204.7	17.9	266,133.3	280,489.9	92.4
Development Budget	103,555.2	7.4	126,485.5	8.7	111,056.9	136,398.1	92.7
TOTAL NET EXPENDITURES (1)	357,522.5	25.5	385,668.0	26.6			
Operating Budget	253,967.3	18.1	259,182.5	17.9			
Development Budget	103,555.2	7.4	126,485.5	8.7			
RECURRENT EXPENDITURES (excludes 25)	289,679.8	20.7	296,008.1	20.4	253,917.8	318,127.6	93.0
Operating Budget	248,792.8	17.8	253,038.9	17.5	253,384.0	271,687.2	93.1
Development Budget	40,886.9	2.9	42,969.3	3.0	N/A	46,440.4	92.5
Compensation of Employees	174,569.0	12.5	183,630.3	12.7	174,412.8	192,581.0	95.4
Operating Budget	174,569.1	12.5	183,630.4	12.7	174,412.8	192,581.0	95.4
Development Budget	-0.1	0.0	-0.1	0.0	-	-	-
Use of Goods and Services	87,932.8	6.3	80,325.5	5.5	55,298.6	92,667.1	86.7
Operating Budget	47,956.8	3.4	37,456.7	2.6	55,298.6	46,327.3	80.9
Development Budget	39,976.0	2.9	42,868.8	3.0	50,159.6	46,339.8	92.5
Interest (2)	1,830.8	0.1	2,002.5	0.1	1,802.9	2,002.5	100.0
Operating Budget	1,830.8	0.1	2,002.5	0.1	1,802.9	2,002.5	100.0
Development Budget	0.0	0.0	0.0	0.0	-	-	-
Social Transfers (3)	25,347.2	1.8	30,049.8	2.1	22,403.6	30,876.9	97.3
Operating Budget	24,436.2	1.7	29,949.2	2.1	21,869.8	30,776.4	97.3
Development Budget	911.0	0.1	100.6	0.0	533.8	100.6	100.0
Gross Acquisition of Nonfinancial Assets	67,937.2	4.9	89,682.1	6.2	N/A	98,112.7	91.4

Operating Budget	5,268.9	0.4	6,165.9	0.4	12,749.3	8,802.7	70.0
Development Budget	62,668.3	4.5	83,516.2	5.8	-	89,310.0	93.5
Net Acquisition of Nonfinancial Assets (1)	67,842.8	4.8	89,659.8	6.2			
Operating Budget	5,174.5	0.4	6,143.6	0.4			
Development Budget	62,668.3	4.5	83,516.2	5.8			

Source: AFMIS database, April 2019

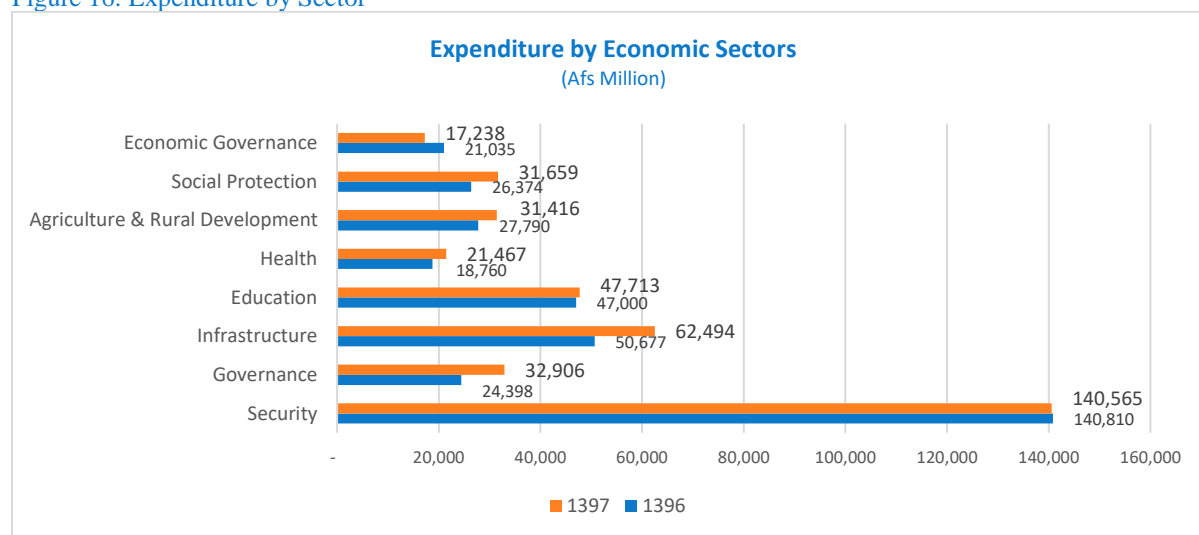
1. Proceeds from sale of fixed assets are net off from the total.
2. Actuals are interest only. However, budget figures include principal repayments and interest.
3. Budget figures for code 24 only includes budgeted pensions from contingency reserve, therefore actual expenditure may be larger than budget.
4. Budget and Revised Budget figures of development budget are not available for goods and services (code 21) and capital (code 25) as the published development budget is not broken down into these two categories.
5. Final Budget figures available from AFMIS, except for interest (code 23) and subsidies and transfers (code 24), as AFMIS data includes contingency reserves in these categories. Reconciliation of budget figures between categories are also not finalized, and so total of each category does not add to total Budget of Afs434.3 billion.

Expenditure by Sector

In the Brussels Conference on Afghanistan, the National Unity Government presented the Afghanistan National Peace and Development Framework (ANPDF), which replaces the ANDS. The Afghanistan National Peace and Development Framework presents government's strategic framework to achieve self-reliance and increase the welfare of people. Beside other objectives, the government will build a productive and broad-based economy that creates jobs. While the sectors under the ANPDF remain the same as the ANDS, the approach towards attaining the objectives set differs significantly. Although the ANPDF was created in 1395, the actual implementation started in 1396 (2017) and continued in 1397 with the establishment of the Development Councils (DCs).

The chart and table below present expenditure by sector under the ANDS classification in FY1396 and FY1397.

Figure 16. Expenditure by Sector



Source: AFMIS database, April 2019

Security Sector

Although, the share of spending on Security Sector reduced by 3 percent compared to FY1396, but still security sector remained the largest spending sector in Afghanistan. A major portion of expenditure was on Security Sector. A total of Afs 140.565 billion was spent in this sector, which makes 36.4 percent of the total spending and 9.7 percent of GDP. Out of Afs 158.798 billion allocated to this sector, 88.5 percent was spent. The Major share of spending in the Security Sector (97.9%) is operating in nature, which is mainly financed through donor financing. Ministry of Interior, Ministry of Defense and General Directorate of National Security are the main agencies under the Security Sector. In FY1397, these three agencies spent Afs 48.9 billion, 64 billion and Afs 18 billion respectively. Other agencies are the Ministry of Foreign Affairs and presidential protective services.

Education Sector

The Education Sector includes the Ministry of Education, Ministry of Higher Education and Ministry of Culture Affairs. This sector is the second largest Operating Budget spending sector. In FY1397, it spent a total of Afs 47.713 billion, out of which Afs 41.96 billion was Operating spending and Afs 5.74 billion was Development spending. The data shows that the spending in this sector increased as compared to the previous year.

Table 6. Expenditure by Economic Sector

In millions of Afghanis	1396	1396	1396	1397	1397	1397	1397	1397	1397
	Annual Actual	% of Total Spending	% GDP	Annual Actual	% of Total Spending	% GDP	Original Budget	Final Budget (1)	Actual as % of Final Budget
Security	140,810	39.4	10.1	140,565	36.4	9.7	147,438	158,798	88.5
Operating Budget	139,097	55.2	9.9	137,656	53.5	9.5	145,369	155,546	88.5
Development Budget	1,713	1.6	0.1	2,909	2.3	0.2	2,069	3,252	89.4
Governance, Rule of Law & Human Rights	24,398	6.8	1.7	32,906	8.5	2.3	26,529	35,238	93.4
Operating Budget	20,679	8.2	1.5	24,393	9.5	1.7	20,808	25,173	96.9
Development Budget	3,718	3.6	0.3	8,513	6.7	0.6	5,721	10,065	84.6
Infrastructure & Natural Resources	50,677	21.6	3.6	62,494	16.2	4.3	49,540	65,644	95.2
Operating Budget	6,509	2.6	0.5	6,907	2.7	0.5	7,517	7,255	95.2
Development Budget	44,168	42.2	3.2	55,586	43.7	3.8	42,023	58,388	95.2
Education	47,000	13.1	3.4	47,713	12.4	3.3	50,308	48,879	97.6
Operating Budget	39,905	15.8	2.8	41,967	16.3	2.9	42,927	42,200	99.4
Development Budget	7,095	6.8	0.5	5,746	4.5	0.4	7,382	6,679	86.0
Health	18,760	5.2	1.3	21,467	5.6	1.5	14,811	22,918	93.7
Operating Budget	4,217	1.7	0.3	4,284	1.7	0.3	3,714	4,521	94.8
Development Budget	14,543	13.9	1.0	17,182	13.5	1.2	11,097	18,397	93.4
Agriculture & Rural Development	27,790	7.8	2.0	31,416	8.1	2.2	32,322	33,496	93.8
Operating Budget	2,273	0.9	0.2	2,467	1.0	0.2	2,779	3,111	79.3
Development Budget	24,729	23.6	1.8	28,016	22.0	1.9	29,543	30,385	92.2
Social Protection	26,374	7.4	1.9	31,659	8.2	2.2	25,952	32,961	96.0
Operating Budget	25,158	10.0	1.8	30,390	11.8	2.1	24,675	31,553	96.3
Development Budget	1,216	1.2	0.1	1,268	1.0	0.1	1,276	1,407	90.1

Economic Governance & Private Sector Development	21,035	5.9	1.5	17,238	4.5	1.2	6,065	18,307	94.2
Operating Budget	14,372	5.7	1.0	9,452	3.7	0.7	3,302	11,130	84.9
Development Budget	6,663	6.4	0.5	7,786	6.1	0.5	2,763	7,177	108.5
TOTAL (1)	357,616	108	25	385,690	100	26.6	377,190.2	416,797.9	92.5
Operating Budget	252,210	100	18	257,516	100	17.8	266,133.3	280,489.9	91.8
Development Budget	104,618	100	7	127,241	100	8.8	111,056.9	136,308.0	93.3

Source: AFMIS database, April 2019

- Budget totals do not add up to total published Budget given some budget funding remains unallocated in the contingency reserve. Development budget figures are as published while operating budget figures take account of funding allocated from contingency reserve and reallocations between codes.
- Total spending in this sector constitutes 12.4 percent of the National Budget and 3.3 percent of GDP. The sector spent almost all of its allotted Operating Budget and 86 percent of its Development Budget. In the Fiscal Year 1397, spending on education compared to the Fiscal Year 1396, reduced both as a share of total spending and GDP by 0.7 and 0.1 percent, respectively. Spending on education has positive effects on the formation of human capital and can boost economic growth while promoting equity and reducing poverty.

Infrastructure Sector

Infrastructure investment is vital to growth in Afghanistan. The Infrastructure Sector is the third largest spending sector (total budget) and the first largest Development Budget spending sector. This sector includes the key ministries such as the Ministry of Public Works, Ministry of Transportation and Civil Aviation, Ministry of Energy and Water, Ministry of Urban Development, Ministry of Mines and Petroleum and some other relevant agencies. In the Fiscal Year of 1397, out of the total budget of Afs 65.64 billion, the sector spent Afs 62.49 billion. Out of this spending, Afs 7.2 billion was Operating expenditure and Afs 58.3 billion was Development expense. Development spending in this sector constitutes 95.2 percent of total development spending and 3.8 percent of GDP. Total spending in this sector constitutes 4.3 percent of the GDP. In FY1397, the sector spent 95.2 percent of its allotted budget. The share of spending on infrastructure decreased to 16.2 percent in 1397 from 21.6 percent in 1396 whereas, the percentage of GDP increased from 3.6 percent in FY1396 to 4.3 percent in the FY1397.

Agriculture and Rural Development

The Agriculture and Rural Development Sector includes the Ministry of Agriculture, Irrigation and Livestock (MAIL), the Ministry of Rural Rehabilitation and Development (MRRD) and Ministry of Counter Narcotics. Followed by Infrastructure Sector, this sector is the second largest Development Budget spending sector. Out of Afs 33.49 billion total budget allotted to this sector, it spent Afs 31.4 billion (93.8%), and of Afs 30.3 billion Development Budget, it spent Afs 28 billion (92.2%). The total spending and development spending in this sector constitutes 8.1 percent of the National Budget. Similarly, the total spending in this sector constitutes 2.2 percent of GDP. The share of spending on Agriculture and Rural Development in total spending increased from 7.8 percent in 1396 to 8.1 percent in 1397, and as percentage of GDP, it increased from 2 percent in FY1396 to 2.2 percent in FY1397.

Agriculture is the primary driver of economic growth in Afghanistan. The contribution of agriculture sector in employment and exports is more than any other sector.

Health Sector

The Ministry of Public Health (MoPH) is the only agency in the Health Sector. Out of Afs 22.9 billion allotted budget in the National Budget for FY1397, the MoPH spent Afs 21.4 billion

(93.7%). It spent 94.8 percent of its Operating Budget and 93.4 percent of its Development Budget. In this year, the share of spending on health in total spending and the GDP was 5.6 percent and 1.5 percent respectively. The Basic Package of Health Services (BPHS), Improving Quality of Hospital Services (IQHS) and National Immunization Program (NIP) is the sector's largest projects.

Health is an important determinant of economic development; a healthy population means higher productivity, thus higher income per head. Investments on health can lead to an increase in labor productivity, thus increase in incomes and subsequent increase in the wellbeing of the population.

Social Protection

Social protection includes key ministries and agencies such as the Ministry of Labor, Social Affairs, Martyred and Disabled (MoLSAMD), the Ministry of Refugees and Returnees, the Ministry of Frontiers and Tribal Affairs, Ministry of Women Affairs, Directorate of Kochis and Office of Disaster Preparedness. Total spending of this sector in FY1397 was Afs 31.6 billion, of which Afs 30.3 billion was Operating and Afs 1.2 billion was Development spending. Because of the influx of returnees, increase in the number of civilian and military casualties and increase in number disabled due to the on-going war in the country, the share of spending on this sector in total spending and the GDP has increased over time. In FY1397, compared to the previous year, the share of spending on this sector in total spending increased from 7.4 percent to 8.2 percent and as percentage of GDP, it increased from 1.9 percent in FY1396 to 2.2 percent in FY1397.

Social protection has positive impacts on growth at local level through the multiplier effects of increased local consumption and improved labor market outcomes. In addition, it allows the government to more effectively bring about other economic reforms that have positive effects on economic growth.

Economic Governance and Private Sector Development

The key ministries and agencies included in the Economic Governance and Private Sector Development Sector are the Ministry of Finance, the Ministry of Commerce and Industries (MoCI), the Ministry of Economy, the Supreme Audit Office (SAO), the Central Statistics Organization (CSO) and the Afghanistan National Standards Authority (ANSA). The sector spent Afs 17.2 billion in total, of which Afs 9.4 billion was Operating and Afs 7.7 billion was Development spending. The share of spending on this sector in total government spending decreased from 5.9 percent in FY1396 to 4.5 percent FY1397, and as percentage of the GDP, it decreased from 1.5 percent to 1.2 percent compared to the previous year.

The Governance, Rule of Law and Human Rights Sector

The ministries and agencies included in the Governance, Rule of Law and Human Rights Sector are the National Assembly (Upper and Lower Houses), the Ministry of State for Parliamentary Affairs, the Attorney General Office, the Ministry of Haj and Religious Affairs, the Election Commission and several other agencies. In FY1397, this sector spent Afs 32.9 billion, of which Afs 24.3 billion was Operating and Afs 8.5 billion was Development spending. An important component of Development Budget for this sector is the Public Financial Management Reform Project, funded by the World Bank. The share of spending on this sector in the total spending and the percentage of GDP were 6.8 percent and 1.7 percent respectively in the FY1396, which increased to 8.5 percent and 2.3 percent in FY1397.

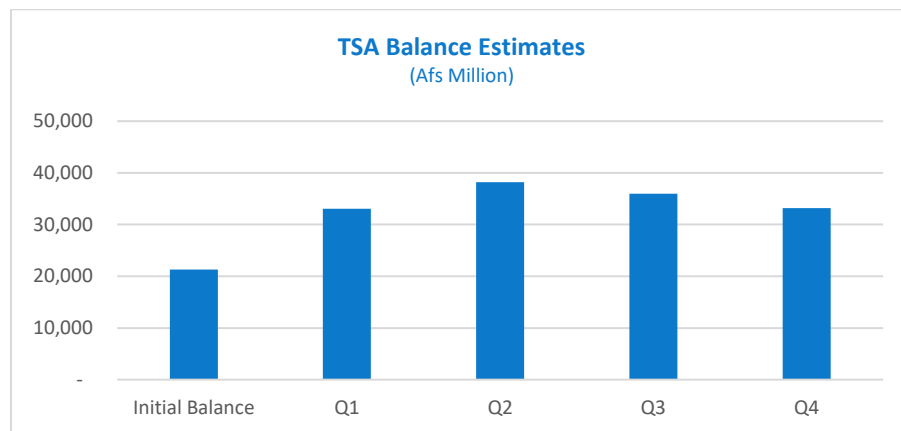
For details of expenditure please refer to Appendix.

3. Government Financing

Treasury Single Account (TSA)

The balance in Treasury Single Account (TSA) initially was started with Afs 21,3 billion at the start of the year. The TSA amount rapidly increased to Afs 33 billion at the 1st quarter, and continued to increase Afs 5 billion more in the 2nd quarter. During the 3rd quarter, it declined slightly to Afs 36 billion and continued to decline more to reach Afs 33.1 billion by end of the 4th quarter of the year. The government usually realize large amount of treasury balances through revenue collection in the first quarters. The last quarters show a decline in treasury balance because government institutions commit more spending at the later stage of the year as compared to the revenue.

Figure 17. TSA Balance Estimation



Source: Treasury Department, MoF

The overall net acquisition of nonfinancial assets in FY1397 improved modestly as compared to last year. This means that the purchase and sale of land and buildings, machinery and equipment gained some momentum. The ratio for net acquisition of non-financial assets to GDP reached 6.2 percent. A significant portion (70%) of the Net Acquisition came from Purchase of Land and Buildings. The second largest component in the outflow of funds due to the acquisition of non-financial assets was Acquisition of Machinery of Equipment. The data for the Sale of State-Owned Enterprises is not available.

On the other hand, transactions in Financial Assets and Liabilities in FY1397 shows a negative balance or 20% reduction. The data for 1397 shows that there is a considerable decrease in currency and deposits in the economy. Treasury Single Account has also suffered from negative change. Donor accounts, lendings and other assets are other categories also contributed to the overall average performance of the this section.

Table 7. Net Acquisition of Non-Financial Assets

In millions of Afghanis	1396	1396	1397	1397	1397	1397
	Actual	% GDP	Actual	% GDP	Actual	% GDP
NET ACQUISITION OF NONFINANCIAL ASSETS	67,842.8	4.8	89,659.8	6.2	89,659.8	6.2
Land and Buildings	42,031.2	3.0	57,792.0	4.0	57,792.0	4.0
Purchase of Land and Buildings	42,125.7	3.0	57,814.2	4.0	57,814.2	4.0
Sale of Land and Buildings	-94.5	0.0	-22.3	0.0	-22.3	0.0
Sale of State-Owned Enterprises	0.0	0.0	0.0	0.0	0.0	0.0
Machinery and Equipment (>50,000)	15,416.7	1.1	26,169.7	1.8	26,169.7	1.8
Valuables	1.4	0.0	0.7	0.0	0.7	0.0
Other Acquisitions	10,393.4	0.7	5,697.5	0.4	5,697.5	0.4

Source: AFMIS database, April 2019

In FY1397, liabilities remained the same as of the previous year at 7 percent of GDP. There are concerns that this will keep on increasing to unsustainable levels, mainly owing to some new policies announced by the government in social sectors of the economy. The new pension policy is yet to be fully operationalized, which will test the government's financing ability. On the other hand, the Afghan economy is also experiencing a gradual structural change, in which the increasing level of loans in the overall portfolio will be the main component. This entails interest payments, which will principally increase the government's liability.

Table 8. Transactions in Financial Assets

(In millions of Afghanis)	1395	1395	1396	1396	1396	1396
	Actual	% GDP	Prelim	% GDP	Prelim	% GDP
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES	5,011.7		-1,971.3		-4,335.6	
NET ACQUISITION OF FINANCIAL ASSETS	-5,233.6	-0.4	-11,717.8	-0.8	-11,717.8	-0.8
Domestic	-5,233.6	-0.4	-11,717.8	-0.8	-11,717.8	-0.8
Currency and Deposits	-518.1	0.0	-9,402.1	-0.6	-9,402.1	-0.6
Treasury Single Account	-521.7	0.0	-9,402.1	-0.6	-9,402.1	-0.6
Donor Accounts	3.5	0.0	0.0	0.0	0.0	0.0
Other Deposit Accounts	0.0	0.0	0.0	0.0	0.0	0.0
Loans (Landings)	-4,543.5	-0.3	0.0	0.0	0.0	0.0
Other Accounts Receivable	7,587.0	0.5	769.0	0.1	769.0	0.1
Other Assets	-7,759.0	-0.6	-3,084.6	-0.2	-3,084.6	-0.2
Foreign	0.0		0.0		0.0	0.0
NET ACQUISITION OF LIABILITIES	10,245.3	0.7	9,746.5	0.7	7,382.1	0.5
Domestic	10,906.7	0.8	10,245.2	0.7	7,880.9	0.5
Accounts Payable	1,847.6	0.1	323.9	0.0	323.9	0.0
Pension Liabilities	181.8	0.0	129.4	0.0	129.4	0.0
Other Payables	1.8	0.0	0.0	0.0	0.0	0.0
Other Liabilities	8,875.5	0.6	9,791.9	0.7	7,427.6	0.5
Foreign	-661.5	0.0	-498.8	0.0	-498.8	0.0
Foreign Currency	-50.9	0.0	-185.4	0.0	-185.4	0.0
Loans (Borrowings)	-610.5	0.0	-313.4	0.0	-313.4	0.0

Source: AFMIS database, April 2019

Government Debt

Debt Stock

Total Government debt stock during FY1397 was Afs 163.8 billion, which is -1 percent less than the debt stock in FY1396. 95 percent of the debt stock in the FY1397 was received from external sources and only 4.3 percent from domestic sources. 52 percent of the external debt was received from International Organizations, in which ADB and the World Bank have the largest share; and 48 percent from foreign countries, in which Saudi Arabia has the largest share.

Total IMF lending commitment to help Afghanistan maintain economic stability and begin laying the basis for fiscal sustainability and economic growth for the year ending FY1397 amounted to Afs 5,162 million, or 2% less as compared FY1396. Currently, most of these debts are in the form of concessional loans; either a rate of zero or a very marginal interest rate. However, increase in interest rate is expected in the future loan arrangements between the government of Afghanistan and the creditors. The Largest bilateral creditors such as Russian Federation, Germany and USA as member of the Paris Club has pledged to give Afghanistan 100 percent debt relief, conditional to achieve certain economic and social benchmarks as defined for Heavily Indebted Poor Countries (HIPC) initiative and maintain certain programs with international organization such as IMF, World Bank, etc.

The public sector borrowing requirement is the integrated budget balance. However, it also adds any revenues from the sale of non-financial assets to obtain a true picture of the budget financing requirement. If there are any net sales of non-financial assets, the public sector borrowing requirement will be higher than the core budget balance. The high Treasury Single Account (TSA) financing reflects the use of “cash in the bank” throughout the year to meet the revenue shortfall.

Table 9. Government Debt

Central Government Debt Stock			Change
In Million Afs	1396	1397	YoY
EXTERNAL	150,729	156,679	4%
International Organizations	80,949	81,770	1%
IMF	5,246	5,162.2	-2%
World Bank	25,214	26,262.6	4%
Islamic Development Bank	3,327	3,421.9	3%
Asian Development Bank	47,162	46,923.4	-1%
Others	0		
Foreign Governments	69,780	74,908	7%
Russian Federation	62,425	67,324.3	8%
Saudi Fund	4,372	4,547.4	4%
Others	2,982	3,036.7	2%
DOMESTIC	15,070	7,170	-52%
Bonds (Non-Tradable)	15,070	7,170.4	-52%
Commercial Banks			
TOTAL CENTRAL GOVERNMENT DEBT	165,799	163,849	-1%

Source: Debt Management Department, MoF

4. Appendix

Table 10a. Integrated Core Budget Expenditures 1396 - 1397

Core	In millions of Afghanis	1396 Actual	1396 %GDP	1397 Actual	1397 %GDP	1397 Original Budget (4)	1397 Final Budget (5)	1397 Actual as % of Final Budget (5)
2	TOTAL GROSS EXPENDITURES	357,617.0	25.5	385,690.3	26.6	377,190.2	416,888.0	92.5
2	TOTAL NET EXPENDITURES (1)	357,522.5	25.5	385,668.1	26.6			
2-25	RECURRENT EXPENDITURES (excludes 25)	289,679.8	20.7	296,008.2	20.4			
21	Compensation of Employees	174,569.0	12.5	183,630.4	12.7	174,412.8	192,581.0	95.4
211-3	Wages and Salaries	166,245.8	11.9	175,545.5	12.1			
211	Wages and Salaries in Cash	140,552.2	10.0	154,383.1	10.7			
212	Wages and Salaries in Kind	25,623.4	1.8	21,860.1	1.5			
213	Wages and Salary Advance	318.4	0.0	195.4	0.0			
214-5	Social Benefits	8,323.2	0.6	8,084.9	0.6			
219	Return of Salaries	3,267.8	0.2	5,276.1	0.4			
22	Use of Goods and Services	5,055.5	0.4	2,808.8	0.2			
221	Travel	-248.3	0.0	-893.1	-0.1			
222	Communications	87,932.8	6.3	80,325.5	5.5	105,458.1	92,667.1	
223	Contracted Services	3,114.7	0.2	3,811.1	0.3			
224	Repairs and Maintenance	3,814.0	0.3	3,951.7	0.3			
225	Utilities	32,309.7	2.3	36,030.1	2.5			
226	Fuel	6,894.3	0.5	6,865.8	0.5			
227-9	Other Use of Goods and Services	6,115.9	0.4	8,546.2	0.6			
23	Interest (2)	10,951.8	0.8	5,580.3	0.4			
24	Social Transfers (3)	24,732.4	1.8	15,540.5	1.1			
242	Subsidies	1,830.8	0.1	2,002.5	0.1	1,802.9	2,002.5	100.0
245	Grants	25,347.2	1.8	30,049.8	2.1	22,403.6	30,876.9	97.3
244	Grants to Foreign Government - Capital	1,389.2	0.1	1,398.0	0.1			
245	Grants to other Government Units - Current	592.5	0.0	547.8	0.0			
247	Social Security	405.5	0.0	410.9	0.0			
248-9	Other Social Transfers	187.0	0.0	137.0	0.0			
248	Social Assistance	22,102.6	1.6	27,335.8	1.9			
249	Advance Subsidies, Grants	1,263.0	0.1	768.2	0.1			
25	Gross Acquisition of Nonfinancial Assets	67,937.2	4.9	89,682.1	6.2	73112.8	98,112.7	91.4

25	Net Acquisition of Nonfinancial Assets (1)	67,842.8	4.8	89,659.8	6.2	73,112.8	98,112.7	91.4
150	Sale of Land and Buildings	-94.5	0.0	-22.3	0.0			
251	Buildings and Structures	41,732.3	3.0	57,161.2	3.9			
252	Machinery and Equipment (>50,000)	15,416.7	1.1	26,169.7	1.8			
257	Valuables	1.4	0.0	0.7	0.0			
258	Land	393.4	0.0	653.1	0.0			
259	Capital Advance Payments	10,393.4	0.7	5,697.5	0.4			

Table 10b. Operating Budget Expenditures 1396 - 1397

In millions of Afghanis	1396 Actual	1396 %GDP	1397 Prelim. Actual	1397 %GDP	1397 Original Budget	1397 Final Budget (4)	1397 Actual as % of Final Budget (4)
TOTAL GROSS EXPENDITURES	254,061.8	18.1	259,204.7	17.9	266,133.3	280,489.9	92.4
TOTAL NET EXPENDITURES (1)	253,967.3	18.1	259,182.5	17.9			
RECURRENT EXPENDITURES (excludes 25)	248,792.8	17.8	253,038.9	17.5			
Compensation of Employees	174,569.1	12.5	183,630.4	12.7	174,412.8	192,581.0	95.4
Wages and Salaries	166,245.9	11.9	175,545.5	12.1			
Wages and Salaries in Cash	140,552.2	10.0	154,383.1	10.7			
Wages and Salaries in Kind	25,623.5	1.8	21,860.1	1.5			
Wages and Salary Advance	318.4	0.0	195.4	0.0			
Social Benefits	8,323.2	0.6	8,084.9	0.6			
Return of Salaries	-248.3	0.0	-893.1	-0.1			
Use of Goods and Services	47,956.8	3.4	37,456.7	2.6	55,298.6	46,327.3	80.9
Travel	2,548.7	0.2	3,255.0	0.2			
Communications	3,814.0	0.3	3,925.9	0.3			
Contracted Services	1,958.9	0.1	2,194.5	0.2			
Repairs and Maintenance	6,894.3	0.5	6,326.5	0.4			
Utilities	6,114.1	0.4	8,418.8	0.6			
Fuel	10,870.7	0.8	5,464.9	0.4			
Other Use of Goods and Services	15,756.0	1.1	7,871.3	0.5			
Interest (2)	1,830.8	0.1	2,002.5	0.1	1,802.9	2,002.5	100.0
Social Transfers (3)	24,436.2	1.7	29,949.2	2.1	21,869.8	30,776.4	97.3
Subsidies	1,390.0	0.1	1,398.0	0.1			
Grants	454.8	0.0	447.3	0.0			

Grants to Foreign Government - Capital	405.5	0.0	410.9	0.0			
Grants to other Government Units - Current	49.2	0.0	36.4	0.0			
Social Security	22,102.6	1.6	27,335.8	1.9			
Other Social Transfers	488.9	0.0	768.2	0.1			
Social Assistance	22.0	0.0	20.1	0.0			
Advance Subsidies, Grants	466.9	0.0	748.1	0.1			
Gross Acquisition of Nonfinancial Assets	5,268.9	0.4	6,165.9	0.4	12,749.3	8,802.7	70.0
Net Acquisition of Nonfinancial Assets (1)	5,174.5	0.4	6,143.6	0.4	12,749.31	8,802.7	69.8
Sale of Land and Buildings	-94.5	0.0	-22.3	0.0			
Buildings and Structures	2,757.9	0.2	3,280.8	0.2			
Machinery and Equipment (>50,000)	2,073.5	0.1	2,214.1	0.2			
Valuables	0.5	0.0	0.16	0.0			
Land	378.6	0.0	651.8	0.0			
Capital Advance Payments	58.4	0.0	19.0	0.0			

Table 10c. Development Budget Expenditures 1396 - 1397

In millions of Afghanis	1396 Actual	1396 %GDP	1397 Prelim	1397 %GDP	1397 Original Budget (5)	1397 Final Budget (6)	1397 Actual as % of Final Budget (4)
TOTAL GROSS EXPENDITURES	103,555.2	7.4	126,485.6	8.7	111,056.9	136,398.1	93
TOTAL NET EXPENDITURES (1)	103,555.2	7.4	126,485.6	8.7	-		
RECURRENT EXPENDITURES (excludes 25)	40,886.9	2.9	42,969.4	3.0	-		
Compensation of Employees	-0.1	0.0	0.0	0.0	-	-	-
Wages and Salaries	-0.1	0.0	0.0	0.0	-		
Wages and Salaries in Cash	0.0	0.0	0.0	0.0			
Wages and Salaries in Kind	-0.1	0.0	0.0	0.0			
Wages and Salary Advance	0.0	0.0	0.0	0.0			
Social Benefits	0.0	0.0	0.0	0.0			
Return of Salaries	0.0	0.0	0.0	0.0			
Use of Goods and Services	39,976.0	2.9	42,868.8	3.0	50,159.6	46,339.8	93
Travel	566.0	0.0	556.1	0.0			
Communications	0.0	0.0	25.8	0.0			
Contracted Services	30,350.8	2.2	33,835.6	2.3			
Repairs and Maintenance	0.0	0.0	539.3	0.0			

Utilities	1.7	0.0	127.4	0.0			
Fuel	81.1	0.0	115.4	0.0			
Other Use of Goods and Services	8,976.4	0.6	7,669.2	0.5			
Interest (2)	0.0	0.0	0.0	0.0	-	-	-
Social Transfers (3)	911.0	0.1	100.6	0.0	533.8	100.6	100.0
Subsidies	-0.8	0.0	0.0	0.0			
Grants	137.8	0.0	100.6	0.0			
Grants to Foreign Government - Capital	0.0	0.0	0.0	0.0			
Grants to other Government Units - Current	137.8	0.0	100.6	0.0			
Social Security	0.0	0.0	0.0	0.0			
Other Social Transfers	774.0	0.1	0.0	0.0			
Social Assistance	164.7	0.0	0.0	0.0		0.0	-
Advance Subsidies, Grants	609.4	0.0	0.0	0.0		0.0	-
Gross Acquisition of Nonfinancial Assets	62,668.3	4.5	83,516.2	5.8	0.0	89310.0	93.5
Net Acquisition of Nonfinancial Assets (1)	62,668.3	4.5	83,516.2	5.8	60,363.5	89,310.0	93.5
Sale of Land and Buildings	0.0	0.0	0.0	0.0			
Buildings and Structures	38,974.4	2.8	53,880.3	3.7			
Machinery and Equipment (>50,000)	13,343.2	1.0	23,955.6	1.7			
Valuables	0.9	0.0	0.5	0.0			
Land	14.7	0.0	1.3	0.0			
Capital Advance Payments	10,335.1	0.7	5,678.4	0.4			

Table 11. Integrated Core Budget by Ministry

In millions of Afghanis	1396	1396	1396	1397	1397	1397	1397	1397
	Annual	% of		Prelim.	% of		Final Budget (1)	
	Actual	Total	% GDP	Annual	Total	% GDP		Actual as % of Final Budget
		Spending		Actual	Spending			
Ministry of Interior	59,075	16.5	4.2	64,025	16.6	4.4	71,575	89.5
Operating Budget	58,967	23.4	4.2	63,985	24.8	4.4	71,575	89.4
Development Budget	109	0.1	0.0	40	0.0	0.0	0	N/A
Ministry of Defense	5,594	1.6	0.4	6,572	1.7	0.5	6,007	109.4

Operating Budget	4,901	1.9	0.4	5,382	2.1	0.4	5,566	96.7
Development Budget	693	0.7	0.0	1,189	0.9	0.1	441	269.8
Ministry of Foreign Affairs	1,661	0.5	0.1	1,902	0.5	0.1	1,901	100.1
Operating Budget	1,556	0.6	0.1	1,799	0.7	0.1	1,801	99.9
Development Budget	105	0.1	0.0	103	0.1	0.0	100	103.5
Presidential Protective Service	991	0.3	0.1	1,127	0.3	0.1	1,150	98.0
Operating Budget	991	0.4	0.1	1,127	0.4	0.1	1,150	98.0
Development Budget	0	0.0	0.0	0	0.0	0.0	0	N/A
General Directorate of National Security	15,220	4.3	1.1	18,013	4.7	1.2	127	14,222.5
Operating Budget	15,103	6.0	1.1	17,931	7.0	1.2	0	N/A
Development Budget	117	0.1	0.0	83	0.1	0.0	127	65.4
Security	140,810	39	10.1	140,565	36	9.7	132,320	14,714
Operating Budget	139,097	55	9.9	137,656	53	9.5	131,265	#VALUE!
Development Budget	1,713	2	0.1	2,909	2	0.2	1,055	#VALUE!
Office of the Chief of staff to the president	0	-	0.0	2,952	0.8	0.2	3,251	90.8
Operating Budget	0	-	0.0	2,952	1.1	0.2	3,087	95.6
Development Budget	0	0.0	0.0	0	0.0	0.0	163	0.0
National Assembly Meshanro Jirga	529	0.1	0.0	507	0.1	0.0	578	87.7
Operating Budget	514	0.2	0.0	501	0.2	0.0	521	96.1
Development Budget	15	0.0	0.0	7	0.0	0.0	58	11.8
National Assembly Wolesi Jirga	1,672	0.5	0.1	1,684	0.4	0.1	1,702	98.9
Operating Budget	1,644	0.7	0.1	1,662	0.6	0.1	1,687	98.5
Development Budget	28	0.0	0.0	22	0.0	0.0	16	140.1
Supreme Court	3,525	1.0	0.3	3,768	1.0	0.3	3,559	105.9
Operating Budget	3,398	1.3	0.2	3,671	1.4	0.3	3,335	110.1
Development Budget	127	0.1	0.0	97	0.1	0.0	224	43.5

Ministry of Justice	994	0.3	0.1	921	0.2	0.1	1,159	79.4
Operating Budget	693	0.3	0.0	712	0.3	0.0	737	96.6
Development Budget	301	0.3	0.0	209	0.2	0.0	423	49.6
Administrative Office of the President	5,812	1.6	0.4	6,530	1.7	0.5	3,474	187.9
Operating Budget	5,270	2.1	0.4	3,635	1.4	0.3	3,433	105.9
Development Budget	542	0.5	0.0	2,894	2.3	0.2	42	6,926.3
Ministry of State and Parliamentary Affairs	160	0.0	0.0	191	0.0	0.0	233	81.9
Operating Budget	147	0.1	0.0	183	0.1	0.0	188	97.3
Development Budget	13	0.0	0.0	8	0.0	0.0	45	16.9
Ministry of Haj and Religious Affairs	1,572	0.4	0.1	1,686	0.4	0.1	1,644	102.6
Operating Budget	1,152	0.5	0.1	1,323	0.5	0.1	1,388	95.3
Development Budget	419	0.4	0.0	363	0.3	0.0	255	142.3
Attorney General	2,247	0.6	0.2	2,528	0.7	0.2	2,674	94.6
Operating Budget	2,080	0.8	0.1	2,374	0.9	0.2	2,446	97.1
Development Budget	167	0.2	0.0	154	0.1	0.0	228	67.6
Election Commission	361	0.1	0.0	842	0.2	0.1	6	14,776.1
Operating Budget	361	0.1	0.0	842	0.3	0.1	0	N/A
Development Budget	0	0.0	0.0	0	0.0	0.0	6	0.0
IARCSC	1,086	0.3	0.1	2,088	0.5	0.1	391	534.2
Operating Budget	416	0.2	0.0	502	0.2	0.0	0	N/A
Development Budget	669	0.6	0.0	1,586	1.2	0.1	391	405.7
Afghanistan Central Civil Registration Authority	0	-	0.0	0	-	0.0	0	N/A
Operating Budget	0	-	0.0	0	-	0.0	0	N/A
Development Budget	0	0.0	0.0	0	0.0	0.0	0	N/A
Independent Commission for Overseeing the Implementation of Cons	66	0.0	0.0	69	0.0	0.0	0	N/A

Operating Budget	66	0.0	0.0	69	0.0	0.0	0	N/A
Development Budget	0	0.0	0.0	0	0.0	0.0	0	N/A
Afghanistan Independent Human Rights Commission	47	0.0	0.0	62	0.0	0.0	0	N/A
Operating Budget	30	0.0	0.0	35	0.0	0.0	0	N/A
Development Budget	17	0.0	0.0	27	0.0	0.0	0	N/A
Executive Directorate and Secretariat of Ministers Council	1,352	0.4	0.1	1,266	0.3	0.1	0	N/A
Operating Budget	1,088	0.4	0.1	958	0.4	0.1	0	N/A
Development Budget	264	0.3	0.0	309	0.2	0.0	0	N/A
High Office of Anti-Corruption	143	0.0	0.0	46	0.0	0.0	128	35.8
Operating Budget	137	0.1	0.0	46	0.0	0.0	0	N/A
Development Budget	6	0.0	0.0	0	0.0	0.0	128	0.0
Independent Directorate of Local Governance	4,691	1.3	0.3	7,350	1.9	0.5	3,061	240.1
Operating Budget	3,543	1.4	0.3	4,513	1.8	0.3	1,916	235.5
Development Budget	1,148	1.1	0.1	2,837	2.2	0.2	1,145	247.7
Independent Electoral Complaints Commission	140	0.0	0.0	417	0.1	0.0	0	N/A
Operating Budget	140	0.1	0.0	417	0.2	0.0	0	N/A
Development Budget	0	0.0	0.0	0	0.0	0.0	0	N/A
Governance, Rule of Law & Human Rights	24,398	7	1.7	32,906	9	2.3	21,860	#VALUE!
Operating Budget	20,679	8	1.5	24,393	9	1.7	18,738	#VALUE!
Development Budget	3,718	4	0.3	8,513	7	0.6	3,122	#VALUE!
In millions of Afghanis	1396 Annual Actual	1396 % of Total Spending	1397 % GDP	1397 Prelim. Annual Actual	1397 % of Total Spending	1397 % GDP	1397 Final Budget (I)	1397 Actual as % of Final Budget
Ministry of Public Works	18,313	5.1	1.3	20,474	5.3	1.4	27,566	74.3
Operating Budget	3,138	1.2	0.2	2,053	0.8	0.1	2,111	97.3
Development Budget	15,175	14.5	1.1	18,421	14.5	1.3	25,455	72.4

Ministry of Transport and Aviation	305	0.1	0.0	330	0.1	0.0	377	87.5
Operating Budget	290	0.1	0.0	253	0.1	0.0	309	81.8
Development Budget	15	0.0	0.0	77	0.1	0.0	68	113.1
Ministry of Communication	1,776	0.5	0.1	1,768	0.5	0.1	964	183.3
Operating Budget	567	0.2	0.0	605	0.2	0.0	643	94.1
Development Budget	1,209	1.2	0.1	1,163	0.9	0.1	321	361.8
Ministry of Energy and Water	5,804	1.6	0.4	6,487	1.7	0.4	11,067	58.6
Operating Budget	897	0.4	0.1	1,019	0.4	0.1	1,063	95.9
Development Budget	4,907	4.7	0.4	5,468	4.3	0.4	10,004	54.7
Urban Water Supply and Canalization Corporation	150	0.1	0.0	529	0.1	0.0	574	92.1
Operating Budget	0	-	0.0	0	-	0.0	0	N/A
Development Budget	150	0.1	0.0	529	0.4	0.0	574	92.1
Da Brishna Shirkat	10,984	10.5	0.8	16,824	4.4	1.2	15,475	108.7
Operating Budget	0	-	0.0	0	-	0.0	0	N/A
Development Budget	10,984	10.5	0.8	16,824	13.2	1.2	15,475	108.7
Ministry of Urban Development	4,183	1.2	0.3	4,586	1.2	0.3	1,927	238.0
Operating Budget	446	0.2	0.0	374	0.1	0.0	403	92.8
Development Budget	3,737	3.6	0.3	4,212	3.3	0.3	1,523	276.5
Capital Region Independent Development Authority	1,079	0.3	0.1	1,060	0.3	0.1	110	961.7
Operating Budget	46	0.0	0.0	39	0.0	0.0	0	N/A
Development Budget	1,033	1.0	0.1	1,021	0.8	0.1	110	926.3
Ministry of Mines and Industries	1,321	0.4	0.1	1,928	0.5	0.1	2,876	67.0
Operating Budget	540	0.2	0.0	539	0.2	0.0	565	95.4
Development Budget	781	0.7	0.1	1,389	1.1	0.1	2,311	60.1
Afghanistan Railway Authority	0	-	0.0	1,853	0.5	0.1	0	N/A
Operating Budget	0	-	0.0	1,441	0.6	0.1	0	N/A
Development Budget	0	0.0	0.0	412	0.3	0.0	0	N/A
Civil Aviation Authority	3,264	0.9	0.2	3,802	1.0	0.3	384	989.9
Operating Budget	322	0.1	0.0	325	0.1	0.0	384	84.7
Development Budget	2,943	2.8	0.2	3,476	2.7	0.2	0	N/A
National Environment Protection Agency	260	0.1	0.0	276	0.1	0.0	282	98.0
Operating Budget	219	0.1	0.0	212	0.1	0.0	216	97.8
Development Budget	41	0.0	0.0	65	0.1	0.0	65	98.6
Afghanistan High Atomic Energy Commission	46	0.0	0.0	48	0.0	0.0	0	N/A
Operating Budget	46	0.0	0.0	48	0.0	0.0	0	N/A

Development Budget	0	0.0	0.0	0	0.0	0.0	0	N/A
Municipalities	3,192	0.9	0.2	2,531	0.7	0.2	3,282	77.1
Operating Budget	0	-	0.0	0	-	0.0	0	N/A
Development Budget	3,192	3.1	0.2	2,531	2.0	0.2	3,282	77.1
Infrastructure & Natural Resources	50,677	22	3.6	62,494	16	4.3	64,883	#VALUE!
Operating Budget	6,509	3	0.5	6,907	3	0.5	5,694	#VALUE!
Development Budget	44,168	42	3.2	55,586	44	3.8	59,190	#VALUE!
Ministry of Education	37,500	10.5	2.7	38,386	10.0	2.6	51,508	74.5
Operating Budget	33,038	13.1	2.4	34,953	13.6	2.4	35,003	99.9
Development Budget	4,462	4.3	0.3	3,432	2.7	0.2	16,505	20.8
Ministry of Higher Education	7,248	2.0	0.5	7,286	1.9	0.5	8,533	85.4
Operating Budget	5,158	2.0	0.4	5,375	2.1	0.4	5,465	98.4
Development Budget	2,091	2.0	0.1	1,911	1.5	0.1	3,068	62.3
Ministry of Information and Culture	1,000	0.3	0.1	842	0.2	0.1	891	94.5
Operating Budget	616	0.2	0.0	629	0.2	0.0	653	96.3
Development Budget	383	0.4	0.0	213	0.2	0.0	238	89.5
Afghanistan Academy of Sciences	235	0.1	0.0	231	0.1	0.0	10	2,271.1
Operating Budget	223	0.1	0.0	223	0.1	0.0	0	N/A
Development Budget	11	0.0	0.0	8	0.0	0.0	10	81.2
Radio and television of Afghanistan	634	0.2	0.0	643	0.2	0.0	580	110.9
Operating Budget	537	0.2	0.0	534	0.2	0.0	580	92.1
Development Budget	98	0.1	0.0	109	0.1	0.0	0	N/A
General Directorate of Sports and Fitness	382	0.1	0.0	325	0.1	0.0	263	123.4
Operating Budget	332	0.1	0.0	252	0.1	0.0	0	N/A
Development Budget	50	0.0	0.0	72	0.1	0.0	263	27.5
Education	47,000	13	3.4	47,713	12	3.3	61,785	2,760
Operating Budget	39,905	16	2.8	41,967	16	2.9	41,700	#VALUE!
Development Budget	7,095	7	0.5	5,746	5	0.4	20,085	#VALUE!
Ministry of Public Health	18,760	5.2	1.3	21,467	5.6	1.5	18,600	115.4
Operating Budget	4,217	1.7	0.3	4,284	1.7	0.3	3,118	137.4
Development Budget	14,543	13.9	1.0	17,182	13.5	1.2	15,481	111.0
Health	18,760	5.2	1.3	21,467	5.6	1.5	18,600	115.4
Operating Budget	4,217	1.7	0.3	4,284	1.7	0.3	3,118	137.4
Development Budget	14,543	13.9	1.0	17,182	13.5	1.2	15,481	111.0
Ministry of Agriculture	10,706	3.0	0.8	11,189	2.9	0.8	9,745	114.8

Operating Budget	1,334	0.5	0.1	1,588	0.6	0.1	1,644	96.6
Development Budget	9,372	9.0	0.7	9,601	7.5	0.7	8,102	118.5
Ministry of Counter Narcotics	1,007	0.3	0.1	678	0.2	0.0	1,707	39.7
Operating Budget	212	0.1	0.0	213	0.1	0.0	260	81.8
Development Budget	794	0.8	0.1	465	0.4	0.0	1,447	32.1
Ministry of Rural Rehabilitation and Development	15,288	4.3	1.1	18,616	4.8	1.3	30,645	60.7
Operating Budget	726	0.3	0.1	666	0.3	0.0	701	95.0
Development Budget	14,562	13.9	1.0	17,950	14.1	1.2	29,944	59.9
Afghanistan Independent Land Authority	788	0.2	0.1	933	0.2	0.1	0	N/A
Operating Budget	470	0.2	0.0	475	0.2	0.0	0	N/A
Development Budget	318	0.3	0.0	459	0.4	0.0	0	N/A
Agriculture & Rural Development	27,790	8	2.0	31,416	8	2.2	42,097	#VALUE!
Operating Budget	2,273	0.9	0.2	2,467	1.0	0.2	2,605	94.7
Development Budget	24,729	23.6	1.8	28,016	22.0	1.9	39,492	70.9

In millions of Afghanis	1396	1396	1397	1397	1397	1397	1397	1397
	Annual Actual	% of Total Spending	% GDP	Prelim. Annual Actual	% of Total Spending	% GDP	Final Budget (1)	Actual as % of Final Budget
Ministry of Frontiers and Tribal Affairs	559	0.2	0.0	533	0.1	0.0	670	79.6
Operating Budget	449	0.2	0.0	478	0.2	0.0	551	86.9
Development Budget	110	0.1	0.0	55	0.0	0.0	119	45.9
Ministry of Martyrs, Disabled and Social Affairs	24,031	6.7	1.7	29,146	7.6	2.0	30,353	96.0
Operating Budget	23,288	9.2	1.7	28,363	11.0	2.0	29,385	96.5
Development Budget	743	0.7	0.1	782	0.6	0.1	968	80.9
Ministry of Refugees and Repatriates	535	0.1	0.0	571	0.1	0.0	382	149.6
Operating Budget	288	0.1	0.0	306	0.1	0.0	326	94.1
Development Budget	246	0.2	0.0	265	0.2	0.0	56	472.2
Ministry of Women Affairs	254	0.1	0.0	283	0.1	0.0	271	104.1
Operating Budget	224	0.1	0.0	215	0.1	0.0	230	93.7
Development Budget	31	0.0	0.0	67	0.1	0.0	42	161.1
Afghanistan National Disaster Management Authority	774	0.2	0.1	903	0.2	0.1	31	2,887.1
Operating Budget	774	0.3	0.1	903	0.4	0.1	0	N/A
Development Budget	0	0.0	0.0	0	0.0	0.0	31	0.0

Directorate of Kochis	221	0.1	0.0	223	0.1	0.0	33	673.9
Operating Budget	135	0.1	0.0	124	0.0	0.0	0	N/A
Development Budget	86	0.1	0.0	99	0.1	0.0	33	298.3
Social Protection	26,374	7.4	1.9	31,659	8.2	2	31,740	99.7
Operating Budget	25,158	10.0	1.8	30,390	11.8	2	30,491	99.7
Development Budget	1,216	1.2	0.1	1,268	1.0	0	1,249	101.5
Ministry of Finance	19,249	5.4	1.4	13,589	3.5	0.9	6,797	199.9
Operating Budget	13,302	5.3	1.0	8,319	3.2	0.6	1,912	435.0
Development Budget	5,947	5.7	0.4	5,270	4.1	0.4	4,885	107.9
Ministry of Commerce	675	0.2	0.0	758	0.2	0.1	994	76.3
Operating Budget	456	0.2	0.0	493	0.2	0.0	568	86.7
Development Budget	219	0.2	0.0	266	0.2	0.0	426	62.3
Ministry of Economy	536	0.2	0.0	608	0.2	0.0	541	112.5
Operating Budget	243	0.1	0.0	254	0.1	0.0	272	93.5
Development Budget	294	0.3	0.0	355	0.3	0.0	269	131.7
Control and Audit Office	316	0.1	0.0	334	0.1	0.0	797	41.9
Operating Budget	152	0.1	0.0	156	0.1	0.0	0	N/A
Development Budget	164	0.2	0.0	179	0.1	0.0	797	22.4
Central Statistics Office	150	0.0	0.0	1,832	0.5	0.1	293	626.3
Operating Budget	141	0.1	0.0	151	0.1	0.0	0	N/A
Development Budget	8	0.0	0.0	1,682	1.3	0.1	293	574.7
Afghanistan National Standard Authority	109	0.0	0.0	115	0.0	0.0	168	68.5
Operating Budget	78	0.0	0.0	80	0.0	0.0	83	96.3
Development Budget	31	0.0	0.0	36	0.0	0.0	86	41.8
Economic Governance & Private Sector Development	21,035	5.9	1.5	17,238	4.5	1.2	9,590	179.7
Operating Budget	14,372	5.7	1.0	9,452	3.7	0.7	2,834	333.5
Development Budget	6,663	6.4	0.5	7,786	6.1	0.5	6,756	115.3
Micro Finance Investment Support Facility for Afghanistan	774.0	0.2	0.1	234	0.1	0.0	1,564	14.9
Operating Budget	0.0	-	0.0	0	-	0.0	0	N/A
Development Budget	774.0	0.7	0.1	234	0.2	0.0	1,564	14.9
TOTAL (1)	357,833		25.6	385,690	0.1	26.6	384,439	100.3
Operating Budget	253,147		18.1	257,516	0.0	17.8	236,445	108.9
Development Budget	103,484		7.4	127,241	0.2	8.8	163,187	78.0
Extra budgetary Agencies		-	0.0	0	-	0.0	15,194	0.0
Operating Budget		-	0.0	0	-	0.0		N/A

Development Budget		0.0	0.0	0	0.0	0.0	15,193.6	0.0
Unspecified	0	-	0.0	0	-	0.0	0	N/A
Operating Budget	0	-	0.0	0	-	0.0		N/A
Development Budget	0	0.0	0.0	0	0.0	0.0	0.0	N/A
Total Unallocated (contingency reserve etc.)	-	-	-	-	-	-	15193.60	0.0
Operating Budget	-	-	-	-	-	-	-	N/A
Development Budget	774.0	0.7	0.1	233.7	0.2	0.0	15,193.6	0.0
TOTAL (including unclassified)	357,615.8	107.5	25.5	385,690.3	100.0	35.5	399,632.8	96.5
Operating Budget	252,209.6	100.0	18.0	257,516.3	100.0	23.7	236,445.3	108.9
Development Budget	104,617.8	100.0	7.5	127,240.8	100.0	11.7	163,187.5	77.8

Table 12. Integrated Core Budget Expenditure by Sector 1396 - 1397

In millions of Afghanis	1396	Percent of total	1397	Percent of total
	Actual		Prelim. Actual	
TOTAL NET EXPENDITURE	357,522.5		385,668.1	
Sale of Land and Buildings	94.5		22.3	
TOTAL GROSS EXPENDITURE	356,236.8	100.0	385,569.3	100.0
RECURRENT EXPENDITURE	286,390.5	80.4	308,424.1	80.0
CAPITAL EXPENDITURE	65,823.2	18.5	78,089.8	20.3
General Public Services	59,906.2	16.8	45,801.6	11.9
Recurrent Expenditure	42,168.5	11.8	16,673.9	4.3
Capital Expenditure	17,737.8	5.0	29,127.7	7.6
Defence	77,881.8	21.9	85,641.5	22.2
Recurrent Expenditure	75,977.9	21.3	83,495.3	21.7
Capital Expenditure	1,903.9	0.5	2,146.2	0.6
Public Order and Safety	64,934.4	18.2	58,117.8	15.1
Recurrent Expenditure	63,314.0	17.8	56,540.9	14.7
Capital Expenditure	1,620.4	0.5	1,576.8	0.4
Economic Affairs	51,491.4	14.5	86,834.5	22.5
Recurrent Expenditure	19,351.4	5.4	53,046.1	13.8
Capital Expenditure	32,140.0	9.0	33,788.3	8.8
Environmental Protection	1,373.6	0.4	704.9	0.2
Recurrent Expenditure	205.3	0.1	226.2	0.1

Capital Expenditure	1,168.3	0.3	478.7	0.1
Housing and Communal Amenities	5,482.2	1.5	6,996.9	1.8
Recurrent Expenditure	1,079.9	0.3	2,994.9	0.8
Capital Expenditure	4,402.3	1.2	4,002.0	1.0
Health	18,936.7	5.3	21,741.5	5.6
Recurrent Expenditure	16,642.3	4.7	18,338.1	4.8
Capital Expenditure	2,294.4	0.6	3,403.4	0.9
Recreation, Culture and Religion	3,592.8	1.0	3,503.7	0.9
Recurrent Expenditure	2,734.0	0.8	2,911.0	0.8
Capital Expenditure	858.7	0.2	592.8	0.2
Education	45,288.5	12.7	47,027.9	12.2
Recurrent Expenditure	41,889.7	11.8	44,352.6	11.5
Capital Expenditure	3,398.8	1.0	2,675.3	0.7
Social Protection	23,326.0	6.5	30,143.6	7.8
Recurrent Expenditure	23,027.4	6.5	29,845.1	7.7
Capital Expenditure	298.5	0.1	298.5	0.1
Balance Sheet Account	4,023.2	1.1	-944.6	-0.2
Recurrent Expenditure	1,909.2	0.5	-13,206.1	-3.4
Capital Expenditure	2,114.1	0.6	12,261.5	3.2

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About MFPD:

The Macroeconomic and Fiscal Policy Directorate is one of Ministry of Finance’s main directorates that works under the Office of Deputy Minister of Finance. The directorate is responsible for providing necessary consultation in the areas of economic and fiscal policy in overall budgeting process. It is also responsible for assessing the country’s financial and economic situation where these assessments are used annually in the budgeting process. The department will carry out economic and financial forecasts for fiscal years and use a special model that is made for financial and economic analysis.

The directorate of macroeconomic and fiscal policy will continue to update the forecasts with new data available throughout the year. The unit will make financial forecasts, including estimates of resources needed to meet government commitments in the medium term, in line with the large-scale economic framework used to fund it. The department also provides technical advice in the areas of fiscal policy, including tax and expenditure policy.

