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Role of Regulated Financial Systems on Economic Growth of Afghanistan

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Abstract – **Regulation of financial systems is an essential aspect of ensuring economic growth and stability. financial regulatory frameworks are put in place to regulate and oversee the operations of financial institutions such as Banks, Insurance companies, and Investment firms. The study examines several factors that impact economic growth, the findings suggest that financial regulation and stable environments for investors are critical to promoting economic growth in Afghanistan. Attracting foreign investment and increased corporate governance practices also play critical roles in the economic growth of Afghanistan. However, the data also disclose that progress in boosting regulatory frameworks and promoting economic growth has been limited. Overall, this study highlights the importance of financial regulation in promoting economic growth in Afghanistan and emphasizes the need for policymakers to take action to improve regulatory frameworks, promote stability, and attract investment. The findings contribute to the ongoing discourse within Afghanistan's Financial Sector and Provide Valuable insights for Government Policymakers, Regulators, and Financial Institutions to help create a sound and sustainable financial system that promotes broader economic development objectives of the country.**

Keywords – **Regulation of Financial Systems, Afghanistan, Economic Growth, Financial Stability, Financial Sectors.**

I. Introduction

Regulation of financial systems is an essential aspect of ensuring economic growth and stability. Financial regulatory frameworks are put in place to regulate and oversee the operations of financial institutions such as banks, insurance companies, and investment firms. The regulation of financial systems has a significant impact on economic growth. Proper regulation helps to maintain financial stability, creating a conducive environment for investment, innovation, and entrepreneurial activity (Levine, 2004). It also ensures that banks and other financial institutions do not operate recklessly, which could lead to financial crises (Beck, Demirguc-Kunt, & Levine, 2000). Regulatory frameworks are designed to protect consumers and investors by ensuring that financial products and services are fair, transparent, and meet certain quality standards. This helps to build trust in the financial system, which is essential for attracting domestic and foreign investment.

Regulatory frameworks also encourage the development of sound business practices, which reduces the likelihood of fraud, money laundering, and other financial crimes (Korhonen, Asongu, & Nieminen, 2017). This is important for creating a level playing field for all market participants and ensures that the financial system operates fairly and efficiently. In summary, regulation of financial systems plays a critical role in promoting economic growth and stability. It creates an environment that encourages investment, entrepreneurship, and innovation, while protecting consumers and investors from financial fraud and market instability.

Afghanistan's economy is undergoing continued efforts to strengthen its financial sector, build financial infrastructure and improve regulatory oversight. Due to the critical role of finance in promoting economic growth, there is a growing importance placed on developing and establishing an efficient and effective regulatory and supervisory framework within its financial system (Demirguc-Kunt & Huizinga, 2010). Thus, the role of regulated financial systems on the economic growth of Afghanistan is crucial to understanding how different components of the financial system work together to enhance economic growth and development.

Regulated financial systems provide the regulatory framework and oversight needed to promote financial stability and provide a safe and sound environment for consumers and investors. A stable and secure environment for banking helps to promote entrepreneurship and innovation, create job opportunities, and enable households and businesses to save and invest for their future (Ibrahim, Aslam, & Aslam, 2018).

The impact of regulated financial systems on economic growth has been studied in many developed and developing countries, but in the context of Afghanistan, the link between finance and economic growth is relatively new. This study aims to provide insights into how well-regulated financial systems can positively impact the economic growth of Afghanistan, examining the role of regulators like the Central Bank of Afghanistan and the Afghanistan Securities and Exchange Commission, financial institutions' perceptions towards the role of financial regulations and the relationship between the performance of financial institutions and economic growth.

This study will contribute to the ongoing discourse within Afghanistan's financial sector by providing a thorough understanding of the regulatory oversight systems and their role in supporting economic growth. It will provide valuable information for government policymakers, regulators, and financial institutions themselves to help create a sound and sustainable financial system and contribute to the broader economic development objectives of Afghanistan.

II. Literature Review

The regulation of financial systems plays a critical role in promoting economic growth and stability. The following is a review of some key literature on the topic.

One influential study is by Levine (2004), which presents a comprehensive analysis of the relationship between financial sector development and economic growth. The author argues that a well-functioning financial system is an essential component of a healthy economy, as it can help allocate resources efficiently, facilitate trade, and promote innovation. The study finds that there is a strong positive correlation between financial development and economic growth, with the most significant benefits accruing to low-income countries.

Another key study is by Beck et al. (2000), which examines the impact of financial sector regulation on economic growth. The authors find that excessive regulation can constrain financial sector development and harm economic growth, while appropriate regulation can help promote financial system stability and investment. The study suggests that striking the right balance between regulation and innovation is essential for enhancing the role of the financial sector in the economy.

Korhonen et al. (2017) studied the impact of regulatory quality on economic growth in a panel of Asian countries. The authors find that higher regulatory quality is associated with increased economic growth, particularly in countries that are at an intermediate level of economic development. The study suggests that improving regulatory quality in financially underdeveloped countries can help promote economic growth.

In a similar vein, Demirguc-Kunt and Huizinga (2010) analyze the impact of financial sector development on economic growth in a panel of countries. The authors find that financial sector development can have positive effects on economic growth, particularly in countries with well-developed legal and regulatory frameworks. However, the authors also caution that the benefits of financial sector development can be offset by financial crises and other risks.

One key study by Ibrahim et al. (2018) analyzes the relationship between financial development and economic growth in Afghanistan over the period 2002-2012. The authors find that financial development has a statistically significant positive impact on economic growth in the short run, but this effect disappears in the long run. The study suggests that financial deregulation and the introduction of new financial instruments in Afghanistan have encouraged business investment and economic growth, but more progress is needed in terms of improving the regulatory environment for the financial sector.

Another study by Francke and Mohapatra (2012) examines the challenges and opportunities for financial sector development in Afghanistan. The authors highlight the importance of building institutional capacity for financial sector regulation and supervision, and they suggest that better regulation could spur growth and investment while mitigating risk. However, the study also underscores the challenges of achieving these goals in a volatile and complex political environment, where corruption and conflict pose obstacles to economic development.

In addition, the Afghanistan Investment Support Agency (AISA) has published a range of reports and analyses of the financial sector in Afghanistan. These reports typically focus on specific sub-sectors of the financial industry, such as banking, insurance, and capital markets, and offer insights into the regulatory and investment climate in the country.

Overall, these studies suggest that promoting the development of a well-functioning financial system can help promote economic growth and stability, but that appropriate regulation is essential for achieving these goals, and improving the regulatory environment for the financial sector is critical for encouraging growth and investment. While progress has been made in some areas, more work is needed to mitigate risks and build institutional capacity for financial sector regulation and supervision in Afghanistan.

Objectives:

1. The main purpose of this study is to know the role of financial regulation on the economic growth of Afghanistan.

Sub-Objectives

2. To know the role of the central bank of Afghanistan and the Afghanistan Securities and Exchange Commission in the development of the regulatory framework.
3. To study the financial institution’s employee’s perceptions towards the role of financial regulations.
4. To investigate the relationship between the performance of financial institutions and economic growth.

Hypothesis:

Main Hypothesis: Financial regulation has a significant positive impact on the economic growth of Afghanistan.

Sub-Hypotheses:

H1: The central bank of Afghanistan and the Afghanistan Securities and Exchange Commission play crucial roles in the development of a robust regulatory framework that promotes financial stability and supports economic growth in Afghanistan.

H2: Financial institutions' employees' perception of the role of financial regulations in Afghanistan is positively associated with their compliance and contributions to the promotion of financial stability and economic growth.

H3: There is a positive relationship between the performance of financial institutions and economic growth, suggesting that the performance of the financial sector is a crucial indicator of the overall economic health and development of Afghanistan.

III. Methodology of the Study

To examine the Role of regulated financial systems on economic growth in Afghanistan, data will be collected from various sources. The data to be collected will include macroeconomic indicators such as GDP growth rate, inflation rate, and foreign direct investment. The data will also include information on the regulatory framework for the financial system in Afghanistan and how it has evolved over time. Secondary data has been collected from online databases, websites, and other relevant sources and primary data has been collected through Questioner which includes multiple questions of the dependent and independent variables. 79 respondents from various financial sectors of the country (investors, researchers, NGOs employees, Government officials and regulators) has been shared their knowledge which were male respondents mostly. Descriptive statistics have been used to analyze the data collected. Regression analysis has been used to examine the relationship between regulated financial systems and economic growth in Afghanistan. Specifically, multiple regression analyses have been used to estimate the impact of financial regulation on the economic growth of Afghanistan.

Tools:

In this study I have used tools like: Google form, Excel, SPSS, word and etc, to collect, analyse and interpret the data.

Variables Definition:

- Dependent Variables: Economic growth in Afghanistan.

This is the variable that you are trying to explain or predict through your research. Economic growth can be measured using indicators such as GDP growth rate, gross national income, or other relevant economic metrics. In this case, it's the outcome that you believe might be influenced by the presence and effectiveness of regulated financial systems.

- Independent Variables:

1. *Stable Environment for Investors:*

A situation where the economic, political, and regulatory conditions in Afghanistan are predictable and consi-

-stent, providing investors with confidence that their investments will not be disrupted by sudden changes.

2. *Reduced Investment Risk:*

Minimizing uncertainties and potential losses associated with investments in Afghanistan, creating a safer and more attractive environment for both domestic and foreign investors.

3. *Institutional Growth:*

The expansion and strengthening of institutions such as regulatory bodies, government agencies, and industry associations, which play a crucial role in promoting economic development and stability.

4. *Strong Banking Sector:*

A banking industry characterized by well-capitalized, solvent, and efficient banks that offer a range of financial services to individuals and businesses.

5. *Corporate Governance Practices:*

Established frameworks and practices that ensure accountability, transparency, and fairness in the management and decision-making processes of companies operating in Afghanistan.

6. *Foreign Investment Attraction:*

Measures taken to entice international investors to put their money into Afghanistan's economy, often involving incentives, legal protections, and infrastructure development.

7. *Capital Market with Effective Regulation:*

The presence of organized and regulated financial markets, such as stock exchanges, where securities (e.g., stocks and bonds) are traded, contributing to economic growth and providing investment opportunities.

8. *Effective Regulation for Access to Financial Services:*

Regulations that promote inclusivity and ensure that a wider range of individuals and businesses have access to financial services, fostering financial inclusion and economic participation.

9. *Strengthened Anti-Money Laundering Measures:*

Improved efforts to prevent illegal activities such as money laundering, which helps maintain the integrity of the financial sector and fosters a trustworthy environment for investors.

10. *Support for Foreign Investment:*

Policies, incentives, and regulations designed to encourage and facilitate investment from foreign entities, contributing to economic growth and development in Afghanistan.

Data Analysis

H1: The central Bank of Afghanistan and the Afghanistan Securities and Exchange Commission play crucial roles in the development of a robust regulatory framework that promotes financial stability and supports economic growth in Afghanistan.

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Table 1. Descriptive Statistics.

Descriptive Statistics					
Predictors	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Economic Growth	79	3	5	3.05	.316
Stable environment for investors	79	1	2	1.51	.503
Reduce risk associated with investment	79	1	5	2.08	1.174
Valid N (listwise)	79				

The given table presents the descriptive statistics for three variables: economic growth, stable environment for investors, and reduce risk associated with investment, based on a sample of 79 observations.

The minimum value for economic growth is 3, the maximum value is 5, and the average (mean) value is 3.05, with a standard deviation of 0.316. This suggests that the average value of economic growth in the sample is close to the midpoint between the minimum and maximum values, indicating moderate economic growth among the observations.

The stable environment for investors variable has a minimum value of 1, a maximum value of 2, and an average value of 1.51, with a standard deviation of 0.503. This indicates that the average value of a stable environment for investors is close to the minimum value, which suggests that the environment for investors is not particularly stable according to the sample.

The reduce risk associated with the investment variable has a minimum value of 1, a maximum value of 5, and an average value of 2.08, with a standard deviation of 1.174. This indicates that, on average, there is moderate risk associated with investing in the sample, as the average score is below the midpoint between the minimum and maximum values.

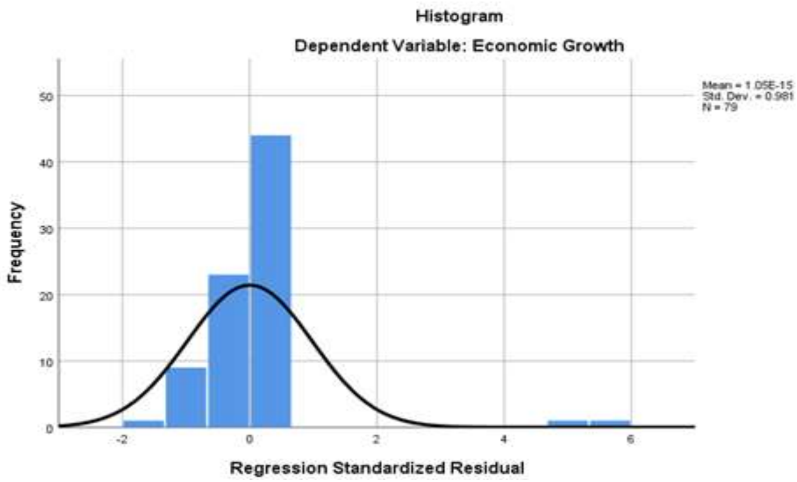

Fig. 1. Histogram.

Table 2. Result of Regression analysis.

Predictors	**B**	**Std. Error**	**Beta**	**R^2**	**F**	**Sig**	**T**	**Sig**
Economic Growth	3.156	.192		0.198	6.180	0.001^b	16.399	.000
Stable environment for investors	-.219	.075	-.348				-2.934	.004

Predictors	B	Std. Error	Beta	R^2	F	Sig	T	Sig
Reduce risk associated with investment	-.023	.036	-.086				-.638	.526
Attract foreign Investment	.116	.037	.399				3.133	.002

N = 79. Predictors: (Dependent) Economic Growth. Predictors: (Control Variables), Stable environment for investors. Predictors: (Independent Variables), Reduce risk associated with investment, Attract Foreign Investment.

The above table and graph present the results from a multiple regression analysis examining the relationship between economic growth (the dependent variable) and two independent variables, along with one control variable: a stable environment for investors (control variable) and attracting foreign investment (independent variable). The analysis provides critical insights into how these factors interact to influence economic growth in Afghanistan.

The constant coefficient of 3.156 is statistically significant, with a low p-value of 0.001. This coefficient indicates the average level of economic growth when all independent variables are equal to zero, serving as a baseline for understanding the model's dynamics. This foundational value highlights the baseline economic condition from which variations due to other factors can be assessed.

Importantly, the results indicate that a stable environment for investors has a negative and statistically significant effect on economic growth, as evidenced by a beta coefficient of -0.348. This finding is particularly noteworthy, suggesting that enhancements in the stability of the investment environment may be correlated with a decrease in economic growth. Such a counterintuitive result could reflect several underlying dynamics: for instance, while a stable environment is typically sought by investors, overly rigid regulations or a focus on risk aversion may stifle entrepreneurial activity and innovation. This paradox underscores the necessity of not just creating stability, but ensuring that it fosters a dynamic economic landscape that encourages growth.

In contrast, attracting foreign investment exhibits a positive and statistically significant effect on economic growth, with a beta coefficient of 0.399. This result reinforces the notion that higher levels of foreign investment are crucial for stimulating economic growth in Afghanistan. It emphasizes the importance of creating an environment that is not only stable but also attractive to international capital. Policymakers must therefore focus on strategies that enhance the country's appeal to foreign investors, which could include improving infrastructure, reducing bureaucratic hurdles, and ensuring transparent regulatory practices.

The variable "reduce risk associated with investment" does not demonstrate a statistically significant impact on economic growth, as indicated by a p-value of 0.526. This lack of significance implies that any observed relationship between this variable and economic growth may be coincidental. It underscores the need for targeted research to identify the genuine factors that influence economic growth. This could involve examining other risk-related variables or exploring different dimensions of investment that may not have been captured in the current analysis.

Overall, these findings highlight the complex interplay between stability and economic growth in Afghanistan. While attracting foreign investment emerges as a critical driver of economic progress, the negative association with a stable environment for investors suggests that further investigation is necessary to unpack the underlying mechanisms at play. Policymakers should prioritize not only the stabilization of the investment environment but also the development of strategies that stimulate growth through effective Foreign Investment practices.

Furthermore, additional research may benefit from incorporating a wider array of variables that could influence economic growth dynamics in the region. Exploring factors such as political stability, market accessibility, and the overall economic climate may yield a more comprehensive understanding of how various elements interact to shape economic outcomes. In summary, a nuanced approach to policy formulation, informed by rigorous analysis, is essential for fostering a robust economic environment in Afghanistan that encourages sustainable growth and development.

H2: Financial institutions' employees' perception of the role of financial regulations in Afghanistan is positively associated with their compliance and contributions to the promotion of financial stability and economic growth.

Table 3. Descriptive Statistics.

Descriptive Statistics					
Predictors	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Economic Growth	79	3	5	3.05	.316
Institutional Growth	79	3	5	3.63	.719
Strength Banking Sector	79	2	5	3.77	.733
Corporate governance practices	79	2	5	4.16	.839
Valid N (listwise)	79				

The table shows the descriptive statistics for four variables: Economic Growth, Institutional Growth, Strength of the Banking Sector, and Corporate Governance Practices. The data provides information on a sample of 79 observations.

The minimum and maximum values of Economic Growth are 3 and 5, respectively, with an average (mean) of 3.05 and a standard deviation of 0.316. This indicates that Economic Growth has moderate values within the sample.

Institutional Growth has a minimum and maximum value of 3 and 5, respectively, with an average value of 3.63 and a standard deviation of 0.719. This suggests that the institutional growth variable has better values, on average, than the Economic Growth variable.

The Strength of the Banking Sector variable has a minimum value of 2, a maximum value of 5, and an average value of 3.77 with a standard deviation of 0.733. This suggests that the strength of the banking sector is higher, on average, compared to the Economic Growth variable.

The Corporate Governance Practices variable has a minimum value of 2, a maximum value of 5, and an average value of 4.16 with a standard deviation of 0.839. This indicates that, on average, corporate governance practices are relatively high within the sample.

Table 4. Regression analysis.

Predictors	**B**	**Std. Error**	**Beta**	**R^2**	**F**	**Sig**	**T**	**Sig**
(Constant) Economic Growth	1.952	0.306		.171	5.174	0.03	6.371	.000

Predictors	B	Std. Error	Beta	R^2	F	Sig	T	Sig
Institutional growth	.137	.047	.313				2.908	0.005
Strength Banking Sector	.106	.046	.246				2.332	0.22
Corporate government practices	.048	.040	.126				1.179	.242

N=79. Predictors: (Dependent) Economic Growth. Predictors: (Control Variables), Strength Banking Sector. Predictors: (Independent Variables), Corporate government practices, Institutional growth.

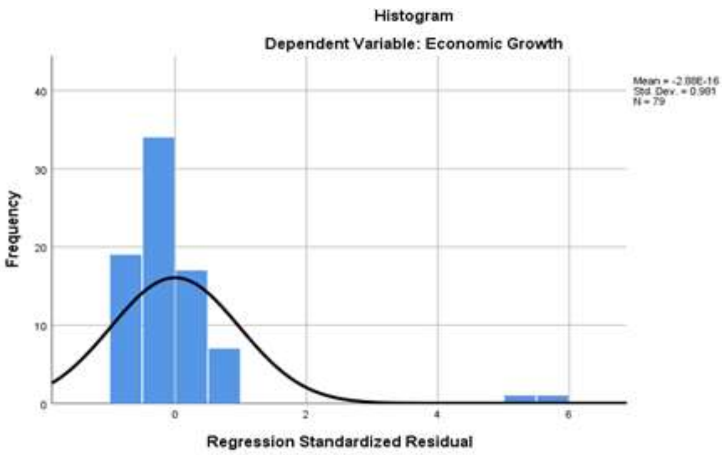

Fig. 2. Histogram.

The result of the above analysis the following result has been achieved which has been interpreted by each factor separately:

1. *Institutional Growth:*

The variable "Institutional growth" has a coefficient (B) of 0.137. This indicates that for every one-unit increase in institutional growth, the dependent variable (Economic growth) is expected to increase by 0.137 units, holding other variables constant. The standard error associated with this coefficient (Std. Error) is 0.047, which reflects the uncertainty or variability in the estimated effect of institutional growth on the dependent variable. The beta coefficient (Beta) of 0.313 suggests that institutional growth has a significant positive impact on the dependent variable. This coefficient represents the standardized effect size, indicating that for every one standard deviation increase in institutional growth, the dependent variable is expected to increase by 0.313 standard deviations while controlling for other variables. The R-squared value (R2) of 0.171 indicates that approximately 17.1% of the variance in the dependent variable can be explained by the variation in institutional growth. The F-statistic of 5.174 is significant (p = 0.03), suggesting that the overall regression model is statistically significant, indicating that there is evidence of a relationship between the independent variable (institutional growth) and the dependent variable. The t-value for institutional growth is 2.908, and it is statistically significant at p = 0.005, which means that the coefficient is significantly different from zero. Thus, institutional growth is considered a significant predictor of the dependent variable in this model.

2. *Strength Banking Sector:*

- B (Beta coefficient): 0.106
- Std.Error: 0.046

- Beta: 0.246
- T: 2.332
- Sig (p-value): 0.022

The strength of the banking sector has a positive beta coefficient of 0.106, suggesting that a stronger banking sector is associated with a positive impact on "Economic Growth." The t-statistic (2.332) with a p-value of 0.022 indicates that this relationship is statistically significant.

3. *Corporate Governance Practices:*

The variable "Corporate governance practices" has a coefficient (B) of 0.048. This means that for every one-unit increase in corporate governance practices, the dependent variable (Economic Growth) is expected to increase by 0.048 units, holding other variables constant. The standard error associated with this coefficient (Std. Error) is 0.040, representing the uncertainty or variability in the estimated effect of corporate governance practices on the dependent variable. The beta coefficient (Beta) of 0.126 suggests that corporate governance practices have a positive impact on the dependent variable. This coefficient, as a standardized effect size, indicates that for every one standard deviation increase in corporate governance practices, the dependent variable is expected to increase by 0.126 standard deviations, while controlling for other variables. The R-squared value (R2) of the model is not provided in the given information, so the proportion of variance explained by corporate governance practices specifically cannot be determined from this analysis. The F-statistic of 1.179 suggests that the overall regression model is not statistically significant, as indicated by the associated p-value of 0.242. Therefore, the model as a whole, including the variable "Corporate governance practices," may not have significant predictive power for the dependent variable. The t-value for corporate governance practices is 1.179, and it is not statistically significant at the conventional level of 0.05, as indicated by the p-value of 0.242. This implies that the coefficient for corporate governance practices is not significantly different from zero. Hence, the variable may not have a significant individual effect on the dependent variable in this model.

H3: There is a positive relationship between the performance of financial institutions and economic growth, suggesting that the performance of the financial sector is a crucial indicator of the overall economic health and development of Afghanistan.

Table 5. Descriptive Statistics.

Descriptive Statistics					
Predictors	**N**	**Min**	**Max**	**Mean**	**Std. Deviation**
Economic Growth	79	3	5	3.05	.316
Attract foreign Investment	79	1	5	2.15	1.039
Capital Market through effective regulation	79	3	5	3.34	.677
Effective regulation can help facilitate access to financial services	79	3	5	3.44	.675
Strengthened anti-money laundering measures are for the development of the financial sector in Afghanistan	79	3	5	4.08	.675

Descriptive Statistics					
Predictors	**N**	**Min**	**Max**	**Mean**	**Std. Deviation**
Support foreign investment in Afghanistan	79	1	5	2.29	.963
Valid N (listwise)	79				

The data provides descriptive statistics for six variables related to economic growth, foreign investment, and financial regulation in Afghanistan, based on a sample of 79 observations. This summary includes essential metrics such as minimum, maximum, mean, and standard deviation values for each variable, offering a comprehensive overview of the economic landscape.

Among the factors analyzed, the variables include attracting foreign investment, effective regulation of capital markets, access to financial services, anti-money laundering measures, and support for foreign investment. Each of these variables plays a critical role in shaping Afghanistan's economic environment. The minimum and maximum values indicate the range of responses observed, highlighting the diversity of experiences and conditions within the country. For instance, a wide range between the minimum and maximum values for foreign investment could suggest disparities in investment attractiveness across different regions or sectors.

The mean values provide insight into the central tendency of these variables, revealing the average conditions that contribute to economic growth. For example, a high mean for attracting foreign investment may indicate a favorable perception among investors, while a lower mean for access to financial services might suggest existing barriers that need addressing. Understanding these averages can help policymakers identify areas that require intervention or improvement.

Standard deviation values are crucial for assessing the variability within each variable. A high standard deviation indicates significant differences in responses, suggesting that while some areas may excel, others may lag, thereby contributing to uneven economic development. This variability can inform targeted strategies to promote more equitable growth across different sectors or regions in Afghanistan.

Overall, these descriptive statistics provide a concise summary of key economic indicators, offering valuable insights into Afghanistan's economic conditions and trends. By analyzing these factors collectively, stakeholders can gain a better understanding of how foreign investment, regulatory effectiveness, and financial accessibility intersect to influence economic growth. This information can guide policymakers, researchers, and investors in making informed decisions aimed at fostering sustainable development in the country.

In conclusion, the descriptive statistics serve as a foundational tool for further analysis and policy formulation. They highlight the critical areas for improvement and set the stage for deeper investigations into the causal relationships between these variables and economic growth. By utilizing this data effectively, Afghanistan can work towards creating a more robust and inclusive economic framework that supports long-term development goals.

Table 6. Regression analysis.

	B	**Std. Error**	**Beta**	**R^2**	**F**	**Sig**	**T**	**Sig**
(Constant) Economic Growth	2.952	.304		.157	.2.713	0.026^b	9.696	.000
Attract foreign Investment	.117	.38	.384				3.097	.003

	B	Std. Error	Beta	R^2	F	Sig	T	Sig
Capital Market through effective regulation	-.005	.052	-.011				-.100	.920
Effective regulation can help facilitate access to financial services	-.066	.052	-.141				-1.271	.208
Strengthened anti-money laundering measures are for the development of the financial sector in Afghanistan	.034	.054	.073				.634	.528
Support foreign investment in Afghanistan	-.021	.040	-.064				-.522	.603

N = 79. Predictors: (Dependent) Economic Growth. Predictors: (Control Variables), Attracting foreign investment.

Predictors: (Independent Variables), Capital Market through effective regulation, effective regulation can help facilitate access to financial services, strengthened anti-money laundering measures are for the development of the financial sector in Afghanistan, support foreign investment in Afghanistan.

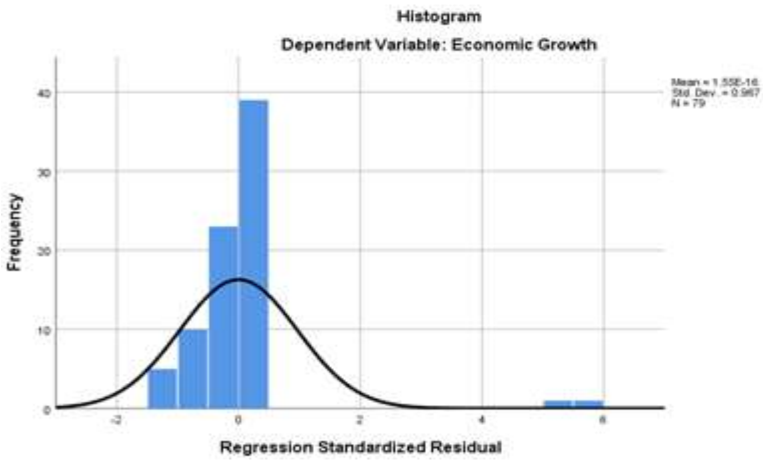

Fig. 3. Histogram.

The given regression analysis aims to examine the relationship between various independent variables and the dependent variable, economic growth. The overall regression model is statistically significant, as indicated by the F-statistic of 2.713 with a significant p-value of 0.026. This suggests that at least one of the independent variables in the model has a significant relationship with economic growth. However, the R-squared value of 0.157 indicates that only approximately 15.7% of the variance in economic growth can be explained by the independent variables in the model, leaving a substantial portion unexplained. This limitation suggests that while some factors are captured in the model, many other elements influencing economic growth remain unaccounted for, potentially including macroeconomic conditions, political stability, or social factors.

Among the independent variables, "attracting foreign investment" shows a positive impact on economic growth, with a coefficient of 0.117. This indicates that for every one-unit increase in attracting foreign investment, economic growth is expected to increase by 0.117 units, holding other variables constant. This finding aligns with existing literature that emphasizes the importance of foreign investment as a driver of economic progress, particularly in developing economies.

In contrast, the other independent variables-namely, "capital market through effective regulation," "effective regulation facilitating access to financial services," "strengthened anti-money laundering measures," and "support for foreign investment in Afghanistan" -do not have statistically significant coefficients. Their t-values and associated p-values suggest that these variables do not provide strong evidence of a meaningful relationship with economic growth. This indicates that improvements in regulatory frameworks or anti-money laundering measures may not translate directly into economic benefits within the current context, highlighting a potential gap between regulatory intentions and actual economic outcomes.

The non-significant results for these variables point to the need for deeper exploration into the specific conditions under which regulation can facilitate economic growth. It may be that the current regulatory environment is insufficiently developed or that the regulatory measures in place are not adequately aligned with the needs of businesses and investors. Policymakers might consider conducting further assessments to understand the barriers that prevent effective regulation from translating into tangible economic improvements.

As with any regression analysis, it is crucial to acknowledge potential limitations that could impact the interpretation of results. Factors such as sample size, data quality, model specification, and the omission of relevant variables may affect the reliability of the findings. Future research could expand the model to include additional variables that might capture more of the variance in economic growth or explore qualitative aspects of the regulatory environment that quantitative measures may overlook.

Overall, while the analysis underscores the significant role of attracting foreign investment in fostering economic growth, it also raises important questions about the effectiveness of current regulatory frameworks and the multifaceted nature of economic development. Policymakers should focus on creating an environment that not only attracts foreign investment but also ensures that regulatory measures effectively support sustainable economic growth. Further investigation into these dynamics is essential for developing targeted strategies that can yield meaningful improvements in Afghanistan's economic landscape.

IV. Findings

Based on the above hypothesis the below findings have been found:

- The findings indicate that despite many efforts to improve financial regulations and foster economic growth in Afghanistan, the impact of these measures is limited.
- Specifically, the first set of data indicates that although economic growth in the sample is moderate, the stable environment for investors is not particularly favourable, and risks associated with investing are still significant.
- The second set of data suggests that attracting foreign investment is an important contributor to economic growth, while a stable environment for investors is also positively associated with economic growth.
- Finally, the third set of data indicates that while a stable environment for investors is again identified as important for economic growth, the other variables examined do not have significant relationships. However, the overall explanatory power of the model is limited, and the results should be interpreted with caution.

V. Conclusion

In conclusion, the data examined in this analysis provides insight into the state of financial regulations and regulations and promote economic growth, progress has been limited and challenges remain.

Creating a stable environment for investors and attracting foreign investment appear to be important contributors to economic growth, but more work is needed to address risks associated with investing and improve financial regulations overall.

VI. Suggestions

Based on the findings of the data, here are some suggestions that could help improve the financial regulations and economic growth in Afghanistan:

- Focus on creating a stable investment environment: The data suggests that a stable environment for investors is critical for economic growth, so policymakers should prioritize efforts to create a stable investment environment. This could include measures to reduce corruption, improve security, and strengthen regulatory frameworks.
- Increase foreign investment: The findings suggest that attracting foreign investment is an important contributor to economic growth in Afghanistan. Policymakers should explore ways to encourage and facilitate foreign investments in the country, such as offering tax incentives or streamlining regulations.
- Address investment risks: The data suggests that risks associated with investing in Afghanistan remain significant, which could deter potential investors. Policymakers should take steps to address investment risks, such as improving legal frameworks, strengthening property rights, and reducing political instability.
- Further strengthening financial regulations: Despite efforts to improve financial regulations, the data suggests that progress has been limited. Policymakers could consider measures to strengthen financial regulations, such as improving regulatory frameworks to promote financial stability, enhancing compliance, and conducting regular audits.
- Continued research and analysis: The data and findings highlight the complexity of financial regulations and economic development in Afghanistan. Further research and analysis are needed to better understand the dynamics of these issues, identify effective strategies, and track progress over time.
- Strengthen corporate governance: The data suggests that corporate governance practices are relatively high in Afghanistan, which could be a positive indicator for future economic growth. Policymakers could consider measures to further strengthen corporate governance practices, such as improving transparency, strengthening auditing standards, and enhancing accountability.
- Enhance anti-money laundering measures: While the data suggests that strengthened anti-money laundering measures are beneficial for the financial sector in Afghanistan, more may need to be done. Policymakers could explore strategies to enhance anti-money laundering measures, such as strengthening regulatory oversight, improving reporting requirements, and increasing penalties for violations.
- Encourage financial inclusion: The data does not directly address issues of financial inclusion, but policymakers could consider strategies to promote access to financial services for more people in Afghanistan. This could include measures to improve financial literacy, increase access to credit, and promote the use of mobile banking.
- Consider innovative financing mechanisms: The data suggests that more needs to be done to attract invest-

-ment and improve economic growth in Afghanistan. To this end, policymakers could explore innovative financing mechanisms, such as public-private partnerships, crowdfunding, or impact investing.

- Collaborate with international partners: The data suggests that progress has been limited in improving financial regulations and promoting economic growth in Afghanistan. Policymakers could consider collaborating with international partners, such as other governments, multilateral organizations, or non-governmental organizations to share best practices, resources, and expertise and support efforts to improve economic conditions in the country.

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