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Volatility and Stability of AFN/USD Exchange Rate after August 2021

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Abstract

Purpose: This study examines the volatility and stability of the AFN/USD exchange rate in Afghanistan following the political regime change in August 2021. Exchange rate stability is an important indicator of macroeconomic performance because persistent volatility can create uncertainty, weaken investor confidence, and affect economic activities. The main objective of the study is to measure exchange rate volatility, analyze yearly changes in volatility and exchange rate returns, evaluate exchange rate stability across different periods, and identify trends in exchange rate behavior after 2021.

Methodology: The study employs a quantitative time-series research design using monthly AFN/USD exchange rate data from August 2021 to April 2026. Volatility is measured using rolling standard deviation, supported by descriptive statistical analysis to examine fluctuations, exchange rate returns, and overall trends.

Results: The findings reveal that the AFN/USD exchange rate experienced moderate to high volatility immediately after August 2021 due to economic uncertainty and structural shocks. Volatility increased during 2022-2023, indicating greater instability, while a relative decline in volatility during 2024-2025 suggests partial stabilization. However, the results also show renewed volatility in early 2026, reflecting continued uncertainty in the Afghan economy.

Conclusions: The study concludes that exchange rate stability in Afghanistan remains fragile and highly influenced by external factors, policy controls, and domestic economic conditions.

Recommendations: The research highlights the need for stronger monetary frameworks, improved financial sector resilience, and greater economic diversification to reduce exchange rate volatility and support long-term economic stability. Spaced, Centered, Inverted triangle

Keywords: Afghani Currency, Exchange Rate, Instability, Stability, Volatility

Introduction

Volatility and stability in exchange rates are key concepts in understanding how currencies behave over time in international markets. Exchange rate volatility refers to the degree of fluctuation in the value of a currency relative to another currency, indicating how frequently and how strongly the rate changes. High volatility means the exchange rate moves rapidly and unpredictably, creating uncertainty for investors, businesses, and policymakers. In contrast, exchange rate stability implies that the currency value remains relatively constant over time, allowing for better planning in trade, investment, and economic policy. Several factors influence volatility and stability, including inflation, interest rates, political conditions, economic performance, and external shocks such as global financial crises or changes in foreign aid. While some level of volatility is normal in a flexible exchange rate system,



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excessive fluctuations can harm economic growth by increasing risk and reducing confidence. Therefore, many countries aim to maintain a balance, where the exchange rate is flexible enough to adjust to market conditions but stable enough to support economic activities. Understanding volatility and stability helps policymakers design effective monetary and exchange rate policies to promote economic resilience and long-term development.

The study examines how exchange rate volatility affects the volatility of American Depositary Receipts (ADRs). The findings show that when the home country's currency becomes more unstable, ADR volatility also increases, with a 1% rise in exchange-rate volatility leading to about a 2% increase in ADR volatility. Evidence from Chinese ADRs during the unexpected 2005 yuan policy change further supports this relationship. Overall, the study highlights a strong connection between currency market movements and stock market behavior. Blau, B. M. (2018).

This study develops a model to explain bilateral exchange rate volatility, focusing on differences between developing and industrial countries. It finds that in developing economies, external debt plays a significant role in reducing exchange rate volatility by limiting financial flexibility and weakening the exchange rate's response to external shocks. In contrast, for industrial countries, traditional factors such as those from the Optimal Currency Area (OCA) theory are more important, and external debt has little impact. Overall, the study shows that financial constraints, especially external liabilities, are key determinants of exchange rate behavior in developing countries. Devereux, M. B., & Lane, P. R. (2003).

Problem Statement:

The exchange rate plays a crucial role in determining the economic stability of a country, particularly in developing and fragile economies such as Afghanistan. meanwhile the political regime changes in August 2021, Afghanistan experienced significant economic uncertainty, changes in financial systems, and reduced access to international markets. These developments are likely to have affected the behavior of the Afghan Afghani (AFN) against the United States Dollar (USD). In such environment, exchange rate stability becomes an important concern for policymakers, businesses, and investors. High volatility in the exchange rate can lead to increased uncertainty, reduced investment, inflationary pressures, and difficulties in international trade. Despite the importance of this issue, there is limited empirical research examining the volatility and stability of the AFN/USD exchange rate in the post-2021 period. Furthermore, it remains unclear whether the Afghan currency has become more stable or more volatile over time following the regime change. Understanding whether exchange rate fluctuations have decreased, remained constant, or increased is essential for evaluating the overall economic condition of the country.

Therefore, this study seeks to address this gap by analyzing the volatility and stability of the AFN/USD exchange rate using monthly data from August 2021 to April 2026.

Research Questions:

What is the level of volatility of the AFN/USD exchange rate after August 2021?

How does the volatility of the AFN/USD exchange rate change across different years (2021 August– April 2026)?

Is there evidence of improvement or deterioration in exchange rate stability over time?

How does exchange rate behavior differ across early, middle, and recent periods after the 2021 regime change?

Research Objectives:

To know the volatility and stability of the AFN/USD exchange rate after August 2021.

Specifically: To measure the overall volatility of the AFN/USD exchange rate using statistical methods.

To examine yearly changes in exchange rate volatility and returns from August 2021 to April 2026.

To evaluate the stability of the exchange rate across different time periods (early, middle, and recent periods).

To identify trends in exchange rate behavior following the political regime change in Afghanistan.

Literature review

This study analyze the Export Led Growth (ELG) hypothesis in five Asia-Pacific countries China, India, Indonesia, Malaysia, and South Korea from 1990 to 2021. Using advanced econometric methods, it finds a strong long-term relationship between exports and GDP, confirming that exports drive economic growth. The study also shows that exchange rate volatility negatively affects GDP, while inflation has a positive relationship with growth. Overall, stable exchange rates and supportive export policies are essential for sustainable economic development. Sein, P., & Sah, A. N. (2025).

This study examines the relationship between exchange rate volatility, financial stability, foreign debt, and economic growth in selected South Asian countries from 1985 to 2020. The results show that labor force participation, financial stability, and physical capital all have a positive and significant impact on economic growth. Exchange rate volatility also positively influences growth, while foreign debt has a negative but insignificant effect. Overall, the study concludes that multiple factors including volatility, financial conditions, and resource availability play important roles in shaping economic growth in South Asia. Ali, A. (2022).

This rsearch investigates the determinants of real exchange rate volatility in Nigeria from 1981 to 2008. used the GARCH (1,1) model and ECM approach, the results determine that factors like economic openness, government expenditure, interest rates, and past exchange rates significantly influence exchange rate volatility. The study also finds a long-term relationship between exchange rate volatility and its determinants. It concludes that policymakers should implement effective monetary and fiscal policies to reduce exchange rate fluctuations and promote economic stability. AJAO, M. G. M. G. (2015).

This paper reviews the empirical literature on exchange rate volatility and its impact on international trade flows up to 2005. It finds that the effect of exchange rate volatility on exports and imports is unclear, as it can have negative, positive, or insignificant impacts. While increased volatility may reduce trade due to higher risk, some theories suggest it can also increase trade as firms adjust their behavior to manage uncertainty. Overall, the study concludes that there is no single agreed measure of exchange rate volatility and that empirical evidence supports both sides of the debate. Bahmani-Oskooee, M., & Hegerty, S. W. (2007)

The creation of the European Monetary Union (EMU) affected the stability and volatility of European currencies. The study found that after the Maastricht Treaty, most European currencies became more stable and less volatile. However, when Denmark voted against the treaty, currencies became less stable and more volatile. Overall, closer monetary integration generally improved currency stability, and there was no evidence that countries choosing not to join closer monetary cooperation experienced worse currency stability. Bask, M., & de Luna, X. (2005).

This study examines how exchange rate volatility affects banking-sector stability across 103 countries from 2000–2021. Using advanced statistical methods, the results show that higher exchange rate volatility significantly weakens banking stability and increases financial fragility. Strong bank fundamentals, economic growth, and institutional quality improve

stability, while inflation, policy uncertainty, and risky lending reduce it. The study concludes that exchange rate volatility is a major structural risk for the banking sector and highlights the importance of effective monetary, fiscal, and exchange-rate policies to maintain financial stability. Oyadeyi, O. O., Rahman, M. M., Ugwu, O., Otokiti, B. O., & Adewole, A. (2026).

This paper examines how real exchange rate (RER) volatility affects trade, particularly exports in Brazil. The theoretical analysis shows that RER volatility, driven mainly by demand shocks and inflation volatility, increases the equilibrium real exchange rate. The empirical results for Brazil indicate that inflation volatility is a major cause of RER volatility. Although the study finds that higher RER volatility tends to reduce export supply, the negative effect is generally weak and not statistically significant. Gonzaga, G. M., & Terra, M. C. T. (1997).

This study examines the volatility of the Nigerian naira against the U.S. dollar after Nigeria adopted the IMF Structural Adjustment Programme (SAP) in 1986 and shifted from a fixed to a floating exchange rate system. Using monthly data from 1986–2008 and econometric models such as ARCH and GARCH, the study found persistent and severe volatility in both nominal and real exchange rates. The results also showed overshooting exchange rate shocks and revealed that the exchange rates did not follow the traditional Purchasing Power Parity (PPP) model in the long run. Overall, the findings suggest that Nigeria's monetary policy was ineffective in stabilizing the exchange rate, highlighting the need for stricter measures to reduce demand for foreign currency. Adeoye, B. W., & Atanda, A. A. (2011).

This paper discusses the challenges of managing exchange rate volatility in Nigeria and highlights the importance of effective exchange rate policies in maintaining currency value, price stability, and economic competitiveness. It concludes that proper management by the Central Bank of Nigeria can strengthen the naira and improve confidence in the exchange rate system. Mordi, C. N. (2006).

This paper examines foreign exchange intervention strategies in emerging economies after the global financial crisis. It finds that flexible exchange rates help stabilize economies, but excessive volatility can create financial risks. The study also shows that forex interventions are mainly used to reduce exchange rate volatility, though their effectiveness remains uncertain. Mohanty, M. S. (2013).

This study analyzes exchange rate volatility in the Visegrad Four countries after they shifted from fixed to more flexible exchange rate regimes. The findings show that adopting floating exchange rates increased volatility, which was mainly influenced by unexpected shocks, while interest rate differences also affected exchange rate movements. Kočenda, E., & Valachy, J. (2006).

This study examines how economic, monetary, and global financial uncertainties affect exchange rate volatility in 26 developed and emerging countries from 2005–2020. The findings show that economic policy uncertainty and global financial market uncertainty increase exchange rate volatility, while uncertainty in US monetary policy tends to reduce it. The study highlights the importance of managing uncertainty to maintain exchange rate stability. Aftab, M., Naeem, M., Tahir, M., & Ismail, I. (2024).

This study investigates the volatility of major currencies against the U.S. dollar during five U.S. presidential terms. The results show that exchange rate volatility is affected by election cycles and political parties, while unexpected dollar depreciation near elections increases volatility more strongly than dollar appreciation. Lobo, B. J., & Tufte, D. (1998).

This paper examines the factors affecting euro exchange-rate volatility in new EU member countries during their integration into the EMU. The results show that greater economic openness reduces exchange-rate volatility, while news and flexible exchange-rate regimes increase volatility, although the effects differ across countries. Staněík, J. (2007).

This study examines the impact of currency volatility on the Johannesburg Stock Exchange

(JSE) using South African data from 2000–2010. The findings show a very weak relationship between exchange rate volatility and stock market performance, suggesting that the JSE is relatively stable against currency fluctuations and attractive to foreign investors. Mlambo, C., Maredza, A., & Sibanda, K. (2013).

This study examines factors affecting stock price stability during the Covid-19 pandemic among consumer goods companies listed on the Indonesia Stock Exchange. The results show that dividend policy influences stock price stability, while earnings volatility and exchange rates have no significant effect on stock price volatility. Soukotta, A., Yusuf, M., Zarkasi, Z., & Efendi, E. (2023).

This study shows that open-economy models can produce high exchange-rate volatility with low exchange-rate pass-through (ERPT). The findings suggest that price discrimination and small nominal rigidities reduce the effect of exchange rate changes on prices, while exchange-rate depreciation worsens terms of trade. The study also highlights that ERPT estimates may be biased due to data limitations and economic shocks. Corsetti, G., Dedola, L., & Leduc, S. (2008).

This paper revisits the impact of exchange rate volatility on trade flows by considering major global economic changes such as currency crises, increased capital flows, and the development of foreign exchange hedging instruments. Using modern economic theories and statistical methods, the study examines how exchange rate volatility affects trade in developed, developing, and transition economies. Morina, F., Hysa, E., Ergün, U., Panait, M., & Voica, M. C. (2020).

This study examines the impact of real effective exchange rate volatility on economic growth in Central and Eastern European (CEE) countries from 2002–2018. The findings show that exchange rate volatility negatively affects economic growth, suggesting that stable exchange rate policies are important for promoting economic stability and growth. Al Amosh, H. (2025).

This study investigates the impact of exchange rate volatility (ERV) on firms' environmental, social, and governance (ESG) performance using data from over 15,000 firms between 2012 and 2019. The findings show that higher exchange rate volatility negatively affects ESG performance, as firms face greater uncertainty, compliance challenges, and difficulty investing in sustainable practices. The study emphasizes the importance of strategies to reduce the negative effects of exchange rate instability on corporate sustainability. Kilicarslan, Z. (2018).

This study examines the determinants of exchange rate volatility in Turkey from 1974–2016. The results show that domestic investment, money supply, and trade openness increase exchange rate volatility, while foreign direct investment, economic growth, and government spending reduce it. Abdulsalam, R., Farounbi, B. O., & Ibrahim, A. K. (2021).

Materials and methods

In this study used secondary data which obtained from Yahoo Finance, which is a widely recognized financial data platform. The dataset consists of the exchange rate of the Afghani (AFN) against the United States Dollar (USD). The data is collected on a monthly basis, covered the period from August 2021 to April 2026. The starting point (August 2021) is selected due to the political regime change in Afghanistan, which is expected to have a significant impact on exchange rate behavior and market stability. The dataset includes the following variables: Open price, High price, Low price, Close price, adjusted close price for the purpose of analysis, the adjusted closing price is used, as it provides a consistent measure of exchange rate movements over time.

Data Preparation

The collected data is organized and processed through Microsoft Excel. The monthly exchange rate series is cleaned and removed any inconsistencies and missing values. The analyse

exchange rate movements, the study computes returns, which measure the percentage change in the exchange rate between consecutive periods.

The return is calculated used the following formula:

$$R_t = \frac{P_t - P_{t-1}}{P_{t-1}}$$

where:

- R_t = return at time t
- P_t = current period price
- P_{t-1} = previous period price
-

Analytical Methods

In this study used descriptive statistical techniques to examine the volatility and stability of the AFN/USD exchange rate.

Descriptive Statistics

Basic statistical measures are used to summarize the data, including:

- Mean return (to identify overall trend)
- Standard deviation (to measure volatility)
- Minimum and maximum returns (to identify extreme movements)

Volatility Measurement:

Volatility is measured using the standard deviation of returns, which captures the degree of fluctuation in the exchange rate.

A higher standard deviation indicates greater volatility and instability

A lower standard deviation indicates more stability

Yearly Analysis:

To understand how exchange rate behavior changes over time, the data is grouped into annual periods (2021–2026).

For each year, the study calculates: Average return, Standard deviation of returns

This allows comparison of volatility across different years.

Period-wise Analysis

For better capture the impact of the post-2021 environment, the study divided the data into three periods: Early Period (2021–2022), Middle Period (2023–2024), Recent Period (2025–2026) For each period, the study computes: Mean return, Volatility (standard deviation) This approach helps identify changes in exchange rate stability over time.

Tools Used

All data processed, calculated, and analyzed are conducted used Microsoft Excel, included: Return calculations, Pivot tables for grouping data, Statistical functions (AVERAGE, STDEV.S), Chart visualization

Results

Table 01 DESCRIPTIVE STATISTICS

Measure	Value
Mean Return	-0.02272
Volatility (Std Dev)	0.136924
Minimum Return	-1
Maximum Return	0.09746

Observations	57
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The descriptive statistics in Table 01 provide an overview of the behavior of the AFN/USD exchange rate over the study period (August 2021 to April 2026). The mean return is -0.02272, indicating that, on average, the Afghan Afghani experienced a slight depreciation against the US dollar during the period. This negative average suggests a general downward movement in the value of the domestic currency. The volatility, measured by the standard deviation (0.136924), is relatively high. This implies that the exchange rate exhibited significant fluctuations over time, reflecting instability in the currency market. High volatility is often associated with uncertainty and changing economic or political conditions. The minimum return is reported as -1, which represents an extreme negative value. This likely reflects an outlier or data issue rather than a normal market movement and should be interpreted with caution. In contrast, the maximum return of 0.09746 indicates that positive movements in the exchange rate were relatively limited compared to the negative extreme. The dataset includes 57 observations, which corresponds to monthly data over the study period. While this provides a reasonable basis for analysis, the relatively small sample size especially in later periods may influence the reliability of extreme values. At the result, the descriptive statistics suggest that the AFN/USD exchange rate experienced moderate to high volatility and a general trend of depreciation after August 2021, indicating periods of instability in the Afghan currency market.

Table 02

Row Labels	Average of Return	StdDev of Return
2021	0.036994823	0.032012187
2022	-0.012503443	0.038741906
2023	-0.013873907	0.037059551
2024	0.003917275	0.035440023
2025	-0.013699622	0.033214037
2026	-0.261458333	0.493538984
Grand Total	-0.022715361	0.136924493

Table 02 presents the yearly average returns and volatility (standard deviation) of the AFN/USD exchange rate over the study period from 2021 to 2026. The results show that the behaviour of the exchange rate varies significantly across years, indicating changing levels of stability in the Afghan currency market. In 2021, the average return is positive (0.0369) and volatility is relatively low (0.0320), suggesting that the exchange rate was comparatively stable during the initial period after August 2021. In 2022 and 2023, the mean returns become negative (-0.0125 and -0.0139), while volatility increases (0.0387 and 0.0371). This indicates a period of depreciation accompanied by higher fluctuations, reflecting increased instability in the exchange rate during these years. In 2024, the average return turns slightly positive (0.0039) and volatility decreases to 0.0354, suggesting some improvement in exchange rate stability compared to the previous years. In 2025, the mean return becomes negative again (-0.0137), but volatility declines further to 0.0332, indicating relatively lower fluctuations despite continued depreciation pressure. In 2026, the results show an extremely high volatility (0.4935) and a very large negative mean return (-0.2615). However, this finding should be interpreted with caution, as the data for 2026 covers only a few months, which may distort the statistical measures. At the result, the yearly analysis suggests that the AFN/USD exchange rate experienced moderate instability during 2022–2023, followed by partial stabilization in 2024–

2025, with irregular and extreme behaviour in 2026 due to limited data.

Table 03

Row Labels	Average of Return	StdDev of Return
2021-2022	0.00205487	0.042761507
2023-2024	-0.004978316	0.036607565
2025-2026	-0.0756393	0.24860011
Grand Total	-0.022715361	0.136924493

Table 03 presents a comparison of average returns and volatility of the AFN/USD exchange rate across three distinct periods following August 2021. The results show clear differences in exchange rate behavior over time, reflecting changing levels of stability in the Afghan currency market. During the early period (2021–2022), the mean return is slightly positive (0.0021), while volatility is relatively moderate (0.0428). This suggests that, although the exchange rate experienced some fluctuations following the political transition, the overall level of instability remained moderate. In the middle period (2023–2024), the average return becomes slightly negative (-0.0050), and volatility decreases to 0.0366. This indicates a period of relative stabilization in the AFN/USD exchange rate, with lower fluctuations compared to the earlier period. However, in the recent period (2025–2026), the results show a sharp increase in volatility (0.2486) along with a significant negative mean return (-0.0756). This suggests a substantial rise in exchange rate instability and depreciation of the Afghan Afghani during this period. Nevertheless, this finding should be interpreted with caution, as the 2026 data includes only a limited number of observations, which may exaggerate volatility. At the end, the period-wise analysis indicates that the AFN/USD exchange rate experienced initial instability after August 2021, followed by a phase of relative stabilization, and later signs of increased volatility in recent years.

Chart 01:

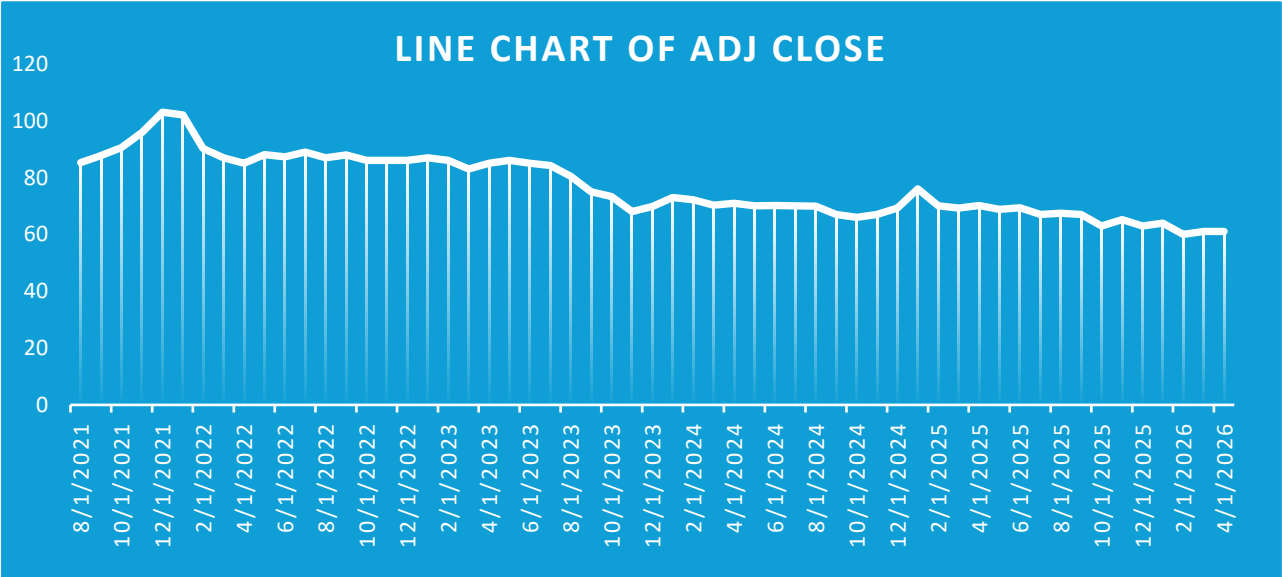
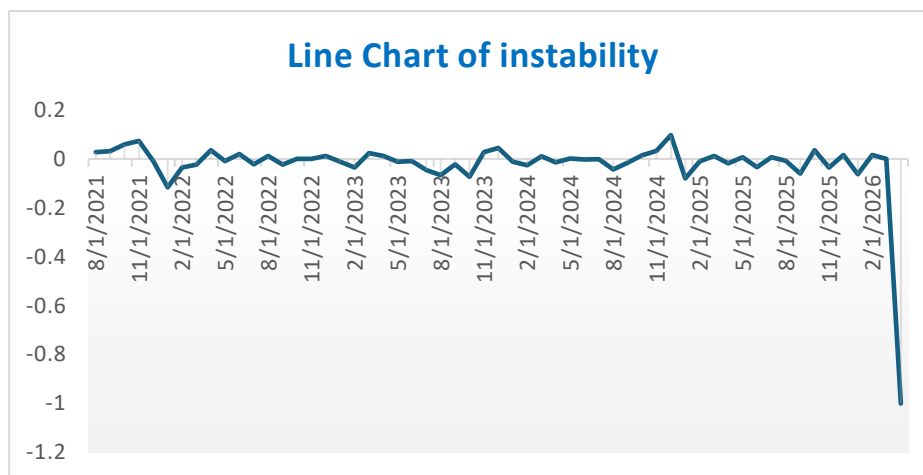


Chart 01:

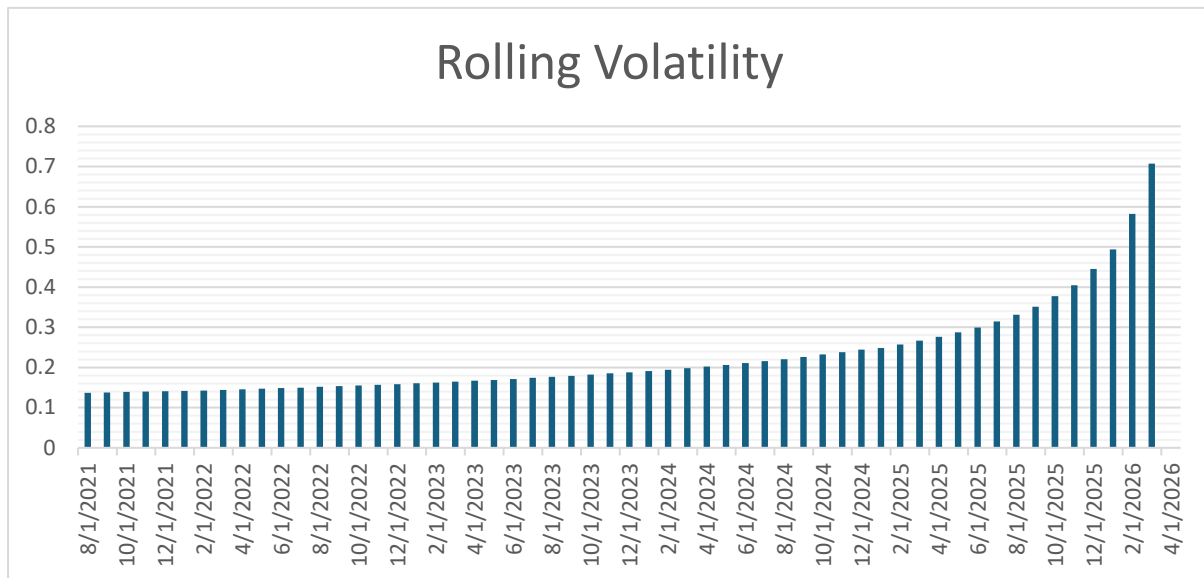
The above line chart stated that The line chart of the adjusted closing AFN/USD exchange rate from August 2021 to early 2026 illustrates a clear pattern of initial volatility followed by gradual stabilization and appreciation of the Afghani. In the immediate aftermath of August 2021, the exchange rate increased sharply from around 85 to above 100 AFN per USD, indicating significant depreciation of the Afghani due to economic and political uncertainty. This period of high volatility was short-lived, as the currency quickly recovered in early 2022, with the rate declining back to the mid-80s, suggesting the impact of stabilization measures and external inflows. Between mid-2022 and early 2023, the exchange rate remained relatively stable with only minor fluctuations. However, from mid-2023 onward, the chart shows a consistent downward trend in the exchange rate, reaching approximately 60 AFN per USD by 2026, which reflects a sustained appreciation of the Afghani. Overall, the pattern indicates that while the AFN experienced short-term instability after August 2021, it gradually moved toward greater stability and strengthening in the later period.

Chart 02



Interpretation of the above chart This chart of the adjusted closing exchange rate shows that the Afghani initially depreciated sharply after August 2021, rising from around the mid-80s to above 100 AFN per USD by late 2021, reflecting the immediate economic and political shock. This was followed by a strong appreciation in early 2022, where the rate dropped quickly back to the mid-80s, indicating stabilization supported by currency controls and external inflows. From mid-2022 to early 2023, the exchange rate remained relatively stable with minor fluctuations, suggesting a temporary balance in the market. However, beginning in mid-2023, there is a clear downward trend in the exchange rate (toward 60 AFN/USD by 2026), meaning the Afghani gradually strengthened against the dollar over time. Despite small short-term fluctuations, especially in 2024–2025, the overall pattern indicates reduced volatility and increasing stability, with a slow but consistent appreciation of the Afghani in the later period.

Chart 03:



The above chart stated that The rolling volatility chart of the AFN/USD exchange rate reveals a gradual increase in exchange rate uncertainty over time, despite the apparent stability in the level of the exchange rate. In the period immediately following August 2021 through 2022, volatility remains relatively low and stable, indicating that although the currency experienced a shock, short-term fluctuations were controlled. However, beginning in 2023 and continuing into 2024, volatility shows a steady upward trend, suggesting increasing variability in monthly exchange rate movements. This trend becomes more pronounced in 2025, where volatility rises sharply, indicating growing instability and sensitivity of the exchange rate to economic or external factors. By early 2026, the volatility spikes significantly, reaching its highest level in the sample, which may reflect heightened uncertainty, market stress, or possible data anomalies. Overall, the chart suggests that while the AFN appeared stable in terms of its exchange rate level, the underlying risk and unpredictability increased over time, highlighting a divergence between apparent stability and actual market volatility.

Discussions

The findings of this study indicate that the AFN/USD exchange rate experienced significant volatility immediately after August 2021, followed by a period of relative stabilization and gradual appreciation. This pattern can be explained by economic and political shocks in the early period, along with the implementation of strict monetary controls, reduced liquidity, and continued inflows of foreign aid in later periods. While the exchange rate appears stable over time, the increasing rolling volatility suggests that underlying uncertainty and risk have not disappeared. This supports the idea that Afghanistan's economy remains fragile, where stability is influenced more by external and policy factors than by strong economic fundamentals. However, the analysis is limited by data constraints and potential anomalies in recent observations. Overall, the study highlights the difference between apparent exchange rate stability and actual economic resilience.

Conclusions

The findings of this study indicate that the AFN/USD exchange rate experienced moderate to high volatility after August 2021, suggesting that the Afghan currency remained unstable during the post-regime change period. The analysis of yearly data reveals that volatility increased during 2022–2023, reflecting heightened instability, while 2024–2025 showed relatively lower volatility, indicating partial improvement in exchange rate stability. However, 2026 exhibits unusually high volatility due to current data April 2026, which should be interpreted with caution due to limited observations. The period-wise analysis further shows

that exchange rate behaviour differs over time. The early period (2021–2022) was characterized by moderate instability, the middle period (2023–2024) showed signs of stabilization, and the recent period (2025–2026) indicates renewed volatility and depreciation pressures. At the end, the results suggest that although there was some improvement in exchange rate stability in the middle period, the Afghan currency continues to face significant volatility and uncertainty, highlighting its vulnerability to economic and external shocks following the 2021 regime change.

Limitations:

The study had some limitations:

The dataset is based on monthly data, which may not capture short-term fluctuations. Moreover, the data for 2026 is incomplete due to the current date which is April 2026, which may affect the accuracy of volatility estimates.

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