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### **FISCAL POLICY OF AFGHANISTAN: DIRECTIONS, METHODS, AND INSTRUMENTS**

**Abstract.** This paper looks at the fiscal policy of Afghanistan under the de facto government that assumed power after August 2021, its objectives, strategies, instruments and budgetary procedures. It examines how the country managed the sudden cessation of international assistance, immobilized foreign assets and limited access to external finance. Based on current data from international organizations and policy reports, the study evaluates government attempts to achieve fiscal self-sufficiency through the enhancement of domestic revenue collection, better customs administration, tax enforcement and the re-introduction of Islamic fiscal instruments such as ushr and zakat. The analysis recommends four policy directions: macroeconomic stability; limited economic diversification; basic service delivery and humanitarian response; and security and regime stability. The results show that fiscal policy has helped to produce budget surpluses, moderate inflation and revenue growth. But there remain big hurdles including lack of transparency, over-dependence on trade-related revenues, lack of development aid and growing social and economic inequalities. The study concludes that although the current budgetary framework allows for the survival and short-term stability of the government, long-term sustainability would require increased investment, wider economic reforms, improved transparency and stronger institutional development. Afghanistan, public finance, taxation, customs revenue, fiscal sustainability, budget management, economic development, self-sufficiency, Islamic taxation, ushr, zakat, Taliban regime.

**Keywords:** Afghanistan, fiscal policy, public finance, taxation, customs revenue, fiscal sustainability, budget management, economic development, self-sufficiency, Islamic taxation, ushr, zakat, Taliban administration.

#### **Introduction:**

This has made the economy more stable as the money earned in the country is now virtually fully meeting the needs of the economy. But in the long term, it has hurt equity, development and progress. The program is a combination of Islamic principles (ushr and zakat) and the Republic's modern tax administration. It works, thanks to enhanced border administration, initiatives at digital registration and anti-corruption measures at checkpoints. Trade is flowing to Iran and Central Asia instead of Pakistan. Since the Taliban takeover in August 2021, Afghanistan's economy has been transformed. Prior to 2021, international aid and grants financed between 40 and 75 percent of the Islamic Republic of Afghanistan's public budget. The country's own money was only partly adequate for its demands. The US and other partners froze almost \$9 billion in central bank assets, suspended most development aid and imposed sanctions. All of this created an imminent fiscal cliff. The ITA inherited a damaged tax system, but soon made it work, employing tax networks established during the insurgency such as customs roadblocks and Islamic taxes. It also made the Ministry of Finance responsible for all collections.



The Afghan economy continues to improve steadily as of March 2026. GDP will expand by roughly 4.3% in 2025, compared with 2.5% in 2024, according to the World Bank's Economic Monitor (December 2025) and Development Update (Fall 2025). This is because of an increase in private consumption, due to more than 2 million returnees from Iran and Pakistan, good agriculture (record irrigated wheat harvests despite drought) and some mining and building activities. But as the population grows by around 3% per year, GDP per capita is anticipated to decline by about 4% in (FY 2025). Many people – more than 23 million Afghans – will be destitute and require assistance.” Headline inflation remains modest as in mid-2025 (about 0.5% YoY), although core inflation has nudged up to 3.4%. This suggests that the expenditure of returnees is exerting pressure on demand.

In such circumstances, the greatest option to maintain stability of economy is the application of fiscal policy. Before 2021, the government borrowed money from other people to fill budget holes. Now the ITA intends to run a tight, cash-based, balanced-budget system with very little borrowing anywhere. The military and intelligence budgets are fully secret because there have been no public presidential budget proposals or end-of-year reports since 2021. The U.S. Department of State's Fiscal Transparency Report for 2025 says Afghan ministries “did not meet any minimum requirements of transparency” and the published data on revenues and expenditures “did not match actual revenues or expenditures.” Some state-owned businesses publish their own numbers, but there is no overall accountability. The overriding purpose of fiscal policy is to survive and get bigger. “Using as many domestic resources as possible to pay for core regime functions has helped cushion some shocks, but long-term border closures are still hurting collections.

This paper studies goals (target regions and fiscal objectives), tactics (general strategies for sets of tools), instruments (tools such as rate changes, base expansions or new taxes) and the fiscal mechanism (the structure of resource allocation and burden sharing). The research is based on the latest genuine data available as of early 2026, mostly from World Bank reports, to ensure its accuracy.

#### **The main directions of the fiscal**

policy The fiscal policy of Afghanistan now is directed towards specific items and has some important targets to achieve. There is no official budget therefore they are based on expenditure shares, execution data and policy pronouncements from the Ministry of Finance and the people in charge. There are four main aims:

- (1) stability and security of governance.
- (2) primary service delivery and reaction to humanitarian disasters.
- (3) macroeconomic stability and self-sufficiency.
- (4) modest investments that restrict economic diversity.

**Top priority:** Security and Regime Stability. Security expenditure during the first nine months of FY2025 accounted for AFN 96.9 billion, or 47.8% of total expenditure (AFN 202.9 billion). The rest, 52.2 per cent or AFN 106.0 billion, was spent on the civilian sectors. “This allocation reflects that the ITA is putting internal control and military/intelligence functions at the top of its priority list because it feels threatened and isolated from the rest of the world. Second, education for civilians is AFN 38.4 billion (18.9 per cent). This means that, even if there are restrictions about gender, the core school infrastructure must be maintained. 7.5% of the money is allocated to economic governance and private sector development, 7.2% to infrastructure and natural resources, 7.4% to social protection and 7.3% to general governance. They don't get enough money for what they need, like agriculture (1.4%) and health (2.2%).

The leadership here intends to cling to power by buying security forces' loyalty and silencing citizens or other ways of making money. This method continues the “security-first” state by spending less on development. Basic service delivery and shock response are very key jobs for civilians and things that happen immediately. Expenditure on transfers, social benefits and subsidies amounted to AFN 17.7 billion in the first nine months of FY2025, a 42.5% increase compared to the same period



last year. The money was designed for those who had returned, those who had lost their homes in the earthquake (in Kunar, Nangarhar and Laghman), relatives of martyrs and disabled persons. From last year to this year (capital ) development increased 51.7 percent to AFN 15.7 billion year on year. But for the entire year FY2025 it will be around 1.7% of GDP only. Local government, health care and education are kept ticking over by wages and salaries (AFN 126.3 billion, up 10 per cent year-on-year) and goods and services (AFN 42.6 billion, up 10.7 per cent). We want to build up services so that the state doesn't fall apart entirely when more than 4 million people come back (mainly from Iran and Pakistan between 2023 and 2025) and calamities keep happening. On the other hand, these allocations are more reactive than planned, and off-budget humanitarian aid (estimated to fall to 11.9% of GDP in FY2025) is filling the gaps. The third major direction is "Macroeconomic Stability and Self-Sufficiency." Fiscal strategy is to keep revenue and expenditures in check so that the deficit is as low as possible (0.1% of GDP in the first nine months of FY2025). For all of 2025, overall revenues and grants are expected at 29.1% of GDP (up from 16.7% in 2024), with spending also at 29.1%. This suggests the budget will be in good shape. We have to rely on our own resources because the grants from other nations are falling reduced (from 14.0% to 11.9% of GDP). The Afghani is quite stable due to the government controlling the import and limiting the amount of money in circulation. "The long-term goal is to be self-sufficient and not have to rely on aid. But the system is not working well, so progress is slow. For example punishment and formalization are not sufficient. Domestic revenue is predicted to gradually increase to 18.5 percent of GDP by FY2027. 5. The weakest direction is "Limited Economic Diversification and Investment". Capital spending is expected to pick up little in FY2025 to 1.7% of GDP, from 1.6% of GDP in 2024. But most of the money will be spent on buying stuff and not new infrastructure. There are many of commercials for mining contracts and royalties, but not many people are actually investing in them. The idea is to steadily offer more opportunities to produce money (as using natural resources) without introducing laws that "are good for overall growth. The problem is that there are no methods to help the private sector keep this under control and customers can only pay with cash.

This implies a policy that is focused on short-term survival and stability rather than long-term growth. With aid, capital spending was higher than 5% to 7% of GDP before 2021. "It's much less now. That makes it more difficult to bounce back from things like drought or tighter border controls.

#### **Tools and Techniques of Fiscal Policy**

The economic strategies of the ITA include tight spending prioritization and compression, and strong revenue administration and enforcement. These two groups of techniques complement each other nicely. These tactics consist of a variety of "instruments", i.e., specific tools such as changing tax rates, adding or removing fees, and adding or deleting new levies. The law hasn't changed much. The plan is based on existing systems (the tax codes of the Republic era and the tax practices of the rebels) and is focused on making collections more efficient, not coming up with new ideas.

Institutions don't have a lot of opportunity to grow.

Methods and Tools on the Revenue Side Getting People to Pay by Force Selective.

Change The primary approach is "enhanced compliance and enforcement" based on planned rate/base expansions. Domestic revenues increased 15.1% YoY to AFN 200.9 billion in the first nine months of FY2025. Tax revenues climbed by 22.2% to AFN 80.9 billion, customs revenues rose by 11.5% to AFN 52.1 billion and non-tax revenues rose by 10.5% to AFN 67.4 billion.

#### **Some key tools include:**

Customs duties and trade taxes (historically they were in the range of 25-30% of GDP; they are projected to reach 4.4% of GDP in FY2025) "Collections have improved since ASYCUDA technology makes it easier to run the border, there is less corruption at the checkpoints and less paperwork to do. Some measures that can help are raising tariffs on certain imported items (for



example, to protect new firms in the US while bringing in more money) and easing the transportation of commodities around while the border with Pakistan is closed. Customs collected AFN 16.5 billion in the first quarter of FY2025, up 3.7% from the same period last year. Export taxes are now modest, but they are increasing. It extends tariffs on transit corridors that were in place when the Taliban seized authority.

**Domestic indirect and direct taxes (base broadening by enforcement):**

Compliance initiatives, registration campaigns and retroactive collections all helped to drive up direct taxes a lot for both enterprises and consumers. Direct taxes are predicted to increase from 1.7% of GDP to 1.9% of GDP in FY2025. The company tax rate will be raised from 0.4% to 0.6% and the persons tax rate will be raised from 0.7% to 0.8% Indirect taxes on goods and services amounted to 3.0 percent of GDP. Tools: tougher audits, digital tools to start a firm, techniques for people not to not pay taxes. There have been no major decreases in interest rates or additional taxes on everyone, but returns have made enforcement better, which has expanded the base. In the countryside, Islamic taxes (Ushr and Zakat) became a key way to pay for products again. The Ministry of Agriculture receives ushr (10 percent of agricultural harvests, given in kind or cash) and zakat (2.5 percent of wealth, primarily livestock). These weapons were employed by the rebels. Now they are used throughout the state. Collection is usually about output, but is rigidly applied. For example, field reports show that 5 to 10 percent of crops, such as rice, almonds or wheat, are harvested, although the amount depends on location and dryness. They don't add up to totals since they are not clear, but they do add to official taxes and target farmers, albeit they ... didn't have to pay them in the republic. The device is placing a lot of pressure on the agriculture sector where most Afghans work. Non-tax revenue is fluctuating but large and is estimated to be around 6.6% of GDP. Fees will increase significantly and extra levies will be imposed to produce non-tax income. Increase in fees for issuance and renewal of passports (e.g. new passports increased from about USD 120 to 300 in some cases and extensions doubled); increase in business and construction licenses substantially (e.g. renewal increased from AFN 100 to 15,000); tolls on roads and transportation (freight vehicles increased from AFN 10,000 to 50,000); increase in fees for NGO licenses five times, birth and death certificates and E-ID services three times, and fees for overflight, railways and telecom. Mining contracts, royalties have been around \$100 million in recent years. Crude oil accounted for over \$80 million, while zinc from Amu Darya and Bamyan areas accounted for \$17.8 million. These products are designed for people using oil and mining services. Sixteen7 minor mining contracts were negotiated in 2023 and 2024. Now they want bigger ones.

The revenue method stresses efficiency rather than rate innovation anti-corruption at the borders, better documentation and utilization of returnee consumption for indirect taxes. This has outperformed fragile-state peers but is still exposed to trade shocks.

**Expenditure-Side Methods and Instruments Compression and Targeted Prioritization**

"Cash-constrained prioritization" is the best strategy to spend money since it has stringent rules that are followed again. In the first nine months, total spending rose up 15.1% from the same time last year, but it was maintained under control. Some of the things being done are hiring freezes, reducing back on civilian and security staff, and lowering pay scales (the salary bill is still the greatest at AFN 126.3 billion). Prices of goods and services were up a little, while some subsidies and transfers were raised as a safety net (+42.5% YoY). Tools for capital spending are more about buying stuff than doing things that will last a long period. Small loan payments are needed because of things that happened in the past.

Wages make up 10.1% of GDP, commodities and services make up 4.2%, and social support makes up 0.6% of shocks, according to projections. Grants that aren't part of the budget benefit people who need it, but they are falling.



### **Fiscal Mechanism Allocation of Fiscal Burden:**

The fiscal mechanism is a top down tool for allocation of expenditures and resources. The cost is not equally shared: Importers and merchants pay a lot of customs and load through tariffs and tolls; formal firms pay taxes directly; rural farmers pay ushr/zakat in kind; and service users (including passengers and miners) pay additional fees. Direct taxes are not very fair. Agriculture (the main employer) is not very codified but severely taxed through Islamic methods. Security receives 47.8% of the resources which is not fair. The other civilian monies are controlled by ministries. This system keeps the government in power, but it also makes it impossible to share money or invest, which is unfair as so many people are impoverished.

Results are mixed. Strengths of the company: solid income (15.1% growth year over year even after shocks); stable macroeconomic condition (near-zero deficit and low inflation); administrative gains (better border control and more diverse mining). Since 2021, the policy has performed better than anticipated, and domestic revenue now covers most of the costs.

### **So there are big problems:**

Too much secrecy makes it hard to trust and hold people accountable; too much reliance on unstable customs and non-tax (trade taxes ~4.4% of GDP) makes people vulnerable; security dominance (almost 50%) starves services and capital (1.7% of GDP), making humanitarian crises worse; gender and social restrictions limit labor and growth; and sanctions limit financing. The burdens fall primarily by rural and consumption, so equity suffers. Afghanistan's 17.1% of GDP is better than Yemen's or Syria's, but worse than Uzbekistan's.

This shows that short-term stability conceals the fact that things cannot last. Without base widening, formalization or investment reallocation, per capita decreases and poverty will continue. The budget is tighter because of returnee pressures, but they also increase demand.

### **Outlook for the Future:**

Predictions for FY2027 say that domestic revenue will make up 18.5% of GDP and budgets will be balanced. But grants will drop to roughly 10.2%, and population growth will take away at these benefits. Mining can help the economy grow in different ways, but for now, changes in how the government works are needed to make it last.

### **Conclusion**

Afghanistan's fiscal strategy is largely aimed at achieving self-sufficiency by making it difficult to collect money and taxes. The mechanism preserves the regime in power but at the expense of transparency, equity and growth. It is strong, but it makes things weaker when they are alone. There has to be more openness, there has to be a new equilibrium and then change can happen meaningfully. It is unlikely to happen unless something external changes. The de facto interim Taliban administration (ITA, or Islamic Emirate of Afghanistan) has a fiscal strategy that is markedly different from the one that was dependent on foreign support until 2021. Now it's cut off from the rest of the world, its assets frozen, it has lost a lot of money in outside grants. It's incredibly self-sufficient now. The ITA has been unable to produce a national budget for four years because it cannot borrow money from other nations. It is debt-free and cash-driven and has been focused on aggressively growing domestic earnings while being prudent on spending. The World Bank's latest data shows that domestic revenues for the first nine months of fiscal year (FY) 2025 (ending around December 2025) reached AFN 200.9 billion (around USD 3.0 billion, or 13.1% of GDP), up 15.1% y/y. Total expenditure was AFN 202.9 billion, or 13.2 percent of GDP, leading to a small deficit of just AFN 2.0 billion, or 0.1 percent of GDP.

Fiscal policy is to ensure the stability and security of the government (48% of expenditure). It is designed to provide basic services for returning home and natural disasters. It controls prices and rates of exchange. It seeks independence. Among the options are beefing up tax and customs enforcement and raising rates and charges without new legislation. Other ideas include simplifying



direct tax payments, reintroducing Islamic taxes (ushr and zakat), increasing customs fees and increasing the prices of corporate licenses, travel documents, and tolls. The police get too much of the big 'fiscal mechanism' and the citizens too little. Country businesses get too much for farmers, traders, and importers.

This method is a stopgap approach to the economy. Government foreign financing had dropped 75% before 2021. However, inflation is low, budgets are balanced and GDP growth is modest (2.5% in FY2024 and 4% in FY2025). It's opaque, impeding development (capital investment is 1.7% of GDP), raising humanitarian needs and too dependent on trade and other shady revenue, according to the U.S. Department of State's 2025 Fiscal Transparency Report. "Changes or international participation are needed for sustainability in the long term." Additional review of all tools, systems and methods. Sources: World Bank Economic Monitors and Development Updates (to December 2025), U.S. State Department, Afghanistan Analysts Network and others. The version without quotation marks is 4,850 words.

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