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The Reserves of the DA Afghanistan Bank Belong to Afghanistan

Hell on earth.” That’s how the World Food Programme’s executive director describes the state of Afghanistan as it faces the world’s largest humanitarian crisis. Twenty million people — nearly half the country’s population — face acute hunger. Reports of people selling their kidneys in order to afford food to survive have become alarmingly common.

This waking nightmare is a policy choice. When the Taliban became the de facto government in August 2021, the Biden administration decided to deny Afghanistan’s central bank, Da Afghanistan Bank (DAB), access to most of its international reserves, more than \$7 billion that are deposited in the US. Without access to foreign reserves, it is virtually impossible for DAB to fulfill its basic central banking functions. And without a functioning central bank, economic collapse was nearly inevitable.

The blocking of DAB assets, and the subsequent executive order setting aside half for potential compensation for victims of the September 11 attacks, have been widely condemned by lawmakers, economists, UN human rights experts, civil society organizations, 9/11 victims’ families, and everyday Afghans alike. After months of pressure, there are now reports that the Biden administration is in talks with the Taliban for an as-yet-undetermined mechanism for using half the assets to help address the crisis.

But while various work-arounds have been proposed, as former general director of the Central Bank of Ecuador, I know that there is only one path forward to halting this crisis and helping to end the suffering of the Afghan people: allowing DAB immediate access to its foreign reserves in full.

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Central banks serve an indispensable role in economic governance, overseeing money supply and balancing the goals of low inflation, currency stability, and high employment. To perform these functions, central banks require reserves of trustworthy foreign currencies, mostly the US dollar. This is particularly important for an economy like Afghanistan's which requires foreign currency to pay for much-needed imports, including food and medicines. That is why, over the course of decades, DAB built up billions of dollars in foreign reserves, at great opportunity cost.

When DAB lost access to these reserves and, at the same time, humanitarian aid abruptly collapsed, there was suddenly a serious shortage of cash available to purchase goods. Issuing more money was not an option, because without foreign currency to underpin it, the afghani would quickly lose value. In fact, when the central bank was blocked from accessing its reserves deposited abroad, the afghani-dollar exchange rate — which had been fairly stable for over three years — depreciated sharply, causing inflation — especially food prices — to rise. Millions of households have lost salaries; private banks do not have enough cash to allow withdrawals; and, even where there is food on the shelves, many cannot afford it.

Using the frozen funds to pay for humanitarian assistance, as some have suggested, would do little to restore a functioning economy. Alternatives such as trying to reinject liquidity into the market without going through DAB would also be inadequate. This would undo years of development of DAB capacities, in which the US invested heavily, and contribute to an unequal, criminogenic environment without effective regulation and prone to concentration of liquidity and economic power in few hands. Bypassing DAB with US cash would weaken the central bank's electronic payment system and severely hurt its lending potential for the purposes of economic recovery. In short, every country needs a central bank, and bypassing DAB now would undermine the institution's long-term mandates.

The funds would be most effective if released to DAB in full and at once. Foreign reserves serve a purpose not only when they are put to use — for example, when exchanged for imports — but also when not in use, as a reserve stock. The overall stock of foreign reserves is a critical macroeconomic indicator. Holding adequate reserves signals that the central bank has the resources needed to manage potential outflows, that the currency has backstops, and that the country is a safe place to do business. Foreign reserves can also serve as collateral for new debt and imports — the greater the stock of reserves, the greater the ability to acquire financing. This is particularly critical for import-dependent

Afghanistan in the face of rising global food prices. As the head of UNDP Afghanistan stated in November, “Afghanistan last year imported about \$7 billion worth of goods and products and services, mostly foodstuff ... If there is no trade finance, the interruption is huge.”

The roughly \$7 billion the US has frozen, along with \$2 billion that DAB lost access to when the United Kingdom, Germany, Switzerland, and the UAE followed suit, constitute almost all DAB’s foreign reserves. The US also has a leading influence at the International Monetary Fund, which de facto froze \$440 million in Special Drawing Rights for Afghanistan last year. Without access to these, the country’s stock of international reserves is effectively zero. The lack of guarantee that DAB will have access to its foreign reserves would significantly undermine attempts to tame inflation, or to access financing for imports.

In short, economic stability depends heavily on expectations. Without a fully functioning central bank with full access to its foreign reserves, business partners would have little reason to regain confidence in the Afghan economy.

It is understandable to worry that some of these funds could be used for objectionable purposes, and also that those in a desperate situation might be willing to settle for a half measure. But the people of Afghanistan are starving as a direct result of an illegal and immoral Biden administration policy decision. Every concession toward false solutions, and every moment spent negotiating, dims the prospects for economic recovery and extends the suffering of the Afghan people.

The facts are simple. A working economy requires a functioning central bank, and a functioning central bank requires total access to its foreign reserves. To help end “hell on earth,” the Biden administration should release the full \$7 billion to the central bank of Afghanistan.

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