

T.C
İZMİR KATİP ÇELEBİ UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES
DEPARTMENT OF BUSINESS ADMINISTRATION PROGRAM

**A RESEARCH ON THE DEVELOPMENT OF
INTERNATIONAL AND DOMESTIC BANKS IN
AFGHANISTAN AND THEIR ROLE IN
AFGHANISTAN ECONOMY**

MASTER THESIS

MASOOD AYAMI

İZMİR - 2018

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İZMİR - 2018

DECLARATION

I hereby declare that this master's thesis titled as "a research development of international and domestic banks in Afghanistan and its role in Afghanistan economics" has been written by myself in accordance with the academic rules and ethical conduct. I also declare that all material benefited in this thesis consists of the mentioned resources in the reference list. I verify all those with my honor.

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Sosyal Bilimler Enstitüsü



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ABSTRACT

Master's Thesis

A Research on the Development of International and Domestic Banks in Afghanistan and Their Role in Afghanistan Economics

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Department of Business Administration

In this thesis the development of Afghanistan's banking system and the role of domestic banks in the economy of Afghanistan has been researched. Moreover, the effects of banks and the banking system to business sector, financial sector and to private sector in the country have been handled. Most of banking system was dead over 25 years of war due to abnormal condition in the country. After the new regime, the development of banking systems takes a new look in 10 years across the global transaction. Thus, get the positive feedback in these years. This change also played a big role in Afghanistan economics. Today world's new banking system arrived like e-Banking, mobile Banking and other banking activities are taken place fast and reliable transferring money opening accounts etc. The developed technologies in banking system make a positive effect to financial sectors.

In this thesis it is used a quantitative and qualitative methods to reveal the effect of Banking systems to development of Afghanistan. Correlation and regression analysis has been done as quantitative tools and a content analysis has been done on the interviews of the managers of six Banks in Afghanistan as qualitative tools. According to the results the Banking system has been developing in Afghanistan day by day and it has a positive effect on the development of Afghanistan as the meaning of the increase in Gross Domestic Product.

Keywords: Afghanistan, Economic Development, Banking System, Domestic and International Banks.

ÖZET

Yüksek Lisans Tezi

Afganistan'daki Uluslararası ve Yerel Bankaların Gelişimi ve Afganistan Ekonomisindeki Rollerini Üzerine Bir Araştırma

Masood AYAMI
İzmir Katip Çelebi Üniversitesi
Sosyal Bilimler Enstitüsü
İşletme Programı

Bu tezde Afganistan Bankacılık sisteminin gelişimi, uluslararası ve yerel bankaların Afganistan ekonomisi üzerindeki rolü incelenmiştir. Ayrıca bankaların ve bankacılık sisteminin iş dünyasına, finansal sektöre ve özel sektöre etkisi ele alınmıştır. Bankacılık sisteminin büyük çoğunluğu 25 yıl süren savaş zamanındaki anormal koşullara bağlı olarak çökmüştü. Yeni rejimin kurulmasından sonra bankacılık sistemi son 10 yılda küresel dünyaya yeniden adapte olmaya başladı. Böylece bu yıllarda olumlu dönütler sağlandı. Bu değişim aynı zamanda Afganistan ekonomisindeki gelişmede büyük rol oynadı. Bugünün dünyasında yeni bankacılık sistemi e- bankacılık, mobil bankacılık ve paraların hızlı ve güvenilir yoldan transfer edildiği diğer bankacılık etkinlikleri düzeyine gelmiştir. Bankacılık sistemindeki gelişmiş teknolojilerin kullanılması finansal piyasaları olumlu etkilemiştir.

Bu araştırmada bankacılık sisteminin Afganistan'ın kalkınması üzerindeki etkisini belirleyebilmek amacıyla nicel ve nitel yöntemler birlikte kullanılmıştır. Nicel yöntem araçları olarak korelasyon ve regresyon analizi kullanılmış, nitel yöntem aracı olarak da Afganistan'daki 6 bankada yönetici pozisyonunda çalışan kişilerle yapılmış olan görüşmelerin içerik analizi yapılmıştır. Sonuçlara göre Afganistan bankacılık sistemi günden güne gelişmekte ve bu değişimin Afganistan'ın kalkınmasına milli gelirin artışı bağlamında olumlu etkisi olmaktadır.

Anahtar Kelimeler: Afganistan, Bankacılık Sistemi, İktisadi Kalkınma, Ulusal ve Uluslararası Bankalar.

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ABBREVIATIONS

AFS	: Afghani Currency
GDP	: Gross Domestic Product
USD	: United States Dollar Currency
CPI	: Consumer Price Index
SME	: Small Medium Enterpriser
ECO	: Economic Corporation Organization
OIC	: Organization of Islamic Corporation
USAID	: United States Agency for International Development
WTO	: World Trade Organization
DAB	: Da Afghanistan bank
AIB	: Afghanistan international bank
GNP	: Gross National Product
CD	: Certificate of Deposit
FX	: Fixed Exchange
ATM	: Automated Teller Machine
SAARC	: South Asia Association and for Regional Cooperation

INTRODUCTION

Afghanistan's Economy has been in its worst shape for the past two decades. Most of the country's basic infrastructure system including transportation, communication and administrative system has been damaged due to the civil war in the country. Since the fall of regime of Taliban and US invasion, the economic situation of Afghanistan has changed due to the huge inflow of foreign AID and other investment in the country but still it would be difficult to expect tremendous improvement in the economic situation. The poverty rate is still in its highest peak and the country has witnessed diminishing income levels, declining food security, reduced access to urgently needed services and an increasing population (Hugo, 2017).

After all those years the economy of Afghanistan has taken a chance to take its place with the other countries. Afghanistan start its import-export and new development in less period of time and all the countries has focused in Afghanistan for the new projects and for better business opportunities although Afghanistan is a country for SMEs small business. Many countries find the good place for investing in Afghanistan and most of them played important role in rebuilding the country. But the biggest role in rebuilding of Afghanistan has played is Turkey. Most of the Turkish construction companies are operating in different regions in Afghanistan and various part of the country. There are plenty business and NGOs of Turkey, like BEKO has the first branch in Afghanistan in the capital of the city. And brotas road building machinery also operating in Afghanistan. The most of the projects has been taken by the Turkish companies in from 2010 till 2017. According to Turkish Ministry of Foreign Affairs (2018) first meeting of Joint Economic Commission meeting between Turkey and Afghanistan was held in Ankara on 25-26 April 2005 and Double Taxation Prevention Agreement be signed by two sides. Main export items of Turkey to Afghanistan is Metal final products, electrical machines and tools, textile fiber and products, and main import items of Turkey from Afghanistan is Leather, animal skin, leather products, handmade carpets. The last meeting of Business Council was held in İstanbul on December 2015. The majority of 127 Turkish companies are working in the construction and contracting sectors. The

above-mentioned companies have realized 627 projects between 2003 and 2016, amounting to approximately USD 6 billion. Turkish firms are in the first rank among foreign investors in the field of contracting. Companies with Turkish capital also operate in services (health, logistics, consultancy, etc.), energy and mining sectors (Republic of Turkey Ministry of Foreign Affairs, 2018).

The Turkish companies as well as the other country's companies brought the new technologies to Afghanistan. With all those new opportunities Afghanistan take this step and the media and the banking other financial system has get to work and the outcome was great. Starting with the mobile phone and internet facilities the first company by the name of AWCC, Afghan wireless company has start working in 2008 and with that the other companies join it and become so big the back bone of the company belongs to USA. When the Ministry of Finance shows the result to the world of the outcome of the international companies, other countries has taken part in the new era of technology by the help of the Word Bank and European non-governmental organizations (NGO's). After 2001 Afghanistan has taken substantial donor support to assist county's recovery from 30 years of conflict (Aslam, Berkes, Fukac, Menkulasi, Schimmelpfennig, 2014:166).

Also the banks take part with the contract of long term business. Starting of many Banks operating in Afghanistan was a good sign for the country economics. By the flowing funds to the country, more banks and financial institutions start to take place in the country's economy. Day by day the economy of the country was growing but it also had some negative outcomes which I like to describe blow as the money pour in the country economics with poor monetary policy and control there was leakage and corruption take place in the country. In today's world the corruption is a virus which can destroy a country. Because of the corruption, Afghanistan economy takes some negative out comes like European Union and other European financial institutions stop direct funding the projects and the unemployment rate become so high and the projects were becoming low at that point. But somehow in this case some of the banks were also get involved international and domestic banks. The most of the corruption has taken by these

international banks and domestic banks which has black listed from the Central Bank of Afghanistan and also from operating in Afghanistan. But through new policies made by the new president of Afghanistan, there is a better chance for country and for the citizens. The economic growth also has taken place by signing gas pipe line contract with three countries. The electricity dams which are built by India opening air route for the export of the goods from Afghanistan to other countries with low tax rate caused a good opportunity for the country growth. With this new image of the economy, there is still a hope for the retribution and regaining the financial position of the country back. The Afghanistan's main economy pillars are agriculture and livestock, which plays very important role in making the economy of a country. Mostly the country export is nuts, dry fruits, fresh fruits, rug, expensive stones such as gem marble and other expenditures. At the same time the main source of income of county is come from fishing and forestry.

Foreign companies have the same investment opportunities in the country with the domestic ones, according to Afghan law. Regulations on participation of private sector and open market is officially supported and those are restated in the Afghanistan National Development Strategy. A railway project, which aims to connect Turkmenistan, Tajikistan and Afghanistan was signed in 2013. In 2015, the Chinese Government expressed interest in supporting the development of railway infrastructure and the construction of a hydroelectric plant. The railway connection from China to Hairatan, Northern Afghanistan, was established in September 2016, allowing goods to be carried from Eastern China to Afghanistan in two weeks compared with six months by road. The inauguration of the railway is expected to boost Afghan exports allowing more investment from China, already the largest investor in Afghanistan since 2014 (Santander, 2018).

PART I

BANKING SYSTEM IN AFGHANISTAN

1.1. INTRODUCTION TO BANKING SYSTEM AND ECONOMY

Banks are often a huge part of our lives and banks play an important role in our daily lives. We deposit our money and paychecks, take out loans, and set up a savings account. All at a bank, so how does it work? A banking system is a group or network of institutions that provide financial services for us. These institutions are responsible for operating a payment system, providing loans, taking deposits, and helping to the business sector for investments.

The banks perform different types of functions depending on the network institutions. For example, payment and loan functions at commercial banks allow us to deposit funds and use our checking accounts and debit cards to pay our bills or make some purchases. The banks can also help us finance our cars and homes. By comparison, central banks or systems distribute currency and establish money-related policies. Investment banks system conduct trades or deal with capital market.

The banks are profit-seeking entities with stockholders. They obtain profits by charging more interest for loans and paying less interest on deposits. For example, a bank may charge a 3.91 percent interest rate on a 30-year, fixed rate mortgage, but instead of that they offer an interest rate of only 0.15% on a savings account of \$100,000. So with this way the banks earn. The economy is the life of the country and with the economy the country can go on and stay alive with livestock. The banks and economy are with the same path; both of them are so important for a country. How we define economy: the entire network of producers, distributors, and consumers of goods and services in a local regional place or in a country or community is called economy. The banks and the economy should be in one path and with the economy scale a country can show the earnings and other financial year of the country. Also they find the GDP (Gross Domestic Product) of a country through economy scale and GNP (Gross National Product). So, the question is created here: why do we use GDP? The assumption underlying these measures is

that financial systems that allocate more credit to private firms are more engaged in researching firms, exerting corporate control, providing risk management services, mobilizing savings, and facilitating transactions than financial systems that simply funnel credit to the government or state-owned enterprises. As depicted there is a positive, statistically significant correlation between real per capita GDP and the extent to which loans are directed to the private sector (Levine, 1997:88).

What is the working method of the banking systems? They have in their heads a model they learned from text books in which banks take deposits from customers, then lend out those deposits as loans. In reality, banks fund their loans by borrowing in the interbank market.

According to The Free Dictionary (2018) Banking System is “the network of institutions and laws that provide a great variety of financial services. At its most basic, banking involves an institution holding money on behalf of customers that is payable to the customer on demand, either by appearing at the bank for a withdrawal or by writing a check to a third party”.

1.1.1. Dynamics

Starting with the describing of bank that what is the bank and what is the banking system; according to Financial Dictionary Investopedia (2017) “a bank is the financial institution that receive deposit and make loans”. Some of the banks provides great facilities for the investment and business sectors some have rules and law made by the government and by the bank. Providing these services, banks also provide financial services and wealth management, currency exchange and safe deposit boxes.

There are two types of banks commercial banks and retail banks or investment banks but in most countries, the national government of central bank regulates the banks. Commercial banks are mostly concern with managing withdrawal and receiving deposits as well as supplying short-term loans to individuals and SMEs Small medium enterprises mostly consumers are using these kinds of banks for checking and saving

deposit accounts, certificates of deposit (CDs) and home mortgages. Investment banks are much different from commercial bank investment banks search or look for corporate clients with services such as underwriting and assisting with merger and acquisition (M&A) activity for example Morgan Stanley and Goldman Sach Gropu inc. of US investment banks (Investopedia, 2017).

1.1.2. The Retail and Commercial Bank or Investment Bank

Retail banking, also known as consumer banking is the typical mass-market banking in which individual customers use local branches of larger commercial banks. Services offered include savings and checking accounts, mortgages, personal loans, debit/credit cards and Certificates of Deposit (CDs). In retail banking, the focus is on the individual consumer. But it is totally different from commercial bank is totally different. A commercial bank is a type of financial institution that accepts deposits, offers checking account services, makes business, personal and mortgage loans, and offers basic financial products like CDs and savings accounts to individuals and small businesses. A commercial bank is where most people do their banking, as opposed to an investment bank. The retail bank services are the following : Savings account, Recurring deposit account, Fixed deposit account, Money market account, CD, Individual retirement account (IRA), Credit card, Debit card, Mortgage, Mutual fund, Personal loan, Time deposits, ATM card, Current accounts, Cheque books, Automated Teller Machine (ATM) The investment bank services. Business loan, Capital raising (equity / debt / hybrids), Revolving credit, Risk management (foreign exchange (FX)), interest rates, commodities, derivatives), Term loan, Cash management services (lock box, remote deposit capture, merchant processing), Credit services. The banking system is the structure network, which offers financial services within a country (Hermes, and Lensink, 2004:207). The member of the banking system and the functions they typically perform including commercial banks take loans and make deposit while investment banks which specialize in capital market issue and trading and national or center banks that issue currency and set monetary policy (Wikipedia, 2016).

1.1.3. Afghanistan Banking System

According to the CM (Council of Ministers) approval number 152 dated 3/2/1318 (1939/05/30), Wolesi Jirga (House of Representatives) approval number 11 dated 19/6/1318 (1939/09/11), Meshrano Jirga (House of Elders) historical approval dated 12/6/1318 (1939/09/04) and then-king's approval number 1317/5280 dated 17/11/1318,(1940/07/02)Da Afghanistan Bank was established in capital city of Kabul with initial asset of 120 million Afghani, which, has with its defined authorities and responsibilities, was able to set up its branches and subsidiaries inside and outside of the country (Da Afghanistan Bank, 2011:38).

Afghanistan's banking system was founded for the first time with the institution of Bank Millie Afghan in 1312 HS,1934 A.D which was managing Afghanistan's state banking affairs before the establishment. After DAB's da Afghanistan bank establishment, state banking responsibilities were transferred from Bank Millie Afghan to Da Afghanistan Bank (Da Afghanistan Bank 2011:45).

As of the establishment date, until 1380 HS, 2002 A.D Da Afghanistan Bank was carrying out commercial activities as other commercial banks alongside managing of the state banking affairs. But after 1381 HS 2003 A.D and as per the article of 12 of Afghanistan Constitution, Da Afghanistan Bank as an independent institution with its specific duties, goals and responsibilities promoted to as Central Bank of the country.

Based on DAB law, stability of price is the primary objective of this bank and therefore devising, implementing and adopting of monetary policies, foreign currency policy and provision, printing of banknotes and mining of coins are considered among Central Bank duties. Furthermore, as the banker's and the financial institution of the state, DAB, according to the law, issues licenses to and supervises banks, FX dealers, financial services providers and securities and also provides safe and sound payment system as well(Da Afghanistan Bank 2011).

Pashtany Bank is a State-Owned bank of Afghanistan and it is registered with the Central Bank (Da-Afghanistan Bank) under the under the commercial banking

license to operate nationwide. The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The bank has twenty-one branches in operation in Afghanistan (Pashtany Bank, 2018).

Pashtany Bank was established in (1954 CE) during the first president King Mohammad Zaher Shah regime with an initial investment of AFG 120 million. The bank Shareholders included institutions such as the Pension Fund Chairmanship, Afghanistan Agriculture Bank, and others. The bank initially employed 22 staff. it is like Ziraat Bank of Turkey

Mr. Janat Khan Gharwal was appointed for the first president of the Bank. Mr. Gharwal grew the bank to ten departments within its main office along with five local, four provincial branches, three border branches as well as three foreign branches located in Peshawar, Chaman, and Karachi cities of Pakistan at that time (Pashtany Bank, 2018).

Pashtany Bank's history reflects the history of Afghanistan at the time, one of prosperity, decline, and emerging from adversity, and returning to a period of promising to recovery and prosperity. For its first 19 years, the bank flourished under Mr. Gharwal, despite political instability beginning in 1352 (1973 CE) and the world financial crisis. Mr. Sardar Mohammad Dawood Khan replaced Mr. Gharwal coincident with the king's abdication, and his replacement with a presidential political system, and economic reforms. Pashtany Bank also lost its private shareholders during this period and became solely owned by the government (Pashtany Bank, 2018).

According to financial statements of the current year of 1352 (1973 CE) Pashtany Bank incurred losses of AFN 21 million mostly of as a result of its currency exchange operations which reflected, in turn, political instability and the world financial crisis. Nearly bankrupt, Pashtany Bank had no choice but to request rescue by Da Afghanistan Bank (DAB), the central bank. Accordingly, backed by DAB, Da Afghanistan Bank Pashtany Bank once again became profitable according to financial statements for the years, of 1352 (1973 CE) through 1357 (1978 CE). Net profit in 1354 (1975 CE) was reported as AFN 57.71 million., And

in 1356 (1977 CE), the bank's assets has been increased from AFN 250 million to AFN 750 million, an increase of AFN 500 million. At the end of the that same year net profit increased to nearly AFN 133 million. Pashtany Bank continued stable through 1358 (1979 CEA). According to financial statements then, net profit increased to AFN 144 million, thus again, in 1359 (1980 CE), when the net profit increased to AFN 359 million, and total assets increased to AFN 699.26 million. The trend continues in 1360 (1981 CE) when net profit increased to AFN 441 million (Pashtany Bank, 2018).

During late 1361 (1982 CE), the bank implemented over 98% credit plan leading to the net profit of AFN 464 million, total assets increasing to AFN 6,393 million, on total revenues of AFN 691.50 million(Pashtany Bank, 2018).

As in the year 1369 (1990 CE), Pashtany Bank's total assets amounted from AFN 1 billion-AFN, which doubled to AFN 2 billion and the next year (1370 – 1991 CE). However, by the end of the 1370 (1991 CE), the bank's reserves had decreased from AFN 1.2 million, only to decrease to AFN 75,127,000 AFN, and this decline was because of the transferring of some amount to the asset a side. The bank profit and loss statement show that 546,2.23 million-AFN as EBIT and after deduction of the total expense the EBIT amount was 2951.84 million-AFN, so the asset growth at the same year was about 23,134 Million-AFN. As previous Pashtany bank had better position in the market compare to its competitors (Pashtany Bank, 2018).

Pashtany Bank's financial decline coincided with the collapse of Dr. Najeebullah's Ahmadzai regime and the subsequent civil war that led to economic and social collapse. Pashtany Bank incurred big losses, suspending all services of the bank, with only revenue from its property holdings as income until 1380 (2001 CE). Gradually, beginning in the year of 1381 (2002 CE) through 1388 (2009 CE) Pashtany Bank was re-capitalized, recovering its customer based, and re-introducing services. Although external pressures mounted to liquidate the bank during at this period, the government considered Pashtany Bank an asset worth reviving. The bank today complies with all, meets Da Afghanistan Bank (DAB), the central bank, regulations for liquidity, has installed safeguards consistent with

DAB regulations, and importantly, has introduced services and standards so as to meet the demands of an increasingly competitive market for bank services (Pashtany Bank, 2018).

1.2. HISTORY

Afghanistan's Economy has been in its worst shape for the past two decades. Most of the country's basic infrastructure system including transportation, communication and administrative system has been damaged due to the civil war in the country. Since the fall of regime of Taliban and US invasion, the economic situation of Afghanistan has changed due to the huge inflow of foreign AID and other investment in the country but still it would be difficult to expect tremendous improvement in the economic situation. The poverty rate is still in its highest peak and the country has witnessed diminishing income levels, declining food security, reduced access to urgently needed services and an increasing population. (Hugo, 2017).

Before starting, I have to put some light about my country Afghanistan. Afghanistan is a country, which is located in heart of Asia. It has boundaries or connected with six countries. Those countries are Iran, Pakistan, China, Tajikistan, Uzbekistan and Turkmenistan. Afghanistan has no sea route. It is the main trade route of all 6 countries most of these countries use Afghanistan soil to do their export and import by passing from Afghanistan. For example Pakistan use to send their good to Russia by passing Afghanistan soil so basically Afghanistan plays important role like binding these all country with one another so it plays the key role in import and export of neighbor countries. The total population of the country is 35 million which is 42nd largest country .in the beginning of the country Afghanistan has been invaded by many leaders and countries such as Alexander the Great, Mauryas, Muslim Arabs, Mongols, British, Soviet, Taliban emirates and in the modern era by Western powers. Geographically Afghanistan is mountain area and the highest point of the country at 7,492 m (24,580 ft) above sea level. The country has 34 provinces which are Badakhshan, Badghis, Baghlan, Balkh, Bamyan, Daykundi, Farah, Faryab, Ghazni, Ghor, Helmand, Herat, Jowzjan, Kabul, Kandahar, Kapisa, Khost, Kunar, Kunduz,

Laghman, Logar, Nangarhar, Nimruz, Nuristan, Oruzgan, Paktia, Paktika, Panjshir, Parwan, Samangan, Sar-e Pol, Takhar, Wardak, Zabul. the ethnic groups in Afghanistan are Pashtuns, Tajik, Uzbek, Turkmen, Aimaq, Baloch .

1.2.1. The Economy Sector and Business Sector

Private sector, which is considered as engine of sustainable growth in the country has been developed. According to a recent report by ACCI (Afghanistan Chamber of Commerce and Industry) approximately 10 up to 12 percent of country's Gross Domestic Product is contributed by Afghan private sector and it also leads to economic growth and overall condition of Afghanistan. Afghanistan's Economic future also depends on the private sector and putting private capital into work. "No government can create prosperity, but governments can facilitate increased trade and investment, which is indispensable to creating good jobs for tens of thousands of Afghans. An example is the newly inaugurated Afghanistan-India Air Corridor. The U.S. government is proud to work with the Afghan government to use innovative ways to export Afghan products to new markets in the region. This month, under the leadership of the Afghan Ministry of Commerce and Industry, Afghan traders exported 100 tons of high valued goods to India. USAID expects to support the ministry in facilitating many more air cargo shipments in the months and years ahead" (Hugo, 2017).

The economy, the business sector, and all other private sectors have link between them. For the past few years, due to political situation in Afghanistan over past 25 years there is been war in Afghanistan and the banks and business didn't go well because of war. We will discuss about the banking situation in different regime of war in Afghanistan. Starting from King Mohammad Zahir Shah the first royal president of Afghanistan who establish the bank in 1954 A.D over 120 million AFGHANI which was the Afghanistan currency has been invested and the bank initially employed 22 staff members at the time of the year.it was also known as the first agriculture bank of Afghanistan like Ziraat Bank of Turkey.

And the Central bank of Afghanistan took part in international banks also there are many international banks which operates in Afghanistan such HBL (Habib Bank of

Pakistan) PBI (Punjab bank of India) NBP (National Bank of Pakistan) (standard chartered bank) bank of USA etc. Nowadays there is many different banks in Afghanistan with different system of operating.

1.2.2 Development of Banking Sector and Economic Sector

We will like to go back to the past for a while in Afghanistan there was war for decades. Some say that it was a war zone country but after the British Empire in 1919 AD, Afghanistan took its independency from Britain in 1919 in the leadership of King Amanullah Khan. After independency, King Amanullah devoted himself to securing Afghanistan's future and turned to other nations for support with his reform efforts. Turkey and Afghanistan support each one for their new reforms. Afghanistan became only the second country in the world to recognise the new Turkish Republic, with the 1921 Turkey-Afghanistan Alliance Agreement, signed in Moscow, even as Turkey was fighting to establish its independence. The Agreement ushered in a period of very close cooperation, as Turkey became integral to Afghanistan's development and modernisation efforts (Tanin, 2011).

In 1927 king of Afghanistan Amanullah Khan went to Europe side to seek the better future for the country and he made a best friend with such a nice personality his name was Mustafa Kemal Ataturk. The President of Turkey in 1927 AD the meeting was held in Ankara, the capital city of Turkey, so throughout the all meeting they discuss about the development education and banking system of Afghanistan. Turkish people and Afghan people culture are similar so why not the many systems be similar.

Moreover, it was a great success for the first time in the history of Afghanistan the education system. Turkey helped to Afghanistan to build the civil service by sponsoring the first administrative school; got involved in Afghan girls education as well as helping to build the medical training program that was the nucleus of future Kabul University (Tanin, 2011).

The banking system came to Afghanistan from Turkey the idea was share by the king Amanullah Khan with the president of Turkey was a success in the history of the country

and now a days banking system came more smart and efficient and Afghanistan is running that system still in the country. Let us came to our point now the economy and the banking plays important role beside each other wisely said they cannot run without each other were economy of a country takes place the banking also plays important part in that in various ways such as distribution of money, giving loans, controlling the expensive materials such as gold, copper, silver. Planning different projects, helping the merchants and businessperson to run their business beside the bank, helping the farms to produce food for the country, and have much more faculties and activities the bank does in a country. The important of all of it is GDP and (gross domestic product) and the import and export. Afghanistan is one of the poorest and least developed countries in the world. Since the collapse of the last regime of Taliban government and the NATO led invasion in 2001 AD, the economy has been steadily growing due to the influx of foreign aid and investments. However, security threats, the lack of infrastructure and endemic corruption have been hampering economic activity. Agriculture (35 percent of GDP) is the most important sector of the economy, as the majority of the population is dependent on crops. The resurgence of the public sector has led to growth in services, which now account for around 40 percent of GDP. Mining has also been growing rapidly due to exploration of the country's vast mineral resources, such as lithium, and precious stones. This page provides - Afghanistan GDP Annual Growth Rate - actual values, historical data, forecast, chart, statistics, economic calendar and news. Afghanistan GDP Annual Growth Rate - actual data, historical chart and calendar of releases - was last updated on October of 2017 (Tradingeconomics, 2017).

1.2.3. Banking Sector

The banking sector is the section of those parts of the economy, which is devoted to the holding of financial assets and other. Investing those financial assets as leverage to create more wealth and the regulation those activates by the government agencies. The banking sector is the back bone of the economy of the country. With banking sector the control of money flow will be in control and people will fully understand the situation of the economy of the country. Also, the

banking sector has the full control liberalization and financial sector reforms in the country. However, it has a close line with financial sector also in the country.

But somehow the banks take loss, profit at that case the banking sector barrier the loss most of the losses occurs in commercial banks which is called bankrupt a bankrupt bank will often not be able to repay its all depositors and the major purpose of the special assistance is, therefore, to protect depositors, however, such assistance never guaranteed or given automatically, and banks accordingly go to bankrupt, leading to serve the hardship for depositors who is lose their deposit at a such a bank. The maintains of stability in the banking system is therefore, of the utmost importance to any country what are the commercial banks. A commercial bank is a type of financial institution that accepts deposits, offers checking account services, makes business, personal and mortgage loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses. A commercial bank is where most people do their banking, as opposed to an investment bank.

In certain countries like Afghanistan where the banking sector is dominated by large banks, there may be reluctance by the large banks to deal in the interbank market with the small banks. This mean that as deposits move from small banks to large banks, the latter may not recycle the funds, and the interbank market will not clear as we have seen that the central bank acts as the custodian of the reserves that bank legally required to hold with central bank. And we see most of the banks in most of the countries required to have two accounts with the reserve bank's reserves account and current account (the latter also known as free balance account or settlement accounts) and the former accounts in which they are legally required amount of reserves must be held as all times, and the latter account / settlement of interbank claims takes place. The banks normally act as custodian of the cash receives that bank are legally required to hold or prefer to hold voluntarily with the bank the bank has the authority to change the minimum cash reserves that banks are required to hold and can use such adjustments to influence bank liquidity and amount of money in circulation (Levine, 1997:688)

1.2.4. Economy Sector

A division of a country's population based upon the economic area in which that population is employ. Many economists realized the five sectors of economy. The first is the primary sector which includes agriculture mining and other natural resources industries. The second sector is covering manufacturing engineering and construction; a tertiary sector is that sector which is for the service of industries, the quaternary sector is that part of economy sector, which is for intellectual activities involving education and research, and the last sector reserved for the high-level decision makers in government and industry.

Let's put a view on economic growth which has a quite relevant relation with economic sector. Economic growth and development is most generally perceived as an increase in the standard of living of a nation's population associated with sustained growth from a simple, low-income economy to a modern, high-income economy. The scope of it includes the process and policies by which a nation improves the economic, political, and social wellbeing for its people. Economic progress is an essential phenomenon for the development elaboration of countries. Most generally, economic development encompasses extensive economic growth (output enlargement, using more resources) and intensive economic growth, namely productivity increase, innovation implementation or economic shakeup, creation of new jobs. Economic development is a process that can be defined as appointive mobilization of human, financial, organizational, and physical and natural resources in order to improve the quality of competitive services and products and to increase their quantity for the community. In addition, many different factors can determine the development of a country (Tvaronaviciene & Lankauskiene, 2011). The main goal of economic growth and development is to foster the speed of asset creation. Furthermore, every nation tries to put all efforts to reach the maximum results and improve its developmental level, as the well-being of people depends on this (Tvaronaviciene & Lankauskiene, 2011). As development is not a purely economic phenomenon, it is perceived as a multidimensional process involving the reorganization and reorientation of the entire

economic and social systems. By adding the dimension of environment, the term of “sustainable development” is obtained, which is extremely popular in contemporary scientific literature (Tvaronaviciene & Lankauskiene, 2011).

In the following table it is given a list of whole banks operating in Afghanistan

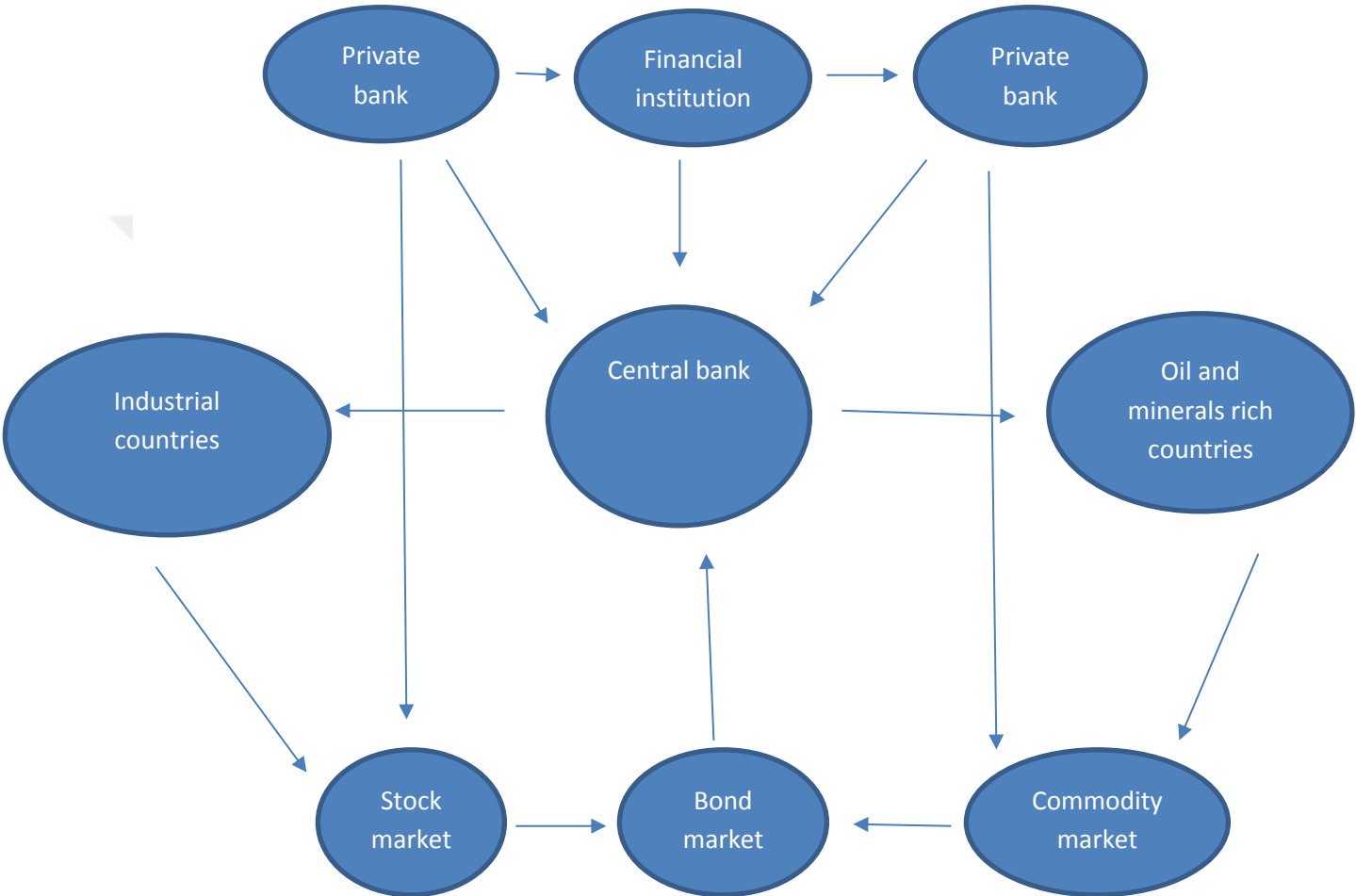
Table 1: List of the International Banks and Domestic Banks of Afghanistan	
Azizi bank	Domestic bank
Kabul bank	Domestic bank
Ghazanfar bank	Domestic bank
Bakhter bank	Domestic bank
Afghan united bank	Domestic bank
Alfalah bank	Domestic bank
First micro finance bank	International bank
Bank e mili	Domestic bank
Central bank of Afghanistan	Domestic bank
Aryan bank	Domestic bank
Standard chartered bank	International bank
Brak Afghanistan bank	International bank
Pashtany Bank	Domestic bank
Miawand bank	Domestic bank
Afghanistan international bank (AIB)	Domestic bank
National bank	International bank
Habib bank	International bank
Punjab bank	International bank
Source: Global Banking and Financing Review, 2018.	

As it is indicated in the table there are too many banks operating in Afghanistan. In the framework of this research the 6 of them handled: Ghazanfar Bank, Aib Bank, Azizi Bank, Maiwand Bank, Kabul Bank and Bakhtar Bank. I have looked their profits per year growth and it gives us different result Ghazanfar Bank in year 2009 the profit of the bank was 35,910 while it was the start of the bank in that year but after passes some years the bank start the project development programs in 2010 the profit reached at 193,704 and follow up those years the profit has become more and more coz of the pool of funds have been deployed in the country. After all those years passing 2011 the profit was 244,436 but the highest profit was 605,450 which was in 2015. And the second bank is AIB which also starts its business journey from 2009 at the time the profit of that bank was 35920 same as the Ghazanfar Bank but somehow the bank boosted up starting

form 2011 which was 787,921 till 2013 the bank receives 618,769 profit up on that the bank got the highest position in the country regarding that the AIB profit was 778,927 in 2016 and still got his position. The third bank which Azizi Bank starting the business journey in 2009 the profit of the bank at that time was good because in the start the bank open many branches the profit reached up to 443,028 regarding to other banks the profit has been increased up to 1,364,645 in 2016 still increasing because most of the salaries of government and non-government offices are provided by this bank. The fourth bank is Maiwand Bank the bank starts its operating in 2009 till now most of the students loans are paid by the banks and still active but most of the profit did it was 2015 which was 1058624 and the fifth bank is Kabul Bank which at the first the most successful bank of Afghanistan and the start of its operation it has 862,720 profit in 2009 and going so successfully after some time the bank face some challenges with put all its liability at down word but somehow it covers all its loses and its profit reached up to 1,8027,550 in 2016 and the sixth bank is Bakhtar Bank this bank is backed by the commerce bank of Germany and starting its operating from the profit of 26,890 till now in 2016 as seen to the profits the bank is still going smoothly and has the profit of 418,048 the liability of that bank is not that much but mostly the bills of the governmental office are been paid by that banks and has the life time services with the government of Afghanistan.

In the following Figure 1, it is given the structure of Central Bank of Afghanistan.

Figure 1: Structure of Central Bank



Source: Figure has been done by researcher.

1.3. BANKING SYSTEM AND ECONOMY

There are many banks in Afghanistan we would like to mention the top six banks of Afghanistan commercial and retail banks, which provide many financial facilities and help for economy growth of the country.

The need to stimulate and manage economic growth is a global topic of up most importance in advanced, emerging, and less-developed countries. While the subject is not new, given the continued population growth in many less developed countries and the changing demographic and widening income disparities in many of the most advanced economies, the issue of economic growth has taken on increased importance. Economic historians, such as Patrick (1966) find that the most successful economics tend to be ones that developed sophisticated financial systems at an early stage.

1.3.1. Banking System

The structural network of institutions that offer financial services within a country is called banking system. Most of the country's banking system are different because of the polices that they have made and through which strategy they are dealing with. There are some major activities in modern banking system, these are deposit, insurance, investment, payment, lending and online banking services.

How the banking system work throughout all those years let me explain this more significantly. They have in their heads a model they learned from text books in which banks take deposits from customers, then lend out those deposits as loans. In reality, banks fund their loans by borrowing in the interbank market.

Once a bank has agreed to make a loan, it then borrows the same amount of money in the interbank market at a slightly lower rate. The lending comes first, the borrowing to fund the loan comes afterwards. This is why so many loans are pegged to LIBOR: Banks charge borrower's rates that are set to levels at some point above what the banks themselves pay to borrow.

A very similar misconception applies when the government spends and borrows. People imagine that the government must first collect taxes or borrow money in order to have

funds to spend. In reality, the government just spends what it wants, and then collects taxes in order to balance out the effect the spending has had on the money supply. In short, banks lend first, fund later. Governments spend first, fund later (Mitchell, & Anthea, 2006:56)

The next part is how the bank create its own profit as mentioned before, that banks basically make money by lending money at rates higher than the cost of the money they lend. More specifically, banks collect interest on loans and interest payments from the debt securities they own, and pay interest on deposits, CDs, and short-term borrowings.

1.3.2. Banking System in Turkey

The banking system in Turkey is quite different with other countries banking system. The banking sector forms a great part in Turkish financial system in its dynamic economy most of the transactions and activities of money and capital market are carried out by banks but somehow most of the state banks were established to finance a particular industry such as for agriculture it is Ziraat Bank of Turkey. In addition, other private banks are generally close connection to large group industrial group and holdings.

Well the global development effects the banking sector in turkey although to a rather limited extend in comparison with many other countries. The reason behind all this negatively effect of banking system of turkey is high capital adequacy ratio a high asset quality low currency and liquidity risks thanks to the successful risk management and effective public supervision, and good management of the interest counterparty and maturity risk

The banking system in Turkey has a major share in the financial sector. In recent years in recent years the non-bank and financial institution has grown in number and size the financial services sector in turkey includes banks and insurance companies and non-bank and financial institution such as factoring companies leasing companies' consumers financing companies, pension company's intermediary institutions, investment funds investment partnership and real estate investment partnerships. we analyze the

determinants of the non-core liabilities for Turkey, it is crucial to understand the structure and the features of Turkish banking system and non-core liabilities. Akdoğan and Yıldırım (2014) have explored the structure of the Turkish banking system and note that bank liabilities are composed of deposits, payables to Central Bank, payables to money market, payables to security market, payables to banks, funds from repo transactions, securities issued and shareholder's equity. Among these largest parts belongs to deposits which can be owned by household, financial institutions and corporate sector.

1.3.3. The Afghanistan Banks

Ghazanfar Bank, a full-fledged licensed commercial Bank, commenced its operations in March 2009 (Ghanzanfarkbank, 2017). The shareholders of the Bank belong to one of the leading business groups of Afghanistan. As a leading business house, Ghazanfar Group is involved in various key businesses sectors as a front-runner such as import and distribution of Petroleum/Gas and other various important industrial sectors. Ghazanfar Bank started off its operation from Kabul - Afghanistan and is offering key financial services both under conventional and Islamic Banking. The Bank has since opened up its Branches at various key locations such as Mazar, Sharif, Hairatan, Kunduz, Takhar, Pule- Khumri, Jalalabad, Herat besides opening another two branches at Kabul in Sarai Shahzada and Shar-e-Naw. In due course of time the Bank intends to expand its Branch Network in Kabul as well as at other key locations of the Country.

Second bank is AIB. It has been established in 2006 in capital city of Afghanistan the banking system is Islamic banking system. The Bank has two shareholders, each with 50 percent holdings. The major shareholders are:

- Horizon Associates LLC, an investment company of the Mohib Group, a major commodities trader in the region
- Wilton Holdings Ltd, part of the Rahmat Group, active in Pakistan and Afghanistan, focusing on the production of textiles, dry fruit processing, and trading operations (AIB, 2017).

Third bank is Azizi Bank. It is one of the famous of all banks in Afghanistan. An ethnic business group established Azizi Bank in Afghanistan in the year 2006 and it can be surely called a creation of Afghan vision and enterprise. The bank started its operation on 13th June 2006. Today Azizi Bank is the largest commercial bank in the country as a group. The bank is presently the market leader in the Country in terms of absolute business, percentage share and network. The promoters were committed to build a sound financial institution and with a view to offer the utmost safety to the bank's customers & world class technology-oriented customer service, set up the bank with an initial paid-up capital of USD 7.5 Mio that was 150% of the Central Bank stipulated minimum of USD 5 Mio. Now the capital of the bank is USD 80 Mio as on December 31st 2016. The Capital Adequacy Ratio (CAR) of the bank as on 31st December 2016 is 29.51% which portrays the bank's strong financial position and inherent strength. Total Deposits as on 31st December 2016 is USD 406 Mio (27.10 Bio AFN) and advances as on 31st December 2016 is USD 110 Mio (7.30 Bio AFN). Net Profit of the bank as on 31st December 2016 is USD 3.25 Lakhs (21.70 Mio AFN). Net Interest Margin as on 31st December 2016 is 4.06 % (Azizi Bank, 2017)

Fourth Bank is Bakhtar Bank. It is established in 2007 A.D it has linked with commercial bank of Germany. it has also different branches in varies part of the city (Bakhtar Bank, 2017)

Fifth Bank is Kabul Bank. It is a commercial bank in Afghanistan backed bone by central bank of Afghanistan. Because it provides all the three ministries or civil servants salary, it has good linked with the government sectors such as ministry of defense ministry of foreign affairs and national security (Kabulbank, 2017).

Sixth Bank is MaiwandBank. It operates since 1st January 2009 it has different branches all over Afghanistan also have linked with Germany bank of Commerce. Within a short span of 9 years, the Bank has a Branch Net Work of 42 branches with deposits of USD 335 Million and advances of USD 150 Million. Further licenses for opening of more branches are under process (Maiwandbank,2017).

1.3.4. The Changing State in Economy

The economy of Afghanistan passed different stages. While passing these different stages some of them were good for the country some of them drag down the country economy to last level. In here, I would like to go from all these stages and define it how these all changes occur and what the effect in the country.

As we know all the Afghanistan is a mountain region and do not have any sea route so after falling all the regimes the United States Government and other European countries infusion of billions of dollars in international assistance and remittances from Afghan expatriates. In that time the nation's GDP stands at about \$64.08 billion with an exchange rate of \$18.4 billion (2014), and the GDP per capita was about \$2,000. It imports over \$6 billion worth of goods but exports only \$658 million, mainly fruits and nuts and other expenditures such as rug wood and expensive stones gems etc. however, in past regimes it was for the first time in Afghanistan history that the GDP and import export has been boosted up so far. When the Soviet Union invaded Afghanistan, in 1979 A.D, the economy situation got worst Soviet invasion and ensuing civil war destroyed much of the country's limited infrastructure, and disrupted normal patterns of economic activity. After the soviet regime came by the name of Taliban the trade import export everything got finished until the year of 2001 when us government decided to take over all the country (Wikipedia, 2017).

The Afghanistan main economy pillars are agriculture and livestock, which plays very important role in making the economy of a country. Mostly the country export is nuts dry fruits fresh fruits rug expensive stones such as gem marble and other expenditures but in the other side the main source of income is also fishing and forestry. Afghanistan has many rivers and forest although through all those years there were lack of fishes in Afghanistan rivers by the help of USAID it has been recover in 2015 through buying more fish eggs from USA and India and making some fishing farms. At the other side Afghanistan produce more forest for the neighbor countries and export to other countries.

Over the time passes by entering the international banks and rebuilding the new banks in the country helped a lot in the development of country economy. These banks not only provide facilities to the people of the country also regain its control into the market. In addition, for the first time Afghanistan banking system has been developed. Also, with the help of the World Bank inside country banks has support of the many other international banks of the world like commerce bank of Germany.

PART II

ECONOMIC DEVELOPMENT IN AFGHANISTAN

2.1. ECONOMY, DEVELOPMENT AND RECOVERY

Previously, the Government of Afghanistan had great influence on major investments and businesses in the country and private sector was only active in agriculture and trade activities. However, since 2001, this has changed tremendously and private sectors are involved in different huge investments. Moreover, it will also depend on the future government policies to support the private sector (Afghanistan online, 2018)

2.1.1. Economy and Development

The progress is an economy or the qualitative measure of this economic development usually refers to the adaptation of the new technologies machineries from agriculture based to industry based and generally improvement in living standards.

The economic development is the development of the economics of wealth of countries, regions or communities for the well-being them inhabit tends from a policy performance perspective, economic development can be defined as efforts that seek to improve the economist wellbeing quality of life and community by creating and/ or retaining jobs and supporting or growing income and tax base.

Throughout all of the studies there are significant difference between economic growth and economic development. The term economic growth refers to improvement in a variety of indicators such as literacy rates, life expectancy, and poverty rates. GDP is a specific measure of economic welfare because it plays important role in change of the economic scale.

Economic development, the essentially economics on a social level, has evolved into a professional industry of highly specialized practitioners. The practitioners have two key roles the following keys are: one is to provide leadership in policy-making, and the other is to administer policy, programs, and projects. The Economic development practitioners

generally work in public offices on the state, regional, or municipal level, or in public-private partnerships organizations that may be partially funded by local, regional, state, or federal tax money. These economic development organizations (EDOs) function as individual entities and in some cases as departments of local governments. Their role is to seek out new economic opportunities and retain their existing business wealth.

With more than 30,000 professional economic developers employed worldwide in this highly specialized industry, there is one another organization that leads all the economist one of them are: The International Economic Development Council [IEDC] headquartered in Washington, D.C. is a non-profit organization dedicated to helping economic developers do their job more effectively and raising the profile of the profession. With over 4,500 members across the US and internationally, serving exclusively the economic development community. And the Membership represents the entire range of the profession ranging from regional, state, local, rural, urban, and international economic development organizations, as well as chambers of commerce, technology development agencies, utility companies, educational institutions, consultants and redevelopment authorities. Many individual states also have associations comprising economic development professionals and they work closely with IEDC.

Afghanistan also had such a kind of Organization by the name of ACCI Afghan Chamber of Commerce.

There is intense competition between communities, states, and nations for new economic development projects in today's globalized world, and the struggle to attract and retain business is further intensified by the use of many variations of economic incentives to the potential business. There is significant attention placed on the various activities undertaken by economic development organizations to help them compete and sustain vibrant communities.

Additionally, the use of community profiling tools and database templates to measure community assets versus other communities is also an important aspect of economic development and for economy scale. Job creation, economic output, and increase in

taxable basis are the most common measurement tools. When considering measurement, too much emphasis has been placed on economic developers for "not creating jobs." However, the reality is that economic developers do not typically create jobs, but facilitate the process for existing businesses and start-ups to do so. Therefore, the economic developer must make sure that there are sufficient economic and community development programs in place to assist the businesses achieve their goals. Those types of programs are usually policy-created and can be local, regional, statewide and national in nature (Liang & Reichert, 2006:8).

The economy of Afghanistan passed different stages in passing these different stages some of them were good for the country some of them drag down the country economy to last level. In here, I would like to go from all these stages and define it how these all changes occur and what the effect in the country. As we know all the Afghanistan is a mountain region and do not have any sea route so after falling all the regimes the united states government and other European countries infusion of billions of dollars in international assistance and remittances from Afghan expatriates. In that time the nation's GDP stands at about \$64.08 billion with an exchange rate of \$18.4 billion (2014), and the GDP per capita was about \$2,000. It imports over \$6 billion worth of goods but exports only \$658 million, mainly fruits and nuts and other expenditures such as rug wood and expensive stones gems etc. however, in past regimes it was for the first time in Afghanistan history that the GDP and import export has been boosted up so far. When the Soviet Union invaded Afghanistan, in 1979 A.D, the economy situation got worst Soviet invasion and ensuing civil war destroyed much of the country's limited infrastructure, and disrupted normal patterns of economic activity (Tradingeconomics, 2018).

2.1.2. Private Sector and Its Role in Afghanistan Economy

After the election in 2015 A.D the economy of the country, takes the slop stage in the economy scale. Da Afghanistan Bank serves as the central bank of the nation and the "Afghani" (AFN) is the national currency, with an exchange rate of about 68.5 Afghanis to 1 US dollar. There are over 16 different banks still operating in the Afghanistan, including Afghanistan International Bank, Kabul Bank, Azizi Bank, Pashtany Bank, Standard Chartered Bank, First Micro Finance Bank, and others. As new law passes on private investment provides three to seven-year tax holidays to eligible companies and a four-year exemption from exports tariffs and duties. According to a UN report in 2007 A.D, Afghanistan has received over \$3.3 billion from its expatriate community in 2006 A.D. UN officials familiar with the issue said remittances to Afghanistan could have been more if the banking regulations are more convenient. Additionally, improvements to the business-enabling environment have resulted in more than \$1.5 billion in telecom investment. And created more than 100,000 jobs for the people and it was a good sign for the country future since 2003 A.D. Although Afghanistan becomes the member of WTO, (World Trade. Organization) SAARC, (South Asia Association and for Regional Cooperation) ECO, (Economic Corporation Organization) OIC (Organization of Islamic Cooperation).

In the following Table 2 it is given some data about the general characteristics of Afghanistan Economy.

Table 2: General Characteristics of Afghanistan Economy	
GDP of Afghanistan	\$19.47 billion USD (2016)
GDP growth	2.2% (2016)
GDP per capita	\$561 USD (2016)
GDP by sector	Agriculture 24% industry 21% services 55% (2014)
Inflation rate(CPI)	4.5% (2016)
Labor force	7.512 million (2012)
Labor force by occupation	Agriculture 7.8% industry 5.7% service 15.7% (2009)
Unemployment rate	35% (2014)
Main industries	Small scale production of textile, shoes, furniture, soap, fertilizer, apparel, food product, non-alcoholic beverages, mineral water, cement, handwoven carpet, natural gas, copper
Export	\$658 million (2014)
Export Goods	Fruits and nuts, afghan rugs, wool, cotton, hides, and gemstones
Main export partners	India 42.3% Pakistan 29% Tajikistan 7.6%
Import	\$6.232 billion (2015)
Import goods	Machinery and other capital goods, food, textile and petroleum
Main import partners	Pakistan 38.6% India 8.9% USA 8.3% Turkmenistan 6.2% China 6% Kazakhstan 5.9% Azerbaijan 4.9%
Source: Wikipedia, 2017.	

2.2. CHARACTERISTICS OF AFGHANISTAN ECONOMY

2.2.1. Production

The main industries in Afghanistan which are operating till now in small scale production of textile, soap, furniture, shoes, fertilizer, apparel, food production, non-alcoholic beverages mineral waters, cement, handwoven carpet, natural gas, coal, and copper.

However, the revenue of Afghanistan in 2015 was 1.58\$ billion the public debt and us dollars was 1.28\$ the expense and us dollars was 50.00\$ us dollars.

In these all those years the country GDP and the GNP were not in one single line it was always goes up and down in the economy scale. But the with the help of the central bank and other funding NGOs in Afghanistan helps to get back in the economy scale in the best position as the main supporter of Afghanistan in economy process was India and Us.

Figure 2: Afghanistan's Growth Rate



In all those years, the Afghanistan GDP was low but after the new era for Afghanistan all economy system has changed. The GDP of the country went up the inflation rate goes down and the CPI rate goes up capital per income in this chase we are going to show all the process in 2016 the overall country GDP was 19.47 billion USD dollar. Through the research of world bank the country GDP in 2016 has been increased 2.2% and it was a good sign for the which has been begin its new journey after all these years of war. The GDP per Capita has also made a change as shown in the result of the research it has move to 561\$ US dollars due to the increase all these variables. If we take a look in GDP by sector vise like agriculture got increase by 24% and industry sector by 21% and service sector by 55% which was good sign for Afghanistan and for the future of the country.

As we can see the next part about the inflation CPI, it was decrease by 4.5 % in 2016 other years while population poverty was below the line 35% in 2011and there was an increase in Afghanistan labor force in 2012 it was 7.52 million. However, the labor force

in other occupation was low like in agriculture it was 78.6% industry was 5.7%, service was 15.7% in 2009, and the unemployment rate was 35% in 2014.

The GDP of Afghanistan from 2006 is going up and down but the best GDP result was 17.2 in 2010. However, in 2016 until now the GDP and annual growth rate is -2.4 in this chase it is the worst situation for a country economic.

- What is GDP?
- Gross domestic product
- How to calculate GDP?
- Finding the total consumer spending on goods and services investment made by business government spending and net export.

The overall economy scale and information from last 16 years.

- GDP per capital (which measure the country economic which divide the country economic per population)
- Labor (the main power of production)
- Price (the sum or amount of money or its equivalent for which anything is bought or sold)
- Money (something the generally accept as medium of exchange)
- Trade (the act of buying or selling or exchange of commodities)
- Government (the group of people with the authority to govern a country or state)
- Business (an organization or economic system where goods and services are exchanged)
- Tax (a sum of money which demanded by government for its support)

Figure 3: Afghanistan Exchange Rate

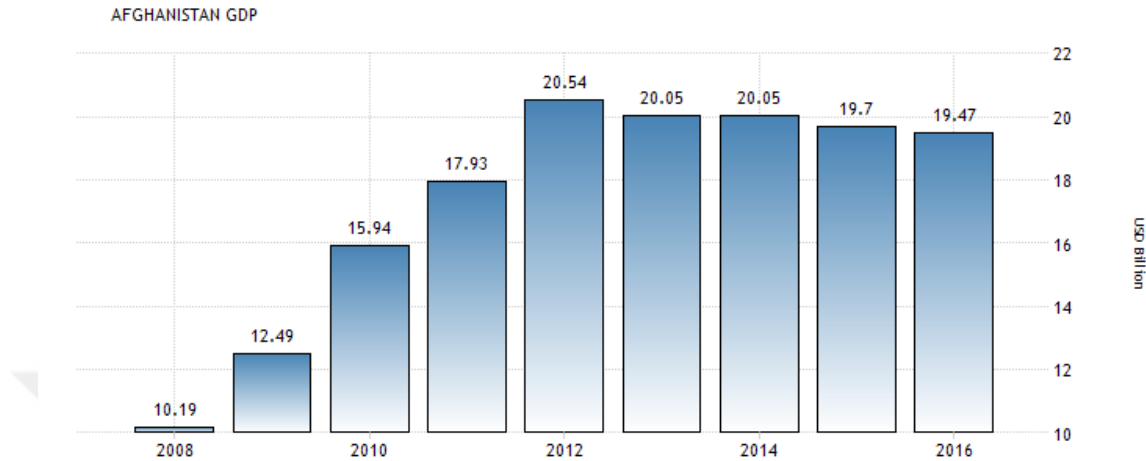


An exchange rate is the price of a nation's currency in terms of another currency. Thus, an exchange rate has two components, the domestic currency and a foreign currency, and can be quoted either directly or indirectly. In a direct quotation, the price of a unit of foreign currency is expressed in terms of the domestic currency. In an indirect quotation, the price of a unit of domestic currency is expressed in terms of the foreign currency. Exchange rates are quoted in values against the US dollar. However, exchange rates can also be quoted against another nation's currency, which are known as a cross currency, or cross rate

The market of Afghanistan millions of currency changes and transactions happen daily bases 1 million-dollar transactions take place. One USD DOLLAR is equal to 68.9 AFG rupees.

(The currency of Afghanistan via dollar was 68.9 like those that 1 us dollars was equal to 68.9 AFS in previous years it was 59.5 but through all those years the currency of Afghanistan has been move down and 18 Afs is equal to 1TL Turkish money.)

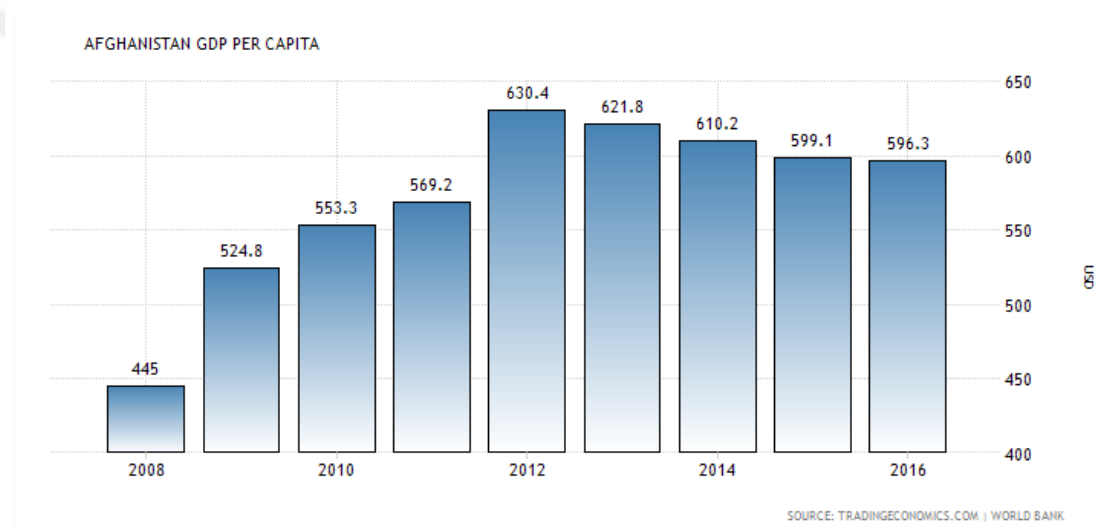
Figure 4: Afghanistan GDP



Afghanistan GDP stands at about \$64.08 billion with an exchange rate of \$18.4 billion (2014), and the GDP per capita was about \$2,000. It imports over \$6 billion worth of goods but exports only \$658 million, mainly fruits and nuts and other expenditures such as rug wood and expensive stones gems etc. however, in past regimes it was for the first time in Afghanistan history that the GDP and import export has been boosted up so far. When the Soviet Union invaded Afghanistan, in 1979 A.D, the economy situation got worst Soviet invasion and ensuing civil war destroyed much of the country's limited infrastructure, and disrupted normal patterns of economic activity. In all those years, the Afghanistan GDP was low but after the new era for Afghanistan all economy system has changed. The GDP of the country went up the inflation rate goes down and the CPI rate goes up capital per income in this chase we are going to show all the process in 2016 the overall country GDP was 19.47 billion USD dollar. Through the research of world bank the country GDP in 2016 has been increased 2.2% and it was a good sign for the which has been begin its new journey after all these years of war. The GDP per Capita has also made a change as shown in the result of the research it has move to 561\$ US dollars due to the increase all these variables. If we take a look in GDP by sector wise like agriculture got increase by 24% and industry sector by 21% and service sector by 55% which was good sign for Afghanistan and for the future of the country.

Figure 5: Afghanistan GDP per Capita

The Afghanistan GDP in all those Afghanistan history was recorded for the first time that was 19.47 the highest GDP of the country but in the start, it was quite low 10.19 like in 2008 but after 2009 the GDP has been boosted up going up from 15.94 as it was a good sign for the country economic and the people living condition were getting better unemployment rate was getting low but after those all years in 2017 suddenly the GDP has become low at the economic scale.



In all those years, the Afghanistan GDP was low but after the new era for Afghanistan all economy system has changed. The GDP of the country went up the inflation rate goes down and the CPI rate goes up capital per income in this chase we are going to show all the process in 2016 the overall country GDP was 19.47 billion USD dollar.

The GDP annual growth measure all the year growth in the country economy and GDP per capita shows us the net income or earing of a person per day and GDP per capita PPP is dedicated for purchasing power parties between two countries. GDP per capita (PPP based) is gross domestic product converted to international dollars using purchasing power parity rates and divided by total population.

(The GDP as last year of the country was -2.4 percentage like it was not good for the economy scale of the country pervious years it was 2.2 percentage better in the economy

scale. In addition, the unemployment rate was also low as compare to 2015 or 2014 years however the GDP in 2016 was 19.47 US billion dollars slightly it has change as form 19.7 went up to 19.47, as it is a good sign for the economy of the country. The GDP per capita was 596 USD in 2016 but in previous years, it was 599 USD.)

Figure 6: Afghanistan GDP per Capita PPP



Unemployment Rate in Afghanistan remained unchanged at 8.50 percent in 2016 from 8.50 percent in 2015. Unemployment Rate in Afghanistan averaged 8.48 percent from 1991 until 2016, reaching an all-time high of 8.70 percent in 1992 and a record low of 8 percent in 2013.

the unemployment rate in Afghanistan has increased due to the past years in 2009 it was quite low rate and going lower but as far from 2014 the unemployment rate has increase quite strategically that has never been ever recorded in the history of the country. at some bases the unemployment rate has been recovered by some NGOs in the country. Population The unemployment rate is increasing day by day in the country from the past year it has been increase about 8.5 % and the population of over all Afghanistan is 28.6 million.

Figure 7: Afghanistan Unemployment



Figure 8: Afghanistan Inflation Rate



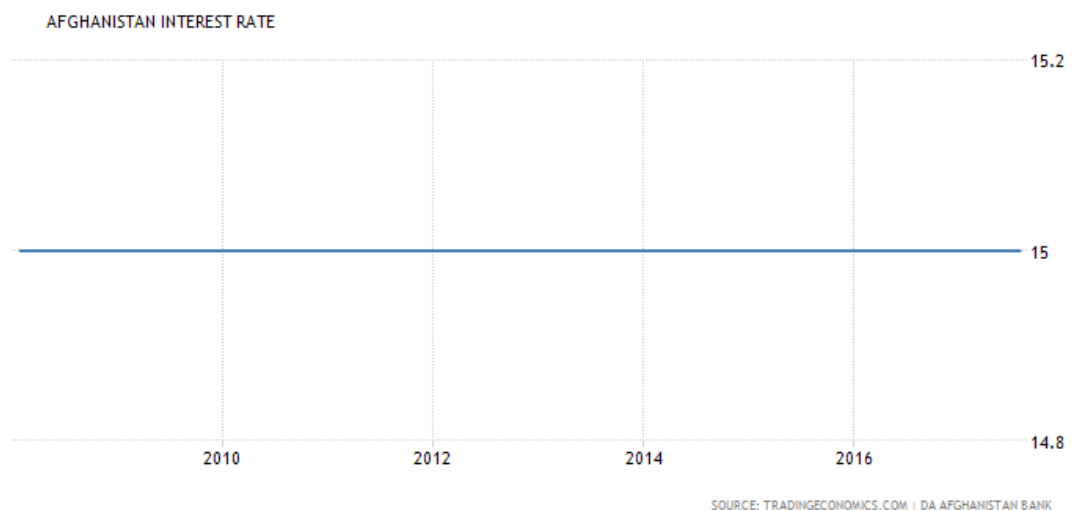
(The inflation rate as it was shown to the figure it is 4.5% in 2017 but pervious years it was 5.1 as shown in the graph it has change 1.5 percentage from previous years)

(The core inflation rate was 3.3 % percentage in 2017 A.D year but in previous year, it was only 3 still good for country like Afghanistan.)

(The Consumer price index in short we can also say CPI mostly it measure the price index of the consumer basket services and goods. In previous years 2017 it was 112% as shown in to the figure as far as in the last years it did not change its place still it is in the same position in the graphic scale 112 %.)

Inflation rate: the rate which price increase by the time resulting fall in the purchasing value of the money.

Figure 9: Afghanistan Interest Rate



Interest Rate : Interest rate is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets

(The interest rate is different in each country. In addition, in the Afghanistan banks the interest rate is being charge under the control of the central bank of Afghanistan. Moreover, different project holds different types of interest rate construction project are different with other types of project holding in the country. Throughout all those years, the interest rate of Afghanistan was charge 15% mostly in all those years it was at the same position in the graphic condition of economy scale of the Afghanistan.)

2.2.2. Foreign Trade

The Afghanistan import and export were changing by the time but through all golden age of the country the main export of the country was skin, dry fruits, fresh fruits, carpets, wool, and expensive stones like Gemstone, limestone, etc. and there were many countries that Afghanistan had good import and export relationship such as Pakistan Tajikistan and India.

Let get down with the percentage the exported goods were 658\$ million us dollars according to the shown figure in 2014 and the main export partners were India 42.3% Pakistan 29% and Tajikistan 7.6% in 2015.

The import of Afghanistan in 2015 it was estimated 6.232\$ billion us dollar but the main import of the country was machinery in different bases and Capital goods food textile and petroleum products. And the main import partners of Afghanistan were Pakistan 38.6% India 8.9% United State of America 8.3% Turkmenistan 6.2% China 6% Kazakhstan 5.9% and Azerbaijan 4.9% it was estimated in 2015. (Razavy (2005: 285)

Figure 10: Afghanistan Export



Exports in Afghanistan increased to 571.41 USD Million in 2016 from 570.50 USD Million in 2015. Exports in Afghanistan averaged 350.55 USD Million from 2000 until 2016, reaching an all-time high of 571.41 USD Million in 2016 and a record low of 69.10 USD Million in 2002. the main export of the country is lime stone, carpets , wool , fresh fruits , dry fruits , nuts ,hand crafts , and leather most of the export of the Afghanistan goes to ASIA and South Asia like India Pakistan Tajikistan Iran and Kazakhstan Azerbaijan few of them goes to Europe side and other Countries

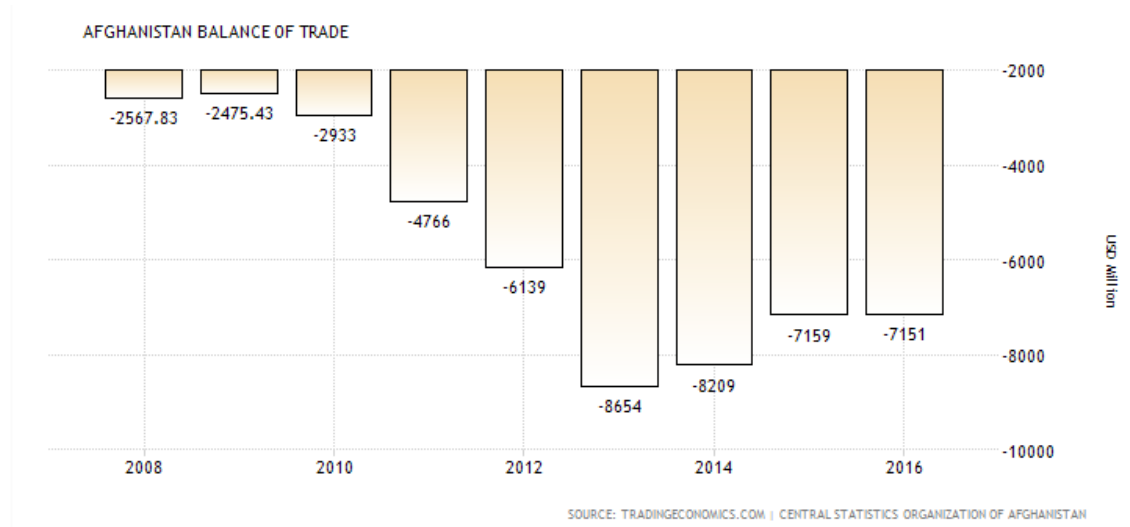
Figure 11: Afghanistan Import



Imports in Afghanistan decreased to 7722.80 USD Million in 2016 from 7729 USD Million in 2015. Imports in Afghanistan averaged 4717.57 USD Million from 2003 until 2016, reaching an all-time high of 9069 USD Million in 2013 and a record low of 1966.07 USD Million in 2005.

the Afghanistan market import many stuffs from other countries most of them are coming from neighbor countries the most of the import of the countries are Gas Petroleum and natural resources the total import of the country reaches at 4717 USD million dollar (Razavy (2005:285)

Figure 12: Afghanistan Balance of Trade



(Well in some graphic researchers shown that the export of Afghanistan was 571 USD million dollars in 2016 however in 2014 it was 658 USD million dollars due to the economic crisis occurs in ASIA Afghanistan also suffer some losses in that part of export. As shown in the graph it has been move down word from the top.)

(as seem to the last years of economic scale in 2016 the import of the country was 7723\$ USD billions however before past years it was 6232\$ USD billions. So it means that the import of the country has increased due to the past one year.)

Afghanistan recorded a Current Account deficit of 595.20 USD Million in the fourth quarter of 2016. Current Account in Afghanistan averaged -3054.89 USD Million from 2003 until 2016, reaching an all-time high of -595.20 USD Million in the fourth quarter of 2016 and a record low of -7558 USD Million in the fourth quarter of 2011.

Afghanistan recorded a Current Account deficit of 20 percent of the country's Gross Domestic Product in 2016. Current Account to GDP in Afghanistan averaged -47.80 percent from 2003 until 2016, reaching an all-time high of -20 percent in 2016 and a record low of -75.20 percent in 2006

A market is a place where goods and services are get exchange in throughout all those years Afghanistan market has newly introduced to the world.

Afghanistan market is small but for SMEs has many opportunities to start their career and it is a good sign for a country like Afghanistan economic.

The market of Afghanistan millions of currency changes and transactions happen daily bases 1 million-dollar transactions take place. One USD DOLLAR is equal to 68.9 AFG rupees.

(The currency of Afghanistan via dollar was 68.9 like those that 1 us dollars was equal to 68.9 AFS in previous years it was 59.5 but through all those years the currency of Afghanistan has been move down and 18 Afs is equal to 1TL Turkish money.)

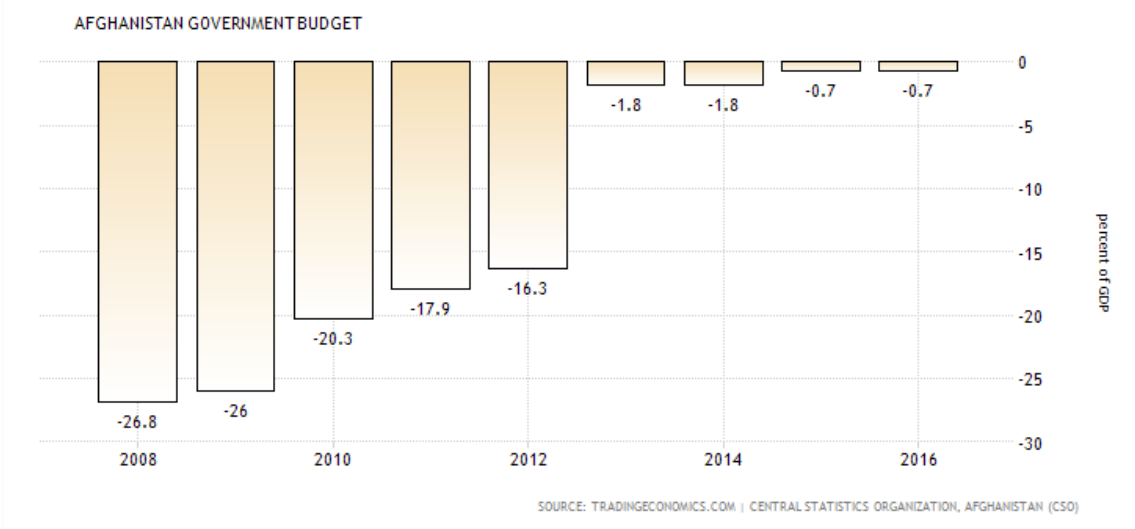
2.2.3. Fiscal Policy

Figure 13: Afghanistan Government Debt to GDP



(The Afghanistan government record the debt equivalent to 8.30% Gross domestic product of the country in 2016 however, the government gross domestic product average was 13.04% from 2006 until 2016 reaching an all-time high of 23 percentage in 2006 and recorded low of 7.7 percentage in 2010.) (Wilson, 2002:3)

Figure 14: Afghanistan Government Budget Deficit



(The Government Budget of Afghanistan ever recorded 0.70 percentage of the gross domestic product in 2016 in addition the Afghanistan Government budget was averaged -13.0 percentage of gross domestic product of the country from 2006 until 2016 reaching an all-time high of -0.70 percentage of gross domestic product in 2015 and a low recorded between -28.60 percentage of gross domestic product in 2008)

The Gross Domestic Product (GDP) in Afghanistan expanded 3.60 percent in 2016/2017 fiscal year. GDP Annual Growth Rate in Afghanistan averaged 8.53 percent from 2003 until 2017, reaching an all-time high of 28.60 percent in 2003 and a record low of -1.80 percent in 2016.

Figure 15: Afghanistan Military Expenditures



(As Afghanistan was the central of fighting countries for decades most of the time Afghanistan government bares many risks and lost in the military expenditures.

The military expenditure in Afghanistan has decreased to 187.20 USD million dollar in 2016 199.50 USD million dollar in 2015. The average military expenditure in Afghanistan was 232.15 USD million dollar from 2004 until 2016, reaching high at 296.80 USD million dollar in 2010 every recorded and the low was 183 USD million dollar in 2005.)

As there was war in Afghanistan most of the country also take interest in development of their economic they sell most of their military services and goods to Afghanistan the most seller of those all countries are Russia China United State of America and other middle east countries and the average military expenditure of the country was ever recorded 199.50 USD million dollar the highest ranking paid in military expenditures in the country. moreover, the military expenditure in Afghanistan has decreased to 187.20 USD million dollar in 2016 199.50 USD million dollar in 2015.

Figure 16: Afghanistan Corruption Index



(After all these years of the government working with the anti-corruption organizations still it scored 15 points out of 100 on 2016 corruption perception index. It was reported by the transparency international corruption index in Afghanistan in addition the averaged point was 14 from 2004 until 2016 reaching an all-time high about 25 points and in 2005 the low was recorded 8 points until 2016.)

(In the last decades, Afghanistan was the low on corruption bases as far the new regime came in to being the corruption level went up. Afghanistan was the last 169 corrupt country out of 175 countries, according to 2016 corruption perception index reported by transparency international.in corruption ranking Afghanistan was at the average of 168.73 from 2005 until 2016 reaching at high 180 in 2011 and recorded low at 117 in 2005.

Afghanistan scored 15 points out of 100 on the 2016 Corruption Perceptions Index reported by Transparency International. Corruption Index in Afghanistan averaged 14 Points from 2005 until 2016, reaching an all-time high of 25 Points in 2005 and a record low of 8 Points in 2012

Figure 17: Afghanistan Ease of Doing Business Index

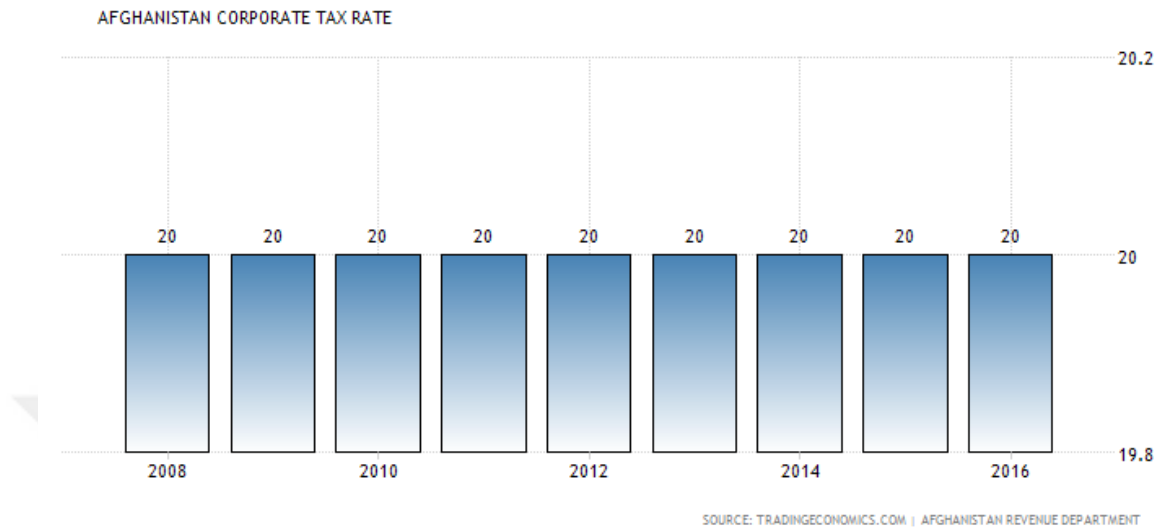


(With all results in our hand, still Afghanistan is good place for any SMEs and other business opportunities. Afghanistan is still rank 183 among 190 countries in economies in easy to doing business and according to the latest world bank annual ratings. The Afghanistan rank remain unchanged at 183 in 2017 from 183 in 2016. Ease of doing business in Afghanistan average was ever recorded 171.70 from 2008 until 2017 reaching a high of all time 183 in 2016 and recorded low of 154 in 2010.)

Afghanistan is ranked 183 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings. The rank of Afghanistan remained unchanged at 183 in 2017 from 183 in 2016. Ease of Doing Business in Afghanistan averaged 171.70 from 2008 until 2017, reaching an all-time high of 183 in 2016 and a record low of 154 in 2010.

the countries like Afghanistan is also a great opportunity for the country who want to invest and easy doing business most of the small business has start their operation in Afghanistan.

Figure 18: Afghanistan Tax Rate



Corporate tax rate is the tax that has to be pay by a corporate based on the amount, which the profit is generated.

The Corporate Tax Rate in Afghanistan stands at 20 percent. Corporate Tax Rate in Afghanistan averaged 18.18 percent from 2006 until 2016, reaching an all-time high of 20.00 percent in 2007 and a record low of 0.00 percent in 2006.

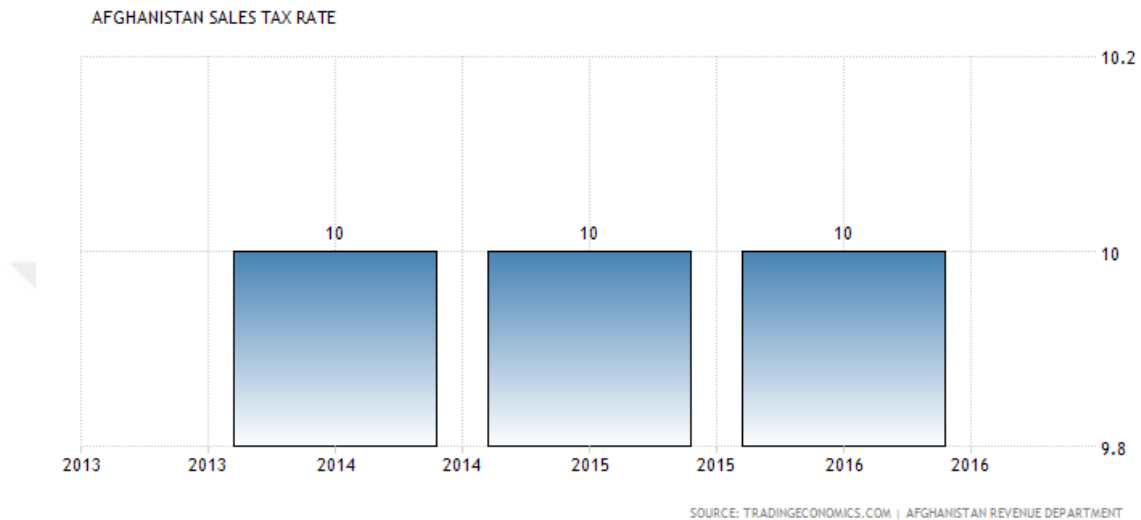
Figure 19: Afghanistan Personal Income Tax Rate



(The personal income tax rate of Afghanistan was recorded 20 percent and the average personal income tax rate of Afghanistan 20.00 percentage from 2004 until 2016,

reaching the of all time high of 20.00 percent in 2005 and the low was recorded 20 percent in 2005.)

Figure 20: Afghanistan Sales Tax Rate



(The sales tax rate in Afghanistan in all those years stands at 10 percent. Sales tax rate in Afghanistan average stand for 10.00 percent from 2014 until 2016, reaching an all-time high 10.00 percent in 2015 and the new record graph shows us the low was 10.00 percent in 2015.)

The Sales Tax Rate in Afghanistan stands at 10 percent in all those year it has not been change it is at the same position the sales tax but some who in 2017 the economist has forecasted that it may change from the economic scale may be in 2018 or 2019 it may go down because of the economy crisis in the country and all over the world.

in the new law of the ministry of the finance of the country the government changes the income tax each small business and large business has to show the full detail of their services and import or export to the government which they have to prove for the clearness of their tax charges.

PART III

ANALYSIS OF BANKING SYSTEM IN AFGHANISTAN

3.1. PURPOSE OF THE STUDY

The main purpose of this study is to show how the banks and economy system works and what are the effects on the economy in the country? what brings the changes and what are the outcomes shown as positively and negatively? These all questions are found in this research the main aim of the thesis was the international banks starting their operating in a country with new technology. And the economy of Afghanistan was at a good stage at some point and at some point, it was not good but after some time it take slop down in economic scale.so how to take control on it and what are the possible ways for regaining again the control in economy of the country and restoring it at the same level. Most of the Afghanistan trade route has block due to political condition but somehow the ministry of finance and ACCI Afghan chamber of Commerce find a solution for it. They open the new route that the country can develop and restore the economy of the country so there are not only banks in the country who play the big role in the country there are many other financial institutions which are working side by side with the Central bank of Afghanistan like ACCI Afghan Chamber of Commerce seeking the better possible way for import and export of the country and to focus on income tax of business sectors. The central bank of Afghanistan has responsible for all those financial activates occur in the country, some of the banks has black listed from the country. The central bank of Afghanistan take action upon them following the rules and law which are provided by the central bank of Afghanistan is required for the international and domestic banks of the country. and how to control the money laundry and leakage of the fund from the country there are more than 6 banks in the country but trying to get all those banks data was a tough job somehow, I was able to get only 6 banks detail which lead me to open many sources for my research and now I have to the conclusion that how the banks effect the economy of the country and why banks are important for the country economic growth.

And this research will also help the out coming student for knowing the economic situation of Afghanistan and the effects of it upon the banks and other financial instituted. This was the purpose of my study to get deep on the development of the international banks in the country and domestic banks in Afghanistan and the effects on the economy of the county and it has positive and negative effect both banks are the back bone of the country. where people trust on the banks and all the stock and funds of the country are provided by the banks and controlled by the banks and the Central bank over look all of these banks and control the money supply. The second state of my study refers that how the central bank of Afghanistan has control all over the banks and financial service centers.

The first part of my study was to understand the flow of the money and controlling of money and money laundry happens in the country

The second part of my study is how the banks effect positively and negatively upon the economics of the country and third part is development of the economics and banks

3.2. RESEARCH METHOD

The data about this research has collected from six banks of the country by interviewing different people in different positions of the banks and financial service centers.

The data collection has been done from September 2017 till November 2017 by using qualitative and quantitative method these method are used for gathering data from past many years no one did this research about the development of international bank and domestic bank of Afghanistan and its effect in the country and after all this I have come to the point that it was a necessary task for me to be done to know more about the banking sector of my country and how it works and how the central bank took control over it and by time when the country passes all those years of war how to take the economic unstable in control this was the aim of the thesis.

3.2.1. Research Tools

Correlation

A correlation coefficient is a statistical measure of the degree to which changes to the value of one variable predict change to the value of another. When the fluctuation of one variable reliably predicts a similar fluctuation in another variable, there's often a tendency to think that means that the change in one causes the change in the other. However, correlation does not imply causation. There may be, for example, an unknown factor that influences both variables similarly.

Regression

Regression is a statistical measure used in finance, investing and other disciplines that attempts to determine the strength of the relationship between one dependent variable (usually denoted by Y) and a series of other changing variables (known as independent variables). Regression helps investment and financial managers to value assets and understand the relationships between variables, such as commodity prices because the stock of the business dealing in those commodities

Regression and correlation have some fundamental differences that are worth mentioning. In regression analysis there is an asymmetry in the way the dependent and explanatory variables are treated. The dependent variable is assumed to be statistical, random, or stochastic, that is, to have a probability distribution.

Content Analysis

is a research technique used to make replicable and valid inferences by interpreting and coding textual material? By systematically evaluating texts (e.g., documents, oral communication, and graphics), qualitative data can be converted into quantitative data.

3.2.2. Data and Variables

Table 3: Raw Data: GDP vs. Bank Profits							
Year	GDP per year	Ghazanfar Bank	Aib Bank	Azizi Bank	Maiwand Bank	Kabul Bank	Bakhtar Bank
2009	10,190,000	35,910	35,920	443,028	64,233	862,760	26,890
2010	12,490,000	193,704	183,785	589,388	229,458	1,022,474	143,166
2011	15,940,000	244,436	787,921	602,345	455,558	862,783	271,590
2012	17,930,000	334,804	595,717	745,852	650,567	7,057,802	321,225
2013	20,540,000	560,906	618,769	2,185,184	986,263	10,750,130	439,683
2014	20,050,000	537,078		1,899,917	931,434	2,264,206	491,041
2015	19,700,000	605,450	519,072	989,353	1,058,624	13,001,671	423,352
2016	19,470,000	575,639	778,927	1,364,645	651,895	18,027,550	418,048

Note: Figures are in US Dollars (000).

In 2009 the GDP of the country was 10,190,000\$ while the Ghazanfar bank profit was 35,910\$ it was the start of financial years for the bank over that time still the bank was new in 2009 and starts its operation from 2009 the core of the bank is Islamic banking system in 2010 the country GDP was 1,249,000\$ while the bank profit was 193,704\$ and it was getting better from the start of its operation. in 2012 the GDP was 17,930,000\$ like the money was pumping in to the country but due to the low banking services there was not that much control over that time and the Ghazanfar bank profit was 334,804\$ at that time the bank got fully developed with new technology and most of the projects were given by the banks. And after following those years the bank start getting the profit till 2016 we have recorded that the bank earn 565,639\$ and coming to the second bank AIB bank the bank start its operation from 2009 at that time the bank was has its own development program and the profit of the bank at time was 35,920\$ the bank got two times on high profit scale once in 2011 which the bank profit was 787,291\$ and after those years the bank goes smooth on bases of profit but in as it was shown to the table in year of 2016 again the bank went on profit because the USAID sign employee training project contract with them the profit of the bank in 2016 goes to 778,927\$. And the next bank is Azizi Bank starting with the profit of 443,028\$ in 2009 after some time the Central bank of Afghanistan and Azizi bank had contract with them all the government accounts are to be held in Azizi bank the salaries of the government official and the profit of the bank in 2011 has reached at 1,364,645\$ upcoming to the next bank Maiwand bank the bank open is first branch in Kabul city with the profit of

64,233\$ in 2009 and the bank main target is student loans and other official loans provide for all its customer the profit of Maiwand bank reach at 651,895\$ at 2016 the other bank is Kabul Bank the bank start its operation with full force in the marketing opening its all branched in all provinces of the country and the profit of the bank reached at 826,720\$ in 2009 and in 2016 the bank profit reached at 18,027,550\$ the Bakhtar bank start its operation later upon all the banks and going very slowly but somehow the bank was backed by the German commerce bank of Germany so the profit of the bank is that time was 26,890\$ and going through all those years at the end of the year it was recorded 418,048\$ in 2016

3.3. RESULTS

3.3.1. Analysis of Role of Banking System in Afghanistan Economy

In this part it has been done a quantitative analysis by using correlation and regression analysis to investigate the relationship between profits of banks and GDP of Afghanistan.

A correlation coefficient is a statistical measure of the degree to which changes to the value of one variable predict change to the value of another. When the fluctuation of one variable reliably predicts a similar fluctuation in another variable, there's often a tendency to think that means that the change in one causes the change in the other. However, correlation does not imply causation. There may be, for example, an unknown factor that influences both variables similarly. Correlation coefficient lies between -1 and 1. It shows a positive strong relationship when it gets closer to 1 (Bowerman, O'connell & Orris, 2018). Following Table 4 shows the results of correlation analysis.

Table 4: Results of Correlation Analysis

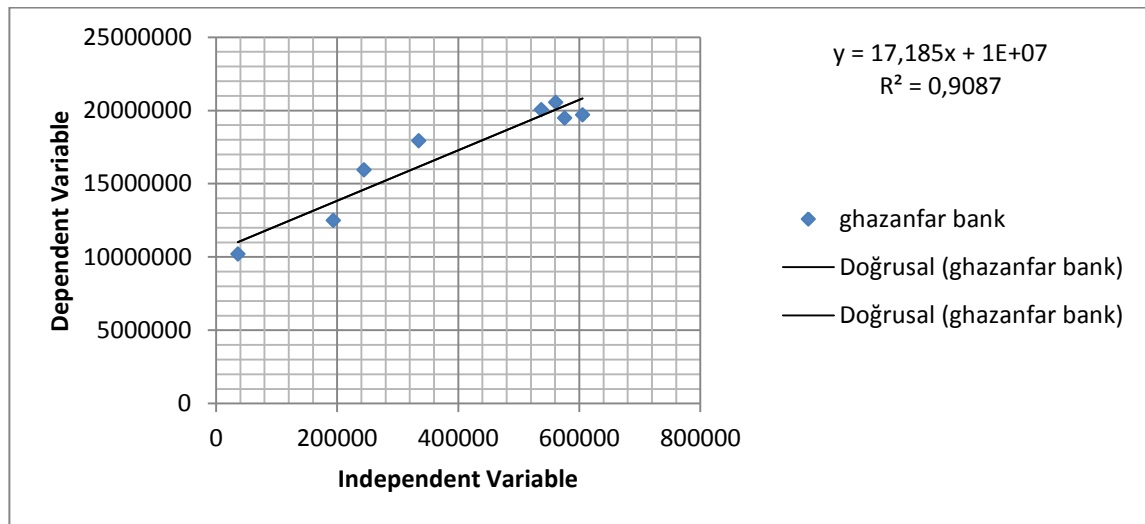
Correlation Coefficients						
	Ghazanfar Bank	Aib Bank	Azizi Bank	Maiwand Bank	Kabul Bank	Bakhtar Bank
GDP	0,95	0,78	0,78	0,95	0,66	0,99

As seen from the Table 4, there is a strong relationship with the profit of Banks and GDP, since all the coefficients are closer to 1. The lowest of them is 0,66; and the highest one is 0,99. So profit of Bakhtar Bank has the most strongly relationship with the GDP of Afghanistan.

Secondly the regression analysis has been done in this thesis. The simple regression analysis looks for a linear relationship between dependent and independent variables and can be approximated by a straight line (Bowerman, O'connell & Orris, 2018).

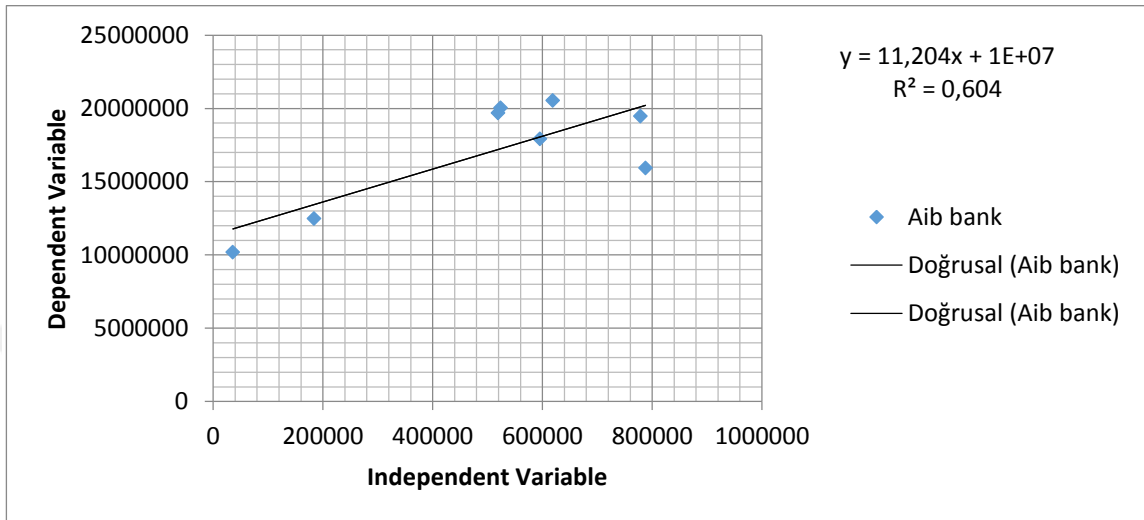
In the following figures results of regression analysis of Banks and GDP are given respectively.

Figure 21: Regression: Ghazanfar Bank vs GDP



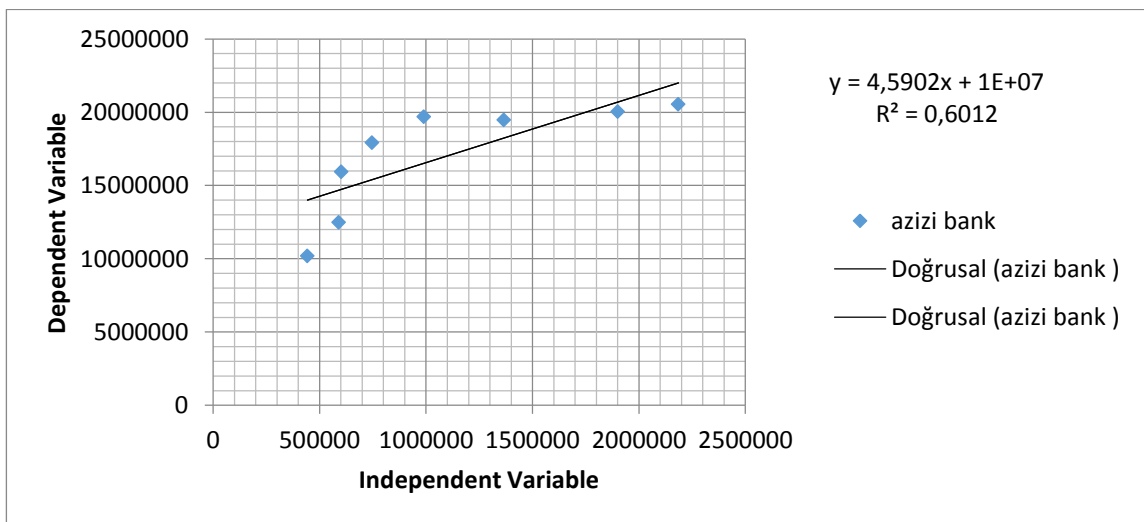
In this graph as we can see the steepness of this line is the x is upwards and the value of Y is $=17.1185x+1E+07$ while the R value is 0.9087 which is reasonable size in this graph.

Figure 22: Regression: Aib Bank vs GDP



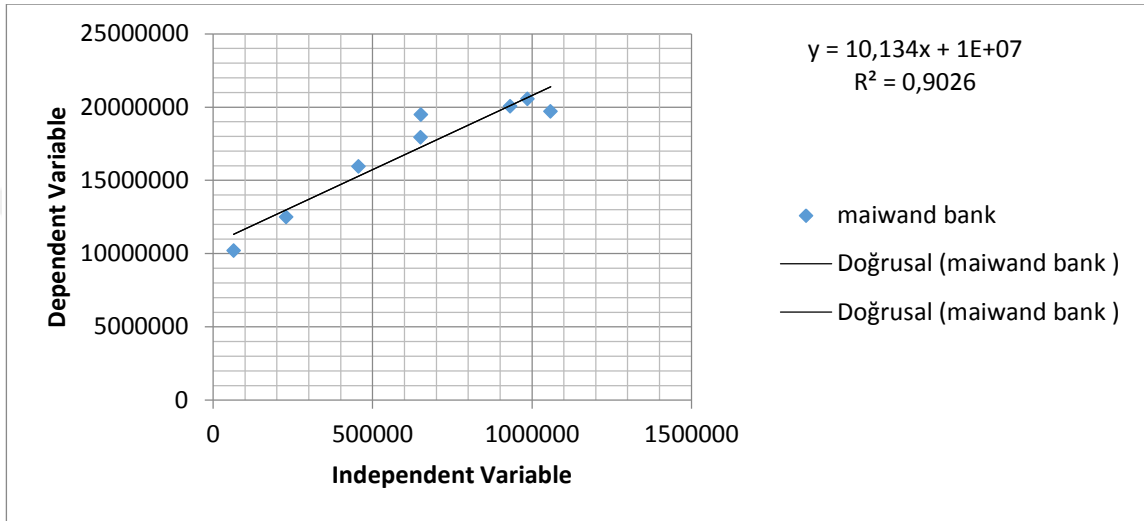
In this graph as we can see the steepness of this line is the x is upwards and the value of Y is $=11.204x+1E+07$ while the R value is 0.604 which is reasonable size in this graph.

Figure 23: Regression: Azizi Bank vs GDP



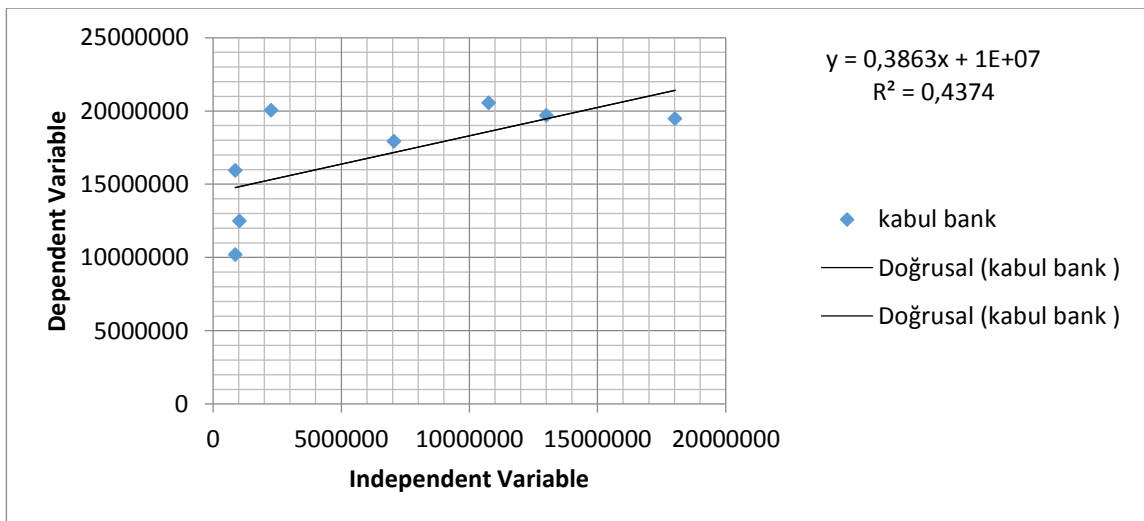
In this graph as we can see the steepness of this line is upward which means the x value is upwards but from start it take some time to get the positive liner and the value of Y is =4.5902x+1E+07 while the R value is 0.6012 which is reasonable size in this graph.

Figure 24: Regression: Maiwand Bank vs GDP



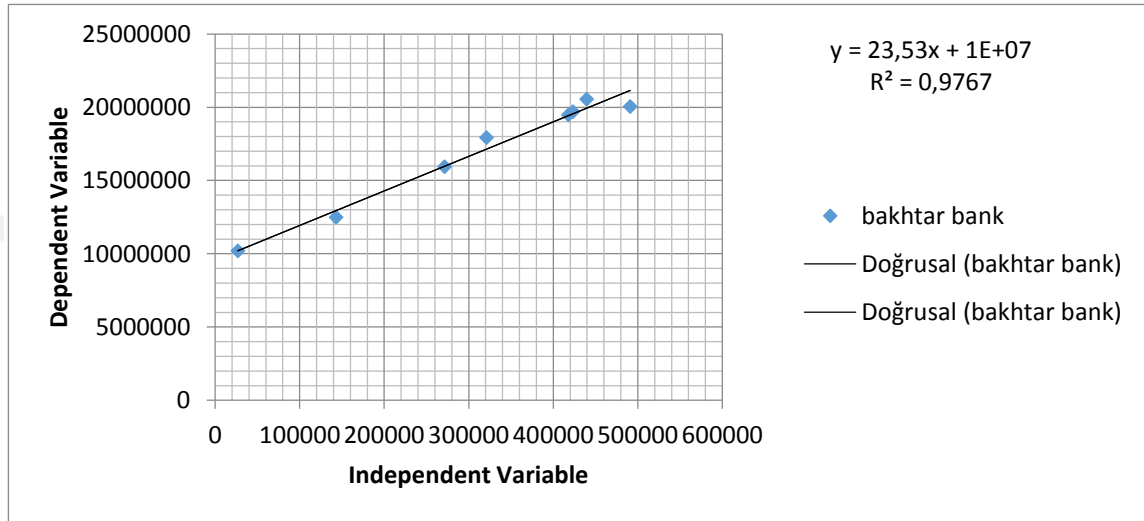
In this graph as we can see the steepness of this line is the x is upwards and the value of Y is =10.134x+1E+07 while the R value is 0.9026 which is reasonable size in this graph.

Figure 25: Regression: Kabul Bank vs GDP



In this graph as we can see the steepness of this line starts from x value 862760 which means that the value of x is upwards and the value of Y is $=0.3863x+1E+07$ while the R value is 0.4374 which is reasonable size in this graph.

Figure 26: Regression: Bakhtar Bank vs GDP



In this graph as we can see the steepness of this line is the x is upwards and the value of Y is $=23.53x+1E+07$ while the R value is 0.9767 which is reasonable size in this graph.

3.3.2. Content Analysis of Interview with Banking Supervisors in Afghanistan

In this thesis, I follow up with the interview of different people in different position and the interview took place in different dates and different places with government and non-government people. Through all stages of taking interview coming out with a result that shows us there is a lot relationship between international or domestic banks and economy of Afghanistan. I have been mentioned managers of six banks meeting up with them and sharing the data was a great experience in this filed.

The answer of the following questions that takes part in the interview regarding this research.

Q1 What are the best solutions for the leakage and money laundry?

A1 as Prof M.Khalil refers to the point that getting control in monetary policy will be good solution for the Afghanistan economics.

A1 as long as we do not have a good infrastructure of controlling and leading, we cannot take any action.

A1 being involve with people who are supporting that businessperson who are involve taking out the money illegally from the country will be the only solution for that.

EVALUATION:

Afghanistan doesn't have any stock market due to that reason there are other parties who are directly and indirectly involved in supplying and controlling the money however center bank and these people works beside each other like bank to bank.

Most of them do transferring of funds with low interest rate from the bank in all over the world some of them have great links and as the new technology comes forward now their works becomes easily through bitcoin they are doing their business most of them.

Many times, the government of Afghanistan try to stop all these illegal activities but somehow cannot make any progress because a large amount of money is with these people who has the authority of half of the market in Afghanistan.

Q2 what is the economic position of Afghanistan regarding pervious and the present year?

A2 the position of Afghanistan economy is not good that much regarding other country economic it may take time for recover from the economic crisis form all over the world.

A2 as Mr Alkozai Marketing Manager of Aziz Bank, point out that economy of Afghanistan is injection economy. Without any control, funds are coming in the country, which makes big difference.

A2 Due to lack of money, laundry and corruption the economy of Afghanistan take a deep slop in the economic scale.

EVALUATION

The economic position of Afghanistan was not good in all those years of civil war in the country but after the US invitation of Afghanistan. The economy of Afghanistan take a right turn after CHINA announced about the global village economic so china can sell all its good to all over the world it was a great opportunity for Afghanistan. In addition, in 2009 the GDP of the country grows up and the unemployment rate was down projects are started people were getting jobs and it was a good change for the country economics somehow it had the negative impact also like the corruption money laundry which turn this economic from good to bad condition.

With the help of European Union and US the banks get developed most of the banks had the backup with foreigner's banks as if Bakhatar bank backup was German Commerce bank of Detuch land and most of the transaction had also record in bank of data also with the central bank of Afghanistan.

All the bank of the country was submitted and had legally works under the rules and law of Central bank of Afghanistan and this law has been passed in 2010 by the president of Afghanistan. Besides that, all the banking records and transaction have been monitored by the central bank of Afghanistan.

As we study in the begging of 2009 A.D start of the new regime the Afghanistan economy boost up in less time. Millions of Dollars projects start and transferring of fund start every day there was not less than one lakh dollar transfer. The United States of America pour billions of dollars in Central bank of Afghanistan for the country economic boosting. While as we know it has some negative outcomes, also the main negative outcome of this was the corruption and control where the banks are newly developed and there was no controlling over that much of amount so the result leaking of fund and money laundry.

As taking part in the interview with the CEO of the banks and business owners, we have still some hope for this issue controlling and making some new laws and regulation for the international and domestic banks of Afghanistan. the most worst situation for the

banks were in 2013 when one of the bank's collapse due to the leakage of the fund and fail at that time the central bank of Afghanistan took the situation under the control and lead it in the right part.

This happen because the bank provides so much loan to the foreigner's investors. Who wants to transfer their fund through that bank outside of the country result the banks cannot stand over providing that much of amount to their customers. which they had already share in the projects with them so the bank got fail this was the worst case ever recorded in the banking sectors of Afghanistan.

Q3: how did international banks made a change in the banking system. Moreover, what kind of technology they are using for best offering services?

A3 the international banks somehow made a change in the economy of the country by bringing new technology ATM machines and western union and swift codes for the transferring money.

A3 the new system is more useful that they use old system instead of using books for keeping the records. They have now data center and keep all the data of the banks in the data center they keep the all information of the customer opening and closing accounts and transferring of amount in different countries.

A3 according to Mr Ravi Kumar the manager of AIB bank the new system of recording and bookkeeping is very efficient and active. With low cost most of the banks can use the same system which is also been used in different banks in INDIA.

EVALUATION

As the international banks opens the branches in the Afghanistan. They introduce the new technology like ATM machines and master's cards and other financial services for the development of banking sectors. It was good for the banking sector and business sectors because both working equally, side-by-side project sector also had great opportunity but somehow there were still some challenges from the Central bank of Afghanistan.

In 2017, one of those banks has banned in Afghanistan due to some illegal issue of transferring the fund the bank belongs to the Pakistan HBL Habib Bank of Pakistan.

In 2014, standard chartered bank also banned from operating in Afghanistan. Because the bank face so many challenges most of their contract was with the military and the military funds were missing or did not reached at time by the law of the central bank of Afghanistan it got banned and cannot operate any more in Afghanistan.

Q4 what are the main role played by the central bank of Afghanistan?

A4 the biggest part in the economy of the country role-plays the central bank of Afghanistan. For achieving the target market and remaining, the top position in the economic scale is a challenging job.

A4 facing the most challenging job in banking history of Afghanistan money laundry and leakage of money to other countries.

A4 creating unique method of controlling the international and domestic banks of Afghanistan and money supply

EVALUATION

After the new era the central bank of Afghanistan, face so many challenges during making the new rules and law for the international banks and domestic banks of Afghanistan. Like the money laundry was the biggest challenge and most of the banks has been black listed through all those years because most of the banks are linked with the New York bank of USA and they have been caught those activities.

The United State of America embassy start a project with the central bank of Afghanistan in 2010 in the name of (AML) anti money laundry at some point this project was successful to develop and train all the employee of the bank of being aware of money laundry in the state banks

Habib bank of Pakistan was black listed by the New York bank of USA because of supplying the fund to terrorist. Moreover, standard chartered bank has black listed

because of supplying money to UAE bank of emirates. These were the two-international bank which operating in Afghanistan and one domestic bank has also been black listed in the name of Kabul bank because of opening lottery program and up to one million dollar has with draw without any being updated the report to the central bank of Afghanistan.

Q5 what the central bank does besides controlling and leading?

A5 According to the general manager of central bank. The bank not only try to control all these activities but look forward for the best opportunities and big projects for the economy of the country.

A5 applying the financial project developed by the USAIDS like AML anti money laundry funds and training the entire employee for the project.

A5 getting involve directly in monetary funds and other financial institution who wants to start operating in Afghanistan like VFS (vision financial services)

EVALUATION

The central bank of Afghanistan not only take part in controlling and leading the plans but also make some changes in the economic sector of Afghanistan and plays important role in the economy of Afghanistan. Leading the development programs, which where been provided and funded by the United State of America. And besides that, the central bank of Afghanistan also had contract with German Commerce Bank and GIZ Germany embassy was directly involved in bank notes of Afghanistan to create it and supply it to central bank of Afghanistan.

With all these issues the Central Bank should also had great focus on financial institution and other financial officer which were located in the capital city and were operating in Afghanistan. Moreover, the jobs of those financial institutions were providing loans on different bases to their customers and also buying and selling of commodities like gold cooper sliver etc.

Q6 what are the challenges for Afghanistan economy?

A6 mostly every country is suffering some losses in this year of economic crisis in all over the world still Afghanistan hold his position.in addition Afghanistan is the country for among 183 countries of easy doing business mainly SMEs.

A6 Afghanistan was the only country, which was growing so fast and the economy of Afghanistan also growing by time. However, it faces too many challenges. Like money laundry money leakage and other issues.

A6 still there was a window to regain the same position but being out from the economy crisis, which has taken place all over Asia, is a challenging and though job.

EVALUATION

Maintaining a good position in the economic scale all those years is a challenging job for the Afghanistan economy. In addition, the trade routes, which have blocked by the USA and Pakistan, was not good sign for Afghanistan economy. most of the trade where be done from IRAN bandare Abbass port in which goods were entering in Afghanistan soil from that way mostly the petrol and gas other resources were used by IRAN trade route.

The other trade route which was in Pakistan by the name of Karachi port also blocked by the government of Pakistan from that port most of the clothes and food resources were entering in the country. Thus, these two-main trade route were blocked so it had negative impact in Afghanistan economy still Afghanistan trade route are facing some challenges. Somehow, these problems have solved now a day. Most of the trade has taken place with airplanes most of the goods and other resources are deploying and transferring by air and new port has been open by the name of CHABAHAR with the help of INDIA and IRAN government it is a good sign for the country and economy of the country.

Q7 what are the positive impact for Afghanistan economy?

A7 Mr Ranjeet Kumar senior finances manager said that there are still many challenges for the Afghanistan economist to face it but as far as they are dealing with is good for the country like Afghanistan.

A7 he also points it out that if Afghanistan take serious step in export, import of country, and find out the better way to dealing with the neighbor countries will be great outcome for the country.

A7 he also mentions the tax control and tax payment by the government of Afghanistan. If the tax Monitoring is develop by modern technology, it will be better for the Afghanistan and for the economy of the country.

EVALUATION

The economy of Afghanistan still has some issue to be solved from inside main issue of them is tax monitoring. Most of the goods are coming in Afghanistan with paying low tax or they do not pay any tax to the government. That why the government of Afghanistan give this project to a non-governmental organization to review the tax process and provide the full detail about the tax to show to the Administrative office.

Besides that, there the presidential office has two more offices that works under the Administration office. One of them is CRIDA Capital Region Independent Development Authority the main job of CRIDA was to apply those projects in which other governmental sector has failed to apply or had some issues and the detail of the entire project is monitoring by Administration office and by President of Afghanistan by himself.

Q8 what are the effects on international banks and domestic banks, which are been black listed from Afghanistan.

A8 the international banks of Afghanistan are now working under the law of Central bank of Afghanistan and the central bank of Afghanistan is observing quite close due to some loss in 2012.

A8 after the black listed of Kabul bank some people loss their trust on banks and it had negative impact on people of Afghanistan.

A8 besides losing the trust of the people from the banks the central bank take part of this serious issue and provide some projects to gain trust to the banks again.

EVALUATION

After the losing trust on the banks and collapsing one of the banks. Domestic banks and one of the international banks people take some space from banks and start saving money at their homes but the central bank and some other domestic bank take some serious step on that by providing much better facilities to the people to gain the trust again to the banks of Afghanistan.

Providing long-term loans in the phase of projects bases and providing long-term relationship with customer in bases of buying homes or buying cars.

In addition, most import of that the salary of the governmental and non-governmental organizations is provide by these banks at any time. In addition, the bills of the telephone tax and electricity everything is list to the banks people should pay to the banks.

Q9 how does the Domestic banks works under the control of CBA?

A9 the domestic banks of Afghanistan are going smoothly according to the central bank of Afghanistan made rules and regulations.

A9 the domestic banks are following those rule and regulation, which have guided by the central bank of Afghanistan.

A9 the central bank of Afghanistan has provided detail vis guide line to all the domestic and international banks which are operating Afghanistan and those banks must follow those guide lines for example loans interest rate tax payments and other facilities.

EVALUATION

The central bank of Afghanistan has provided detail guided line for all the banks in the country, which are operating in Afghanistan. Some of them are clearly mention the tax rate the interest rate and other governmental payment issues

Moreover, in the other hand the central bank control everything and monitor every single issue in the banks. They central bank of Afghanistan make a team every month and send them to each bank for tracking the transaction of each year most of them also caught some fraud cases in banks and they give their report to the central bank of Afghanistan According to the law of Afghanistan banking sector. Those banks have to pay some fine to the central bank of Afghanistan otherwise their banking license will be block and they cannot operate any more in Afghanistan market.

Most of all the central bank have a close view of other financial institutions which are newly open in Afghanistan market the famous of them are VFS vision of finance service these financial instructions are developed and providing financial facilities to the business sectors and other non-governmental sectors.

Q10 what was the view of the ministry of finance of Afghanistan?

A10 According to Ministry of finance spokesperson. The Afghanistan economy will take a new look after the new law announced by the President of Afghanistan.

A10 the president of Afghanistan increases the tax on every business SMEs and large projects and give the monitoring of these all tax payment by non-governmental organization.

A10 the administration office of Afghanistan is already taking control over all financial issues and has close over view each month with detail with the help of Central bank and World Bank program.

EVALUATION

The Afghanistan economy has face so many challenges due to all those years but it is time to change it. People were losing the trust in the banks and people were escaping to other countries due to unemployment rate get high somehow the president of Afghanistan take control in all over it. In addition, implicate many successful projects that help in the development of the country. Such as gas pipeline new railway and other facilities for the business sectors.

The Afghanistan government is focusing much more in developing financial program for the people of the country. Which is very important for the country through these financial programs the tax payment will be clear and the rate of those business sector which are not paying the tax will be low because tax is the money of the government, so it is illegal to skip with the governmental tax. Many of the business sector license has block by the ministry of finance they cannot operate in Afghanistan market.

The view of the ministry of Afghanistan was clearly defines that no one should skip form the government tax because they should be charge or sentences of canceling their business license and it will may a negative effect for both business man and for the government. The government is advertising in major quantities about the tax payment and other bills.

CONCLUSION

As the research on the development of the international banks and domestic banks of the country, we have come to the point that what are the outcomes and its positive and negative effects on the country economics somehow when the international banks start operating in Afghanistan. The economy of the country boosts up because more funds are pouring in the country so domestic banks were not enough to supply or to take part with less experience in financial institution with foreign currencies. So, it was a great deal between the Central bank of Afghanistan and international banks to keep working beside the domestic banks of the country but under the law of the central bank of Afghanistan. Somehow with the distribution of the projects and money fund transferring also with less time evaluating tanning programs which leads the employee to the new banking technology and this was a good result of the country economic. As far as the banking system work beside the Central Bank of Afghanistan the economy scale was growing and unemployment rate was low but somehow when corruption take place some of the financial institutions has collapse and fallen down due to this situation the economy of the country take slop down. When the new president arrives, he takes some serious steps in the country economics before the money was coming to Afghanistan but controlling and monitoring was not good and some of the large business with small business skip the tax process and this lead the negative impact on the country financial situation. The Afghanistan economy has face so many challenges due to all those years but it is time to change it. People were losing the trust in the banks and people were escaping to other countries due to unemployment rate get high somehow the president of Afghanistan take control in all over it. In addition, implicate many successful projects that help in the development of the country. Such as gas pipeline new railway and other facilities for the business sectors.

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it is illegal to skip with the governmental tax. Many of the business sector license has block by the ministry of finance they cannot operate in Afghanistan market. The central bank of Afghanistan has provided detail guided line for all the banks in the country, which are operating in Afghanistan. Some of them are clearly mention the tax rate the interest rate and other governmental payment issues

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