



## Center for Strategic & Regional Studies

Kabul

### **Weekly Analysis**-Issue Number 257 (June 23-30, 2018)

Weekly Analysis is one of CSRS' publications, which significantly analyses weekly economic and political events in Afghanistan and the region. The prime motive behind this is to provide strategic insights and policy solutions to decision-making institutions and individuals in order to help them to design best policies. Weekly Analysis is published in local languages (Pashto and Dari) and international languages (English and Arabic).

---

#### **In this issue:**

Preface..... 2

#### **Erdoğan Presidency and its Impacts on the Region**

Turkish Early Elections ..... 4

Elections Results ..... 5

Changes in the Constitution and the System..... 5

Its Impacts on International Politics and the Region ..... 6

Its impacts on the Afghan-Turk ties ..... 7

#### **Depreciation of the Afghani currency; its factors and effects**

Modern Banking in Afghanistan..... 9

Afghan Currency Value (2001-2018) .....10

The Depreciation of Afghani (Currency) .....10

## Preface

Turkey is now a powerful country not only in the region but also in the world and it has got influence on regional policies and issues; thus the Turkey's Presidential and Parliamentary Elections were closely observed on the international level.

The Islamist Justice and Development Party was, once again, the forerunner in these elections which paved the way for Recep Tayyip Erdogan to further extend his 15-year of power. Erdogan was Prime minister for two terms since 2002 and he was serving as President in the last term as well. His prominent role in Turkey's politics and economic growth of the country were the factors that put him in power for the fourth time. Thus, the first part of the Weekly Analysis has focused on the impacts of the Islamist government in Turkey, itself, the Islamic World and the international politics.

In the second part of the Analysis, You would read about the unprecedented devaluation of Afghani (Afghan currency) against foreign currencies and its impact on the lives of the people. Nowadays, one dollar is exchanged with 73 Afghanis that has put a tremendous impact on goods' prices. Although the devaluation of Afghani is directly related to the appreciation of US Dollar; but what are other factors that have put the shadow on depreciation of Afghani? In the second part of the Analysis, we have tried to answer these and other similar questions.

## Erdoğan Presidency and its Impacts on the Region



On June 24, Turkey held Presidential and Parliamentary Elections that were watched by the world. These elections were so important due to various reasons.

The powerful leader of Turkey, Recept Tayyip Erdoğan became the president of the country for five more years as a result of the Presidential Election in Turkey. Besides that, his party received the vast majority of seats in the Parliamentary Elections as well.

Turkey's elections were so important and had grabbed the international attention because Recept Tayyip Erdoğan became the leader of the country for the fourth consecutive term. Turkey has reached a higher level of economic and political stability in last one and a half decade which has given it the chance to play an effective role in the global, Islamic World's and Middle East's issues.

In here, you will read the Analysis about the change in the Constitution and governmental system, early elections and arrival of Erdogan with more power and the impact of these evaluations of Afghan-Turk ties.

## Turkish Early Elections

General elections were held throughout Turkey on 24 June 2018. Originally due on 3 November 2019, President Recep Tayyip Erdoğan announced on 18 April 2018 that the vote was being brought forward.

Emergency State was being declared in Turkey after the failed coup of July in summer of 2016 and the Parliament approved this decision of Erdoğan for three other months where elections also became held in a state of emergency. There were some important reasons behind holding the elections:

**First:** deteriorated and rapidly changing situation of the region which is, now, faced a lot of economic and political threats and tackling these threats requires a powerful and centralized ruling system.

**Second:** possible threats and depreciation of Turkish currency (Lira).

Although, Turkey's economy has a growth of 7.4 percent in 2017, but rise in inflation and unemployment has threatened its economy. The political situation in Turkey in 2017 caused Lira to lose its value against US Dollar and for one US Dollar to be equivalent to 3,94 Lira at the end of the year. The Turkish currency unprecedentedly became devalued. It lost its value by 16 percent between the beginning of the year and May 2018. Turkish Lira became devalued 3 percent against US Dollar in one day only which caused one US Dollar to be sold with 4,8 Lira. Therefore, Turkish president asked people to exchange their foreign currencies into national currency (lira).

Hence, Turkey thought that early elections will take out the country from the current obscure situation and will bring stability and calmness to it. They also thought that international markets will show a positive response to these elections and will grab further foreign investments.

**Third:** considering the 2016 failed coup and changes brought in the constitution through the referendum of 16 April 2017 and increasing threats of opposition parties resulted in these elections in order to have these changes applied as soon as possible.

## **Elections Results**

Although Turkey is a divided country when it comes to ethnicity and religion; however, looking at Erdoğan's 15-year government from one hand and his measures after the 2016 failed coup on the other hand had brought empowered hopes for victory of Erdoğan for the fourth time.

As expected, Erdoğan won nearly 53 percent of the votes and his rival for the Republic Party (CHP) won 31 percent of votes. On the other hand, the Justice and Development Party (AK Party) of Erdoğan won more votes (42 percents) than other parties and grabbed 295 seats out of all 600 seats of the Turkish Parliament. AK Party, however, continues its coalition with National Movement Party (MHP) lead by Bahçeli in order to the absolute majority of 343 seats. Hence, Erdoğan will be able to rule the country as a powerful president without encountering any serious resistance and/or opposition.

Turkey's Electoral Body had estimated that 56.3 million Turkish citizens will participate in the elections; however, 59.3 million people took part in the elections and thus, the participation was 87 percent. Overall, these elections were transparent and the most important rival and candidate of CHP, Muharrem İnce accepted his defeat and did not protest on the elections' results.

## **Changes in the Constitution and the System**

The elections were originally meant the change in the system of the country and that's why they were too important. The April 2018 referendum had brought 18 changes in the Constitution whose important were increasing in authorities of the President, the extension of Presidential Term from 4 to 5 years and etc. It was an enormous change since almost one century and formation of the new system in Turkey.

51 percent of people voted "YES" in the referendum on change in Constitution, the premier position became removed and the powers of the president became increased. Erdoğan, considering the regional conditions and Turkey's economic conditions, wanted to make prompt decisions and take the country out of the state of emergency.

The changes in Constitution and the system from Parliamentary to Presidency make Erdoğan able to also become a candidate in 2023 and in case of winning the elections, to stay in power till 2028. Meanwhile, it enables Erdoğan to form his own government and observe the judiciary as well.

According to the ruling party of Turkey, the main idea behind these changes is to bring economic stability; however, its opposition called these actions “autocratic and dictatorial”. Therefore, the main rival of Erdoğan; however, after accepting the elections’ result expressed concerned that Turkey is faced with the dangerous situation under the absolute power of one man after that.

### **Its Impacts on International Politics and the Region**

**Turkey:** The elections and Erdoğan’s arrival in power will defiantly have positive impacts on economy besides politics and security; because immediately after the announcement of the elections’ results, the Lira’s value which had been decreased against US Dollar by 20 per cent begun to increase and its value increase by 1 percent in one day in Asian markets only. Japan Economic Agency has also stated in the latest report that decreases in uncertainty in Turkey’s internal politics will have positive impacts on Turkey’s economy.

**Islamic World:** After AK Party power in 2002, it tries to gain the leadership of the Islamic World and thus play a prominent role in the Islamic World’s issues. Therefore, Turkey’s latest elections and Erdoğan’s arrival in power will have the remarkable impact of the situation in the Islamic World. In the upcoming years, Turkey will be evidence of a more Islamist government and its leading role in the Islamic World will be more prominent, which perhaps, result in tensions in its relations with the West.

On the other hand, Turkey is now seriously engaged in regional issues and its current position on Syria and Iraq will become further empowered. It will, again, ask for the removal of Bashar Al Asad and it, as promised, will take care of Syrian refugees well. It will also follow its previous policy on backing Qatar in the crisis between Qatar and other Arabian countries.

**International Politics:** Turkey's tensions with America and Israel is an important challenge and hard file for Turkey in the international ground, because these ties have been more deteriorated on the issue of Al Quds than every other time. Erdoğan has called on the Summit of the Islamic World immediately after the decision of America on transferring its embassy to Jerusalem, and so harshly counted America as a companion of Israel in its crimes.

However, it looks like that Turkey tries its best to prevent deepening the crisis in its relations with these countries for the sake of avoiding every kind of possible threat to its political and economic stability. On the other hand, as Turkey has differences with Russian in the Syrian case; however, it will keep good ties with Russia in order to have its positive powerful against the West.

### **Its impacts on the Afghan-Turk ties**

As previous, Islamism government will be formed in Turkey once again, and it is why it gives importance to its role and influence in Afghanistan. Uzbeks and Turkmens presence in Afghanistan and support of Turkey from exiled vice-president Gen. Dostum is the case that might have impacts on the bilateral ties; however, Turkey will now try to solve this issue peacefully and for Dostum to return to Afghanistan.

Turkey will also play its role in improving the Afghan-Pak ties as Pakistan is under international pressures now. With regards to this issue, the trilateral meeting between Afghanistan-Pakistan-Turkey was also agreed upon during Turkish premier visit to Kabul. End

## Depreciation of the Afghani currency; its factors and effects



The depreciation of the currency and its instability against foreign currencies in a country has an impact on domestic and foreign goods prices in the country and has an important place in its economy.

Afghanistan, which has been faced with challenges of political and security instability, is among the countries whose currency is not stable, and the economic situation in the country has always been ruthless in the face of the poor political and security situation.

Since then, Afghani [currency] has been falling for some years, especially during the era of the National Unity Government (NUG), and has now reached its lowest level. Overall, the value of Afghani against foreign currencies, especially the US dollar, had not depreciated to such an extent after the printing of the new currency in 2003. It has caused problems in the economic field and has put shadow on the lives of the people.

How did the modern banking system in Afghanistan begin and where is it now? What was the value of the Afghani currency during the past 17 years and which factors led to the devaluation of Afghani? These questions are discussed in this Analysis.



## Modern Banking in Afghanistan

Before the establishment of the bank and the emergence of the modern banking system in Afghanistan, the capital and property of the state were protected by the state treasuries and the people's capital were protected by the people themselves. Although there were at least a handful of traders in Afghanistan at that time, they were known among the people as "Sud Khor" and "Haram Khor", meaning who is involved in usury, and thus the people did not have an interest in dealing with them and/or exchanging money or valuable goods with them.

This trend continued until the late third decade of the twentieth century, but with the establishment of the first bank named "Da Afghan Milli Bank" in 1933 following by the establishment of "Da Afghanistan Bank (DAB)" in 1939, Afghanistan also entered the field of modern economic and banking system.

At first, "Da Afghan Milli Bank" as the only bank in Afghanistan, was functioning both as the central bank and as a commercial bank; however, with the establishment of DAB, publishing of money and other governmental banking tasks were transferred from Da Afghan Milli Bank to this bank.

Until 2001 and the fall of the Taliban regime in Afghanistan, various regimes changed the shape and type of Afghan money in accordance with their personal views. Even some jihadist parties or jihadist leaders had published and distributed their own special banknotes, but this situation came to a new stage in 2001 after the establishment of the new regime in Afghanistan.

In 2003, new Afghan banknotes were used in the country after the removal of the three zeros from former banknotes with a new title (AFN) having the code of (ISO 4217). In addition to government banks, several domestic and foreign private banks also began to operate in Afghanistan.

Although it has been around 85 years since the birth of the bank and the start of modern banking in Afghanistan, this country is. However, still one of the countries that never have a stable economic growth and a consistent, standard financial system trusted by the people and the world.

## Afghan Currency Value (2001-2018)

Afghanistan is a country where its economy has been neglected by its governments due to its political and security challenges during history. Ineffective government policies have stopped the country's economy from needed growth and the country's money to keep its value.

After 2001 and the formation of the new regime in Afghanistan until the arrival of the National Unity Government over the course of the past one and a half decade, the value of Afghani against a US dollar ranged from 46 to 57 Afghanis, which was also largely the result of the presence of foreign forces, the international community, organizations, institutions and various types of foreign offices in the country.

During the 2014 Presidential Elections, averagely, the value of Afghani was 57.22 against US Dollar; however, after formation of NUG, one US Dollar was equivalent to 58.11 Afghanis till the end of 2014. The value of Afghani got better at the beginning of 2015 as its value against US Dollar was 57.76 Afghani in January and 57.4 Afghani in February.

After first two months of 2015, Afghani harshly lost its value against US Dollar and one US Dollar was equivalent to 67.25 Afghanis at the end of that year. This situation has slowly continued in 2016 and 2017 and now, as we are in the midst of 2018, a US Dollar is equivalent to 73.30 Afghanis now.

## The Depreciation of Afghani (Currency)

The factors behind depreciation of Afghani are as following:

**Increase in the value of USD in the international market:** Deprecation of Afghani against USD is not limited to Afghanistan only, but the value of USD, in the international market, has increased against foreign currencies. For instance, the central bank of Afghanistan (Da Afghanistan Bank (DAB)) has recently announced that Pakistani Rupee lost its value against US dollar by 6 percent, Indian Rupee lost its value against US dollar by 4 percent and Iranian Riyal lost its value against US dollar by 12 percent; in the case, Afghani has lost its value against US Dollar by only 4 percent.

**Deteriorated economic conditions;** while in the term of the National Unity Government, a number of infrastructure projects became completed or inaugurated; government revenues were more profitable, with much of them were originated from tax on the consumption credit for telecommunication networks, but in general, the country's economic situation has become worse day by day in compare to last one and a half decade; unemployment is on the peak, and hundreds of thousands of young Afghans are on their way to Europe through dangerous routes; the country has faced with capital flow, and the country's economic growth has been diminished.

**Deteriorated Security and Political Situation;** presently, the most important obstacle toward economic growth and stability in the Afghan currency is the insecurity issue, intensification of the war and lack of political stability in Afghanistan. Afghanistan is currently in the worst political and security situation; internal disputes between the country's politicians and the escalation of the war by armed opposition groups are among the issues that have put shadow on the country economy. Therefore, as long as the security and political situation in Afghanistan is not improved, it will be difficult to come out from the current economic crisis.

**The Artificial Value of Afghani;** another reason behind devaluation of Afghani is supplying US Dollar to the market. Although this policy, to a specific extent, controls the prices and rates of Afghani against foreign currencies; however, it, practically, is able to keep the Afghani value artificially and for a short term.

**Reduction in the number of foreign troops in the country;** after 2014, with the withdrawal of a large portion of foreign troops, the supply of dollars in Afghanistan's markets also declined, as tens of thousands of foreign troops arrived in Afghanistan before 2014, requiring dollars to be invoiced for exorbitant military expenditures in this country. This situation maintained the value of Afghan currency in a relatively constant state, but declined Afghan value by reducing the supply of dollars in the market.

**The use of foreign currencies in transactions;** although transactions with foreign currencies are considered a crime under the Da Afghanistan Bank law; however, now, especially in the border regions of the country, most exchanges and transactions are conducted in foreign currencies (USD, Pakistani Rupees, Iranian Tuman); in the Western region they use Tuman, in the eastern and southern region they use Pakistani Rupees, and in the entire large economic and business transactions they use US Dollar, which has caused the devaluation of the Afghan currency, since the demand for the Afghan currency is decreasing and its value is decreasing in the market.

However, paying attention to the imposition and collection of taxes on imported materials, the protection of domestic production and the promotion of Afghan money in large-scale economic exchanges can have a positive impact on the value of the Afghan currency, but now, given the political and security situation in the country, and lack of government's serious attention by the government to the Afghan currency would make the value of Afghani decreased during this year.

Besides this possibility, the devaluation of the Afghan currency has led to rise in the rates of food, oil, gas and other essential materials for everyday life in the country and has left people in trouble. Over the past few months, the price of one liter of petrol has increased from 44 Afghani to 52 Afghani, 1 kg of liquid gas from 43 to 50 Afghani, one bag of Kazakh flour, from 4950 Afghani to 1150 Afghani, and the price of one kilo of green tea increased from 270 Afghani to 300 Afghani. Therefore, controlling and improving the situation requires taking serious measures by the government. End

---

**Contact Us:**

Email: [info@csrskabul.com](mailto:info@csrskabul.com) - [csrskabul@gmail.com](mailto:csrskabul@gmail.com)

Website: [www.csrskabul.com](http://www.csrskabul.com) - [www.csrskabul.net](http://www.csrskabul.net)

Office: **(+93) 202564049 - (+93) 784089590**



Chief Researcher: **Hekmatullah Zaland**

Researcher and Editor of Weekly Analysis: **Zia-ul-Islam Shirani**

Researcher and Distributor of Weekly Analysis: **Ahmad Shah Rashed**

Translated into English by **Abdullah Jawed**