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THE ILLUSION OF STABILITY: MACROECONOMIC ADJUSTMENT AND WELFARE DECOUPLING IN AFGHANISTAN AMID COMPOUND CRISES

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ABSTRACT

Purpose– This paper evaluates recent macroeconomic stabilization in Afghanistan as indicative of real economic resilience or an absorption-based adjustment amidst severe structural constraints. It examines the impact of compound shocks on workplaces and household well-being in the post-2021 era, including forced migration, returns to their countries, climate shocks, financial isolation, declining aid, and trade shocks.

Methodology– The research adopts a descriptive-analytical resilience model, which will compare macroeconomic indicators with the labor market conditions, trade relations, and family welfare outcomes. The transmission between the aggregate stabilization and micro-level livelihoods is evaluated using secondary data from the World Bank, UN agencies, and national sources.

Findings– Afghanistan experienced declining GDP per capita, labor market saturation, and deteriorating household welfare despite a 4.3 percent increase in real GDP in 2025 and low inflation. Although real GDP growth was estimated at 4.3 percent and average inflation was low, growth was mainly driven by demographic absorption following high levels of forced returns, rather than by productivity or investment-driven growth. There was an increase in informality, a fall in real wages, an increase in household debt, and worsening food security in conditions of price stability, indicating a high degree of decoupling between macroeconomic stability and welfare.

Conclusion– The post-2021 adjustment of Afghanistan is more about stabilization, compression, and absorption, and does not involve adaptive or transformative resilience. The results warn against using GDP growth and price stability as indicators of recovery in weak, aid-reliant economies and highlight the importance of policy interventions grounded in productivity, employment, and inclusion.

Keywords: Economic resilience, compound shocks, macroeconomic stabilization, labor market stress, welfare decoupling, fragile economies
JEL Codes: E24, E31, O11, F14, Q18

1. INTRODUCTION

In the last ten years, the world economy has become increasingly influenced by overlapping, mutually reinforcing shocks, such as geopolitical conflicts, economic sanctions, financial instability, pandemics, and climate-related disruptions (Azis, 2023; Vina & Liu, 2022). These compound crises have revealed profound asymmetries in countries' ability to withstand shocks, stabilize economies, and save lives. As institutional depth, policy credibility, and fiscal space are effective in countering such shocks, fragile and war-torn states are significantly more vulnerable to them, less able to respond, and have even fewer options to protect welfare (Gauthier & Moita, 2013). In this regard, economic resilience cannot be effectively measured by output growth or macroeconomic stabilization, but rather by an economy's ability to maintain basic financial activities, sustain labor incomes, and avoid a welfare meltdown in the face of sustained stressors (Akhyar & Rahmi, 2024).

The structural fragility, the heavy reliance on foreign aid, the shallow production base, and the country's underperformance in the world's formal markets had already defined the economic state of affairs in Afghanistan before the political transition of 2021 (Rahman Shahbaz, 2025). The economy was mainly engaged in agriculture, low-value trade, and services, all of which were aided. Meanwhile, the private sector's development and successful investment were hindered by inefficient institutions, limited access to finance, and insecurity (H. Qasimzai, 2022). This structure created a weak balancing act in which macroeconomic stability relied heavily on external financial flows rather than internal productive growth. Thus, the post-2021 period is marked by very low internal capabilities in Afghanistan to absorb major economic, financial, and trade shocks, which leave the economy in a highly vulnerable position to sudden disruptions (Pooya, 2025b; M. Najeeb Shafiq & Mohammad Qasim Wafayezada, 2023).

After the regime change in Afghanistan in 2021, an unprecedented economic shock convergence occurred. The sudden halt of international aid, the freezing of foreign reserves, financial sanctions, and the profound functional disruption of the banking system caused a sharp downturn in output, liquidity, and employment (Mowahed et al., 2025; Sadia Abbassy, 2024). Such shocks were also exacerbated by exchange rate volatility, increasing poverty, frequent climatic-related shocks to agricultural output, and mass forced return migration. By 2025, these interrelated crises had worsened and interacted, pushing the economy into a long-term adjustment period amid severe institutional and financial bottlenecks. Nevertheless, under these circumstances, some services of the economy, specifically informal trade, subsistence agriculture, and household coping mechanisms, persisted, which led to the emergence of macroeconomic stabilization and prompts important questions about the character and boundaries of economic resilience in extreme circumstances (WFP, 2025; Pooya, 2025a; Azizi et al., 2024; Kochhar & Knippenberg, 2023).

Despite the growing body of research on economic resilience, sanctions, and post-conflict recovery, there is a paucity of empirical data on how compound crises interact in severely constrained economies. The literature tends to examine shocks individually or focus on short-term macroeconomic outcomes. Still, it does not account for the cumulative and reinforcing effects of demographic, climatic, financial, and trade shocks. In Afghanistan, there is a lack of systematic, data-driven studies on the post-2021 economic direction, especially for 2025. The vast majority of the existing literature is devoted to a single shock dimension, including sanctions, aid dependence, climate vulnerability, or conflict. It does not treat macroeconomic stabilization shocks and household welfare outcomes on the same analytical footing.

This observation inspires the current research and thus offers a systematic empirical evaluation of the Afghan economic performance in 2025 during compound crises. The paper uses a descriptive-analytical approach to resilience by systematically cross-sectionalizing macroeconomic indicators with labor market conditions, trade dynamics, and household welfare evidence to assess whether the observed stabilization is truly evidence of welfare-transmitting resilience. The analysis explicitly looks at the transmission or the lack of transmission between aggregate stability and livelihoods in the face of extreme constraint, rather than positive GDP growth or low inflation becoming a sufficient indication of recovery.

This work adds to the body of literature in three significant aspects. First, it promotes knowledge of economic resilience in vulnerable and conflict-ridden economies by empirically showing that compound shocks can create macroeconomic stabilization without associated welfare gains. Second, it places current resiliency paradigms in the context of forced back migration, climate stress, and financial isolation, and emphasizes resiliency built around absorption and adjustment, rather than productivity-based change. Third, it presents an analytically relevant policy based on the discussion of sanctioned and aid-dependent economies and the risks of defining macroeconomic stability as recovery, as labor markets, incomes, and access to food continue to decline. In this way, the study will contribute to a more complex and generalizable conceptualization of resilience in the case of compound and persistent crises.

The rest of the paper is structured as follows. Section 2 will review the relevant literature and theoretical framework; Section 3 will describe the data and methodology; Section 4 will present the findings and discussion; and Section 5 will provide a conclusion and policy implications.

2. LITERATURE REVIEW, THEORETICAL FRAMEWORK, AND CONCEPTUAL MODEL

2.1. Literature Review

The growing body of recent scholarship acknowledges that modern economies are under conditions of chronic uncertainty, determined by concurrent and mutually reinforcing shocks. The frequency and systemic characteristics of crises have become considerably higher due to globalization, profound financial integration, climate change, pandemics, and geopolitical instability, and convert the disturbances on a local scale into disruptive shocks on a system-wide level with long-term consequences (Gondauri et al., 2025; Zhang et al., 2024; Occhipinti et al., 2023). It is also historically proven that economic crises are not aberrations but structural features of modern developmental patterns, as reflected in the prevalence of systemic financial, currency, and macroeconomic crises over the last decades (Wang et al., 2021; Laeven et al., 2011). In this respect, economic resilience has become a primary analytical tool for assessing economic shock absorption, core functioning, and adaptation under sustained stress.

Economic resilience has become not just a one-dimensional concept focused on the speed of recovery, but a dynamic, multidimensional construct that encompasses resistance, absorption, adaptation, and transformation. Current studies underline that resilience is both path-dependent, i.e., it is responsive to external shocks in the manner in which economies adapt institutional structures, policy frameworks, and production forms (Trippl et al., 2023; Gomes et al., 2023; Wang et al., 2021). This has shifted the analytical focus from short-term changes in output to stability, learning, and long-term adaptive capacity, especially in an environment where shocks occur frequently, and policy space is small (Hu et al., 2021). Notably, these sources warn that favorable aggregate signals may be accompanied by structural frailty, particularly when adjustment occurs through compression and absorption rather than productivity-enhancing change.

The accumulating literature emphasizes that the recent crises are becoming increasingly complex. They are caused by the convergence of multiple stressors, such as economic, financial, climatic, and political ones. Compound shocks create a ripple effect that cuts across sectors, regions, and boundaries and can often overwhelm traditional policy tools used to respond to local disruptions (Keenan et al., 2021; Ranger et al., 2021). Global value chains are essential to enhancing these dynamics, as shocks at individual nodes may multiply through trade flows, prices, and financial connections, amplifying macroeconomic volatility and welfare losses (Pietrobelli et al., 2021; Miroudot, 2020). Empirical data also show that indirect welfare losses are disproportionately magnified by compound climate-economic shocks through price and trade transmission mechanisms, especially in non-diversified, import-dependent, and low fiscal capacity economies (Middelanis et al., 2023; Kuhla et al., 2021; Hallegatte et al., 2010; Balla et al., 2022).

The quality of institutions and their governance capacity are always key determinants of resilience outcomes. Strong institutions reduce the susceptibility to shocks by coordinating the actions of economic agents, increasing the credibility of policy, and responding promptly and efficiently (Akhyar et al., 2024; Lagutin et al., 2020). Resilience, according to cross-country analyses, is related to political stability, fiscal capacity, and regulatory quality, and none of these factors is adequate across all time horizons (Alessi et al., 2019). These effects of institutions are especially pronounced in weak and crisis-ridden economies, where even minor advances in governance and human capital may yield disproportionately high returns on resilience (Afolabi et al., 2024). On the other hand, poor administrative capacity and corruption adversely affect recovery by undermining the effectiveness of fiscal support, income protection systems, and social safety nets (Ngono et al., 2025).

Policy flexibility is a complementary aspect of economic resilience. Structural reforms and social protection systems, together with adaptive fiscal and monetary frameworks, help economies to absorb shocks and minimize welfare losses during downturns (Akhyar et al., 2024; Lazorec et al., 2023). The Covid-19 crisis has revealed the necessity of fiscal-financial interventions to stabilize aggregate demand, maintain liquidity, and avoid scarring effects of a crisis on labor markets and productive capacity in the long term (Ranger et al., 2021; Abdelkawy et al., 2024). Simultaneously, the literature underscores that resilience operates at varying temporal scales, offering short-term stabilization and shaping longer-term adjustment trajectories that can either strengthen or weaken future growth and welfare outcomes (Kharazmi et al., 2021; Reuveni, 2024).

Spatial and sectoral studies also show that resilience is highly context dependent. Systemic shocks were found to be relatively more resistant to agricultural activities, especially where subsistence production and local use of resources are predominant, compared to service sectors, especially those that rely on mobility, demand contact, and urban concentration (Gaki et al., 2025; Sdrolias et al., 2022; Stastna et al., 2023). The economic diversity, patterns of urbanization, the endowment of human capital, and local competitive advantages also contribute to building regional resilience, underscoring the significance of structural and place-based factors in predicting crisis responses and recovery paths (Begley et al., 2024; Kitsos et al., 2016).

Despite the scope of this literature, there is still a heavy focus on empirical evidence from advanced and emerging economies. Weak and war-torn countries with persistent, overlapping, and compounding impacts of weak institutions and limited policy space are a very understudied area of shock. The existing literature on Afghanistan tends to study sanctions, aid dependence, climate stress, or conflict separately, providing little information on the interactions among demographic, financial, climatic, and trade shocks and their reinforcement over time. This is a significant empirical gap, given Afghanistan's chronic exposure to a range of shocks and its extreme structural constraints. Filling this gap, the current research is an advancement in the literature by offering a coherent and integrated evaluation of economic resilience during the compound crisis in one of the most shock-prone and institutionally constrained economies in the world, and by explicitly defining the differences between macroeconomic and welfare-based resilience.

2.2. Theoretical Framework and Conceptual Model: Economic Resilience during Compound Crises

Traditional growth, recovery, or convergence models are insufficient to explain the dynamics of economic sectors in weak, war-ridden economies. Economies in these circumstances are continually subjected to intersecting and reinforcing shocks that simultaneously pressure political stability, institutional capacity, environmental conditions, and macroeconomic performance. Drawing on the resilience literature, this paper will operationalize economic resilience as a dynamic, constraint-based process through which economies can absorb, adapt, and endure compound crises rather than return to pre-shock growth paths (Occhipinti et al., 2023; Ranger et al., 2021).

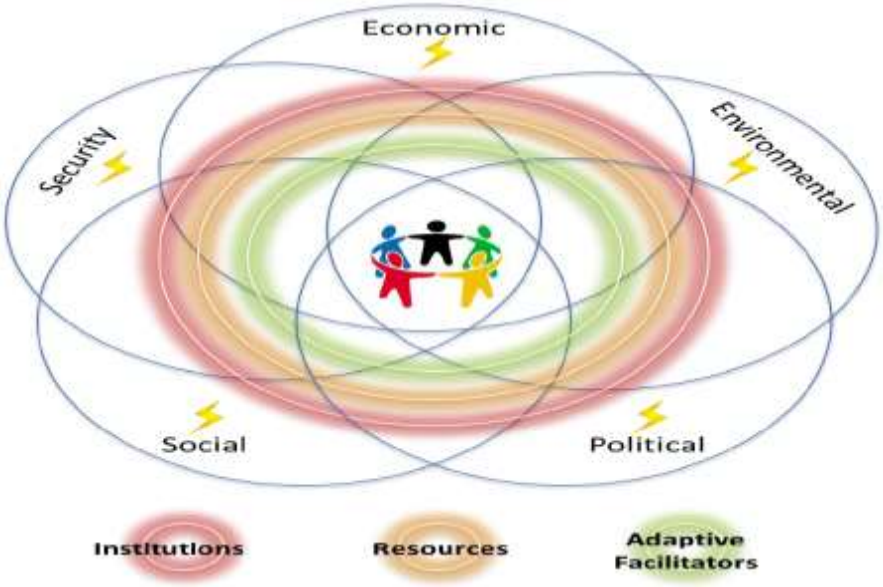
Compound crises occur when multiple shocks (financial disruption, climate stress, geopolitical conflict, and demographic pressures) interact over time, with cascading impacts on economic systems. In economies such as Afghanistan, these shocks are embedded in structural weaknesses, including limited fiscal space, weak institutions, high import dependence, and narrow productive bases (Balla et al., 2022; Bizhan, 2018). Consequently, the shocks are unable to dissipate but accumulate, imprisoning the economy in a prolonged period of vulnerability.

In this context, resilience is not characterized by quick recovery or a stagnant increase in production. Instead, it indicates the economy's ability to preserve essential economic processes and stabilize key macroeconomic indicators when institutional and financial conditions are harsh (Lazorec et al., 2023; Lagutin et al., 2020). Resilience is therefore perceived as a dynamic process that depends on the quality of institutions, the availability of resources, and adaptive capacity, which may result in short-term stabilization but not structural change or welfare (Gomes et al., 2023; Hu et al., 2021).

The spread of compound shocks occurs through three channels that are related to each other. First, institutional capacity is a mediating factor in resilience outcomes because it determines policy credibility, coordination, and effectiveness. The space for fiscal and monetary policy is constrained by weak governance and a lack of administrative capacity, thereby increasing the economic cost of the crisis (Ngono et al., 2025; Alessi et al., 2019). Second, resource constraints, e.g., poor access to finance, low capital accumulation, and limited integration into global value chains, require adjustment through consumption compression and low-productivity reallocation rather than investment-based growth (Pietrobelli et al., 2021; Miroudot, 2020). Third, adaptive mechanisms are already present, mainly at the household and informal-sector levels, such as adjustments in labor supply, informal activities, remittances, and humanitarian aid. Although these processes allow taking advantage of short-term absorption, they frequently damage welfare and potential long-term growth (Betts et al., 2022; McCartney et al., 2021).

One of the main implications of this framework is the separation of macroeconomic stabilization and welfare-based resilience. The good aggregate news (increased GDP, low inflation rates, or stable exchange rates) can be accompanied by a decrease in real incomes, worsening of the labor market, and food insecurity. These results can be characterized not as stability driven by productivity but as stability driven by absorption and adjustment (Alessi et al., 2019; Reuveni, 2024).

Figure 1: Conceptual Framework of Economic Resilience under Compound Shocks



Source: Author's illustration, adapted from the economic resilience frameworks proposed by Bujones et al., 2013.

Figure 1 is the conceptual issue of economic resilience in the case of compound shocks. There are five intersecting shock domains, namely, the economic, political, social, security, and environmental, which put pressure on the core of the system, which is constituted by households and livelihoods. Shock transmission occurs through institutions, resources, and adaptive facilitators that enable short-term stabilization but tend to reinforce structural frailty. In line with empirical evidence, the framework emphasizes the illusory stabilization phenomenon, in which macroeconomic stability is maintained without improvements in welfare. The model provides a consistent theoretical framework for explaining Afghanistan's economic trajectory in 2025 and the discrepancy between its macroeconomic performance and welfare-based resilience.

3. DATA AND METHODOLOGY

3.1. Data

To improve clarity and readability, the main abbreviations used in the analysis are summarized below.

Table 1: List of Abbreviations

Abbreviation	Full Form
GDP	Gross Domestic Product
GDP per capita	Gross Domestic Product per Capita
$	United States Dollar
USD	United States Dollar
AFN	Afghan Afghani (Official Currency of Afghanistan)
DAB	Da Afghanistan Bank(Central Bank of Afghanistan)
IOM	International Organization for Migration
SIDA	Swedish International Development Cooperation Agency
IPC Phase 3+	Integrated Food Security Phase Classification indicating crisis or worse levels of acute food insecurit
UNHCR	United Nations High Commissioner for Refugees
OCHA	Office for the Coordination of Humanitarian Affairs
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
WFP	World Food Programme
FAO	Food and Agriculture Organization of the United Nations
IPC	Integrated Food Security Phase Classification
AML/CTF	Anti-Money Laundering / Counter-Terrorism Financing
PFM	Public Financial Management
ToT	Terms of Trade
NEER	Nominal Effective Exchange Rate
FDI	Foreign Direct Investment
ECO	Economic Cooperation Organization
HNRP	Humanitarian Needs and Response Plan
SIGAR	Special Inspector General for Afghanistan Reconstruction
NSIA	National Statistics and Information Authority
WHO-EMRO	World Health Organization, Regional Office for the Eastern Mediterranean

This paper draws on macroeconomic, labor-market, and migration-related data to examine overall conditions and household welfare dynamics in Afghanistan. Table 2 provides a general summary of indicators and the primary data sources used in the analysis.

Table 2: Summary of Datasets and Sources Used in the Study

Category	Core Indicators	Main Sources
Macroeconomic Conditions	GDP growth, inflation, exchange rate, and fiscal revenue	World Bank; NSIA
Labor Market	Daily wages, labor purchasing power	WFP; World Bank
Migration Pressure	Return migration flows	IOM; UNHCR
Household Welfare	Income changes, debt stress	UNOCHA; WoAA
Food Security	IPC classification, food access	WFP; FAO
Climate Shocks	Drought and disaster impacts	FAO; FEWS NET
External Sector	Trade flows and balance	World Bank; Reuters
Financial & Aid Environment	Liquidity conditions, humanitarian funding	World Bank; OCHA; SIGAR

The present study uses secondary data sources, which are widely available and publicly accessible, to examine Afghanistan's economic conditions during the numerous crises. The data combine macroeconomic variables (GDP growth, inflation, exchange rate movements, fiscal revenues, and external balances), migration data, labor market proxies, household welfare indicators, trade flows, and humanitarian financing data. The primary sources are publications and databases of the World Bank, the International Organization for Migration (IOM), United Nations agencies (UNHCR, OCHA, WFP, FAO), and other international surveillance sites.

Since structural data is limited in fragile and conflict-based environments due to the specifics of such settings, especially when they are financially isolated and their institutions disrupted, the analysis will be based on high-frequency, tentative, and harmonized data. Information is cross validated with as many sources as possible to improve reliability. The empirical focus spans 2022-2025, including the adjustment period post-2021; around 2025, the greatest convergence of the most significant shocks occurred in demographic, climatic, financial, and trade-related terms. It presents a sensitive evaluation of short-term stabilization processes alongside changes in the welfare performance of subjects under long-term stress.

3.2. Methodology

The analytical-descriptive research design is well-suited to conflict-impacted, data-limited economies, where structural discontinuities, measurement errors, and non-stationary, repetitive shocks render conventional econometric identification procedures infeasible. The analysis does not estimate causal parameters; instead, the conceptualization of economic resilience is that of a transmission process linking observed macroeconomic stabilization to micro-level welfare.

The empirical evaluation is methodologically based on 2025 as the year of core analysis, as an element of post-adjustment in Afghanistan after that political transition that was made in 2021, and the build-up of compound and persistent shocks, such as forced return migration, climate stress, financial isolation, dwindling external assistance, and trade destabilization. The year 2025 is chosen as a focal observation year, with the study able to determine whether the macroeconomic stabilization one might be witnessing in 2025 is resilience or just an absorption process due to dire structural and welfare conditions.

The concept of resilience is analysed through a triangulated, layered approach that reflects the multi-level structure of the economy. Aggregate indicators for macroeconomic stabilization include real GDP growth, inflation dynamics, exchange rate movements, and welfare transmission, which is determined by labor market conditions, household income variation, indebtedness, and food access indicators. These dimensions are examined together to determine the congruence or the difference between the aggregate performance and household-level realities in the 2025 crisis setting.

The primary analytical criterion of the study is the presence or absence of effective welfare transmission under macro-level stability. A scenario where aggregate metrics show positive signs, yet real incomes, labor market trends, increasing household debt, or limited access to food are indicative of adjustment-based or non-transmitting resilience. In line with the recent resilience literature, the discussed outcomes can be interpreted as the outcomes of absorptive and coping responses rather than adaptive or transformative resilience. The approach of clearly situating the analysis within the compounded shock in 2025 provides a context-sensitive, theory-based evaluation of the Afghanistan macroeconomic adjustment and its decoupling from welfare outcomes.

4. RESULTS AND DISCUSSION

4.1. Macroeconomic Stability and Fragility (2025): A Macroeconomic Overview

4.1.1. Macroeconomic Stabilization without Welfare Gains

The data shows that Afghanistan has recorded a second consecutive year of economic growth. It is estimated that gross domestic product (GDP) will increase by 4.3 percent in 2025, up from 2.5 percent in 2024. This growth has been driven by activity in the services and industrial sectors, with strong demand after the return of over 2 million migrants from Iran and Pakistan. Moreover, the mining and building industries remained in favor of aggregate output. Conversely, the agricultural sector remained partly resilient despite severe drought conditions, owing to strong production of irrigated wheat (Group, 2025; Office, 2025; WFP, 2025c).

Table 3 demonstrates that consumption-based adjustment is more prevalent in Afghanistan's post-2021 recovery than in productive or investment-based growth. Following the 2022 contraction, GDP growth becomes positive in 2023 as domestic and government consumption increase, primarily driven by demographic absorption. Still, investment remains low, and exports are insufficient to offset high import levels. Low inflation indicates demand compression and stability that is upheld administratively, rather than an improvement in the structure of supply. Existing external and productive constraints remain unresolved, as current account deficits persist and sectoral dependence on services persists.

Table 3: Macroeconomic Adjustment, Demand Composition, and External Imbalances in Afghanistan (2022–2027)

Recent history and projections	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	-6.2	2.3	2.5	4.3	3.8	3.5
Private consumption	0.6	6.4	4.9	7.0	5.0	4.0
Government consumption	-1.2	0.7	9.1	6.5	7.8	3.4
Gross fixed capital investment	29.2	-5.7	3.0	2.5	2.6	9.1
Exports, goods and services	18.6	-12.1	-3.0	2.5	3.0	4.0
Imports, goods, and services	36.7	0.7	8.0	9.0	7.0	6.0
Real GDP growth, at constant factor prices	-6.4	1.8	2.5	4.3	3.8	3.6
Agriculture	-6.6	2.2	6.0	-0.5	3.2	3.2
Industry	-5.7	1.8	2.1	4.5	3.0	2.5
Services	-6.5	1.5	-0.3	8.5	4.5	4.2
Inflation (consumer price index)	10.6	-7.7	-4.3	2.0	3.0	4.0
Current account balance (% of GDP)	-18.8	-17.6	-24.6	-31.9	-34.8	-36.1

Net foreign direct investment inflow (% of GDP)	0.0	0.3	0.0	0.0	0.0	0.0
Fiscal balance (% of GDP)	-1.0	-1.2	-0.4	0.0	0.1	0.1
Revenues (% of GDP)	40.6	33.9	30.7	29.1	29.0	28.7
Debt (% of GDP)	13.9	13.6	12.8	12.1	10.4	8.4
Primary balance (% of GDP)	-1.0	-1.2	-0.4	0.0	0.1	0.1
GHG emissions growth (mtCO2e)	-0.3	1.5	2.0	2.8	3.0	3.1

Source: (World Bank, 2025c)

According to Figure 2, the Afghan economy is sharply shrinking after the political and financial shock of 2021, and then recovering poorly and unevenly. The trend after 2023 is primarily service-intensive and demand-based, driven by demographic absorption from migrant reentry rather than productivity growth or structural change. Agriculture and industry remain shaky due to climatic pressures, low investment, and institutional constraints. Altogether, the trend indicates adjustment-based stabilization anchored in absorptive coping rather than in a sustainable or inclusive recovery.

Figure 3 illustrates the continued structural imbalance in Afghanistan, where import levels have been high, export levels have been low, and investment levels have been low. Although trade flows have at times been improving, the widening gap between imports and exports further highlights that the economy has a very weak productive base and is susceptible to external shocks. The long-term stagnation of investment leads to financial seclusion, liquidity constraints, and high levels of uncertainty, hindering capital accumulation and long-term growth. These trends, in combination, highlight that Afghanistan's macroeconomic stability is more dependent on external inflows and trade adjustments than on resilience based on endogenous investment.

Figure 2: Real DGP Growth and Sectoral Contributions in Afghanistan (2019-2027)

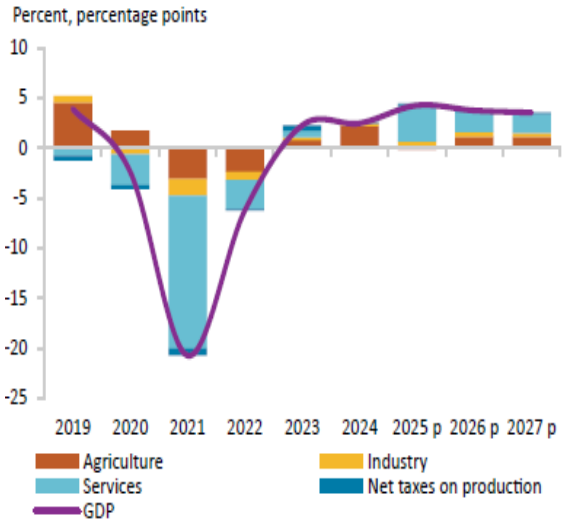
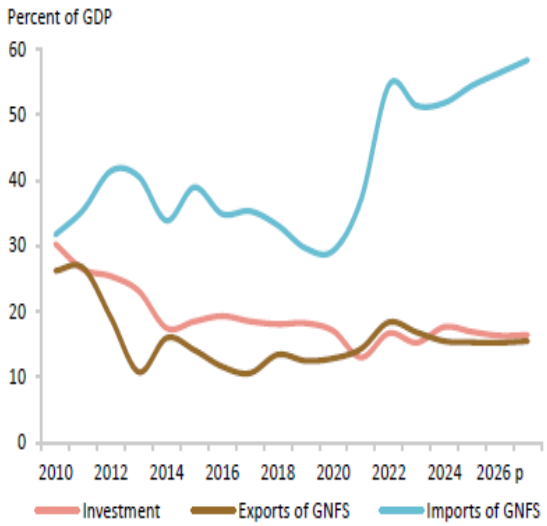


Figure 3: Exports, Imports and Investment as a share of GDP in Afghanistan (2010-2026)



Source: World Bank, 2025c.

Table 4: Key Macroeconomic and Demographic Indicators of Afghanistan (2024–2025)

Indicator	2024 (Actual)	2025 (Projected)	Interpretation
GDP Growth Rate	2.5% to 2.7%	4.3%	Demand-driven growth due to returnees and services sector expansion
Population Growth Rate	2.8%	8.6%	Demographic shock driven by forced population returns
GDP per Capita Growth	0.5%	- 4.0%	Indicates deterioration in living standards
Average Inflation Rate	-3.8% to - 4.7%	2.0%	Low inflation reflecting subdued aggregate demand and imports
Domestic revenue (% of GDP)	12% to 16.6%	17.1%	Improvement in fiscal revenue collection

Source: Group, 2025a; Group, 2025b; Office, 2025.

Table 4 summarizes Afghanistan's macroeconomic and demographic trends for 2024-2025, indicating economic stability amid shocks in one of the most fragile economies. Despite real GDP growth rising to 4.3 percent in 2025, the growth was

mainly demand-led, attributable to the absorption of large-scale return migration and short-term growth in service provision, rather than to productivity or investment-led growth. At the same time, the population growth (8.6 percent) was impressive. It caused a severe demographic shock, weakening aggregate benefits and leading to a sharp decline in GDP per capita (-4 percent), as average living standards began to decrease.

The fact that inflation is low (approximately 2 percent) indicates that aggregate demand is depressed and that the country still depends on imports, with price stability maintained by the administration rather than a high level of domestic supply. The fact that domestic revenue collection (17.1 percent of GDP) is improving indicates that there is fiscal administration, but the budgetary stabilization has not been reflected in household welfare or labour market performance.

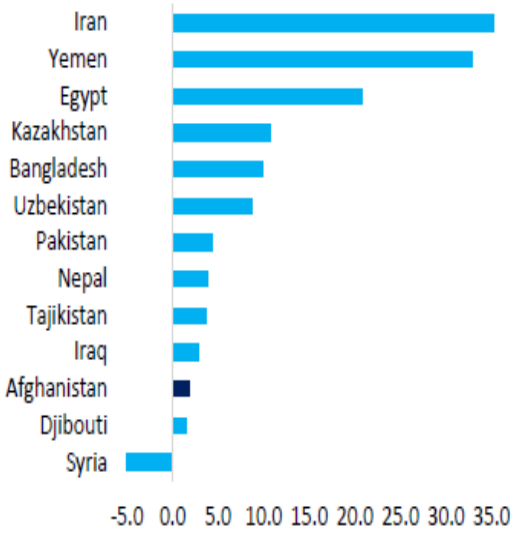
4.1.2. Inflation Dynamics and Engineered Price Stability

The average inflation in Afghanistan was still around 2 percent in 2025, among the lowest rates in the region. This stability was facilitated by relatively stable food prices and appreciation of the Afghan currency (AFN). Nominal effective exchange rate (NEER) grew by around 3.8 percent annually, which implies a nominal appreciation of the currency (WFP, 2025a; Group, 2025).

However, macroeconomic stability was maintained, while local and seasonal inflationary pressures were experienced. In August 2025, the headline inflation rate stood at 3.1 percent and the non-food items rate at 4.8 percent, driven by rising housing and related costs and high demand from large numbers of people receiving returns. This trend shows that, despite the strong dependence on imports and the stability of exchange rates in Afghanistan, the prices of tradable goods have been contained, while demographic shocks have exerted direct upward pressure on prices in the non-tradable services sector. In line with this, aggregate price stability is not just a short-term control of the macroeconomic situation but also indicates that Afghanistan is deeply dependent on imports and is more vulnerable to external and demographic shocks (WFP, 2025b; Group, 2025).

Figure 4: Headline and Core Inflation Dynamics in Afghanistan (2023–2025)

Figure 5: Inflation in Afghanistan Compared with Selected Peer Economies, 2025



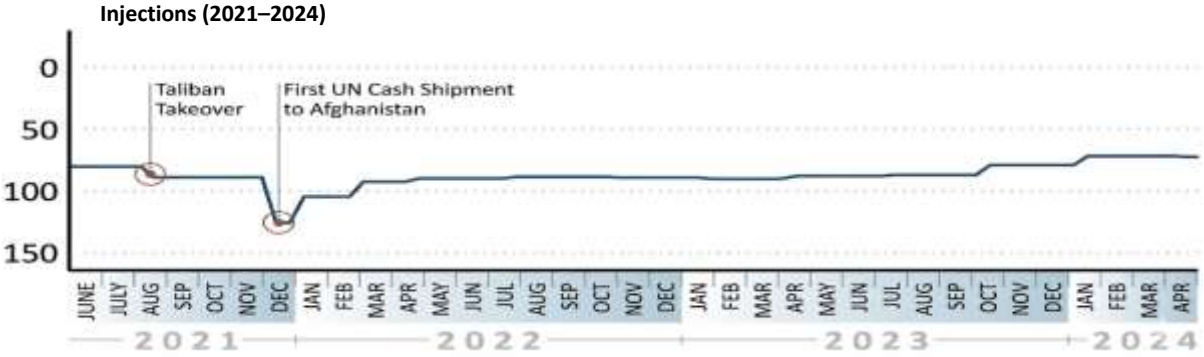
Source: National Statistics and Information Authority (NSIA) and World Bank Macro-Poverty Outlook (October 2025).

Figure 4 shows a disinflationary cycle during 2023-2024, in which headline inflation turns negative, with extreme demand compression, import contraction, and exchange-rate stabilization following liquidity injections. Core inflation also fell more slowly and was always substantially higher than headline inflation, suggesting that consumer prices were modulated by fluctuations in food and other trading items rather than widespread cost pressures. The following headline and core inflation contracting to low and favorable levels by mid-2025 is an indication of a slight pick-up in domestic market demand, linked primarily to return migration and services-sector operations. Nevertheless, the low rates of both indicators indicate that they are stabilized by economic compression rather than by increases in productivity or income.

Figure 5 places the 2025 inflation forecast for Afghanistan in a regional context. Compared to the high inflation rates recorded in the Iranian, Yemeni, and Egyptian peer economies, Afghanistan has one of the lowest inflation rates. This deviation highlights the unusual character of the adjustment process in Afghanistan: low inflation is indicative of restrained demand, liquidity constraints, and a high reliance on imports rather than competent macroeconomic management of overheating.

Although price stability might seem good news in the aggregate, it conceals significant welfare strains, as low inflation is accompanied by falling real incomes and a reduction in labor purchasing power.

Figure 6: Evolution of Afghanistan's Exchange Rate Dynamics Following the 2021 Political Transition and Initial UN Cash Injections (2021–2024)



Source: SIGAR, 2024.

In Figure 6, the exchange rate dynamics in Afghanistan since 2021, including the political transition and the beginning of UN cash assistance, are shown. The sharp decline immediately after the Islamic Emirate of Afghanistan assumed leadership speaks volumes about an extreme liquidity crunch, isolation, and a loss of trust. The subsequent stabilization and gradual recuperation of the AFN go hand in hand with the initiation of routine UN cash assistance. This trend indicates that external liquidity provision and administrative interventions were primary in ensuring exchange rate stability, rather than in restoring domestic financial services or export capacity.

4.1.3. Fiscal Conditions and Chronic Dependence

There has been an improvement in fiscal performance on the revenue side. Increased enforcement and improved compliance practices are expected to raise domestic tax revenues to 17.1 percent of GDP in 2025. The shrinking of external financial support, however, has reduced the overall fiscal envelope. This has increased Afghanistan's dependence on trade-based tax schemes and donor aid. In the meantime, the banking sector is relatively weak due to high non-performing loan rates, severely constrained credit operations, and ongoing liquidity stress (Group, 2025; The World Bank, 2021).

Table 5: Comparative Fiscal Revenue Performance (2023–2025)

Indicator	FY2023 (Actual)	FY2024 (Estimate)	FY2025 (Projected)
Total Revenue (AFN billion, with USD equivalent in parentheses)	211.7 (3.02)	241.3(3.45)	268.5(4.07)
Revenue as % of GDP	13.5%	16.6%	17.1%
Domestic Tax Revenue Growth (YoY %)	12.4%	28.5%	15.2%
Customs and Trade-Related Taxes (%)	52.0%	50.0%	48.0%
Non-Tax Revenue (AFN billion, with USD equivalent in parentheses) (AFN Billion)	63.8(0.91)	83.7(1.20)	90.1(1.37)

Source: World Bank, 2025c; CEICdata.com, 2024.

Table 5 demonstrates that fiscal revenues in Afghanistan will continue to grow through FY2023-2025, with total revenue expanding from AFN 211.7 billion to an estimated AFN 268.5 billion, and the revenue-to-GDP ratio rising by 13.5 to 17.1 percent. Such enhancement is a sign of increased tax enforcement and a tightening of customs administration, not economic growth. The growth in domestic tax revenue stalled after the FY2024 high, suggesting the increase is increasingly limited under an enforcement-based model. Simultaneously, the proportion of taxes on customs and trade dropped slightly, an indicator of negligible diversification under a still trade-related fiscal framework.

4.2. Demographic Shocks and Labor Market Strains: Micro-Level Stagflation

4.2.1. Labor Markets and Household Welfare

In Afghanistan, there was the massive repatriation of over 2.6 million Afghan migrants from Iran and Pakistan in 2025. This inflow of the population under the mass of forced deportation policies put tremendous pressure on local labor markets, border areas, and main cities (SIDA, 2025; IOM, 2025; OCHA, 2025b).

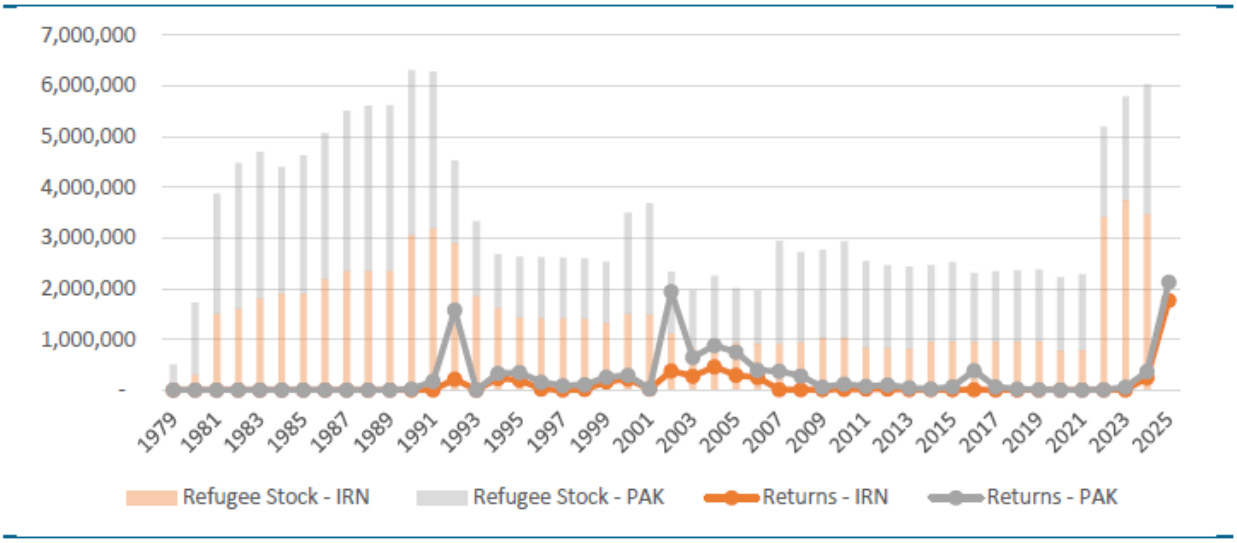
Table 6: Total Returns to Afghanistan in 2025 by Country of Origin

Country of Origin	Data Date	Number of Returnees	Share of Total Returns (%)
Iran (Islamic Rep. of)	29 Nov 2025	1,800,100	66.9%
Pakistan	29 Nov 2025	850,300	31.6%
Various	29 Nov 2025	41,100	1.5%

Source: UNHCR, 2025.

As shown in Table 6, in 2025, more than 2 million migrants returned to Afghanistan, and the policy driver for the increase in return migration was largely political, as host countries began to implement stricter immigration and deportation policies instead of voluntary return programs. The involuntary nature of return migration caused by the policy increased its disruptive economic effects. Compared to gradual or voluntary returns, forced expulsions occurred quickly and in large numbers, leaving little time to absorb labor-market and reintegration planning and to provide fiscal accommodation. Therefore, return migration acted as a negative demographic shock, increasing both labor supply and basic consumption demands within a severely constrained productive economy.

Figure 7: Afghan Refugee Stocks and Return Flows from Iran and Pakistan (1979–2025)



Source: World Bank, 2025b.

Figure 7 puts the 2025 return migration shock into a long-run historical perspective and emphasizes its unique magnitude, suddenness, and policy-induced character. Although refugee numbers in Iran and Pakistan have fluctuated over the decades, the sudden increase in returns during the 2023-2025 period constitutes a structural break, whereas the preceding changes were more gradual. In contrast to the previous return waves associated with reintegration with aid, the 2025 wave was driven by financial isolation, reduced assistance, and low labour demand. Unwilled returns, therefore, were a sudden external population shock, the expansion of labor supply and basic needs with no increase in productive capacity or public provision of service.

This population bloc also put additional pressure on the very fabric of the state machinery. For example, in 2025, 422 health facilities were shut down due to budget shortages and increased demand, resulting in the loss of access to basic health care services for some 3,000,000 individuals. Furthermore, as the number of Afghans facing food insecurity is estimated at 17.4 million, drastic cuts in humanitarian aid have left the crisis response vulnerable to collapse (WFP, 2025; UN News, 2025).

4.2.2. Labor Market Stress and Terms of Trade (ToT)

The Afghan economy cannot absorb new entrants into the labor market. It is estimated that 400,000 to 500,000 Afghans join the workforce each year. Youth unemployment (ages 15-29) was estimated to constitute one quarter of the population (25%), a situation further worsened by the mass return shock in 2025 (World Bank, 2025; OCHA, 2025a).

The terms of trade (ToT) of daily wage laborers were the clear indicators of the labor market pressures. The nominal terms of trade for daily wage workers decreased by 6.6 per cent in November 2025 and by 15 per cent compared to the same month last year. This measure indicates a substantial erosion in the buying power of the daily wage labor households (WFP, 2025c).

The following micro-level stagflationary dynamic can be singled out. The return shock in the population grew at an alarming rate, and this had an inverse effect on the daily wage rate. Meanwhile, the prices of basic commodities, e.g., wheat flour, and non-food spending (especially housing expenses) rose. The concurrent fall in wages and increase in prices seriously undermined the buying power of poor and returnee households. It led to a significant collapse in the real terms of trade that poor workers received on a daily wage basis. This way, macroeconomic stability, as reflected in aggregate inflation (2.0 percent), conceals a critical income and food access crisis at the microeconomic level (ReliefWeb, 2025; WFP, 2025c).

Table 7: Key Household Welfare and Labor Market Stress Indicators (2025)

Indicator	Value (2025)	Change Relative to 2024	Analytical Interpretation
Number of Returnees	More than 2.6 million people	Sharp increase	Intensified pressure on the labor market and public service provision
Average Reduction in Household Income	−13%	Significant decline	Declining purchasing power and rising vulnerability
Average Increase in Household Debt	+30%	Considerable increase	Growing reliance on coping and survival strategies
Deterioration in Daily Wage Labor Conditions	−15%	Severe decline	Food access crisis and deepening livelihood insecurity
Number of Closed Health Centers	422 centers	167 to 415	Reduced access to healthcare services for approximately 3 million individuals

Source: (WHO-EMRO, 2025; UN News, 2025; WFP, 2025d; OCHA, 2025b; UNHCR, 2025)

Table 7 indicates that although the macroeconomic situation has stabilized, household welfare and labour market conditions in Afghanistan remain devastating in 2025. The fact that more than 2.6 million migrants returned to work created a sudden spike in labor market pressure, a 13 percent decrease in household income, and a 30 percent increase in debt. The fact that the purchasing power of labor reduced by 15 percent per day is evidence that welfare strain was primarily caused by a reduction in income, rather than price volatility.

4.3. Climate Stress, Food Security, and the Disruption of Welfare Transmission

In 2025, Afghanistan faced compounded climate shocks that intensified structural vulnerability without triggering generalized price instability. Extreme droughts in the north and west provinces have weakened rainfed agriculture and livelihoods in rural areas, and an earthquake in eastern Afghanistan resulted in severe human and economic damage, further burdening humanitarian and reconstruction capacity (UNU-INWEH, 2025; Kabul Now, 2025). Market supply stabilized under the influence of these shocks, as record irrigated wheat production and some food imports related to stable food prices helped avoid a sharp rise in food prices (FAO, 2025; World Bank Group, 2025).

Nevertheless, food inflation remained low, masking a severe food access crisis. Over 17.4 million Afghans were under acute food insecurity (IPC Phase 3+), and emergency needs are expected to increase in the 2026 lean season (WFP, 2025b; UN News, 2025). This deviation is a breakdown of income and transmission, not a supply-side breakage: the loss of income due to climate change, coupled with labor-market saturation and declining real wages, severely reduced households' purchasing power. Consequently, income compression was the primary cause of food insecurity, compelling households, particularly in rural regions, to cut non-food spending on health and education, and resulting in unfavourable long-term effects on human capital and resilience (FEWS NET, 2025; Kochhar and Knippenberg, 2023).

4.4. External Constraints, Trade Reorientation, and the Persistence of Structural Fragility

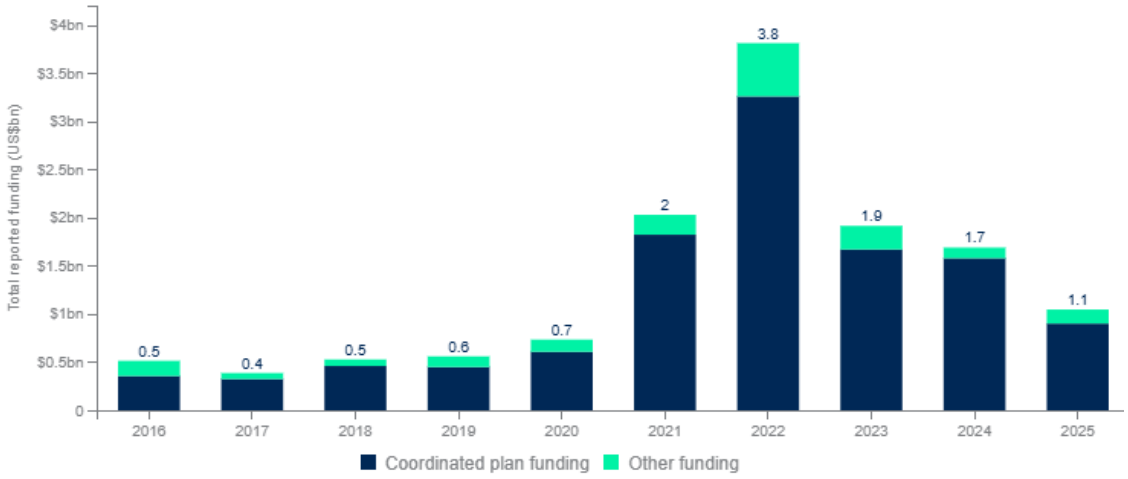
In 2025, the external economic environment of Afghanistan was characterized by increased geopolitical constraints, economic isolation, and a decline in external assistance. Growing tensions with Pakistan prompted a shock turnaround in trade towards Iran and Central Asia, with trade volumes with Iran exceeding those with Pakistan, backed by new transit plans and trade facilitation offices (Kabul Now, 2025a; Reuters, 2025). Although this change showed the short-term geopolitical flexibility, the external sector in Afghanistan was structurally weak, with a limited export base (focused on primary commodities and agriculture) and continuous trade deficits, which meant that the economy was highly vulnerable to commodity price fluctuations and external shocks (World Bank Group, 2025; World Bank, 2025b).

These potentialities were enhanced by primary financial isolation and an acute decline in foreign assistance. The banking sector was still affected by chronic liquidity shortages, poor credit intermediation, and low access to foreign reserves, which intensified the economic activity towards the use of informal financial intermediaries and hardened the obstacles to reintegrating into the global financial market (World Bank Group, 2025; SIGAR, 2024; World Bank, 2021). Simultaneously, the loss of humanitarian and development aid widened the financial gap, exacerbating fiscal strain and undermining the ability to provide services, especially in the health and social security sectors (UNOCHA, 2025).

The development of international humanitarian funding to Afghanistan from 2016 to 2025 is depicted in Figure 8, which separates coordinated plan funding from other funding streams. The data indicate strong growth in total humanitarian financing after the 2021 political transition, peaking in 2022 and then entering a steady decline until 2025. The reduction in funding is coupled with growing humanitarian demands driven by high rates of return migration, climate shocks, and the economy's vulnerability, highlighting the widening gap between resources and the scale of the crisis. In the context of financial resilience, the figure indicates that Afghanistan's adjustment mechanisms are increasingly susceptible to limitations on external funding.

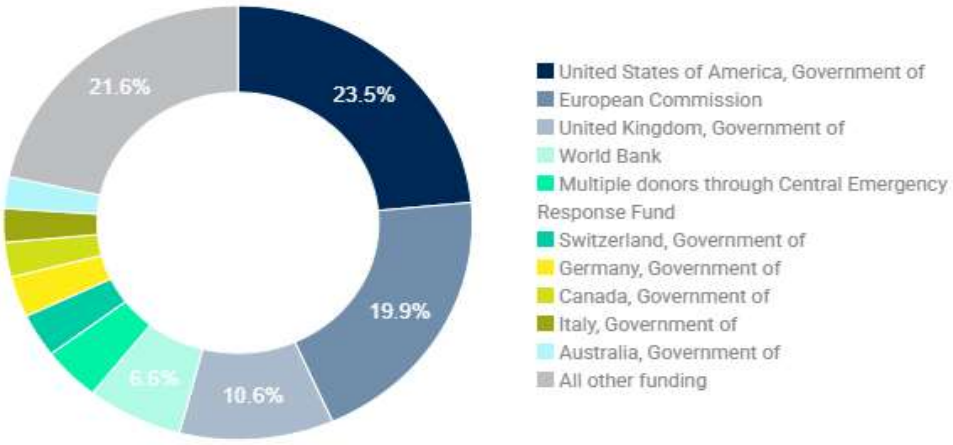
Figure 9 shows how humanitarian aid to Afghanistan will be correlated with major funders in 2025, revealing that there are still a few bilateral and multilateral donors. A large portion of the total funding is held by the United States, the European Commission, and the United Kingdom, compared with the complementary roles of multilateral institutions and pooled mechanisms. The dominance of donor funds is an indicator of Afghanistan's continued reliance on foreign aid and puts humanitarian action at increased risk of financing through geopolitical and donor burnout. This type of funding structure strengthens absorption capacity in the short term but, in the long term, limits adaptive and transformational responses to compound crises in terms of resilience.

Figure 8: Trends in International Humanitarian Funding to Afghanistan (2016–2025)



Source: OCHA, 2025a

Figure 2: Composition of Humanitarian Funding to Afghanistan by Major Donors (2025)



Source: OCHA, 2025a

Table 8 provides clear empirical evidence that, in 2025, Afghanistan appears to have been in a macroeconomic stabilization yet was also characterized by an extremely high level of humanitarian crises. The country has been ranked among the most severe crisis environments in the world, with an INFORM Severity Index of 4.5/5, and 22.9 million of the population require humanitarian help. The response capacity is structurally limited: only 29 percent of the total $2.42 billion budget needed for 2025 has been funded, indicating a significant funding gap.

Table 8: Key Humanitarian Indicators for Afghanistan (HNRP 2025)

Indicator	Value (2025)	Description / Source
INFORM Severity Index	4.5 / 5	Composite index measuring humanitarian crisis severity
People in Need of Humanitarian Aid	22.9 million	Estimated population requiring assistance (HNRP 2025)
People Targeted in Response Plan	16.8 million	Population prioritized for assistance (HNRP 2025)
Required Funding	USD 2.42 billion	Total financial requirement to meet 2025 targets
Funding Secured	29%	Share of required funding secured as of 2025

Source: IOM, 2025.

4.5. Engineered Macroeconomic Stability under Structural Constraints

With international isolation continuing, Afghanistan has since 2023 stabilized its macroeconomic position by enhancing fiscal, trade, and monetary management. The increase in domestic revenue to approximately 17.1 percent of GDP and the maintenance of short-term budgetary discipline were also promoted by improved taxation, the administration of customs, and improvements in the management of the country's finances (World Bank Group, 2025; World Bank, 2025a). At the same time, trade reorientation with Iran, Central Asia, and India reduced reliance on Pakistan, as bilateral trade with Iran exceeded USD 1.6 billion in 2025, in response to changes in geopolitical restrictions (World Bank Group, 2025; World Bank, 2025a).

Financial isolation kept inflation almost negligible at 2 percent, thanks to a controlled floating exchange rate system and active liquidity management by Da Afghanistan Bank (World Bank Group, 2025; World Bank, 2025a). Simultaneously, the preference for irrigated agricultural production enabled record wheat production, helping partly eliminate the threat of food shortages in the face of frequent droughts (World Bank Group, 2025; World Bank, 2025a).

Table 9: Afghanistan Fiscal Revenue Structure (FY2023–FY2025)

Revenue Category	FY 2023 (AFN billion, with USD equivalent in parentheses)	FY 2024 (AFN billion, with USD equivalent in parentheses)	FY 2025 Projection (% of GDP)	Source
Total Domestic Revenue	211.7 (2.999)	241.3 (3.432)	17.1%	World Bank (2025a)
Customs Duties & Fees	42.9 (0.608)	63.8 (0.908)	4.8% (Est.)	World Bank (2025c)
Inland/Tax Revenue	72.4 (1.025)	93 (1.323)	6.5% (Est.)	World Bank 2025e)

Note: FY2025 figures are projections expressed as a share of GDP because finalized nominal fiscal data are unavailable. This methodological approach aligns with the World Bank's Macro-Poverty Outlook reporting convention.

Table 9 presents the format and development of Afghanistan's fiscal revenues during FY2023-FY2025, both in terms of nominal performance and forecasted macroeconomic significance. The data show that total domestic revenue has increased significantly, rising from AFN 211.7 billion (USD 2.999 billion) in FY2023 to AFN 241.3 billion (USD 3.432 billion) in FY2024, indicating a high degree of revenue mobilization despite a limited economic environment. This enhancement is mainly motivated by strong growth in customs duties and taxes, which rose about 49 percent annually, underscoring the paramount role of border taxation and other trade-related income sources with limited external funding and sanctions. The growth in inland tax revenue is also significant, which implies a gradual improvement in internal tax collection and compliance. For FY2025, revenues are reported as a percentage of GDP, in line with the World Bank's reporting conventions, since nominal data are unavailable, and total domestic revenue is expected to be 17.1 percent of GDP. In general, the table shows a trend toward revenue-based fiscal stabilization, but it is still not substantially based on broad domestic tax capacity; instead, it relies on trade taxation.

4.6. Micro-Level Resilience and Household Fragility under Compound Crises

Evidence at the micro-level from Afghanistan in 2025 shows a deep decline in household financial strength, highlighting a significant breakdown in the relationship between macroeconomic stabilization and welfare outcomes. According to the results of the Whole of Afghanistan Assessment (WoAA), average per capita household income dropped by about 13 percent over the past year, and increasing living costs drove households to active borrowing, increasing the average per capita debt by about 30 percent to almost AFN 5,000 (71$) (UNOCHA, 2025b). This trend indicates a domestic liquidity trap, fueled by a high reliance on volatile sources of income, especially daily casual employment.

The stress in the labor market was directly converted into diminishing purchasing power. In November 2025, the nominal terms of trade for casual labor decreased by about 15 percent compared to the prior year, meaning real access to food was about 3.3 kilograms of wheat per day of labor. These processes support the development of micro-level real stagflation, in which falling real incomes are accompanied by low aggregate inflation, indicating a shortcoming in income transmission rather than price instability (WFP, 2025d; UNOCHA, 2025b).

With the lack of formal social protection and the decreasing humanitarian aid, households have had to resort to harmful coping mechanisms to meet basic needs. A 25 percent decline in UN cash payments or food aid was linked to a significant increase in the sale of distress assets, the use of predatory informal borrowing, and, in extreme situations, the sale of young girls and forced marriage as liquidity-generating measures (SIGAR, 2024). Such reactions not only relieve temporary consumption restraints but also permanently undermine long-term healing by robbing productive resources and human capital. Women's lack of access to education and employment also heightened the fragility of households, as approximately 80 percent of women were excluded from the economy and lost more than USD 1 billion (OCHA, 2025a; SIGAR, 2024).

Simultaneously, there appears to be a resilience paradox on the communal level. There are small yet significant improvements in adaptive capacity in assisted households in targeted humanitarian interventions. Based on the Resilience Capacity Index (RCI) of FAO and the E-RIMA model, it is estimated that by 2025, an average of 10 percent of resilience capacity will have increased among beneficiary households in nearly two-thirds, through increased access to basic services, asset accumulation, social networks, and livelihood diversification (FAO, 2025). Community-based organizations, especially cash-for-work programs, played a vital role in maintaining social cohesion and distributing resources in the absence of efficient formal institutions. However, such gains are fragile and strongly dependent on the sustainability of external funding, which confirms the description of Afghanistan's micro-level resilience as externally dependent and naturally unsustainable (OCHA, 2025d).

Table 10: Household Financial Fragility under Income Shocks: Debt Dynamics and Liquidity Traps in Afghanistan

Household Financial Status	2024 (Average)	2025 (Average)	Percentage Change
Per Capita Debt Level (AFN/USD)	3846 (**$**54)	5000 (**$**71)	+30
Debt-to-Income Ratio (Estimated)	**1.5**	**2**	+33

Source: UNOCHA, 2025b.

Table 10 shows that household financial resilience in Afghanistan has eroded sharply between 2024 and 2025, suggesting the emergence of a debt-based liquidity trap during income shocks. The household debt per capita rose by about 30 percent. Meanwhile, the debt-to-income ratio, which was previously estimated at 1.5, has increased to 2, indicating greater household borrowing to even out consumption amid falling and volatile incomes. This trend is an indicator of not a short-term adjustment but systemic financial vulnerability, in which income squeeze, labour market strains, and declining support subject households to an unaffordable accumulation of debt.

4.7. Discussion

The results of the research are highly aligned with the recent literature on economic resilience in the case of compound and persistent shocks, especially in vulnerable and conflict-ridden environments. Recent studies also argue that resilience should be viewed as a multidimensional process encompassing shock absorption, institutional mediation, and welfare transmission, rather than as macroeconomic stabilization (Ngono et al., 2025; Lazorec et al., 2023; Trippl et al., 2023). This conceptual difference can be clearly illustrated by the experience of Afghanistan in 2025.

The expected GDP growth driven by demographic pressure supports the growing evidence that indicators of aggregate growth may be deceptive in weak economies. Just as in the recent discoveries by Gomes et al. (2023) and Reuveni (2024), the growth in Afghanistan was not based on productivity gains or structural change but on a short-term demand boom driven by population inflows. The concurrent decline in GDP per capita shows that growth did not translate into better welfare and highlights the limitations of GDP-based explanations of resilience.

Macroeconomic price stability is also an indication of what recent scholarship describes as externally scaffolded or engineered resilience. Research emphasizes that external buffers can help temporarily stabilize inflation and exchange rates, especially in economies that rely on aid and those that are financially geographically isolated, but they are highly susceptible to external liquidity shocks (Ranger et al., 2021; Alessi et al., 2019). In Afghanistan's case, the role of UN-managed foreign currency inflows was central to sustaining low inflation and currency appreciation, reinforcing concerns about the fragility of stabilization mechanisms disconnected from domestic financial intermediation.

The micro-level deterioration of the labor market and the decline in purchasing power coincide with recent findings on the asymmetric welfare effects of compound shocks. It is shown that the shock, combined with the ineffectiveness of labor absorption capacity, disproportionately impacts labor-intensive households, resulting in crises of deteriorating real wages and food access in the absence of price spikes (Middelanis et al., 2023; Kuhla et al., 2021; Hallegatte et al., 2010). The fact that the terms of trade for casual laborers drastically declined in Afghanistan supports the idea that macro stability did not translate into household resilience.

Lastly, the costly reorientation of trade in Afghanistan to alternative corridors is indicative of broader analysis of global value chains and trade resilience. Although diversification can reduce exposure to politically constrained routes, logistical and

institutional limitations can increase trade costs and create external imbalances (Pietrobelli et al., 2021; Miroudot, 2020). This trend aligns with previous results indicating that adaptation under constraint frequently balances flows at the expense of efficiency and competitiveness (Kitsos et al., 2016).

In general, the presented evidence confirms that the adaptation of Afghanistan to compound shocks was based mainly on the mechanisms of absorption and compression, but not adaptive or transformative resilience, which is the case in the entire literature on fragile states and limited policy spaces (Lagutin et al., 2020; Hu et al., 2021).

5. CONCLUSION AND RECOMMENDATIONS

The paper shows that Afghanistan's economic trend in 2025 presents a resilience paradox: it has stabilized its macroeconomic situation without improving welfare, labor-market conditions, or household resilience. Though aggregate indicators such as favorable GDP growth rates, low inflation, and stable exchange rates are indicative of a level of macroeconomic control, they signal adjustment to the impacts of demographic absorption, consumption compression, and externally assisted liquidity-based adjustment rather than a productivity- or inclusion-based economic recovery. As a result, GDP per capita declined, labor markets worsened, and households' purchasing power and food availability were significantly reduced. The analysis reveals that stability practices in Afghanistan are mostly independent of domestic productive and financial systems. Externally introduced liquidity is the key to monetary stability, and fiscal gains are mainly due to enforcement-based revenue collection and trade taxation, rather than economic growth in general. At the micro level, labor market saturation following the mass return of forcibly displaced migrants to the country of origin led to declining real wages, rising household indebtedness, and the adoption of harmful coping mechanisms. These dynamics affirm a failure of welfare transmission, in which macroeconomic stability fails to translate into better livelihoods or sustained human capital. Theoretically, the results advance the economic resilience literature by empirically distinguishing between stabilization resilience and welfare resilience in the context of compound and persistent shocks. The case of Afghanistan demonstrates an absorption-based resilience that maintains the existence of core macroeconomic activities while simultaneously strengthening structural vulnerability and welfare losses. This contravenes traditional understandings of stability as resilience and points to the risks of analysis depending on GDP growth or price stability as signs of recovery in weak and war-torn economies.

This distinction has direct policy implications. To enhance real fortitude in Afghanistan, the transition of externally reliant stabilization to a facility that restores welfare transmission and productive power is essential. Priority areas are employment creation through labor-intensive jobs, climate-resilient farmer investments, and increased cash-based social protection to stabilize incomes and food availability. Although external liquidity assistance is essential in the short run, it must be supported by credible financial governance reforms that would facilitate a gradual return to the international monetary system. The economic resilience of Afghanistan, however, will remain a mirage without such structural and welfare-oriented adaptation, supported by external scaffolding and population absorption, but highly susceptible to future shocks.

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