

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 41

September 29, 2002

Statement by the Hon. **ANWAR UL-HAQ AHADY**,
Governor of the Fund for the Islamic State of Afghanistan,
at the Joint Annual Discussion

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**Mr. Chairman,
Mr. Köhler, Mr. Wolfensohn,
Distinguished Governors,
Ladies and Gentlemen,**

It gives me a great pleasure to represent Afghanistan in this Forum. After a relatively long and painful absence, Afghanistan is formally rejoining the international community and the Bretton Woods Institutions. Unlike the previous 23 years, this year the news from Afghanistan is significantly good.

Afghanistan is in the midst of profound positive political, social, and economic changes. Less than a year ago, Afghanistan was an oppressive theocracy; today it is a more inclusive polity taking promising steps toward democracy. Socially, the country is no longer segregated by gender, and, while maintaining its Islamic character, it is comfortably interacting with other civilizations. However, I do not want to dwell on socio-political changes in this Forum, but rather to inform you about the profound systemic economic changes, in general, and monetary changes, in particular.

The most fundamental economic systemic change in the past year has been the commitment of Mr. Karzai's administration to a market economy. For the past one-half century, Afghanistan's economy, especially the modern sector, has been controlled by the state. Even though efforts at privatization are still in their early stages, the government's commitment to a free and competitive economic system is unwavering. Accordingly, a newly adopted investment law strongly encourages both domestic and foreign private

investment in the country. The return of previously confiscated private property to the original owners is another manifestation of the government's commitment to the sanctity of private property. Similarly, the government's foreign trade policy orientation has a clear liberal character. In monetary matters, in the past 15 years, the main problem in Afghanistan has been the reliance of the government on printing money to finance the deficit. However, the Karzai government is now committed to a policy which permits no monetization of fiscal deficit.

Da Afghanistan Bank, i.e., the Central Bank of Afghanistan, is the agent for monetary changes in Afghanistan. To overcome most of the problems created by irresponsible printing of banknotes by various governments in the past 15 years, the Central Bank decided, last April, to introduce new banknotes and to withdraw old banknotes from circulation. Da Afghanistan Bank will launch its banknotes exchange operation on October 7, 2002, and the process is expected to be completed by December 4, 2002. Even though the banknotes exchange project is very costly, given the negative social and economic consequences of the existing chaotic currency situation and our expected gains from the introduction of new banknotes, we find it prudent to undertake the banknotes exchange project.

The introduction of new banknotes will enable us to reduce the high cost of cash transaction; it will restore the Central Bank's control over the printing and issuing of money; and, it will enable us to have an accurate count of the total amount of banknotes in circulation. Consequently, Da Afghanistan Bank will be in a position to pursue meaningful monetary policy aiming at general price and exchange rate stability.

With tremendous help from the IMF staff, Da Afghanistan Bank has also prepared a draft on central bank law and a draft on general banking law, which, respectively, call for the autonomy of the Central Bank and market competition among commercial banks. We are confident that in the next few months these laws will be adopted. We intend to privatize some of our existing state-owned commercial and specialized banks. We intend, also, to allow foreign banks to operate in Afghanistan, and the Central Bank to relinquish its commercial activities and to focus only on its own responsibilities. We have launched the computerization of the bank's operation; and, once again, with the help of the IMF staff, we have prepared a general plan for a comprehensive organizational restructuring of the Central Bank.

In short, Da Afghanistan Bank has launched a multifaceted modernization program. To implement our plans, we have received financial assistance from the USAID, Germany's GTZ, Sweden's SIDA, Britain's DFID, and the World Bank. We also have the promise of further financial assistance from the Asian Development Bank and the World Bank. With the kind of advice and financial assistance that Da Afghanistan Bank has been receiving, we are confident that we will be able to implement our reform and modernization plans within the next 18 months.

We are very appreciative of the assistance that we have received thus far from the international community. We are, however, definitely in need of further technical as well as financial assistance. We are confident that soon Da Afghanistan Bank will become a typical modern central bank, able to achieve price stability and help to create the macroeconomic environment for private-sector driven growth.

I thank the world community, especially the United States for its leadership in making it possible for Afghanistan to rejoin the world community. And I thank the IMF and the World Bank for their advice and technical assistance, and all donors for their material assistance. Afghanistan looks forward to becoming a normal member of the international community; your assistance will help us reach our goal.