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Macro Analysis of Foreign Exchange Markets of Afghanistan: Retrospect and Prospect

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A R T I C L E I N F O

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A B S T R A C T

This paper studies the situation of currency markets as dependent variable to analyze the most important factors affecting the Afghanistan currency markets as independent variables. The objectives are finding out solutions for the problems and identifying the effects of factors on the currency markets. In this study, both qualitative and quantitative methodologies are combined to collect data from Currency markets in Afghanistan including exchange markets, websites and social media. The problems mentioned by the money/currency market concerned people in are: sophisticated regulations, lack of attention to their problems and rights, the high amount of tax on exchangers and for licensing, Lack of Security for traders, exchangers and their assets. At the end some recommendations are proposed as solutions.

1. Introduction

Money market securities are typically more liquid than longer-term securities since they are typically traded more frequently. In addition, the price swings of short-term securities are less extreme than those of long-term assets, making them safer investments.

In parallel with Afghanistan central bank, The Currency exchange markets play an important role in stabilizing Afghanistan currency value in order to keep international business, going on export and import, avoid inflation…otherwise if money transfer service is not available, the retail and unlawful import will run which causes prices upraise, inflation, lack of economy scale, etc.(Zerbena: Reopening of Afghanistan's money exchange market discussed, 2021)

Only 3% of Afghans save their money at formal financial institutions, while less than 9% of Afghans use formal banking services. The general mistrust of banks was heightened by the shareholder corruption incident at Kabul bank, which was uncovered in 2010, and the government's relationship with New Kabul bank. Many Afghans lament the difficulty in accessing their bank accounts, citing a lack of infrastructure. We heard complaints about banks' arbitrary withdrawal limitations, lengthy lineups, challenging processes, and rigid business hours.

Regardless of the formal or informal saving methods employed, purchasing physical goods is usual. While assets are available in a liquid form and, ideally, when that liquidity retains its worth, they are most valuable. Although there are various valuable forms, the most popular ones are gold, crops, goats, and land. Gold is one of the most entrenched resources in Afghan culture. Brides and their families choose a set of gold jewelry that the groom must buy as part of the wedding rite. After getting married, women keep buying gold jewelry as an investment because they know that if they ever need to sell it, the price would remain consistent. The price of gold is set by global markets, unaffected by regional politics, and can be resold at a modest discount. Its portability may have raised its value; a gold merchant in Herat believed he had reached the summit of his profession after moving from food to gold. "Gold is just like cash. If I had to, I can take my shop with me and depart. For Afghans, accessibility and liquidity were extremely important. These interviews suggest that there is a widespread belief that emergencies, which necessitate spending money to fix, can occur at any time. These issues have an impact on how banks are viewed and on Afghanistan's financial destiny.

1.1. The exchange markets in Afghanistan

For the first time at the second half of 19 century (about 1868), in era of Amir Shir Ali Khan the exchange of currencies emerged in Afghanistan. Tara Singh an Afghanistan citizen started this business. He was taking the money from traders in Afghanistan and submitted back to them in India and some other

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countries and vice versa. On that time, the currency unit of Afghanistan was Kabuli Rupi and the Indian Rupi in India. (Rouzayee, 2018)

Today in Afghanistan, we have seven big money exchange markets in Kabul and four money exchange markets in the four zones of the country. The money exchange markets in Kabul are; Shahzada Currency exchange market (the biggest and oldest of Afghanistan Currency markets), Gullbahar Center Currency exchange market, Afghan Currency exchange market, Humadi Currency exchange market, Haidari Currency exchange market, Ariana Currency exchange market, and Khair Khana Currency exchange market. In Mazare Sharif we have a big market known as Khorasan Currency exchange market, in Herat also Currency market named as Khorasan Currency exchange market, in Kandahar a market named Tara Singh Currency exchange market and in Jalalabad a market named as Jalalabad Currency exchange market. In other provinces of Afghanistan, we have other Currency markets as will. In different districts and valleys of Afghanistan the currency exchange and transfer services are available. After Saudi Arabia and Dubai, Afghanistan has the biggest Currency exchange and money exchange markets in the region. The people of Afghanistan have the best information of currency rate among the people of the world. For example, if you give the Dollar, Euro, Pound, Yen or other notes of the world economic zones to a shop keeper, the shop keeper will easily convert it to Afghani and give you the good you want. The reasons why the currency information of our people are high enough is the immigration of people to other countries of the world, foreign aids, and the good relation with foreign countries in all fields, etc.

1.2. Money exchange market activities in Afghanistan:

1.2.1. Currency exchange (Sarafs)

They are licensed for the exchange of money. In addition to these licensed Sarafs, there are many other mobile Sarafs without legal license, because of less capital and not having permanent business address. They stand on streets with hands full of money. According to Afghanistan central bank they are numbered to 3200 Sarafs and money servers. Only less than 80 persons of Hawaladars are licensed.

1.2.2. Money services (also called Hawala):

Hawala which originate for facilitating long distance trader in south Asia is an ancient, inexpensive, user friendly and important system of remittance in developing countries. However, criminals and terrorists use it as will outside of formal financial system. Hawala system helps the money supply chain. Hawala is very adaptive, inexpensive and user-friendly system. Hawala system plays an important role in financing of working capital for merchants. Hawala system brides the gap between ambiguous business environment operating in risk sharing and global markets which need loyalty to fixed term payment. For example, Traders and specially shopkeepers in Kabul or other parts of Afghanistan which are unable to pay immediately to foreign whole sellers, shipment and import custom duties, Hawaladars give credit for paying large payments and the traders and shopkeepers pay the Hawaladars on weekly bases when they collect money from Ugrayee customers. Ugrayee payment is a weekly payment of customers to whole sellers and Hawaladars (in international payment) and is very common in Afghanistan bazars.(Rahimi, 2021)

Normally Hawaladars do not charge any fee for credit Hawala in order not to lose the clients, but some Hawaladars charge for credit Hawala and higher currency exchange rates.

The reasons why merchants deposit their money to Hawaladars are:

1.2.2.1. To keep reserves of different currencies and convert them to money when fluctuations occur.

1.2.2.2. Because Hawaladars have a solid reputation and can be trusted to provide loans, businesses deposit their money with them.

1.2.2.3. Merchants deposit their money with hawaladars for being able to do business nationally and internationally easily. They can transfer fund to any corner of the country or foreign countries without complicated documentations, contracts, invoices, taxation, tariffs, etc., but the banks do not have such facilities.

1.2.2.4. Hawaladars do not keep formal record of depositors' sources and account of individuals (with secret transactions) that is why persons involved in illegal economy need Hawaladars.

As carrying physical money is dangerous in Afghanistan, Hawaladars do not run out money from banking systems, because they deposit the money in the banks. Regulating Hawala markets will create three challenges:

First, some migrant workers are excluded from formal remittance system due to lack of access and cost. Second, it limits the ability of aid agencies to transfer money to remote and weak financial structured locals.

Finally, it will cause its actions go underground because of counterproductive effects.

1.2.2.5. Foreign Hawala

Hawaladars used to issue, bills of exchange in different currencies along the ancient silk route. In the course of history, it continued until modern globalized world which facilitates the movement of money between networks of Hawaladars. It helps the business men, migrant workers, traders, etc. sometimes international organizations associated with aids also use this type of remittance to assist in weak financial structured societies.

1.2.2.6. Domestic Hawala

The people of Afghanistan refer to money exchange markets rather to refer to banks in order to solve their money problems. The reason is inability of banks to respond to all needs of people related to money. The money exchangers of Afghanistan cover almost all provinces and districts of Afghanistan and supply the money services to people easily as well as all countries of the world. In 2015 International monetary fund says: "90 percent of financial transactions in Afghanistan are being done through Hawala system and only 10 percent of people in this country use banking system". In 2016 World Bank report says: "16 percent of Afghan families receive money from their family members working abroad which is done through Hawaladars". (Rahimi, 2021)

1.2.3. Hawaladari Regulations

Before 2016 Afghanistan central bank use to license the Hawaladars. A controversial Hawaladari regulation was enacted in 2016 by Afghanistan central Bank to regulate the activities of Sarafs and Hawaladars and avoid money laundering and terrorist financing and integrate financial markets. This regulation bares Hawaladars from accepting deposits and issuing loansto empower the position of banks in financial intermediaries, shift supply of deposits and demand of loans to banks. Council of Hawaladari says that this regulation disrupts the activities of hawaladars and has three main issues:

First, accepting deposits by Hawaladars does not remove the funds from banks, because Hawaladars deposit the majority of money to the banks. Second, banks are unable to loan their excessive reserved money and banning Hawaladars from loaning will restrict credit to merchants who need working capital**.**Third and finally, it ensures Hawaladars to improve their illegal activities which will increase the de facto operation of financial system, because Afghanistan banking system has low penetration. This regulation will not increase the number of individual accounts in banks, because each of Hawaladars open several number of accounts in the several banks for different services. Hawaladars lending practice sounds good. Providing short term capital loans make transactions generate revenue and are supported by real assets. That is why Hawaladars historically stayed durable. (Rahimi, 2021)

1.2.4. Drawbacks of formalizing Sarafs and Hawaladars

Many people, particularly those engaged in illegal economic activities chose Hawaladars as their financial service providers. As a result, Hawaladars functions help the money laundering activities and it makes fighting with illegal finance hard. The Afghanistan government may not choose absorbing informal financial institutions because:

1.2.4.1. Most of these institutions are tied with illegal financial actions.

1.2.4.2. Lack of transparency in their activities.

1.2.4.3. Resistance of informal financial institutions in order not to be regulated, taxed, etc.

However, absorbing informal financial institutions by government can at least minimize the above challenges in the future. (Rahimi, 2021)

The rotation of Pakistani Rupi in 13 provinces of our country and Iranian Rial in five provinces causes big problems for Afghanistan money markets. It is a big problem for the people of Afghanistan as will. For example, in 1997, the money reform in Russia damaged the economy of our families. Because some people of Afghanistan used to save their money in the form of Russian Ruble, the money saved with people became priceless and the government of Afghanistan was not responsible for that. Two decades ago, some people in Afghanistan used to save their money in the form of Iraqi Dinar, when the government of Iraq made a money reform and it damaged the people of Afghanistan who saved Iraqi Dinar. In 2017 when the government of India announced the 500 and 1000 notes of Indian Rupi priceless, it damaged our people 6 million Indian Rupees. (Rouzayee, 2018)

In May 2022 Sarafs and Hawaladars in Shazada currency exchange market had a strike action against the restrictive legislation enacted by Afghanistan central Bank in which it makes Sarafs to pay 5 million Afghanis as guaranty for receiving license and 200 000 Afghanis for receiving Activity certificate. (Money Exchengers Sitdown in the Country, 2022)

Also, Afghanistan central bank has a complex process for registration of Sarafs. In this process Sarafs are to to fill 25 forms. These Sarafs shall present two others licensed Sarafs as guaranty, pay the extra fees, indicate clearly the particulars of the shops and prepare the required documents. (Huckster Currency Exchangers Rigistration Start, 2018)

1.3. Currency/money exchange data

There are mobile currency/money exchangers in every district, squares and streets in Kabul and other provinces of Afghanistan providing money/currency exchange services in an easy, user friendly, inexpensive, adaptive and swift manner to the people which makes it difficult to government to control.

The data in this connection is not clear for any organization in the country, because the total capital in these Sarafs in the country is not clear. According to 2018 estimates: weakly in only shahzada money exchange market more than 60 million USD is supplied, of which from 50 to 60 million USD is supplied by Afghanistan central bank and 2 to 3 million USD by other exchangers. The average supply of USD in market is approximately 10 million USD.(The Biggest Exchange Market in Afghanistan Without Statistic, 2018)

After the Taliban Takeover the Afghanistan currency decreased its value against USD (120 Afghanis= 1 USD). Afghanistan bank interfered in the market, limited the Afghani withdrawal from banks, banning use of foreign currency, controlled the run of USD out of the borders and other instruments. Today 1 USD equals 90 Afghanis in the markets.

The data of Afghanistan central bank shows that the exchange rate of Afghani against USD followed and rising direction from 48.45 in 2005 to 120 in 2022. (Sherzad, 2018)

The following tables show the average exchange rates:

Table 1. Monthly based exchange rate in 2021

Currency	Jan	Febr	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
USD	77.13	77.24	77.42	77.44	77.49	78.40	80.89	80.55	86.20	89.47	91.62	100.51
Euro	93.69	93.39	92.90	91.65	93.28	94.74	94.91	94.42	100.37	103.10	104.16	111.68
UK Pound	103.60	105.03	106.95	106.15	107.02	109.17	109.84	110.33	116.04	119.97	121.26	128.01
Swiss Frank	85.19	85.67	83.76	82.11	83.83	85.32	85.34	85.37	89.58	93.11	96.12	103.58
Chinese Yuan	11.16	11.61	11.68	11.64	11.72	11.83	11.91	11.91	12.45	12.52	13.06	14.09
1000 Indian Rupees	1051.11	1058.75	1063.96	1062.35	1062.04	1066.92	1081.18	1086.64	1086.98	1081.23	1104.16	1167.39
1000 Pakistani Rupees	479.59	479.90	485.70	496.56	496.30	497.23	499.15	494.88	505.08	500.90	482.27	541.57
1000 Iranian Riyal	3.19	3.40	3.22	3.13	3.31	3.33	3.29	3.20	3.22	3.23	3.27	3.37
Saudi Riyal	20.49	20.57	20.62	20.60	20.56	20.71	21.01	21.15	22.49	23.38	23.93	25.80
UAE Dirham	21.01	21.05	21.10	21.11	21.08	21.27	21.64	21.70	23.05	23.98	24.33	26.35

Source: Da Afghanistan Bank

Table 2. Annual Based exchange rate from 2019-2021

Currency	2019	2020	2021
USD	77.74	76.81	82.86
Euro	86.99	86.51	97.36
UK Pound	98.45	97.07	111.95
Swiss Frank	77.34	79.09	88.25
Chinese Yuan	11	10.88	12.13
1000 Indian Rupees	1105.30	1031.68	1081.06
1000 Pakistani Rupees	518.83	474.88	496.59
1000 Iranian Riyal	6.41	4.21	3.26
Saudi Riyal	20.62	20.08	21.78
UAE Dirham	21.12	20.66	22.31

Source: Da Afghanistan Bank.

The following table shows the balance of foreign trade from 2019 -2021:

Table 3. Balance of foreign trade 2019-2021

Index	2019	2020	2021
Total of exports goods and services	1515758	1476308	1296165
Total of imports goods and services	7989569	7641130	6167441
Trade balance	-6473811	-6164821	-4871276
Export goods	863833	776737	850098
Import goods	6776781	6537639	5307761
Balance of goods	-5912948	-5760902	-4457663
Export services	651924	699571	446067
Import services	1212788	1103490	859680
Balance of services	-560863	-403919	-413613

Source: Da Afghanistan Bank and Ministry of Finance, ASUCUDA System

1.4. Forex trading platform

Vision Financial Services (VFS)established in 2016 was the first of forex financial services provider in Afghanistan. Based in Kabul, VFS had an extensive network in some other places across Afghanistan. A trader using the VFS platform had unlimited access to Meta Trader 5, the most popular online trading platform in the world (MT5). The traders all across the world favor and use this platform. Additionally, they offered free access to the most recent quotes and other trading information to traders who used VFS. On a PC, tablet, or any smartphone, traders may easily download and utilize the MT5 trading terminal. Different account alternatives were provided to the traders in order to match and accommodate their level of trading expertise and risk tolerance. Both in-person and online account opening options are available on the VFS website and at any of the nation's VFS branches. VFS provided traders with access to a customer support team that was available around-the-clock by phone, email, Skype, and online chat. Closely monitored support policies were reviewed often to ensure that VFS surpass the industry requirements and maintain a competitive edge with its client satisfaction rates. The management team at Vision Financial Services (VFS) comprised of members with years of international experience managing and leading financial teams in a global arena. Each member of the management team had vast experience in Forex and commodity trading. The relations manager for VFS Mosafer Shah Khorasani in an interview with Tolonews Said: "Over the years, our team have overseen the execution of countless successful trades and mentored large number of domestic and international clients. The management team at VFS also includes technology experts who have gained expertise in leveraging technology and integrated disciplines to ensure the clients receive best in class products and services. VFS management team had pooled in their extensive knowledge and domain know-how to develop world class financial products that are tailored to meet the aspirations and demands of both new and experienced clients. At the same time, its management team structured to ensure that Vision Financial Services (VFS) is in the forefront of delivering the latest and innovative financial products to the clients.(Khurasani, 2018)

Today there are some Forex trading platforms active in Kabul and other provinces, but recently the Taliban government prohibited this business declared that the agents and traders will be traced by legislative organs. (DAB Announcement, 2022)

After the return of the Taliban to power in Kabul, Afghanistan's weak economy has entered a deeper crisis. The United States, which has been based in this country for 20 years, has seized approximately 10 billion USD of the assets of the Central Bank of Afghanistan and imposed sanctions on the country after leaving Afghanistan in 2021.

In this way, the United States prevented the Taliban from accessing a large part of the reserves of the Central Bank of Afghanistan. By banning the scope of digital trade in the country, it has prevented the general public from accessing digital currencies.

Financial restrictions and the withdrawal of Western companies at the same time as the Taliban took power made it more difficult for Afghan immigrants to send money. As a result, many Afghans turned to digital currencies in order to preserve their capital and the possible confiscation of property by the Taliban government. (The closure of digital currency exchanges in Afghanistan and the arrest of its operators by the Taliban, 2022)

1.5. Remittance to Afghanistan by Afghans working abroad

For decades The Afghans working abroad send money to their families. The following figure shows the remittances by Afghans working abroad to their families from 2012 to 2020. The figure shows that the Afghans remittance to their families totally ranged from 219.4 million USD in 2012 to 788.9 million USD in 2020.(Remittances to Afghanistan are Lifelines: They are Needed More than Ever in a Time of Crises, 2021)

Table 4. Total remittance into Afghanistan in USD (millions) from 2012 to 2020

Total remittances received in Afghanistan in USD (millions) 2012-2020	
2012	219.4
2013	347.2
2014	253.4
2015	348.6
2016	622.7
2017	822.7
2018	803.5
2019	828.6
2020	788.9

Source: IOM's GMDAC based on World Bank data. See data also on the Global Migration Data Portal (https://www.migrationdataportal.org/international-data?t=2020&i=remit_re_excel&cm49=4

2. Literature review

By analysing the classical and neo classical economic ideas, one can find that international trade plays an important role in development of nations. They call international trade as the “growth engine”. The Marxists idea also relates the economic growth to trade. It analyses that there is a relation between production and exchange which market is necessary for that to happen. (Ahmed & Alam, 2015)

2.1. Dollarization in Afghanistan

Sayed Murtaza Muzaffari and Ahmad Khalid Mirajin an article provides information on different aspects of dollarization and go on to current facts and trends of dollarization. They mainly focus on consequences of dollarization in Afghanistan such as: loss of seignoirage, currency incompatibility and loss of central bank’s key role as a principal ender. They historically trace the dollarization that starts from Afghanistan’s civil war, none existence of confidence in Afghanias the key cause of dollarization, prolonged political and security disorders, lack of a good macroeconomic management strategy, a historical experience of high inflation and high levels of exchange rate instability. This paper sheds light on the dollarization in Afghanistan and poses questions about the short-term and long-term dollarization impacts on Afghanistan’s economy. The paper recommends its findings as some policy for the monetary system of country to deal the issue of dollarization. This literature review is done mostly based on the study of similar cases in the world. According to the study, dollarization refers to the adoption of a foreign currency, whether formally or informally, by citizens of the home country as a means of conducting transactions and preserving wealth. This paper categorizes dollarization in three types: **Official dollarization** (using the foreign currency officially instead of domestic currency), **Official semi-dollarization** (both domestic and foreign currencies having the attributes of legal tender and both playing their roles as exchange medium, value store and account unit) and **unofficial dollarization** (using foreign currency widespread while the domestic currency rests as the legal tender in the country).This paper suggests a policy framework to cover economic, regulatory and administrative aspects of de-dollarization in order to achieve a sustainable de-dollarization in the country. Literature on de-dollarization also shows that other nations did not have good experience with forced de-dollarization, mostly forced de-dollarization has not go as planned and stimulated investment flight and decreased financial sector intermediation ultimately which caused slower economic development. The paper also concludes that effective de-dollarization strategy involves a mixture of practical regulations and domestic currency market growth. Practical regulation means a monetary policy focusing on bi-currency settlement and e strengthening prudential standards to manage associated risk, in the meantime, currency market growth is more proactive for limiting the dollarization favoring incentives and foster local currency instruments growth. De-dollarization efforts often back fire in absence of macroeconomic stability and lead to undesirable results causing negative inferences on the whole economy. (Muzaffari & Miraj, 2015)

2.2. Remittances to Afghanistan

Mohibullah Faqeerzai and Jawad Faryadin an article provides a summary of networks, remittance sizes over formal networks and remittance costs into Afghanistan. The datain the above paper is collected from Money service providers, Money transfer operators, and Banks in Afghanistan. Using a mixture of qualitative and quantitative approaches, interviews and survey. This study examined data from the World Bank on five remittance-sending nations—Germany, Pakistan, Saudi Arabia, the United Kingdom, and the United States—as well as Afghanistan, the recipient nation. The primary informational data on the transaction fees is collected from a random sample of money service providers in Kabul and also used secondary data on some aspects. They mention the most important limitations to their research as the lack of data on the remittance amounts to Afghanistan, lack of respondent’s truthfulness about the answers because of their personal privacy, the respondent’s bias resulting in inexact answers and even sometimes not answering the questions. They find that remittance costs are higher in Afghanistan than other countries in South Asia and mostly informal channels are used for remitting funds due to low costs and time efficiency. Security problems, unemployment and poor economy of the country have an important effect on migration causing remittance flows to Afghanistan. This study finds the Informal remittances as sources for money laundering and other illegal activity concerns for the Central Bank of Afghanistan. It is a bare o transfer channel of the people living in provinces and districts of Afghanistan and unbanked people. The paper also tried to discover the potentials of networking remittance flows through formal financial institutes. Remittances flowing over both formal and informal channels play a significant part in Afghanistan’s economic situation. Formal networks are Banks, Microfinance institutions, money transfer operators and registered money service providers, but informal networks include unregistered money service providers. The amounts of informal flows can’t be assessed easily, but real facts are to be approximately 6.5 billion USD between the years 2015-2030. The World Bank report indicates that about 15 percent of countryside households in developing countries receive remittances from foreign countries that cover 20 %t of their day-to-day expenses. High fees of remittance transactions decrease the volume of remittable funds which encourage the informal channels usages. Banks are the most expensive channels of remitting funds to the World and Afghanistan while money service providers are the cheap channels remittance transfer that is why people use them as the cheapest rates of money transfer in our country. This survey also indicates the money service providers as big transfer market dealers because they offer lower prices and they do not want lots of documentation as time efficient for money service providing. Banks and money transfer operators are the most reliable for money transfer, but because of higher costs and extra documentation (bureaucracy), people try to receive their money by help of money service providers. To encourage funds transfer using formal networks, formal financial institutions should offer lower cost services to compete money service providers which could receive higher volume of remittances to Afghanistan. (Faryad & Faqeerzai, 2018)

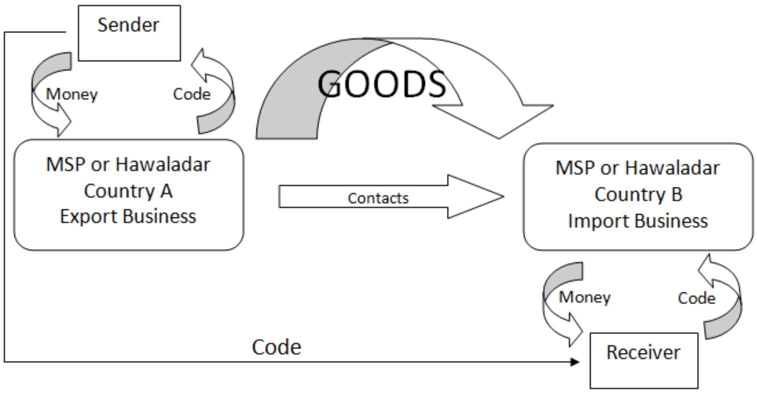

Figure 10. Hawala system operational structure.
Source: (Faryad & Faqeerzai, 2018)

2.3. Money exchange in Afghanistan

Samuel Munzele Maimbo in a study of Hawala system in Afghanistan in 2003 has done three field visits to Kabul, Jalalabad and Herat during years 2002-3 in order to define the practice of *Hawala* system in Afghanistan, verify the convenience, swiftness, and cost-effectiveness of *Hawala* businesses and compare it with formal financial institutions, evaluate money exchange dealers for development of funds remittance to all parts of Afghanistan which is not served by formal financial institutions, recognize the features of the H*awala* systems vulnerable to the financial misuse and study the suitable regulations and supervision procedures for informal money remittance systems in Afghanistan. In these missions' interviews were conducted with staff in some organizations such as Ministry of Finance, Da Afghanistan Bank, the Ministry of Rural Development, the Ministry of Planning, the Afghan Chamber of Commerce and industries and some international assistance organizations and private organizations. Discussions with several Sarafs, chairperson of the Kabul Money Exchangers Association and a member of the Jalalabad association's executive committee. The study verifies the claims of the *Hawala* transactions ease, cost-effectiveness and speed compared to transactions done through formal financial institutions. (Maimbo, 2003)

This study faced some limitations in Afghanistan such as: no effective monitoring on currency movements from country in borders, inconsistent reporting based on a voluntary system. None existence of uniform guidelines to identify doubtful transactions, parallel black-market economies; low ability to share financial data with foreign law enforcement authorities. This study concludes that money exchange dealers play and important role in Afghanistan's development such as: invaluable channel for sending humanitarian aids of family members, non-governmental organizations and bilateral and multilateral donors into the country, strengthening basic but still key business relationships. Today for the procurement of goods and services and for receiving revenues, the commerce and industries use Hawala System. Another limitation is lack of regulation for managing macro economy of the country. In Addition, the Central Bank lacks control on monetary policy, if financial institutions and currency reserves fall outside the formal system, the Conventional Central Bank open-market operations are not able to function effectively. An informal financial system could have a potential to facilitate anonymous financial transactions—mostly for the settlement—makes the system and the country vulnerable to money launderers and terrorism financers. In addressing Afghanistan's unique situations lack of some factors such as a proper banking system, supervisory and controlling capacity and an intense informal sector. Central Bank and Association of money exchange dealers could jointly consider exploring the benefits of a framework for self-regulating and supervision as a temporary solution. Dealers will assist in describing the many *Hawala* typologies for regulation and supervision. Local association committees can share the managerial and financial burdens to ensure compliance. Incentivizing the dealers will be a success of self-regulation. Also, the Central Bank could develop more sophisticated rules for money exchange dealers. Although introducing formal banking-style regulatory and supervisory is impractical at this stage, authorities could introduce these in coordination with money exchange dealer's practices for identifying their customers, reporting doubtful doings, and record keeping. The Afghanistan Central Bank can also create setting out the benefits such as: standardizing present, formal record-keeping practices into the informal sector, and explaining the benefits of caring market integrity by *hawaladars* reporting doubtful transactions in the first stage to their own dealers' association and then to the Central Bank or another external organization. Ideal financial reforms are to establish a rudimentary banking system in Afghanistan consistent with the newly published World Bank International Monetary Fund conclusions on the Hawala system to strengthen the Central Bank's regulation and supervision of monetary policy and practices and develop and strengthen the commercial banking system. In the immediate future, the Central Bank may wish to concentrate on creating a functioning payment system. The Central Bank branches need technical, transportation and communication capacity to transport physical cash. The larger global aid institutions cannot provide program funds through the informal markets without exerting a negative effect on financial stability. When they send big amounts of dollars for sale on the market, money exchange dealers have an equally large incentive to resort to illicit sources to meet the huge demand for local currency. The present commercial banks con not offer adequate financial services. It encourages the foreign banks to enter and create new local banks. The Central Bank will be encouraging the larger money exchange dealers to make the transition into the formal financial institutions and banks for three advantages. According to a business viewpoint, the H*awala* dealers are familiar with the banking business which most of them already operate as miniature banks. If they are licensed as banks they would confirm the status quo and it would need *Hawala* dealers to scale up their actions and official arrangements. *Hawaladars also* have great client goodwill, as they are ensuring public confidence. According to a regulatory viewpoint, licensing would come with conventional banking ruling and control requirements. Honesty could be a matter if the money exchangers come closer to the formal banking system. (Maimbo, 2003)

2.4. Objectives and Methodology:

A research method is a methodical approach to carrying out research. Sociologists use a number of qualitative and quantitative research techniques, such as participant observation, experiments, survey research, and secondary data. To test hypotheses and elucidate facts, quantitative methods classify features, count them, and build statistical models. The goal of qualitative approaches is to provide a thorough, in-depth description of observations, including the circumstances and context of happenings. In this research, the methodology is based on both qualitative and quantitative methods. In this research, I referred to currency markets in Afghanistan including exchange markets, websites and social media related to such markets to collect required data.

2.5. Significance of the research

Today the world has taken the form of a village. Keeping strong enough relationship in social, political, military, cultural areas and especially business relationship with the world economic zones is vital for every country. The business transactions between parties are done by currency transfer and exchange facilities. In Afghanistan the banking system cannot provide such facilities enough to the traders and businesses for export and import purposes, then the currency exchange markets in formally and informally fill up the gap to an extent.

2.6. Statement of the Problem:

Due to four decades of war and postwar problems in Afghanistan such as; enforced wars and conflicts, internal government problems such as corruption, lack of security and political stability, economic and financial growth was not tangible enough. This makes a big problem for money markets in this country. The problems arise from several issues from absence of security, inefficient financial policies, administrative corruption to lack of financial knowledge and human capacity assigned in the money markets and banking system. The social relief in all fields of life could not be brought to people without considering such problems roots and struggling with them.

2.7. Research questions:

2.7.1. What influences the currency markets growth/failure in Afghanistan?

2.7.2. What are the solutions for the currency markets problems?

2.7.3. What are the consequences if the government especially economic and financial system pays/doesn't pay attention towards solving these problems?

2.8. Objectives of the Study:

The following objectives were set for the current investigation in light of the issues found:

2.8.1. To find out the solutions for the problems arising from the above-mentioned issues.

2.8.2. To identify the effects of factors on the currency markets.

2.9. Details of Research Design

The plan to implement this study is set bearing in mind the nature of the problem recognized and following objectives in use for the work. Therefore, a descriptive research plan with a survey for the primary data compilation is followed by regular course of action. This research is to distinguish the existing challenges that negatively influence the currency exchange system of the country. The research tries to find these influences and find the rational solutions toward solving these problems.

2.10. Instruments used for primary data collection

In the research some of the data are collected primarily and some of the data secondarily. The primary data collection instruments include interviews with some cashiers, finance teachers, depositors, money/currency market exchangers, etc. The primary data collection instruments are direct personal interviews, media… The secondary data collected are some data from media (TVs, internet websites, books, etc.). In addition, the focus of this research is to identify the dependent and independent variables that

Afghanistan currency markets concern with. It presents the dependent variable as a representation for money/currency markets activities. As the financial knowledge of the exchangers is generally low in exchange markets of Afghanistan, the laziness of majorities of exchangers in these markets, lack of reliability on media and officials in this country in the current situation, many exchangers avoid responding to questions. That is why this research is applied through interviews with head of exchange markets union, bank authorities, media reports and previous researches that have been done by former researchers.

2.11. Survey Instruments Reliability

As the research data is collected by interviewing exchange markets authorities and central bank of Afghanistan reports, therefore the reliability of research survey is insured. The data collected secondarily is also from reliable sites and references.

2.12. Sampling Details

The research is applied by collecting the data form parts of community and generalized to the whole related society. The parts of community in this research are 7 big exchange markets in Kabul, Afghanistan central bank, Vision Financial services and individuals concerned in this area and even people. The whole related society in the text means all currency exchangers of Afghanistan, governmental banks, private banks and international banks throughout the country.

2.13. Dependent variable:

The dependent variables in this research used to relate to independent variables are the money/currency markets in Afghanistan including governmental banks, governmental commercial and professional banks, private commercial and specialized banks, foreign public and commercial banks, branches of foreign international banks, exchange markets and virtual banking and exchanges throughout the country.

2.14. Independent variables:

The independent variables that are employed in the econometric model to estimate the dependent variable are described in this subsection. The determinants of money/currency markets activity, profitability and conditions. The money/currency market variables are internal factors and controllable and macroeconomic variables are external factors and uncontrollable. The independent variables I used in this research include inflation rate, exports, imports, lack of financial knowledge among exchangers, lack of reliability between depositors and money markets, lack of reliability between depositors and government, inability of government to ensure security of people and money market traders, etc. other variables are also explained as causes to dependent variables detailed in the research as problems and factors.

3. Analysis

This paper studies the data for a period from 1919 to 2022 of the currency markets operating in Afghanistan. The data have been obtained from data published by Afghanistan union of exchangers, interviews, with exchange market members, people involved with money/currency markets, media reports from Afghanistan money/currency markets, websites, etc.

3.1. The major factors affecting the condition of Afghanistan currency markets

In the current economic system due to existence of interest, fluctuations and trade cycles are a usual issue in the economy and currency as will. That is why from Bretton Woods's conference of 1944 the nations tried to stabilize the currency rate. In this conference, for the first time 35 US dollar was set equal to one ounces of gold, but the fluctuation problem is one of the problems until now in the economy of the world. From perspective of economics, decrease in currency rate is applied through two ways that are deliberately and automatic. Sometimes currency rate is decreased by governments to (protect deficit of payment balance, increasing exports and decreasing imports), but sometimes it leads to rise of inflation. For example, economic crisis in 1930 when nine big economies of the world deliberately decreased their currency rate. After that, the international money fund prohibited deliberate decrease of currency rate. Automatic decrease means the fall of currency rate without intervention of government in a country. Today the currency rate is based on economic policy of each country. In this part the concepts of exchange, sources of exchange, currency control policy, currency changeability, sources of earning of currency, different systems of currency and the factors affecting the rate of currency are discussed in the world and specially in Afghanistan.

3.1.1. The currency sources:

The currency sources in a country are revenues from exports, lending and one-sided payments. The exports are of two types that are visible exports and invisible exports. Visible exports are oil, Gas, fresh and dried fruits, handicrafts, etc. invisible exports are of five types (revenues of products in foreign countries, passengers in abroad, embassies, consulates, receivable loans, capitals and one-sided aids.

3.1.2. The currency control policy:

Today a few countries do not apply the currency control policy. The currency control policies are applied by countries to stabilize the rate of currency and improve their economy. Such as avoiding deficit of payment balance, preventing outflow of capital, support of domestic economy, facilitating economic development and revenue for government.

3.1.3. Currency convertibility:

The currency convertibility is performed in two ways: full convertibility (a condition in country in which every person can purchase currency or gold and take it to abroad without government license) and Limited convertibility (a condition in the country in which everyone is not allowed to buy and take the currency and gold out of country without having license from government, but a limited amount determined by government monetary system). Majority of European countries apply this rule.

3.2. The factors affecting currency rate:

There are several factors that affect the currency rates such as: rational level of costs, increasing level of costs in the country in the long run, quotas, taxation, obstacles on international trade (such as taxation on imported goods, etc.), customs and tariffs policies, preferences on domestic products, level of product, efficiency of products, level of trading, demand for internal products, government policies and security condition, etc. Today, we are observing the decreasing rate of Afghanistan currency against other countries' currencies. The most important factors are:

3.2.1. Structural factors:

The structural factor is one of the important causes of falling the rate of Afghanistan currency. Deleting 3 zeros of the Afghanistan currency in Hamid Karzai era without caring other parameters was not so useful.

3.2.2. Selection of incompetent human resources:

From 2001 until now, the incompetent persons are hired in different key positions of economic system. It seems that the governments do not have the will for self-sufficiency in the country. The people in the key positions of the economic and finance system could not apply the rational economic policies to stabilize the currency rate and economy.

3.2.3. The irrational auction policy:

In the past two decades, the central bank of Afghanistan limited the rotation of excess Afghani in the markets by selling US dollar. This procedure was based on the guidance of international monetary fund, the decision made by chief staff of Afghanistan central bank and the auction committee. This policy is applied to control the national currency rotation, keeping the level of prices, coping with inflation, preventing deviations in currency rate and affecting the trade balance. It is an old technique and was used when world economy was not sophisticated, but today other countries do not limit their economic policy using this technique. However, it has good result in some cases when all other options fail. Using this method has negative effects such as rising prices of exported goods in outside of country.

3.2.4. Illegal transfer of money from Afghanistan:

Weak management of Afghanistan central bank causes the scape of US dollar from Afghanistan borders to neighbor countries. This raises the demand for dollar in Afghanistan markets and fall the rate of national currency.

3.2.5. Money laundering and terrorist financing:

One of the other problems of Afghanistan banking and financial markets is money laundering and terrorism financing. The government could not prevent the informal and nonstandard transfer of money by banks and monetary service agencies.

3.2.6. Deficit in payment and trade balances:

One another factor in falling Afghanistan currency rate is deficit in payment and trade balances of Afghanistan. According to a survey of Afghanistan chamber of commerce and industries (ACCI), we have 96% imports, but 4% export. It fall the Afghanistan currency rate. Afghanistan from start of modern government in 2001 could not support its domestic economy, but it used free international trade policy that was not rational for Afghanistan condition and damages the infant domestic economy.

Look! How irrational our international trade policy is that when our traders import finished goods the taxation is not high, but the tax for the raw material imported by our traders is high. It seems that our governments do not prioritize the economic development.

3.2.7. Lack of capital market:

Afghanistan is the only country in the world, which has no capital market. We know that without a dynamic market, it is hard to have a stable monetary and economic stability, but Afghanistan government does not consider it.

3.2.8. Decrease in pumping of dollar volume:

In previous years Afghanistan central bank pumped about 80 to 100 million dollars into market in order to keep Afghanistan currency rate, but now it cannot do so.

3.2.9. Haj and its effect on Afghanistan currency:

One of the other factors in falling Afghanistan currency is buying dollar by those who want to go to Haj. It is said that while going to Saudi Arabia they buy 300 to 400 million dollars. They give Afghani and it falls the rate of internal currency.

3.2.10. Decrease in domestic investment:

Domestic investment increases the internal rotation of money, exports and finally reliability of national money. 2014 election and crisis decreased the internal investment in the country. This decrease was due to two reasons: first, the decrease in rate of return on investment and second is the lack of political stability that the investors do not invest in Afghanistan.

3.2.11. Decrease in foreign direct investment:

The 2014 election not only decreased the rate of Afghanistan currency, but also escaped the investment more than previous.

3.2.12. Decrease and stop in foreign aids:

From 2014 on, and after foreign troops exit, level of foreign aids decreased and stopped and caused supply of dollar and finally fall of Afghanistan money rate in the market. Three reasons in decrease of foreign aids are: end of foreign troop's mission, existence of corruption in administration and fail of Afghanistan officials to attract the attention of international community towards Afghanistan.

3.2.13. Withdrawal of foreign troops:

From 2014 on, when foreign troops withdrawal and finally exit from Afghanistan, it caused lack and stop of dollar supply to Afghanistan and decrease in currency rate.

3.2.14. Usage of other currencies instead of Afghanistan currency:

Even though transaction in currencies other than Afghani is illegal inside Afghanistan we observe that majority of transactions are performed approximately 90 % in Pakistani Rupees, Iranian Rial, US dollar, etc. even Afghanistan central bank performs its big transactions in dollar. It is opposite of Afghanistan central bank regulations. The Afghanistan currency could not become stable in price until other economic indicators such as stability of economy and politics. Central bank could not avoid the traders to do the transactions in foreign currencies. This is one of the big factors that decrease the rate of Afghanistan currency.

3.2.15. Political stability and security:

Political stability is a prerequisite for economic stability of a country. The formula of achieving stability is that (political stability results economic stability and economic stability results in social stability). Therefore, Afghanistan cannot reach to a stable economic growth until it has political and security stability. If government does not pay attention in the future, the Afghani rate will fall further more. Because if in a country the political stability is not present, other indicators are sacrificed for the political issues and the dependency of economic, financial and banking systems are run out. It results in economic crisis.

3.2.16. Decrease of other economic indicators:

If we observe the economic indicators generally, we see that From Growth rate to employment rate are all falling. This causes the currency to decrease in rate automatically and the reliability on national money is decreased. The country, which has not dynamic and stable economy, does not have reliable money situation and vice versa.

3.2.17. Withdrawal of savings from banks:

Generally, in economic crisis, instability of policy and security, people withdraw their money from banks. This results in lack of liquidity and lack of money rotation in the economy, results in decrease of investment volume and makes the economic crisis. This decrease causes the volume of money to fall from rotation in markets and failure of its rate.

3.2.18. The effects of Kabul bank crisis on banking business:

In Afghanistan, the banking system was not successful during the past periods and the people and traders do not have good memories form public and even from private banks. For example deleting three zeros, Kabul bank failure, bureaucracy and incompetency of human resources. This resulted unreliability of people on internal banks and people tried to save their money in foreign banks or at home. This caused the withdrawal of money from banks. These factors had negative affect in decreasing Afghanistan currency fall.

3.2.19. Widespread corruption:

The corruption is the most important problem affecting Afghanistan government economically. Afghanistan usually stayed in the list of corrupted countries of the world. The international community also promised its aids to Afghanistan in provision of coping with corruption, but the reports show that volume of corruption in the administration of Afghanistan more than previous. This issue has three reasons; lack of political stability and security, assigning the incompetent persons in the high ranking of government and lack of a comprehensive strategy for coping with corruption. The Afghanistan currency rate falls as corruption increases.

3.2.20. Involvement of interest in banking system:

Currently interest is a need for the banking system to run in capitalism, but some economic scholars even John Maynard Keynes that is founder of market economy based on capitalism of Adam Smith says "interest is the most important problem in economic system". He said that if they could have an alternative for interest they could solve majority of fluctuations in the economy easily. Afghanistan economic and banking system is also based on capitalism. It is not possible to be without fluctuations. One of the usual problems in this system is decrease in currency rate.

3.3. The forecast of further decrease in Afghanistan currency:

If the situation continuous like this, government of Afghanistan does not take rational decisions in this connection, it is likely that national currency falls in rate. Now there are reasons for Afghanistan currency to fall; lack of political stability and security problems negatively affecting the markets, inefficiency of central bank and decrease of liquidity and escape of dollar from Afghanistan markets. Here are the problems mentioned by the money/currency market concerned people:

The regulations established by Afghanistan central bank are sophisticated and it damages the exchangers and banking system in the country. (Ghulam Bahawuddin, head of exchange union of Herat).

Central bank always enforces the exchange markets officials to perform their responsibilities, but does not pay attention to their problems and rights. (Ghelgai, head of exchange union of Jalalabad).

The license for money exchange is 500000 Afghanis and 700000 Afghanis for money services, but no exchanger is allowed to keep 100000 Afghanis. (Amin Jan Khosti head of exchange union of Khost province).

The government charges heavy tax on exchangers, but do not ensure the security of traders, exchangers and their assets. (Khan Mohammad Baz, head of exchange union of Afghanistan).

4. Results and Conclusion

Hawala is an ancient, user friendly, inexpensive, adoptive and easy system of finance and money transfer that worked durably form the time of ancient Silk Road until today's globalized business.

The government of Afghanistan should pay attention to political stability. Because if in a country the political stability is not present, other indicators are sacrificed for the political issues and the dependency of economic, financial and banking systems are run out. It results in economic crisis.

The government should establish a comprehensive strategy for coping with corruption. The government of Afghanistan should attract the money markets, businesses and people psychologically by good and rational governance based on individual educational competency without considering ethnic, political, gender and religious discriminations.

The interest is most important part of capitalized economies in the world and interest is strictly forbidden in Islam. Afghanistan economic and banking system is also based on capitalism. It is not possible to be without fluctuations. One of the usual problems in this system is decrease in currency rate.

Here are the problems mentioned by the money/currency market concerned people:

4.1. Sophisticated regulations enacted by Afghanistan central bank for money/currency exchangers.

4.2. Enforcing exchange markets officials to perform their responsibilities, but not paying attention to their problems and rights.

4.3. The high amount of money receives by Afghanistan central bank for licensing Sarafs and Hawaladars.

4.4. Charging heavy tax on exchangers.

4.5. Lack of Security for traders, exchangers and their assets.

5. Recommendations

5.1. Assigning competent professional human resources in monetary management of the country.

5.2. Afghanistan currency usage instead of foreign currency in transactions.

5.3. Serious audit and control on bazaars. Control smuggles of currency/money through borders.

5.4. Afghanistan money management system should offer inclusion of Hawaladars credit practice system into formal financial system in order to incentivize the Hawaladars for anti-money laundering rules and improve access to credit for Afghanistan merchants.

5.5. Establishing a reasonable taxation and custom system in the country.

5.6. Stabilizing political situation.

5.7. Establishing a comprehensive strategy for coping with corruption by government and attention on its application.

5.8. Improve links with higher migrant concentration countries in order to decrease the transfer costs which will substitute formal networks for transferring remittances.

5.9. Coordinate initiatively in improvement of effective remittance systems and regulating funds and technical assistance requirements by financial institutions in Afghanistan and abroad.

5.10. Offering special banking services for migrant could be very successful in attracting remittance to the banking organizations. Such as: migrant saving accounts for home construction, education, business, etc.

5.11. As access of migrants to banks is a major problem, in host countries such as: pending nationality cases and none existence of required documents for opening a bank account.

5.12. Competition between remittance service providers, Afghanistan central Bank could measure activities of all money service providers and ensure criminal sanctions to individuals or entities that are performing this service illegally.

5.13. Strict monitoring of banks and money service providers on transfer costs and acting upon guidelines.

5.14. Afghanistan central Bank could develop initiative software's for money service providers for recording all daily transactions.

5.15. Improving market transparency by assisting users with up-to-date data on costs, remittance and services.
5.16. The government should reimburse a part or full cost of remittances sent to internal banks.
5.17. The Afghanistan government could implement a regular approach in existing money transfer regulations reform according to the present requirements.

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