

Beyond Fundamentals: Behavioral Drivers of USD/AFN Exchange Rate Volatility in Post-2021 Afghanistan

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Abstract

The paper presents the post-2021 dynamics of the USD/AFN exchange rate in reference to behavioral finance that fills a major weakness of the traditional exchange-rate theory as applied to economies in weak and post-conflict settings as is the case in Afghanistan. This research incorporates the behavioral finance principles in the analysis of currency movements. The study uses a quantitative time-series descriptive and analytical research methodology through secondary data to examine the variations in USD/AFN exchange rates in Afghanistan during the post-2021. The study also used a theory-based event behavior mapping structure to explain the movements in the exchange rate in terms of the main behavioral mechanisms. The research findings showed the contribution of behavioral biases in shaping USD/AFN exchange rates post-2021 in Afghanistan. The policy implications underline the roles of proper management of expectations, transparency, and strategic communication in the exchange rate stabilization endeavors.

Keywords: Behavioral finance; Exchange rate volatility; Herding behavior; Overreaction; Fragile economies

Introduction

Exchange rate dynamics are an important element in the overall stability of the macro economy affecting inflation, external trade, capital flows and household welfare, especially in economies with fragile institutions and poor policy credibility (Obstfeld and Rogoff, 1995; De Grauwe and Grimaldi, 2006). In countries that are plagued by political instability and structural vulnerability, exchange rate rates will also quickly spread uncertainty throughout the economy, multiplying social and economic risks (Shiller, 2003). As such, the USD/AFN rate has been a key economic indicator in Afghanistan since the political transition that took place in 2021, which brought greater levels of uncertainty to financial markets (FocusEconomics, 2025).

Traditional exchange rate theories such as Purchasing Power Parity and monetary models are assumptions that assume rational agents, efficient information processing, and fast adjustment towards the equilibrium (Fama, 1970; Taylor, 2005). Moreover, "Da Afghanistan Bank has adopted the Managed Floating Exchange Rate regime. Under this regime, the exchange rate is determined by market demand and supply factors, with DAB managing significant fluctuations". The current strategy of exchange rate by DAB, is adopted according to balance of payment, and currency inflow & outflow (DAB, 2026). However, those assumptions tend to break down under conditions of extreme uncertainty, limited market transparency and weak institutional frameworks where information asymmetries and emotional responses are the dominating factors in decision-making (De

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Grauwe & Grimaldi, 2006; Shiller, 2003). In such environments, exchange rate fluctuations result not only from the economic fundamentals of the economies, but from the psychological reactions of market participants (Kahneman, 2003).

Since the political transition of 2021, the currency market in Afghanistan has been better in terms of volatility, where the Afghani has fallen sharply against the US dollar, followed by partial recovery and relative stability periods (FocusEconomics, 2025). These fluctuations have had major economic implications, such as inflationary pressures, loss of purchasing power, and increased uncertainty for households and businesses (World Bank, 2023). The persistence and magnitude of these movements appetite the fact that standard macroeconomic explanations will not do the whole job. Despite the significance of the mentioned developments, many studies that have been conducted on the exchange rate in Afghanistan mostly focus on the macroeconomic and monetary factors with minimal attention given to behavioral factors (IMF, 2022). In contrast, it is well proven in financial economy research that fear, loss aversion, herding behavior, and adaptive expectations have a strong influence on financial market behavior during times of financial crisis and uncertainty (Kahneman & Tversky, 1979; Devenow & Welch, 1996; Barberis, Shleifer, and Vishny, 1998). This gap is bridged by the current research by investigating yearly fluctuations of the USD/AFN exchange rate from 2021 onwards through behavioral finance model. The most important goal is to pinpoint the role played by psychological variables on currency markets and to obtain policy-relevant conclusions for the management of exchange rates volatility in fragile economic environments.

Literature Review

The recent development in behavioral finance emphasizes the fact that financial markets are conditioned not just on the fundamentals, but also on the psychological and cognitive interventions of the process of investor decision making in uncertainty. There is an expanding literature density on the fact that behavioral biases like loss-aversion, herding and sentiment significantly influence market volatility and the dynamics of asset pricing (Akin & Akin, 2024). Volatility in the foreign exchange markets has been universal and known to be a nonlinear phenomenon that depends on the macroeconomic factor as well as on the behavior of the investors. According to recent studies, forex markets have large shares of unpredictability as they are vulnerable to external shocks, speculative actions, and market expectations (Alaminos et al., 2023). In the developing and weak economies, this complexity is further enhanced by an institutional weakness that issues of behavior are compounded.

Empirical research offers a great deal of evidence on herding in the foreign exchange market. An example is shown by Yasir et al. (2022), who show that investors do not apply independent analysis in their trading but increasing follow each other accordingly, which results in the concurrent movement of the markets and abnormal returns. This practice is common especially in new emerging markets where the level of information asymmetry and uncertainty is very high. More recent research also suggests that herding is enhanced during economic stress and when countries are uncertain about their policies. Sibande (2024) notes that what causes herding behavior in currency markets are extreme market events and announcements by the monetary policy, which strengthen volatility and destabilize exchange rates. These results follow the opinion that behavioral responses do not always remain constant but fluctuate with the market conditions.

Besides herding, the responses by the investors to the instability in the market are also much influential in exchange rate dynamics. Currency option market evidence indicates that the periods of crisis are characterized by the change of the behavior of investors, with the risk perception and uncertainty being critical in changing the pattern of trading (Dammak, Frikha & Souissi, 2024). This kind of behavioral modification helps lead to spurt and turns taken in the exchange rates. Moreover, the issue of volatility modelling and forecasting was identified in the recent works, as well as due to the significant importance of the relevant understanding of the exchange rate movement. Bilal et al. (2024) highlight that the change in the exchange rates directly affects the performance of the economy and is affected both by the structural factors and behavioral responses. According to their findings, the traditional models cannot be relied on to fully explain the dynamics of the forex markets.

The other literature focuses on the shortcomings of classic exchange rate theories. Research indicates that exchange rate fluctuations usually cannot be predicted by macroeconomic models because they are affected by the impact of the unforeseeable and behavioral determinants (Martins & Lopes, 2024). This supports the point that an addition of behavioral factors is necessary so as to have a more detailed explanation of exchange rate volatility. Empirical studies in recent past also indicate that market sentiment and expectations are central to volatility driving. According to behavioral finance, such factors as own confidence, perception of risks, and emotions play a significant role in the market, especially at times of uncertainty (Akin & Akin, 2024). The results are consistent with the existing literature that puts an importance on expectations in financial markets. Further, the interplay of macroeconomic shocks and the behavioral response has also been known to have grown. During times of financial distress the exchange rate volatility is prone to rise, as investors will have

stronger responses to unfavorable information and uncertainty (Datta, 2023). This serves the hypothesis that behavioral biases are enhanced under crisis situations.

Although these developments are made, the gap in the literature that exists in terms of applying behavioral finance to fragile and post-conflict economies is wide. The majority of the available research is concerned with developed or emerging markets, whereas little is known about situations in which there is a high degree of uncertainty, institutional fragility, and informational financial systems. To conclude, the recent literature gives a solid argument that the exchange rate volatility is caused by factors that are both macroeconomic fundamental and behavioral in nature. Herding, the aspect of loss aversion, the dynamics of expectation and the sentiment held within a market are playing a main role in influencing the currency movement, especially in uncertainty and instability circumstances. These revelations can form a profound basis of analysis of USD/AFN exchange rate developments following political changes of 2021 using a behavioral finance paradigm.

2.1 Historical Trend Analysis

The USD/AFN exchange rate showed huge volatility in the result of the political transition in August 2021 and quickly shot up after at approximately AFN 77 per dollar, to more than AFN 100 at the end of 2021 as the market panicked and the future of Afghanistan and its security forces was uncertain in the aftermath of the collapse of its government. This steep depreciation saw 2021 the best year on dollar gains against the Afghani with the USD/AFN at the end of the year rising by more than 34 percent between about 76.75 passed at the beginning to 103. The influx was fuelled by radical cutbacks in the foreign aid, loss of trust in local institutions and tremendous demand of hard currency as the households and businesses labored to cushion themselves against the expected economic meltdown.

The rate has moderated in 2022 with the fear abating and some inflows of remittances being received, allowing the Afghani to recover some of its loss and annual data have recorded a large decrease of about -16.5 percent of the net depreciation of USD/AFN. As Forex markets got used to the new normal of the post-transition economy and local currency supply-demand relations became more evenly balanced, by 2023 the trend had changed by another step, and the dollar had weakened against the Afghani by almost -18.0 percent over the year. Other causes involved the Central Bank dollar auctions, low flow of Afghani notes, and the inflows of remittances, which boosted local currency liquidity to aid in absorbing the shocks, and stabilized the expectations. USD/AFN has become even less volatile since the year 2024 with minor changes in its value every year and the exchange rate converging to an approximate of ~AFN 66.079 by the beginning of 2026; the signal of incremental confidence and potential structural realignments in the flows of trade and external finance. Monetary authorities continued to intervene, stable remittances, and slow adjustment to no formal access of international aid helped to stabilize this situation.



Figure 1: Exchange rate of USD/Afghani “between” (2021-2026) and projected to 2027.

Source: <https://tradingeconomics.com/afghanistan/currency>

2.2 Event–Behavior Mapping: Behavioral Explanation of USD/AFN Dynamics

The dollar's notable increase in value relative to the Afghani has been caused by a number of factors, but in this article, we have attempted to examine these developments from a financial and behavioral standpoint. It examines how human psychological and behavioral biases affect the dollar's value in relation to Afghan currency following the overthrow of the republican government and the establishment of the Taliban's active government. In this regard, several factors may have been crucial, including:

2.2.1 Fear and Loss Aversion

The political shift of 2021 provided the atmosphere of strong uncertainty, when economic agents and people were uncertain about further earnings, asset insecurity, and the stability of the institutions. In these circumstances, the classical rational-choice assumptions become invalid and the behavior dominated by fear takes place (Shiller, 2003). As behavioral finance literature points out, people overweight negative results in times of high uncertainty, causing panic-based decision-making instead of making decisions based on probability (Kahneman and Tversky, 1979).

Currency markets were frightened by fear, which was mostly seen in the fear of losses; it is a cognitive bias whereby agents felt the risk of losses more than an equivalent gain. Since people had lost their trust in the domestic currency, the households and traders felt that holding Afghanis was a risky position, even though they were not yet showing hyperinflation evidence. As a result, the US dollar became in high demand dramatically, not due to the necessity of transactions but as a psychological cushion against expected losses (Barberis, Shleifer, and Vishny, 1998). This action is the reason why the USD/AFN surged in late 2021 and start of 2022, above and beyond the expectation by macro-economic indicators.

Hoarding of dollars was therefore a safety-seeking behavior. From a behavioral point of view, the US dollar was not only a medium of exchange but also a sign of hope in the form of a store of certainty during a crisis. This redefining of the dollar created a boom in demand over and above what was reasonably valued and created exchange rate overshooting.

Political Shock → Fear and Loss Aversion → Dollar Hoarding

2.2.2 Herding Behavior

When a first kind of depreciation occurred, a second kind of behavior caused a stronger movement of the exchange rate which was herding behavior. Herding takes place when people abandon their individual information and instead follow the actions of those that imagine that collective actions mediates high quality information (Devenow and Welch, 1996). Herding effects are more acute in fragile and informal markets, as is the case in the currency market in Afghanistan because of lack of access to sound macro-economic information. The rise in the prices of USD/AFN exchange rate that have taken place in 2021 was already informational. The market players saw the pricing of the dollar as a confirmation to the worsening of the market situation, and it was adding strength to the idea that converting Afghanis to U.S. dollars was required. This perception created a positive feedback loop, in which the decisions taken by individuals with some degree of fear to follow slowly changed into an even larger collective movement. In empirical action research, it has been established that during the times of stress, when there is uncertainty that stamps out the independent judgment then the habit of herding becomes much higher (Bikhchandani and Sharma, 2001)

The outcome of over-demand to USD not due to the trade flows or difference in interest rates but it was because of herding behavior of people in the currency market. Notably, herding does not imply irrationality on an individual basis, instead, herding is a result of rational reactions to perceived social signals in an uncertain environment. That is why even when the most acute political shock had taken place, the USD demand continued.

Observed Price Increase → Herding Behavior → Excess Demand for USD

2.2.3 Expectation Correction

Behavioral finance does not always imply irrationality. Agents can alter their beliefs due to experience and expectation correction over time. The market players gradually reevaluated their assumptions after the anticipated collapse of the entire currency failed to materialize. According to (Fuster, Laibson, and Mendel, (2010), adaptive expectations theory also assumes that future forward-looking expectations are revised in response to actual results rather than initial concerns. Some of the indicators ignored in the USD/AFN were inflows of remittances, lack of domestic currency flow, and the observable intervention of central bank (DAB) in the market. These factors gave fresh information, which was contrary to the worst case. Consequently, the goal of holding dollars was less competitive to Afghani's with speculative demand reduced and some of the previous depreciation reversed.

This correction period corresponds to the behavioral theories of overreaction and then mean reversion of the prices, according to which prices initially run too high because of sentiment but later correct themselves as the information becomes accumulated (Shiller, 2003). Notably, it was a slow process of learning, which indicates that the correction was slow since the updating of belief was slow in the settings characterized by lingering uncertainty.

Policy Intervention and Market Signals → Expectation Correction → Exchange rate Adjustment.

2.2.4 Learning Effect

Learning and stabilization are a characteristic of the last stage in the event-behavior mapping. A behavioral learning theory aims to state that when a person is subjected to the same consequences, emotional reactions decrease, and the decision-making becomes more consistent (Gennaioli, Shiller, and Vishny, 2018). This is because the emotional salience of political shock had reduced as the market participants adjusted to post-2021 conditions.

The cause of this learning effect is that USD/AFN volatility improved significantly once 2023 arrived. The new economic environment was internalized by the agents, who had to adapt heuristics and decrease reactive trading. Behaviorally, the market changed to experience-based expectations compared to the affect-based decisions. Stability did not arise due to the lack of uncertainty, but rather agents learned how to act with it.

Importantly, this stabilization does not imply a return to classical efficiency. Instead, it is a behavioral equilibrium where constraints, habits, and expectations become harmonious. Even in the absence of strong institutions, fragile economies can maintain a strong equilibrium.

Economic Normalization → Learning effects → Relative Stability

2.2.5 Integrated Interpretation

As a whole, the USD/AFN pattern depicts a sequence of behavioral patterns: the fear caused by the shock, herd amplification, expectation correction, and stabilization through learning. This chain of events proves that the fluctuations of the exchange rates are not only products of macroeconomic variables but also images of a common psychology. The Afghanistan example can therefore be effective empirical evidence regarding the application of the behavioral finance principles to other groups, especially to foreign exchange markets in fragile and post-crisis economies.



Figure 2: Event- Behavior Mapping chart (USD/AFN) from (2021-2026)

Research Methodology

This paper adopts a quantitative time-series descriptive and analytical research methodology grounded in behavioral finance to examine the variations in USD/AFN exchange rates in Afghanistan during the post-2021 period. The secondary time-series data is collected from reliable publically available resources. This study follow a time-series descriptive analytical framework, where descriptive statistics such (mean, SD, MIN, Max and range) and trend analysis are applied to find the fluctuations in currency rate movements during the period of Feb 2021 until March 2026. In addition to studying its statistics behaviour, behavioural finance attempts to explain its behaviour. The empirical analysis suggests that the exchange rate volatility pattern is related to losses aversion, herding behaviour, adaptive expectations, and learning effects. As a result, this study incorporates the responses of economic agents such as households, firms and markets in the financial markets and links exchange rate movements with behavioural patterns. Therefore, it goes beyond the macroeconomic explanation of the behaviour in economic fragility.

Event-behavior mapping addresses the mapping of exchange rate movements over key political, economic, and policy events. All the major fluctuation phases are explained by commonly known behavioral finance constructs, which are loss aversion, herding behavior, adaptive expectations, and learning effects. This approach combines secondary exchange rate evidence with the behavioral finance theory to reveal how psychological forces may be deduced on the basis of market results and provides a well-established methodology of currency dynamics analysis in weak and war-torn economies.

3.1 Descriptive Statistic Analysis

Table #1 is a Descriptive statistic of the USD/AFN exchange rate and shows that there was a great variability and instability throughout the study period. The average exchange rate of 78.1 AFN against USD shows the central tendency of the currency value which implies that, on average, the currency valued at a reasonably depreciated value against the US dollar. The standard deviation of 10.4 indicates a high level of volatility

meaning that there are enormous changes in the exchange rate over time, especially during economic and political uncertainties. The lowest minimum 63.5 and the highest value of 112.45 also indicate the broad scope of exchange rate changes. In the maximum value, especially, the sharp depreciation of the Afghani can be ascribed to market reaction that is driven by crisis and increased demand of the foreign currency. The variance of 49 highlights the volume of general fluctuation, affirms the fact that the USD/AFN exchange rate experienced significant changes within the period in question. This extensive dispersion is suggestive of structural disturbances and active adjustments of the market place as opposed to the stable equilibrium action.

Table 1: Descriptive Statistics

Statistic	Value
<i>Mean</i>	78.1
<i>Std. Dev.</i>	10.4
<i>Minimum</i>	63.5
<i>Maximum</i>	112.45
<i>Range</i>	49

Source: Author

As a whole, these statistical findings show that the USD/AFN exchange rate is marked with strong volatility and non-linear changes that cannot be attributed to the macroeconomic fundamentals solely. Rather, these trends coincide with behavioral dynamics like fear induced reactions, herding behavior and follow-up adjustments to the changing market conditions.

3.2 Behavioral Interpretation of USD/ AFN

The descriptive statistics of the USD/AFN exchange rate are good empirical support that the observed fluctuations are not necessarily induced by the presence of macroeconomic fundamentals but behavioral factors also play a key role in the observed fluctuations. Every statistical result could be systematically attributed to the accepted behavioral finance theories. Each phase of this fluctuation is connected to a specific behavioral factors, as shown in Table 2:

Table 2: Phase-wise division of the currency exchange rate

Phase	Market Movement	Behavioral Explanation
<i>Spike (2021)</i>	Sharp Increase	Fear & Loss Aversion
<i>Persistence (2022)</i>	Continued High Levels	Herding Behavior
<i>Decline (2023)</i>	Gradual Decrease	Expectation Correction
<i>Stability (2024–26)</i>	Low Volatility	Learning Effect

Source: Author

3.3 Extreme Maximum Value (Fear and Loss Aversion)

The maximum of 112.45 AFN per USD was noted and it could be attributed to a sudden sharp depreciation event, which cannot be well attributed only to the gradual alteration of the economic fundamentals. Rather, these radical movements are in line with the fear induced market behavior and the avoidance of losses where economic agents respond to the threat of losses more than they respond to a similar amount of gain (Kahneman and Tversky, 1979). However, in times of political and economic uncertainty, investors are willing to invest in safer assets, even without any immediate macroeconomic rationale, including the US dollar. This is in line with the idea of flight-to-safety, with the market participants being interested in the capital survival rather than in rational optimization (Calvo and Reinhart, 2002).

3.4 High Standard Deviation (Herding Behavior)

The standard deviation is relatively high at 10.4 implying high volatility in the exchange rate, hence not only the external shocks but also the behavioral responses of the crowds. Herding behavior is one of the most notable theories that can explain such volatility as people tend to follow other people instead of using their own information (Bikhchandani and Sharma, 2001). It is likely to exaggerate the price fluctuations and produce self-reinforcing demand and supply cycles in contexts that are highly uncertain and lack transparency in information such as weak economies (Devenow & Welch, 1996). As a result, exchange rate volatility is now a social phenomenon, and not an economic phenomenon.

3.5 Wide Range (Overreaction and Market Inefficiency)

The wide range of 49 highlights the extent of exchange rate variation, which implies that the market had witnessed intense variations. These swings of this magnitude are also consistent with the behavioral theory of overreaction whereby prices initially overreact to new information and set about correcting them the next day (Shiller, 2003). The literature of behavioral finance holds that in conditions of uncertainty market participants are likely to overvalue recent or salient information that results in exaggerated price changes that do not reflect underlying values (Barberis, Shleifer, and Vishny, 1998). This leads to non-linear and unstable dynamics of exchange rates as witnessed in the USD/AFN series.

3.6 Falling Trend after Peak (Expectation Correction)

After the extreme depreciation period, the exchange rate shows gradual depreciation and stabilization and it is a sign of expectation correction process. Behavioral models of adaptive expectations indicate that people change their beliefs with time depending on the results they observe and not on their fears (Fuster, Laibson, and Mendel, 2010). When the worst-case scenarios do not occur and as new information comes into the market, the speculative demand of foreign currency falls and the previously occurring price changes are partially reversed. Such a process of adjustment demonstrates the shift towards more experience-based expectations instead of decisions that are made on the basis of emotions.

3.7 Stabilization Phase (Learning Effects)

The exchange rate is eventually stabilized at lower levels of volatility implying that there are learning effects amongst the players in the market. Behavioral theories are based on the idea that after exposure to shocks, emotional sensitivity decreases, and the behavior results in more stable decision-making in the long run (Gennaioli, Shiller, and Vishny, 2018). Here, stabilizing USD/AFN does not automatically mean that it would lead to fully effective markets, but rather behavioral equilibrium, where they will adapt to uncertainty and change their expectations to it.

Altogether, the statistical trends in USD/AFN exchange rate, which are marked by the extreme highs, high-volatility, volatility ranges, and slow stabilization can be interpolated in terms of a behavioral finance approach. The fear-based behavior process, amplification of herding, the expectation correction process, and the process of stabilizing exchange rate through learning shows that the psychology and social aspects play significant roles in the exchange rate behavior in weak economies besides the macroeconomic fundamentals (Shiller, 2003; De Grauwe and Grimaldi, 2006).

Results and Discussion

The Trend Analysis of the yearly USD/AFN exchange rate through the period of August 2021 to March 2026 indicates four phases that include shock generated overshooting, volatility escalation, gradual restoration and relative stabilization. As soon as the political transition of 2021 began, the Afghani has experienced a significant decline due to the depreciation with the US dollar, and the exchange rate exceeded the historical standards. This was marked by extreme volatility, price run-up and shallowness. Things then shifted to an extended correctional period that was characterized by slow appreciation of the Afghani and decreasing volatility. Towards the end of 2023 and on, USD/AFN rate showed a relative stability but with slightly varying values, although the economy was not fully rebuilt yet. The above trends imply that the exchange rate swings were not linear and asymmetric implying that other forces rather than the traditional fundamentals were involved.

The original over valuation and depreciation of the Afghani is in line with loss aversion and fear-based decision making. Behavioral finance is a prediction that, given extreme uncertainty, the agents tend to over graduate the losses in comparison to gains, which causes defensive substitution of assets. People and traders quickly sold Afghani assets into US dollars in the Afghan context as an asset they believed was safe. This tendency created surplus demand of USD, derailing the exchange rate beyond the explanations of the trade flows or the sole operations of the monetary fundamentals. The outcome was that of behavioral overshooting in that prices will indicate a panic and not the equilibrium level of valuation. As USD price kept on surging, the exchange rate, itself, turned into a signal. Instead of analysing independently, market players had learnt through traditional observation of price changes hence herding. This mimicry increased volatility and further depreciation despite being post shock. Its results are consistent with behavioral explanations in which herding changes personal fear into market momentum and enhances fundamental deviations.

Since the middle of 2022 the data have indicated a gradual appreciation of the Afghani. This stage can be associated with the expectation correction phase where agents are updating catastrophic beliefs when they do not occur. The sustained inflows of remittances, coupons in humanitarian aid and ad hoc changes in the informal markets decreased the precautionary dollar capital. This is termed in behavioral theory as adaptive learning where the beliefs vary gradually as the results are realised instead of the instant rational updating. The correction

was done slowly which proves that there was actually belief inertia. The last stage is an indication of behavior stabilization accomplished via learning. Frequent shocks (shock start) without physical collapse of the system minimized emotional banking and conjectural hoarding. The market was pulling into a behavioral equilibrium, with its reduced volatility as opposed to fundamental strength. This is the reason as to why relative stability was witnessed amidst the underlying structural weaknesses.

In general, the findings indicate that USD/AFN is a behaviourally ordered following dynamics: This cumulative evidence can back up the argument that the behavioral finance approach gives a better understanding of exchange rate movements in weak and post-conflict economies.

Policy Implications

The findings have various significant policy implications. To begin with, expectation management must be considered one of the main instruments of stabilizing exchange rates. Fear-based responses can be mitigated by plain, consistent, and convincing communication on the part of the monetary and financial authorities to avoid overshooting due to panic. This is the case even in weak economies, where silence or ambiguity is even more destabilizing than negative policies. Second, it is essential to enhance the information transparency and market signalling. In case there is a lack of reliable information, prices themselves are distorted signals, which strengthens herding behavior. Periodic issues of liquidity terms, remittance flows, and policy intents can add to diluted rumor-based trading as well as diminish volatility. Third, policymakers ought to understand that the psychological confidence effects could have comparable effects to the liquidity interventions. The few policy measures, even effectively communicated, will put an anchor on expectations and reduce speculative currency demand. On the other hand, uncertainty may be increased through ill-reported interventions. Lastly, the behavioral spillovers of cash injections and aid flows should be taken into consideration by the international organizations and humanitarian actors. Expectations can be stabilized through foreseeable and open disbursement systems, which decrease precautionary hoarding of dollars.

On the whole, in the behaviourally conscious models of exchange rate management of vulnerable economies, the focus on the control of beliefs, stories, and expectations is no less significant than the control over reserves and monetary aggregates.

Conclusion

This paper explored the fluctuations of the USD / AFN exchange rate during the post-2021 period by considering the prism of behavioral finance with the help of a secondary-data quantitative and analytical design. The results indicate that Afghanistan's exchange rate dynamics cannot be sufficiently accounted for by using the traditional macroeconomic fundamentals. Rather, the recorded trends, which are wearing out depreciation, over volatility, smooth correction, and stability thereafter, are patterns of responses to behavior motivated by fear, herding, revision of expectations, and learning. The study demonstrated that the early depreciation of the Afghani was largely a psychological overshooting process, first of all caused by excessive uncertainty and aversion to loss rather than by relative changes in the monetary or trade fundamentals. This was further exaggerated through herding behavior since market participants used observed price movements as informational signals in an environment of low transparency. With uncertainty fading slowly and no worst-case scenario developing, the expectations changed with adaptive learning, causing some reversal in the exchange rate and causing less volatility.

One of the findings of this work is a mechanism of behavioral stabilization in which habitual exposure to shocks reduced trading in emotions and speculation in the hoarding of currencies. We observed no type of institutional or structural recovery in the USD/AFN market but rather behavioral adjustment and convergence of beliefs to induce stability in the market. This is a challenge to the traditional belief that a stable exchange rate is an inevitable indicator of a strong macro-economy. Theoretically, the research supports the applicability of behavioral finance to describe currency dynamics in weak and warring economies. Theoretically, it shows that strong behavioral conclusions can be drawn in case of secondary exchange rate data and theory-informed interpretation.

Implications on policy are evident; it is important to manage expectations, enhance transparency of information, and reduce uncertainty as much as it is important to implement monetary interventions to stabilize exchange rates. Future studies can also build further on this framework by incorporating mixed methods or cross-country analysis in a bid to further prove behavioral exchange rate models.

Directions for Future Research

This study creates a number of research areas for future research. To begin with, future research might take a mixed methodology in which secondary exchange rate information is coupled with purposeful surveys or

interviews of traders, households, and recipients of remittances in order to directly estimate behavioral biases like loss aversion and herding. This would provide micro-macro validation of links. Second, cross-country studies could be carried out to determine if the same patterns of behavioral exchange rate patterns are observable in other fragile or post-conflict economies to test the generalizability of the proposed behavioral sequence. Comparisons of this kind would enhance the external validity of the behavioral exchange rate models.

Third, a prospective study can use a structural or regime-switching econometric model to test formally behavioral phases of panic, correction, and stabilization of this study which has been identified qualitatively. This would go hand in hand with narrative-based behavioral analysis and quantitative regime identification. Lastly, there may be future research on how narratives, media, and informal information networks can be used to influence the creation of exchange rate expectations especially in environments where there is low transparency. Getting a deeper insight into the psychological basis of currency markets would be achieved by understanding how beliefs are made and passed on.

Limitation of the study

The extant study has been limited to the secondary data. The collection of primary data (e.g., surveys or interviews) was intentionally avoided due to three reasons. Initially, currency market behavioral responses are not individual but collective and emergent. Second, retrospective surveys are prone to recall bias, especially when it comes to a crisis setting. Third, behavioral theory in conjunction with secondary market data is stronger in offering external validity in the studies of exchange rate dynamics at the macro level. So the future study can be focus on collecting primary data from the parties who actively contributing to the exchange of currencies in the financial markets.

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Conflict of Interest

None

Author Contribution Statements

The authors confirm that this research adhered to ethical standards. This study used existing published data only for scientific research purposes.

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