

Economic Consequences of COVID-19 in Afghanistan: Some Policy Suggestions

Kardan Journal of Economics and Management Sciences
3 (3) 8–17

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Kardan Publications
Kabul, Afghanistan

DOI: 10.31841/KJEMS.2021.19

<https://kardan.edu.af/Research/CurrentIss ue.aspx?i=KJEMS>

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Introduction

COVID-19 will be remembered as the virus that stopped the world. The coronavirus pandemic is wreaking havoc globally, leaving governments and communities struggling to find a response. This is happening even as new technological and industrial transformations are altering societies around the world. And as such Afghanistan is no exception to it. We are living through a period that can only be described as the greatest act of solidarity in history, as people give up civic freedoms to save lives. And while we all agree that managing the health crisis is the overwhelming priority, the social and economic consequences are, and will be, dramatic in an already troubled world.

COVID-19 is not only a global pandemic and public health crisis; it has also severely affected the global economy and financial markets. Significant reductions in income, a rise in unemployment, and disruptions in the transportation, service, and manufacturing industries are among the consequences of the disease mitigation measures that have been implemented in many countries. To theories the COVID-19 would at first sight appear to be odd. After all, the SARS- COV-2 outbreak is obviously a *Force Majeure* (emergency), which by its very nature suggests that is an uncommon event and therefore has to be tackled and managed in a manner specifically designed to the nature of this event. The specifics of this event that are relevant to us in the short run are the following: it has no proven cure and given its contagious nature the practice of “physical distancing” among members of any society appears to be the best possible way of tackling its spread in the short run. Those infected must be quarantined for the duration of their infection. The first necessitates a lockdown whereby

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the State by order prohibits the assembly of persons beyond a certain number, which automatically makes a large number of firms whose employee strength equals or exceeds that number to cease operations.

It is commonly agreed that Afghanistan's lockdown that commenced on 18th March 2020 and was extended to 5th August 2020 has been less stringent lockdowns in the region, when compared to other neighboring countries with only a few basic services exempt from it. Afghanistan faces humanitarian disaster as COVID-19 spreads undetected, warns the IRC as confirmed COVID-19 cases grew 684% in May, many more cases are going untested throughout Afghanistan. Given the nature of COVID-19, it may be expected that demand, even if pent up, will be postponed for quite some time. A limitation in assessing the economic costs of outbreaks is that they only capture the impact on income. Fan and colleagues recently addressed this limitation by estimating the "inclusive" cost of pandemics: the sum of the cost in lost income and a dollar valuation of the cost of early death. They found that for Ebola and severe acute respiratory syndrome (SARS), the true ("inclusive") costs are two to three times the income loss. For extremely serious pandemics such as that of influenza in 1918, the inclusive costs are over five times income loss. The inclusive costs of the next severe influenza pandemic could be US\$570 billion each year or 0.7% of global income (range 0.4–1.0%)⁸-an economic threat similar to that of global warming, which is expected to cost 0.2–2.0% of global income annually. Given the magnitude of the threat, we call for scaled-up financing of international collective action for epidemic and pandemic preparedness.

2. Impact of COVID-19

On March 11, 2020, the World Health Organization (WHO) characterized COVID-19 as a pandemic, pointing to over 3 million cases and 207,973 deaths in 213 countries and territories (WHO Report, 2020). The infection has not only become a public health crisis but has also affected the global economy. Significant economic impact has already occurred across the globe due to reduced productivity, loss of life, business closures, trade disruption, and decimation of the tourism industry. COVID-19 may be that a "wake-up" call for global leaders to intensify cooperation on epidemic preparedness and provide the necessary financing for international collective action. There has been ample information on the expected economic and health costs of infectious disease outbreaks (Yamen *et al*, 2017 and WHO, 2019), but the world has failed to adequately invest in preventive and preparedness measures to mitigate the risks of large epidemics and Afghanistan in no way is any exception. Afghanistan failed miserably to cope with pandemic. In

Afghanistan pandemic response has typically followed cycles of panic followed by neglect.

2.1 Global impact of COVID-19

With globalization, urbanization, and environmental change, infectious disease outbreaks and epidemics have become global threats requiring a collective response. In the case of COVID-19, such cooperation is critical, especially for the development and production of a vaccine. The Coalition for Epidemic Preparedness Innovations (CEPI), a global partnership launched in 2017, has tracked global efforts in COVID-19 vaccine development activity and is advocating for strong international cooperation to ensure that vaccine, when developed, will be manufactured in sufficient quantities and that equitable access will be provided to all nations regardless of ability to pay (Le *et al*, 2020). Furthermore, affected countries may benefit from exchanging technological innovations in contact tracing, such as health Quick Response (QR) codes, to manage the outbreak more effectively. However, there are important privacy implications that need to be considered (Cho *et al*, 2020). In the case of COVID-19, the collective response and adoption of preventive measures to stop the global spread were implemented too late, after COVID-19 had already penetrated other regions through international travel.

In addition to the substantial burden on healthcare systems, COVID-19 has had major economic consequences for the affected countries. The COVID-19 pandemic has caused direct impacts on income due to premature deaths, workplace absenteeism, and reduction in productivity and has created a negative supply shock, with manufacturing productive activity slowing down due to global supply chain disruptions and closures of factories. In addition to the impact on productive economic activities, consumers typically changed their spending behaviour, mainly due to decreased income and household finances, as well as the fear and panic that accompany the epidemic. Service industries such as tourism, hospitality, and transportation have suffered significant losses due to reduction in travel. The International Air Transport Association projects a loss in airline revenue solely from passenger carriage of up to \$314 billion (IATA Report, 2020). Restaurants and bars, travel and transportation, entertainment, and sensitive manufacturing are among the sectors in the U.S. that are the worst affected by the COVID-19 quarantine measures (Dey and Loewenstein, 2020). The advance seasonally adjusted insured unemployment rate in the U.S. has already reached a record level of 11% for the week ending April 11, 2020 (U.S. Department of Labor, 2020).

In addition to marked health inequalities, especially in countries without universal healthcare coverage, the economic impact of the COVID-19 pandemic will be heterogeneous across the country's income distribution. For example, office workers are more likely to transition to flexible working arrangements during the restrictions, while many industrial, tourism, retail, and transport workers will suffer a significant reduction in work due to community restrictions and low demand for their goods and services.

Global financial markets have been heavily impacted by the effects of COVID-19 spread. As the numbers of cases started to increase globally, mainly through the US, Italy, Spain, Germany, France, Iran, and South Korea, the world financial and oil markets significantly declined. Since the start of the year, leading U.S. and European stock market indices (the S&P 500, FTSE 100, CAC 40, and DAX) have lost a quarter of their value, with oil prices declining by more than 55% as of August, 2020. Daily data on stock market volatility and price movements are good indicators of consumer and business confidence in the economy. Larger economic problems are associated with the current and potential future demand for oil translating into fluctuations in oil prices due to reduced economic activities driven by the COVID-19 pandemic. Expected excess supply was also responsible for significant price reductions. If lower than expected oil prices continue, many oil-dependent economies may contract following reductions in trade and investment. Shocks to the labour markets will be severe, especially for countries dependent on migration. Globally, migrant workers make important contributions to the labour markets, addressing imbalances in both high- and low-skilled occupations (Green, 1994 and Castles, 2011). As international travel restrictions and quarantine are likely to remain for the foreseeable future as countries try to halt the spread of COVID-19, migration flows will be limited, hindering global economic growth, and development.

2.2 Impact of COVID-19 on Afghanistan

After the outbreak of the novel coronavirus in December 2019 in Wuhan, China, and then spreading to many parts of the country and more than one hundred locations around the world, the World Health Organization (WHO) declared coronavirus a pandemic. With 38143 COVID-19 cases and 1402 deaths as of August 2020, coupled with a weak health care system, Afghanistan is in a dire situation. The government has imposed various physical distancing measures, including a lockdown in major provinces like Kandahar, Herat, Kabul, Mazar-i-Sharif and Ghazni. The economy is expected to contract by up to 4% in 2020. The government has allocated \$25 million in the budget to battle the pandemic, but this will be

inadequate. The World Bank has approved a grant of \$104.5 million for the emergency response to COVID-19 and to improve health infrastructure. The COVID-19 situation in the country has been evolving quickly, with high transmission rates owing to its porous border with Iran, which has seen a severe outbreak of the pandemic. Herat province, bordering Iran, has seen large number of Afghan returnees and as a result has emerged as the epicenter of Afghanistan's infections. Afghanistan has a severely overstretched health care system: per capita allocations to health are at about \$5 annually for each of the country's 35 million citizens and there are only three doctors for every 10,000 patients. The domestic government's health expenditure per capita and external health expenditure per capita, both in PPP (current international \$), were \$8.35 and \$28.44 in 2016. To combat the pandemic, the government has adopted screening at ports of entry and closed public places for gatherings, and has ordered a three-week lockdown in Kabul and Herat provinces starting from 28 March, shutting down businesses, restaurants and wedding halls. The Taliban has said it will allow government medical teams to enter areas it controls to treat virus stricken patients. However, the government's advice to practice social distancing has not been widely accepted. Afghanistan's economy grew by 2.9% in 2019, driven by rapid agricultural growth. Inflation was modest, at 2.3%. The trade deficit, at 31% of GDP, was extremely large as a result of grant inflows. However, the country continues to reel from political uncertainties, including the contested presidential election held in 2019. The basic needs poverty rate was 55% at the time of the last household survey (2016/17) and is compounded by internal displacement and conflict. The economic and social impacts are diverse. Afghanistan's economy is expected to contract by up to 4% in 2020 with the negative impacts of the COVID19 pandemic. Political instability, security risks and disruptions in established aid flows all continue to be additional risk factors for the national economy. On the positive side, GDP growth is projected to rise to 4% in 2021. Inflation should remain unchanged, at 2.3% in 2020, then increase to 3.5% in 2021 as economic activity improves and domestic demand strengthens. The fiscal deficit is expected to increase slightly in both 2020 and 2021 as revenue declines. Total revenue is expected to come in at 27.7% of GDP in 2021 after the implementation of VAT. The current account surplus will likely narrow in 2020 and 2021. Exports are expected to trend upward with stronger agriculture exports, enhanced as a consequence of efforts by the government to facilitate trade and the development of new trade corridors. However, export growth will be insufficient to offset import growth and lower grants. International reserves are projected to remain comfortable over the next two years at cover for nearly 12 months of imports.

As landlocked Afghanistan's main food supply line is through Pakistan (which in mid-March shut its borders as part of measures to contain its own COVID-19 outbreak), epidemic food prices have already soared. For instance, the price of wheat increased by 72% in a single day, prompting the government to replace wheat imports lost as a result of border closures with Pakistan with purchases from Central Asia. Social impact The International Organization for Migration has recorded more than 198,000 Afghans returnees from Iran this year, more than 145,000 of them in March as the COVID-19 outbreak in Iran accelerated. At the height of the influx, 15,000 people a day were crossing the border.

The Fiscal impacts include that the \$25 million the government of Afghanistan has pledged to spend fighting the virus is just 0.1% of its annual GDP of just under \$20 billion. Newly announced US aid cuts of \$1 billion have come at a time when the country is battling a public health crisis. The Monetary and financial policy also seems creepy. The Financial Stability Committee has been meeting regularly to assess the risks that could destabilize Afghanistan financially and monetarily. Da Afghanistan Bank (DaB), has stated its ability to meet liquidity needs as they arise and has intensified the monitoring of the banks to ensure smooth functioning of the banking system during the pandemic. Money service providers in Afghanistan play a central role in financial transactions. DaB has entered discussions with the money service providers to make sure services such as transactions in foreign currency are not interrupted and remote services are provided as closures come into force to contain the pandemic.

In order to cover immediate expenses in health because of the pandemic, the government has allocated \$25 million in the budget. This amounts to 0.1% of its annual GDP of just under \$20 billion. It is also working towards curtailing and delaying nonessential spending to be able to divert these funds to fight the pandemic, with increased spending in health, on relief for affected households and on policies to lessen the impact of the pandemic on the economy. The Afghan administration has also constituted the Government's Emergency Committee for Prevention of COVID-19. Talking about the donor support, the World Bank approved a \$100.4 million grant for Afghanistan's COVID-19 Emergency Response and Health Systems Preparedness Project on 2 April 2020. This is aimed at supporting Afghanistan to take effective steps in order to tackle the threats posed by the pandemic and also to strengthen its public health infrastructure. ADB has also agreed to provide technical and financial assistance to Afghanistan in the wake of the pandemic to support health measures. The UN Humanitarian Coordinator, which is supported by the Advisory Board of the

Afghanistan Humanitarian Fund (AHF), has also allocated \$1.5 million to go towards urgent preparedness and the in-country response to COVID-19. Uzbekistan has sent 500 tonnes of food aid. China has also sent essential medical supplies and other items including ventilators, masks, COVID-19 testing kits, flour, rice and other items of basic needs. The government has also requested financing from the Islamic Development Bank and the IMF. From January to August, nearly 278,000 people crossed back into Afghanistan from Iran, according to the International Organization for Migration. Iran has been hit hard by coronavirus with it causing a major blow to its already shaky economy. But the influx of returnees, without a clear coronavirus diagnosis, brought serious threats with them to Afghanistan, which the current government, embroiled in a political crisis and negotiations with the Taliban, may not be able to address on its own. Recently, the Ministry of Foreign Affairs of Afghanistan helped nearly 91,486 Afghans stranded in different countries to return home. This included 70,000 people from Pakistan, 13,600 from the UAE, 5,400 from India, 2,000 from Turkey, 300 from Qatar, and 186 people from Kazakhstan. Also, 634 inmates from different countries were released and helped return to Afghanistan. According to the Ministry of Public Health of Afghanistan on May 19, 7,653 positive cases of the coronavirus have been reported so far, with Kabul (2,231 cases) and Herat (1,286 cases) ranking first and second, respectively. Of these, 178 people have died and about 850 have been recovered so far. But people are skeptical of the Ministry of Public Health's statistics.

Afghanistan is currently running short of sufficient resources and equipment to cope with the outbreak of the coronavirus. The virus cannot only cause a health crisis in Afghanistan, but also an economic crisis. The pandemic has shaken the world economy. However, the people of Afghanistan have not been serious about flattening the curve. The serious economic consequences that can be expected from the coronavirus include unprecedented decline in business activity, increased food prices, rising unemployment and a strong blow to exporters.

3. Recommendation to the Afghan government

- **Serious enforcement of the Anti-Hoarding Law.** To prevent commercial opportunism in the free market system that prevails in Afghanistan, Articles 800 and 801 as well as Articles 900 to 905 of the Afghan Penal Code considers hoarding a crime. Since hoarding disrupts the economic order of society, the Afghan government must act seriously in accordance with the provisions of the law. In the fight

against the coronavirus pandemic, the government must act more seriously and businessmen must be fair.

- **Strengthen strategic grain reserves.** Over the past decade, Afghanistan has twice experienced severe shortages of wheat due to declining production and the threat of wheat supply from the region's export markets. The government must import more flour from countries that it has good trade relations with and can easily transit import, and export with Afghan traders before the spread of the virus is uncontrollable.
- **Invest in health care sector.** Afghanistan's public health sector is weak in general, which makes its population vulnerable to the rapid spread of the coronavirus. The health care infrastructure is frenzied and struggles to rebound. Currently, there are only two coronavirus testing labs with a total capacity of nearly 2,000 tests per day. Additionally, health workers are more prone to the virus. According to Public Health officials, more than 350 medical staff have been infected with the virus. This may put serious pressure on the health system, which will ultimately cause adverse economic effects in the country. In the absence of the necessary health facilities and adequate health workers, the increasing number of deaths will cause more damage to the workforce, and companies and small and large entrepreneurs will be harmed.
- **Quarantine affected cities and create a safety net.** The government should create a stronger safety net with the cooperation of international organizations and distribute food and other basic necessities to the people. And if it is in the power of the government, it should help the people with the distribution of cash via assistance programs. Although this may seem impractical, it will help the government save the country. How much is a human life worth? To prevent the rapid spread of the coronavirus, the government should have mandated compulsory quarantine in areas most exposed to the coronavirus much earlier. Still, people are very indifferent to lockdowns. Only recently, hundreds of people were out in the city doing their Eid shopping despite the fact that the government extended lockdown measures until August 5th across the country.
- **Support the private sector.** Since small and large domestic businesses have been affected by the pandemic, the government should assist them with tax exemptions or subsidies. In order to ensure that there is no disruption in the food supply chain and other basic necessities of the citizens, the customs tariffs, especially the tariffs imposed on foodstuffs or raw foodstuffs, should be reduced or be put at zero.

- **Handle financial markets disruption.** The Central Bank of Afghanistan, as it is sensitive to the risks of banks in developed countries, must be prepared to respond to the turmoil in the financial markets. To restore financial stability and boost growth, it may need to reduce interest rates and inject liquidity.
- **Observe strict transparency in international aid.** The international community has so far pledged over \$600 million to Afghanistan to help the country in its fight against coronavirus. Of that amount, \$100 million was provided by the World Bank, 117 million euros were pledged by the EU, \$50 million was pledged by the Asian Development Bank, \$35 million was promised by the United States, and \$220 million in loans were granted by the International Monetary Fund. The government needs to undertake transparent management and spending of the aid money.

4. Conclusion

As the spread of the virus is likely to continue disrupting economic activity and negatively impact manufacturing and service industries, especially in developed countries, we expect that financial markets will continue to be volatile. There is still a question as to whether this unfolding crisis will have a lasting structural impact on the global economy or largely short-term financial and economic consequences. In either case, it is evident that communicable diseases such as COVID-19 have the potential to inflict severe economic and financial costs on regional and global economies. Because of high transportation connectivity, globalization, and economic interconnectedness, it has been extremely difficult and costly to contain the virus and mitigate the importation risks once the disease started to spread in multiple locations. This warrants international collective action and global investment in vaccine development and distribution, as well as preventive measures including capacity building in real-time surveillance and the development of contact tracing capabilities at the national and international levels. As outbreaks of novel infections are not likely to disappear in the near future, proactive international actions are required not only to save lives but also to protect economic prosperity. It has become clear that most governments in the world underestimated the risks of rapid COVID-19 spread and were mostly reactive in their crisis response. As disease outbreaks are not likely to disappear in the near future, proactive international actions are required to not only save lives but also protect economic prosperity.

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