AFGHANISTAN

Afghanistan’s economic freedom score is 54.7, making its economy the 136th freest in the 2020 Index. Its overall score has increased by 3.2 points, primarily because of a significant improvement in property rights. Afghanistan is ranked 33rd among 42 countries in the Asia-Pacific region, and its overall score is well below the regional and world averages.

In the years since scoring of Afghanistan began in 2017, the country has seen a modest increase in economic freedom, but its economy remains mostly unfree. GDP growth, which has registered moderate gains in recent years, remains impeded by political instability, narco-trafficking, and a very dangerous security environment.

For Afghanistan to make sustained progress toward greater economic freedom, its business operating environment will have to be dramatically improved, and stronger national and regional institutions will have to be developed in order to strengthen the rule of law, investment freedom, and financial freedom.

BACKGROUND: Former World Bank technocrat Ashraf Ghani Ahmadzai became president in 2014 following an election marred by allegations of vote rigging. After much political wrangling, Ghani and former Foreign Minister Abdullah formed a unity government with Abdullah as the newly created chief executive officer. The September 2019 presidential election, conducted with the Taliban lurking in the background, was marked by low turnout and competing claims of victory by Ghani and Abdullah. Afghanistan is heavily dependent on international military and economic assistance, which constituted an estimated 19.37 percent of gross national income in 2017. Its living standards are among the world’s lowest. Legal exports include table grapes and raisins, but the economy remains heavily dependent on illicit opium cultivation.
Protection of property rights is weak, as evidenced by reports of “land grabs” in 2018 that were due in part to slow-moving commercial courts and the lack of a comprehensive land titling system. The judicial system operates haphazardly through a mix of legal codes overseen by inadequately trained judges and local elders or shuras. Corruption is endemic throughout society and hampers economic development. Reforms to reduce corruption remain stalled.

The top income and corporate tax rates are 20 percent. The overall tax burden equals 7.6 percent of total domestic income. Government spending has amounted to 26.3 percent of the country’s output (GDP) over the past three years, and budget surpluses have averaged 0.1 percent of GDP. Public debt is equivalent to 71 percent of GDP. Security challenges have caused increased budgetary uncertainty and fiscal vulnerability.

A number of business-friendly changes were put in place recently, but a lack of capacity by regulatory bodies continues to put a dent in business activity. There is an acute shortage of skilled labor and a need for trained workers. The government’s influence on monetary policy is limited because of Afghanistan’s severely underdeveloped financial system.

The total value of exports and imports of goods and services equals 51.2 percent of GDP. The average applied tariff rate is 7.0 percent, and 22 nontariff measures are in force. Legal and security obstacles continue to impede much-needed investment. The underdeveloped financial system’s limited capability hampers entrepreneurial growth. Laws governing banking are not enforced effectively, and the sector remains fragile.