

## **Investigating the liquidity situation after the Taliban came to power in Afghanistan**

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### **Abstract**

The aim of this article is to analyze and know the financial situation of Afghanistan, especially the liquidity situation of banks and people's deposits after the Taliban came to power. Liquidity is the risk to a bank's earnings and capital arising from its inability to timely meet obligations when they come due without incurring unacceptable losses. Bank management must ensure that sufficient funds are available at a reasonable cost to meet potential demands from both fund providers and borrowers. Afghanistan's banks continued to face a severe liquidity crisis during the Taliban's coming to power, with access to physical bank notes being constrained and banks facing significant liquidity challenges due to declining economic activity, a lack of trust in the banking center among Afghans, and an inability to transact internationally. In this research, we use the submissions of international organizations, talking to people in the process of receiving money from banks, and the reports of private banks to examine the liquidity situation of banks. As we have seen, after the Taliban came to power, the Afghan banks faced a lack of liquidity, and some of them even went bankrupt.

Key words: Liquidity; The Taliban and the Banking System;

## Introduction

With the Taliban coming to power in Afghanistan The political crisis that began on August 15, 2021, brought about a significant economic contraction, and Afghanistan's financial sector remains in crisis. The regulations established in relation to the repayment of customer deposits are very restrictive and are changing. These regulations are changing every day and have created many problems for people. Individual account holders can get 20,000 Afghanis per week, and corporate accounts can get 5% of the available balance, which is problematic for many individuals and companies. Both domestic and international payments remain severely disrupted. (World Bank, 2022a)

The National e-Payment Switch of Afghanistan (the Afghan payment system) remains out of service due to the DAB's inability to maintain the external maintenance contract. Clearing and settlement are impaired (including for interbank transactions). Given these difficulties in the banking sector, firms are increasingly relying on cash and Hawala (Send) payment systems for domestic transactions. The loss of correspondent banking relationships has had a significant impact on international payments. Given the current political environment, most international banks do not have the appetite for risk to transact with the Afghan financial system. (*Afghanistan Targeting of Individuals*, n.d.) As a result, correspondent banks have de-risked completely or significantly and have restricted transactions with Afghan banks. The breakdown of international payment channels affects larger formal firms more than small businesses, as they rely more on global markets and cannot use Hawala (send) because their clients seek International transfers are only allowed for corporate clients for selected purposes, such as food and medicines. DAB has issued a circular nominally allowing corporate clients to withdraw up to USD 25,000 per month (including AFN equivalent) or 5 percent of deposited assets, whichever is lower. (Rodrigo Garcia Motta, Angélica Link, Viviane Aparecida Bussolaro et al., 2021)

The liquidity crisis in the banking sector has been exacerbated because a significant portion of the AFN notes in circulation have deteriorated and are no longer usable. DAB had ordered the printing of new banknotes before the Taliban takeover. Following the takeover, however, the two international printing contracts signed by DAB for that purpose could no longer be honored. Recently, through the intermediation of the United States State Department, the Crown Agent bank (AIB's correspondent bank) agreed, on an exceptional basis, to process the payment from the ITA to the relevant firm for the printing of AFN notes. Before that transaction can occur, DAB must present a plan to distribute new banknotes and collect old banknotes, as well as a timeline for issuing these new banknotes. DAB cannot control the domestic money supply with its limited access to Afghani notes. (Of & Projects, 2014)

The most recent publicly available financial information (10 on the banking sector) paints a bleak picture of its stability and soundness. All banks, except one, have reported significant losses for the quarter ending in March 2022. These losses are predominantly due to the inability to collect interest income and foreign exchange losses. These losses are reported despite significant forbearance measures put in place by DAB (and because banks are still not fully reporting credit losses, actual losses may be much higher than currently published). All but one bank has seen its share of customer deposits drop significantly since September 2021. This drop confirms that those customers have lost trust in the banking sector's ability to safeguard their deposits. (*Policy Brief The Afghan Banking and Financial System Situation Report*, 2021)

## Literature Review

### Banking:

The representative of the United Nations Development Program (UNDP) says that Afghanistan's financial and banking payment systems are in disarray; the report describes the liquidity situation and the banking and financial situation. The system before the political transition on August 15, 2021, as well as the current situation The system is almost at a standstill, with humanitarian interventions thwarted by the country's liquidity crisis and deepened by uncertainty from depositors and international markets. IMF forecasts cited in the report predict a 30 percent contraction in Afghanistan's economy for 2021–2022. Immediate and decisive action is necessary, and delays in decision-making are expected to increase the costs of a collapse of the banking system. Bitter Predicament Abdullah Al-Dari, UNDP Resident Representative in Afghanistan, notes that while the collapse of the financial system is exacerbating economic activity, which is rapidly declining, banking is also one of the country's most important connectors to the outside world. "Without the banking sector, there is no humanitarian solution for Afghanistan." "Do we really want to see Afghans completely isolated?" The report recommends a number of coordinated measures, including depositor insurance. guaranteed sufficient liquidity for the system to meet short- and medium-term needs; and credit guarantees and loan deferral options for the real economy. (*AFGHANISTAN ECONOMIC MONITOR HIGHLIGHTS*, 2022)

There has been a lot of international support for the development of credit facilities for small and medium enterprises. Amidst the current turmoil, banks have stopped extending new loans. In the current situation, the NPL ratio seems to be increasing, which is likely to lead to the collapse of SMEs and the banking sector. Immediate and decisive action is necessary, with a delay in decision- making expected to increase the cost of a collapse of the banking system—a dire predicament as it may become increasingly difficult to restore the system in the long run. "We have to find a way to

make sure that if we support the banking sector, we don't support the Taliban," the head of UNDP in Afghanistan told Reuters. possible options, and we have to think outside the box. "What was unthinkable three months ago must be thinkable now." Afghanistan's banking system was vulnerable before the Taliban came to power. But since then, development aid has dried up, and billions of dollars' worth of Afghan assets have been frozen abroad. The United Nations and aid groups are now scrambling to get cash. import coffee into the country (*UNDP-AFG-Afghanistan-Socio-Economic-Outlook-2021-2022*, n.d.)

Liquidity: The liquidity of Afghanistan's banking sector reached an average of 85% in the last several years of the Republic, and these funds, which were the deposits of the people, were kept completely stagnant for various reasons, including the lack of suitable investment opportunities. Meanwhile, during the presidency of Ajmal Ahmadi in the central bank, the process of printing new money worth 100 billion Afghanis as a strategic reserve of money, the preliminary work of which was done under the supervision of Wahidullah Noshir, the previous supervisor of this bank, was stopped. Then, as the challenge of the lack of physical money in the central bank intensified, this bank resumed the procurement process of printing money a few weeks before the fall of the republic and sent the first delegation to visit the money printing facilities of a French company about ten days before the fall of the republic. I traveled to France(*U . S . Military Withdrawal and Taliban Takeover in Afghanistan : Frequently Asked Questions U . S . Military Withdrawal and Taliban Takeover in Afghanistan : Frequently Asked Questions*, 2021)While the central bank was facing a severe shortage of physical money, Ajmal Ahmadi increased the interest rates on capital bonds and overnight deposits of the central bank by five and ten times, respectively, in

order to solve the liquidity problem of this bank in early 2021. This means that the interest rate on capital bonds increased from 1% to 6.5%, and the interest rate on overnight deposits increased from 0.5% to 3% and then to 6%. With the excessive rise in interest rates, the central bank drew excess liquidity from commercial banks by selling capital bonds and depositing commercial banks in the convenience of overnight deposits. In addition, to control the amount of money in the market, instead of bringing cash dollars from the account The central bank at the Federal Reserve Bank of America withdrew nearly \$700 million from commercial bank holdings in the current accounts of these banks at the central bank. He auctioned off the prince's head. In this way, Ajmal Ahmadi quietly sounded the alarm about the liquidity crisis in Afghanistan's financial sector. After the fall of the republic, the liquidity crisis and the influx of hundreds of thousands of people into the bank offices made the Taliban leaders very concerned about controlling the situation. worried These pressures caused the Taliban to work to control the situation. (*Mir Ahmad Shakib* , n.d.)

## **Methodology**

The research method for this study is a descriptive study with a qualitative approach. The results of this study describe the submissions and observations in the field so that they can have a clear picture of the financial situation. Banking and especially liquidity, after coming to power, provide financial reports in response. Samples in qualitative research are often referred to as participants or informants (Yuliansyah et al., 2016) The selection of informants in this study used the purposeful sampling method with considerations that are directly related to the submissions of international organizations (UNDP), the World Bank, the Central Bank Department (DAB), and other departments. data by observing the banking sector and studying the submissions of international and domestic institutions such as Vision and Mission. Targets. The strategy of the annual report and publications of banks and international observers, that is, by analyzing the

situation of banks, the liquidity situation in Afghanistan, and the way of paying people's deposits, has been obtained and collected from the accounting information system. This research was conducted in the banking and financial field in Afghanistan, which includes the central bank and private banks, and in the field of finance. In any case, it was done using observations and submissions. The data was analyzed using documents.

## Result and Discussion

The results of this research are in the form of a statement about how the monetary situation in Afghanistan after the Taliban came to power, according to the indicators that have been analyzed, was in a state of liquidity crisis, and the people at the top of the banks had no regard for what we found in the situation. Currently, all people withdraw money from the bank, and no one saves money there again. In general, the findings of this research are described in charts and graphs.

Bank loans from the central bank	97AF billion
The complex has commercial banks	311AF billion
People's assets with commercial banks	267AF billion
Their net assets are banks	30AF billion
Capital of commercial banks in trade	36AF billion
Banks' capital in Bonds	45AF billion
collection of aid after the Taliban came to power	1.1 billion dollars
Reduction of economic activities	30%
Reducing companies' use of banks	82%
Reducing the number of bank branches	370 Branch

Chart 1: Liquidity in Afghanistan

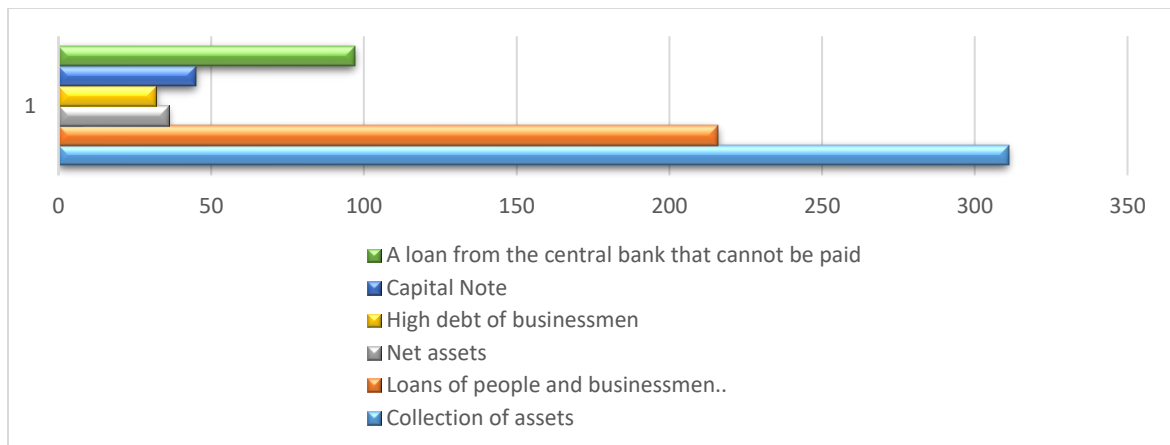


Figure 1; The Liquidity of Afghanistan

After the Taliban take power in 2021, Afghanistan's financial sector is grappling with acute liquidity challenges, the freezing of Afghan assets abroad, and the inability of the central bank to print new Afghani banknotes (AFN). Shortages of US dollars (USD) and Afghani notes, along with international sanctions, have created a crisis of confidence in the banking sector. All but one bank reported significant losses for the first quarter (Q1) of 2022, largely due to an inability to collect foreign exchange gains and losses. Non-performing loans (NPLs) are under-reported due to central bank seizure measures. Stability risks in the banking sector are increasing rapidly, made more worrying by the limited resolution capacity of DAB Bank. Currently, 12 banks are operating, of which three are public banks and the rest are private. Banks have most of the people's deposits with them, which have faced many problems after the recent developments and the fall of the previous government. Every day, many people line up in front of these banks' representative offices and try day and night to get their money and deposits back. They are facing many problems. Currently, these banks are not able to maintain their representation, which has caused problems for people and business owners. Lack of access to bank deposits at the central bank is another problem that has made banks poor. (One Year in Review Afghanistan, n.d.)



About 97 billion Afghanis are the deposits of private banks with the central bank, which is now unable to repay the money of private banks on time. Another part of the capital of these banks is invested in capital bills or securities of the Central Bank, the amount of which has reached about 45 billion Afghanis and cannot be settled soon. According to the latest official reports published by private and state-owned banks between December 2020 and June 2021, the total assets of commercial banks, including seven domestic private banks, three state-owned banks, and two foreign banks, reached \$311 billion at the end of June. (AFGHANISTAN ECONOMIC MONITOR, 2022)

Afghani, which is 276 billion. Its Afghani includes debts, and only 36 billion Afghanis make up the net assets, or assets, of these banks, which constitutes nearly 11% of the total assets of the banks. Afghanistan International Bank, National Bank, Azizi Bank, and Islamic Bank are among the banks whose capital is more than 30 billion Afghanis. Long-term investments, investments in capital bonds, and loans to companies are among the sectors in which the largest amount of bank money is invested. The total amount of bank loans to businesses has reached 32 billion Afghanis, and another 45 billion Afghanis have been invested in capital bills or securities issued by the Central Bank. Blockage of the Central Bank's assets and concerns related to the fight against money laundering and supply-side financing of terrorism (AML/CFT) hinder the functioning of normal correspondent banking relationships between Afghan and foreign banks. On September 14, 2022, the US government announced the establishment of an Afghanistan fund using \$3.5 billion in frozen assets. This fund will be established at the Bank for International Settlements and will be managed by an independent board of directors. However, the methods are still unclear.

In addition, the US government has issued authorizations to ease sanctions concerns and support the delivery of humanitarian aid. (AFGHANISTAN ECONOMIC MONITOR THE WORLD BANK 2 1. PRICE CHANGES AND AVAILABILITY OF BASIC HOUSEHOLD GOODS Increased Food and Fuel Prices Drive Headline and Basic Household Goods Inflation. 1.1. OVERALL CONSUMER PRICE INDEX 1.2.

*INFLATION Y-O-Y*, n.d.; *Policy Brief The Afghan Banking and Financial System Situation Report*, 2021)

However, international banks are reluctant to re-establish correspondent relationships with Afghan banks due to AML/CFT concerns. Official payments into and out of Afghanistan are problematic for all actors—including the Interim Taliban Administration (ITA), humanitarian agencies, and the private sector—for critical imports such as electricity, food, and medicine. If it continues, maybe the doors of all the banks will be closed and Afghanistan will go into crisis. The United States is working with the United Nations, UNDP, and other international institutions and countries to find ways to supply liquidity and infuse it so that the people of Afghanistan can access international support in ways that banking does not. Ned Price, a spokesman for the State Department, said that it would flow into the coffers of the Taliban. (Thomas, 2021) We also found that many banks have lost their technical expertise and staff. With the reduction of operating costs, the total number of bank branches in the country decreased from 410 to 370. Capital controls and DAB deposit withdrawal limits have prevented the complete collapse of the banking system. But some banks cannot meet the requests of customers for funds within the allowed limits. The overall level of bank deposits has decreased significantly. Restrictions on commercial deposit withdrawals and restrictions on international payments also hurt economic activity. The balance sheet of the banks has worsened due to a lack of liquidity and a decrease in the quality of assets. Some banks have recently improved their liquidity due to collection efforts and loan freezes. Anecdotal reports suggest that deposits have stabilized, but this assessment is not reflected in the latest available data (World Bank, 2022b)

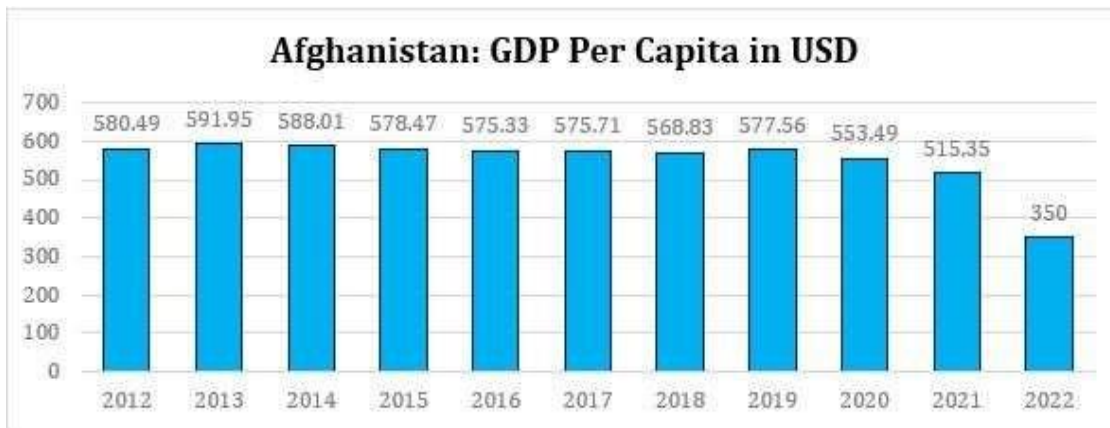


Figure 2: GDP of Afghanistan

Real GDP is projected to decline in 2022, with an accumulation of 30–35% between 2021 and 2022. Head for a low growth path (2.0–2.4%) for the next two years, with no increase in per capita income due to high growth. Population growth and alleviation of poverty or food insecurity. (*Policy Brief The Afghan Banking and Financial System Situation Report, 2021*)

Exchange rate – Index (Higher = Depreciation)

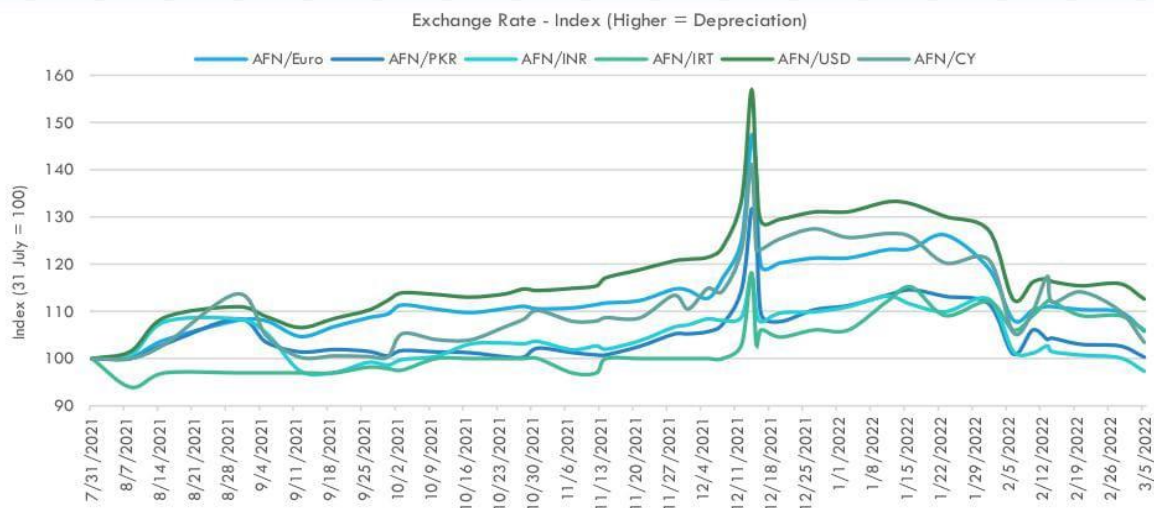


Figure 3: The exchange rate depreciated following the crisis, but has recently recovered (AFGHANISTAN DEVELOPMENT UPDATE TOWARDS ECONOMIC

*STABILIZATION AND RECOVERY, 2022; AFGHANISTAN DEVELOPMENT UPDATE TOWARDS ECONOMIC STABILIZATION AND RECOVERY, 2022; U . S . Military Withdrawal and Taliban Takeover in Afghanistan : Frequently Asked Questions U . S . Military Withdrawal and Taliban Takeover in Afghanistan : Frequently Asked Questions, 2021)*

Meanwhile, the Afghani (AFN) depreciated significantly against the US dollar (USD)—by 30% between August and December 2021—before gradually increasing and stabilizing at around 88 Afghani/US\$ by mid-September 2022. mainly thanks to cash shipments made by the United Nations (UN). Due to the country's inefficient payment system, the United Nations began cash shipments in dollars to support humanitarian operations from November to December 2021 (a total of \$1.2 billion by August 2022).

Data released by the central bank, the Da Afghanistan Bank (DAB), shows that between the end of June and mid-September 2022, the value of the Afghani AFN fell by 0.5 percent against the US dollar and 1.9 percent against the Chinese yuan. However, the AFN gained 6.1% against the euro, 11.6% against the Pakistani rupee, and 0.2% against the Indian rupee. The last USD DAB auction was held on March 23, 2022. (*AFGHANISTAN ECONOMIC MONITOR, 2022)*

## **Conclusion**

1. With the Taliban coming to power in Afghanistan, the financial sector of Afghanistan was in a state of crisis.
2. Banks are faced with a lack of money, and most of them are in bankruptcy.
3. Withdrawal limits at banks were determined by the central bank of Afghanistan. People spent the night trying to get their money from the banks, which indicated a lack of money in the banks.
4. People's trust in banks has been lost, and currently no citizens are willing to deposit their money in the safe bank in Afghanistan since the Taliban came to power. In fact, all of them only pay money, and none of them deposit the money with a small percentage.
5. World aid was one of the factors that helped prevent the liquidity crisis in Afghanistan after the Taliban took power.
6. reduction of economic activities by about 30% compared to the past.
7. reduction in the number of bank representative offices due to a lack of customers Before the developments, the number of bank representative offices reached 420, but after the Taliban came to power, their number reached 370. If the trend of people's distrust and lack of money continues, maybe it will be less than that.
8. Depreciation of the Afghani against the dollar Before the changes, each dollar was traded at 79 Afghani, but after the Taliban came to power, each dollar was traded at 90-100 Afghani, which is the main reason for the reduction of aid and the lack of dollars in the treasury of the central bank. It was Afghanistan.

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