



The Economic Situation of Afghanistan under the Regime of Taliban 2.0: Challenges and Prospects

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ABSTRACT

Afghanistan is currently experiencing a result of its economy being locked in a low-level equilibrium. The Taliban have governed the nation more successfully than was expected, notwithstanding a few missteps. However, because the Afghan economy seems to be trapped in an equilibrium, the majority of Afghans are suffering major problems, and is in need of humanitarian relief. Furthermore, new difficulties could spark an economic crisis like to the one that occurred in the initial months following the Taliban's takeover in August 2021. This article examines the obstacles and structural impediments that Afghan economic management faces, along with the likelihood of a significant macroeconomic crisis.

Introduction

Surpassing initial predictions, the macroeconomic governance of the Taliban is marked by a stable exchange rate, reduced inflationary pressures, effective tax mobilization, and increasing export activity. This is in stark contrast to their previous regime, which ran from 1996 to 2001 and was characterized by widespread hyperinflation, a lack of currency control systems, a meager amount of money generated by the government, and a stagnating economy made worse by the Taliban's 2000 crackdown on opium. At this time, the average per capita income was less than \$200, and worrying levels were observed in important social indices like maternal and child mortality. With nearly two decades of insurgency under



their belt, the Taliban have proven during their present leadership that they are capable of adaptive learning. Interestingly, they have demonstrated skillful revenue-generating tactics that frequently match those of the previous administration. Their efforts to address numerous taxations at different levels, such as providing tax receipts to transporters, and granting permits for mining and other operations demonstrate how they are changing their approach to economic governance. Taliban quickly came to control the Ministry of Finance and the state banks of the country. This is a significant shift from the turbulent environment of the 1990s, which was marked by sustained civil unrest and the near-collapse of governmental institutions. The Taliban have demonstrated a calculated decision to maintain operational strength in those agencies that are considered beneficial to the regime, while destroying others, such as the Ministry of Women's Affairs and the judiciary. It appears that efforts to combat corruption have produced noticeable results, especially in the area of customs, where enforcement actions against bribery and smuggling have stepped up in tandem with the removal of inconsistent trade taxes that were previously imposed by the Taliban insurgency. More broadly, the end of significant foreign aid after August 2021 has lessened the potential for corruption that comes with receiving such money. The Taliban have imposed strict restrictions to stem the phenomena of rampant money wastage, which is estimated to cost up to \$5 billion yearly under the Islamic Republic. These steps include tightening controls on the hawala informal financial industry and strictly enforcing laws against the export of actual currency. Consequently, it is conceivable that the Taliban have collected minor reserves inside the limits of the Da Afghanistan Bank (DAB), leveraging foreign currency auctions to stabilize the afghani.

Economic Management by the Taliban

In 2023 sudden withdrawal of almost all foreign aid, worth around \$8 billion (about 40% of GDP), caused a severe economic shock, the management of which would have presented major challenges for any country. The abrupt end to international financial support, the continuing decline of the banking sector which was continuously targeted by U.S. and U.N. sanctions, and the freezing of Afghanistan's roughly \$9 billion in foreign exchange reserves all contributed to this shock. In light of these challenges the Taliban's economic management has outperformed early predictions.

Afghanistan's GDP is difficult to measure, but estimates indicate that it fell sharply by about 20 percent after the events of August 2021, making the country's extremely poor with population's severe levels of famine and poverty worse. Following an initial period of sharp economic decline, signs of stabilization began to appear, albeit at a lower level of activity. This pattern was partially explained by the United Nations (U.N.) providing financial infusions of \$40 million a week in late 2021 with the goal of



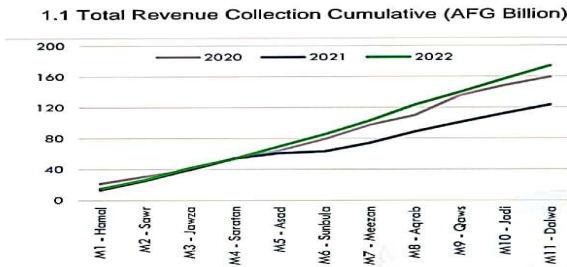
supporting humanitarian relief operations (Byrd, 2023). The path towards stability was also aided by government initiatives such as limits on inflation and on banking transactions to prevent systemic collapse, prudent macroeconomic management. It was a gradual move away from reliance on the aid and service sectors. The latest events suggest a possible economic recovery, as evidenced by a 36 percent increase in imports in the first five months of 2023, which suggests a potential recovery in demand dynamics. Nevertheless, the current equilibrium is fragile, prone to significant downside risks, and marked by a state of famine, in which most Afghans live below subsistence levels and require significant humanitarian interventions to prevent the it (Ahmad & Mohammad, 2022). U.N. cash disbursements, which are crucial for financing humanitarian initiatives in the country, have reached a significant milestone of \$1 billion in the first half of 2023, which was a significant increase from the \$1.8 billion disbursed during the nation's history.

Current Economic Situation of Afghanistan

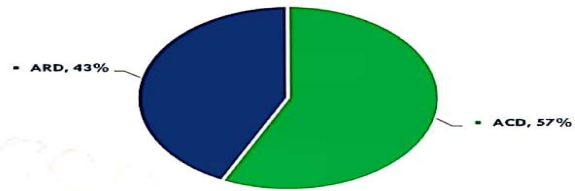
According to the recent official statistics released by the National Statistics and Information Authority (NSIA) in February 2023, year-on-year (y-o-y) headline inflation has reached a rate of 3.5 percent. This moderation in inflationary pressures can be attributed to several factors: firstly, a sustained downward trajectory in fuel and food prices within the international market; secondly, stability in the exchange rate; and thirdly, a seasonal deceleration in economic activity induced by winter conditions. Analogous patterns are discernible in data compiled by the World Food Program (WFP), which indicates that y-o-y inflation for essential household commodities stood at 0.7 percent as of February 2023. Concomitantly, there has been a further enhancement in the availability of both food and non-food items, as evidenced by reports from the Third-Party Monitoring Agent (TPMA).

Revenue collection -In the eleven months of the fiscal year that began on March 22, 2022, and ended on February 21, 2023, total revenue receipts were AFN 173.9 billion (or USD 1.95 billion). This amounts to about 87% of the revised budgetary target of AFN 198.7 billion for the fiscal year. Regressive indirect levies imposed at borders remain a major source of revenue mobilization; border-related taxes account for 57% of total income, driven mostly by strong import activity. On the other hand, non-tax revenue sources make up the majority of inland

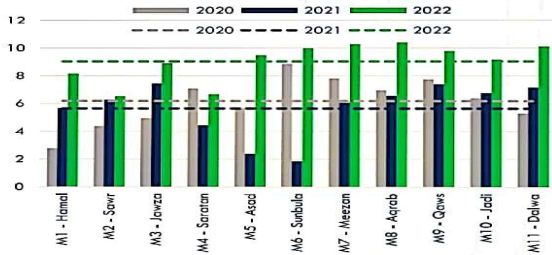
(ITA revenue collections in the first eleven months of 2022 amounted to AFN 173.9 billion. In line with 2020 figures, these revenues derive mainly from border taxes and non-tax sources)



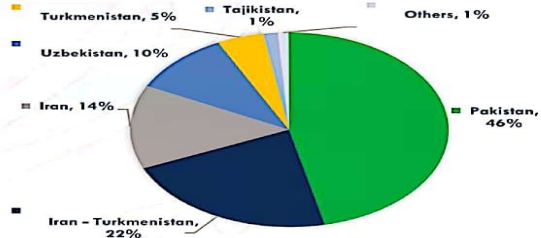
1.2 Share of Inland (ARD) and Custom (ACD) Total collection



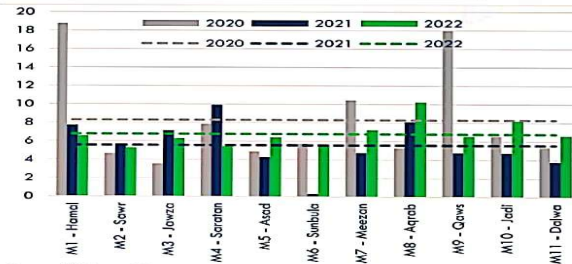
1.3 Revenue Collected at the Border (AFG Billion)



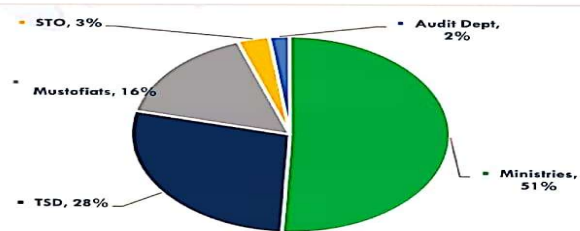
1.4 Percent Share of at Border Crossing



1.5 Inland Revenue Collection (AFG Billion)



1.6 Percent Share of ARD Collection By Source



Source: Ministry of Finance. Note: The Afghan fiscal calendar month, Hamal, runs from March 21–April 20.

Source: Survey data collected by the World Bank’s TPMA

revenue streams; 51 percent of overall inland revenues come from royalties and administrative fees collected by government departments (World Bank’s TPMA 2023).

Import export- Afghanistan, exports increased significantly in 2022, reaching USD 1.9 billion, a significant increase over the average of roughly USD 0.8 billion for the 2019–2021 decade. Interestingly, export momentum held steady in the first two months of 2023, reaching USD 0.3 billion—a 16 percent rise over the same period in 2022. The export increase that occurred between January and February of 2023 can be primarily attributed to increased food product shipments, which increased by 7% and accounted for 59 percent of the total exports; in addition, there was a 19% increase in coal exports, which accounted for 20% of the total exports; and there was an astounding 84 percent increase in textile exports, which accounted for 15% of the export portfolio. With 60% of all exports going to Pakistan and 24% going to India, Pakistan continues to be Afghanistan's top export destination. Interestingly, food products and coal make up the majority of exports to Pakistan; together, they account for about 70% of all exports from January to February of 2023. Particularly noteworthy is the substantial increase in coal

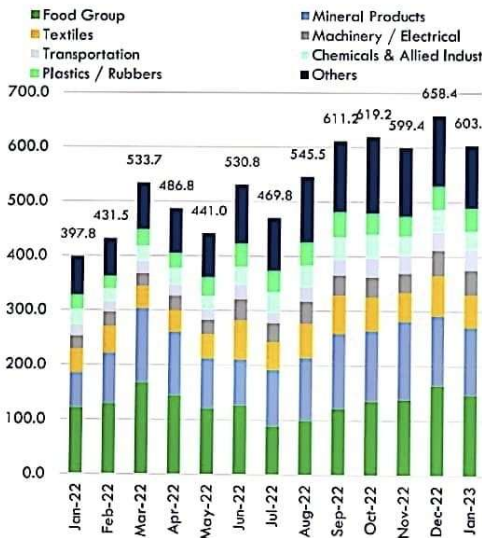


exports to Pakistan, reaching USD 66 million during January to February 2023, compared to a cumulative total of USD 476 million in 2022((World Bank’s TPMA 2023).

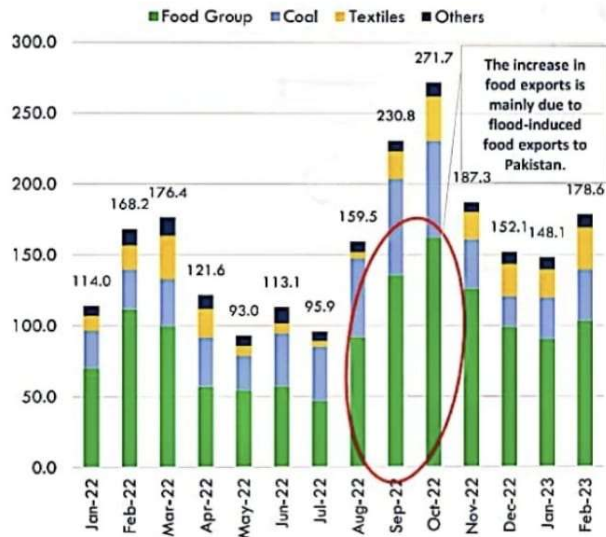
Import-Export of Afghanistan

(Merchandise exports remained strong in the first two months of 2023, due primarily to increased coal, vegetable, and textile exports)

1.7 Afghanistan Imports (USD \$ Million) Jan 2022 to Feb 2023



1.8 Afghanistan Export (USD Million) Jan 2022 to Feb 2023



Source: Survey data collected by the World Bank’s TPMA

The amount of goods imported by Afghanistan in 2022 was USD 6.3 billion, which is in line with trends seen from 2019 to 2021. It is noteworthy that in-kind humanitarian imports are not included in this statistic. Interestingly, imports reached USD 1.16 billion in the first two months of 2023—a notable 40 percent increase over the same period in 2022—across all import categories. In particular, the food category—which accounts for 25% of all imports—saw an increase in January to February 2023 of 14% on an annual basis. Similarly, minerals, including fuel, representing 20 percent of imports, experienced a substantial 45 percent year-on-year expansion during the same period. Iran remains the primary source of imports, accounting for 22 percent, followed by China at 18 percent, Pakistan at 17 percent, and the United Arab Emirates at 12 percent (Afghanistan Economic Monitor, 2023).

Policy Dilemmas and Options on International level



First, it is critical that the overall aid, which is mostly humanitarian aid, be reduced in a way that is both progressive and predictable, as opposed to abruptly and drastically. This strategy helps to lessen negative consequences for the Afghan people and prevent the start of a major macroeconomic crisis, even if there will inevitably be negative outcomes from reduced funding. Resources from organizations like the World Bank, which includes the Afghanistan Reconstruction Trust Fund, and the Asian Development Bank might be strategically mobilized to slow down and even out the trajectory of the overall fall in aid in addition to slowing down the pace at which it is reduced (Saud & Khan, 2023).

Second, it is necessary to diverge from traditional humanitarian approaches. This means that resource usage must be optimized under ever-tighter limits, all the while maintaining cost effectiveness. This paradigm shift includes leveraging Afghanistan's private sector to disseminate aid, rationalizing spending by giving priority to activities that are cost-effective, and streamlining administrative infrastructures and reducing unnecessary expenses. For example, comparing the high cost of demining operations with the relatively low cost of providing basic medical care and dietary assistance highlights the need for resource allocation that is deliberate.

Thirdly, it is critical to refocus aid funding, moving away from programs that just support humanitarian needs and toward ones that promote sustainable livelihoods and economic empowerment. There is room to include a variety of programmatic initiatives within the purview of humanitarian aid; this is a flexibility that should be investigated, especially when donor resistance to non-humanitarian categorizations is strong (Lee et al., 2022). Disbursing funds directly to recipients instead of via the current Taliban government or its budgetary apparatus offers a workable workaround to guarantee effective resource distribution and avoid possible governance issues.

Fourth, there is a pressing need for increased global engagement in economic matters and the growth of the private sector. This entails a shift away from providing direct financial support to the Afghan government apparatus and toward avenues like focused aid to recognized private businesses, independent supervision of financial transactions to reduce the risk of money laundering, discussions on macroeconomic governance and economic policy formulation, and other relevant interactions.

In the end, the international community is at a loss on how to react to the Taliban's ban on opium. If the prohibition stays in place and is strictly implemented for another year, it is likely to have extremely negative effects on the Afghan economy, making poverty and food insecurity worse without corresponding drops in drug use in other regions. Furthermore, historical precedent suggests that there may be a decline in the Taliban's power, similar to what happened following their opium ban in 2000,



accompanied with an increase in the patterns of outmigration (Boni, 2023). In order to mitigate the negative economic and humanitarian effects of the embargo, aid must be increased significantly—by more than \$1 billion—after taking into account increased delivery and overhead costs. It's still not possible to completely mitigate these effects, though (Dmitrieva, 2022). Aid responses must prioritize comprehensive rural development interventions above stand-alone programs for alternative livelihoods, even though the latter are expected to have very modest immediate efficacy.

Conclusion

The economic situation of Afghanistan under Taliban rule is complicated and difficult. Even while there are new uncertainties and disruptions as a result of the regime change, continued hostilities, international sanctions, and the cessation of foreign aid all worsen the economic situation. The Taliban's hold on important industries including trade, agriculture, and natural resources has an impact on the stability and expansion of the economy. Furthermore, major obstacles to sustainable development include restricted access to financial resources, a lack of international investment, and recognition. Rebuilding the economy and raising the standard of living for Afghans will depend heavily on tackling governance concerns, encouraging economic diversification, and cultivating regional collaboration as the country navigates these difficulties.

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