

The Impact of Inflation Rate and Interest Rate on Islamic and Conventional Banking in Afghanistan

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Abstract : Since the first bank was established in 1933, Afghanistan's banking sector has seen a number of variations but hasn't been able to grow to its full potential because of the civil war. The implementation of dual banks in Afghanistan is investigated in this study in relation to the effects of inflation and interest rates. This research took data from World Bank Data (WBD) over a period of nineteen years. For the banking sector, inflation, which is the general rise in prices of goods and services over time, presents considerable difficulties. The objectives of this research are to analyze the effect of inflation and interest rates on conventional and Islamic banks in Afghanistan, identify potential differences between these two banking models, and provide insights for policymakers and practitioners. A mixed-methods approach is used in the research to analyze quantitative data and qualitatively examine the unique difficulties that banks in Afghanistan's economic atmosphere encounter. The findings contribute to the understanding of the relationship between interest rate, inflation rate, and the performance of both banking systems in Afghanistan. The paper concludes with recommendations for policymakers and banking institutions to enhance the stability and growth of the banking sector in Afghanistan. Interest is described as "a prefixed rate for use or borrowing of money" from an Islamic perspective. This "prefixed rate," known in Islamic economics as "riba," has been described as "something undesirable." Furthermore, by using the time series regression data technique on the annual data from 2003 to 2021, this research examines the effect of CPI inflation rate and interest rate of Banking in Afghanistan.

Keywords : inflation, Islamic banking, conventional banking, interest, Afghanistan, impact

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