“Assessing the impact of globalization on financial stability: Evidence from selected developed and developing countries”

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ASSESSING THE IMPACT OF GLOBALIZATION ON FINANCIAL STABILITY: EVIDENCE FROM SELECTED DEVELOPED AND DEVELOPING COUNTRIES

Abstract

Globalization and financial instability are interconnected phenomena influencing the modern economic and financial environment. Thus, this study analyzes the global antecedents of the current financial problems and looks at the effects of globalized markets on the previous financial crisis of 2007–2008. It quantitatively examines the impact of globalization on financial stability across 15 chosen countries of different continents between 2001 and 2022, focusing on four variables: trade openness, foreign direct investment and net inflows (FDI), inflation and consumer prices, and official exchange rates. Using a comparative analysis approach, the study evaluated these factors to find their influence on one another for the selected developed and developing economies. The findings reveal the varying impacts of globalization on financial stability across nations. Developed economies such as Austria, Australia, and Belgium show a strong positive correlation between financial instability and trade openness, FDI inflows, stable inflation rates, and consistent exchange rates. In contrast, developing countries such as Angola, Argentina, Benin, and Burundi face financial instability associated with volatile FDI flows, major trade fluctuations, high inflation rates, and currency volatility. This highlights that international effects from globalization show different patterns since countries have varying institutional capacities and regulatory systems. Hence, understanding the relationship between globalization and financial instability provides valuable insights and guidance for policymakers to implement stabilization measures through regulatory frameworks and monetary policies and balance economic and financial integration.

Keywords financial stability, globalization, economic integration, trade openness, foreign direct investment, inflation rates, exchange rates, regulatory frameworks, comparative analysis

JEL Classification F62, G01, F65, E44

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INTRODUCTION

Economic and financial environments have undergone fundamental transformations due to technological progress and globalization, creating new economic opportunities while introducing significant risks. Financial instability represents a major global economic issue due to rising market relationships combined with increasing cross-border money movements and external economic disturbances. The growth and investments resulting from globalization also produce higher market fluctuations, financial breakdowns, and systemic imbalances. The global financial crisis of 2007–2008 highlighted the weaknesses in globally interconnected economies, necessitating assessments of globalization's impact on worldwide financial stability over time (Eichengreen, 2004; Robertson & White, 2007).

Researchers have explored the concept of globalization as they sought to understand its roots, causes, and effects, aiming to determine the

relationship between globalization and financial crisis. However, no consensus exists on the external factors driving financial instability in a globalized world. Different countries experience varying results regarding how financial instability manifests due to differences in their economic structures, trade policies, and regulatory frameworks. This issue is particularly pronounced in economies nowadays in some countries experiencing severe economic, financial, and political distress.

This study contributes to the field by investigating the connection between historical financial crises and current global financial and unstable circumstances. It examines the relationship between globalization and financial instability and determines the direct and indirect variables shaping the relationship. Additionally, it compares fifteen countries from different continents to understand how globalization affects financial instability and whether financial stability responds to trade openness, together with foreign direct investment (FDI) under various inflation and exchange rate conditions across some developed and developing nations. This study fills the current gap by performing an across-continental analysis of financial stability globally, providing insights and suggestions for stakeholders and legislators to handle financial instability in the face of growing globalization.

This study addresses two primary questions, one major and one minor. First, what are the significant external factors that contribute to financial instability in the global context? Secondly, what were the impacts of globalized markets and external variables on the preceding financial crisis and contemporary financial instability conditions worldwide, specifically focusing on some selected countries from different continents?

1. LITERATURE REVIEW

Financial crisis in relation to financial instability: Financial instability results from various financial and non-financial circumstances, including economic downturns, global imbalances, weak regulations, financial innovation, geopolitical shifts, new pandemics, etc. (Abdullahi, 2024; Wullweber, 2020). Over time, many scholars studied the 2007–2008 global financial crisis triggered by the US subprime mortgage crisis, which quickly spread worldwide. This global financial crisis was the primary cause of financial market instability and ongoing crisis development. First, Bernanke (2015) discussed that the subprime crisis served as the prime factor that caused the financial downturn, and Gorton (2010) attributed the crisis mainly to advanced financial instruments and securitization activities. In addition, according to Roubini and Mihm (2010), the main problem lies in global imbalances, while Mohan (2009) concluded that ineffective regulations played a central role. Hence, several conditions revealed structural weaknesses of globalized economies in 2007–2008, which established enduring financial security risks that remain active today, particularly through the COVID-19 pandemic, along with increasing sovereign debt complications and financial instability. Additionally, various research studies highlighted other two major economic crises that occurred in the last three decades, including the Asian Financial Crisis of 1997 (Corsetti et al., 1999) and the European Debt Crisis of 2010 (Lane, 2012) due to financial markets speculation and weak regulatory environments contributing to higher economic and financial instability. So, globalization proves the significant increase in financial instability during the 2007–2008 crisis, thus prompting researchers to evaluate the ongoing potential financial risks.

Globalization and financial market volatility: The effect of globalization on the rapid integration of the economies has significantly impacted financial markets' volatility (Cordella & Ospino Rojas, 2017). Research through time highlights exchange rate movements, trade openness, foreign direct investments and net inflows, and monetary policy frameworks, which can create more opportunities and risks for countries (Wagner, 2001; Wagner, 2005). Research findings showed that globalization in the period of higher capital mobility leading to the 1990s was a route to a succession of three multitudinous financial and currency crises in emergent states (Edwards, 2008; Ivan, 2015). Thus, soft pegs, characterized by perfectly liberalized mar-

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kets coupled with incomplete institutional changes, can increase financial vulnerability since crises affect them more. While with hard pegs such as currency board or dollarization, severe crises can be avoided, they need a sound monetary system, the rule of law, fiscal discipline, and wage and price flexibility (Wagner, 2002; Wagner, 2005). Moreover, key globalization indicators, such as trade openness and FDI inflow level, can positively and negatively affect market stability (Mishkin, 2006). FDI can enhance long-term growth and stability, and excessive short-term capital movements create risks that mostly impact the financial systems of institutions that lack appropriate oversight (McGrew, 2007; Orlowski, 2008; Agénor, 2013). Furthermore, the institutional quality and competition channels positively affect trade openness and capital flows on financial development in developing nations (Law, 2009). Along with the concept of interconnectedness between globalization and its impacts on financial stability, another crucial challenge was recently raised by some researchers: this underlines the consequences of financial globalization on economic instability. Sudjono (2024) implemented a descriptive qualitative methodology to assess the complex relationship between financial globalization and economic instability. He concludes that incorporating sustainability into policies regarding the world market is a topic that deserves priority, especially within the context of the challenges and opportunities now confronting the global society.

Empirical evidence of financial globalization impacts on developed and developing countries: In the last three decades, research focusing on the relationship between globalization and financial stability has found that the two phenomena are linked together worldwide, creating higher levels of income inequality and public debt crises alongside market liberalization across developed and developing countries (Quadrini et al., 2012; Azzimonti et al., 2014). In addition, Nguyen (2024) stated that income inequality in developing countries is mainly caused by high public and government levels and institutional quality. Besides, several scholars also agreed on a shared understanding that globalization may affect global financial market volatility in four areas: nation-state, financial and banking system, economic inequality, and wealth distribution (Sklias & Maris, 2013). Globalization allows developed economies to enhance their banking system structures while improving their investment markets through financial market linkages (Simpson, 2005). In contrast, developing economies encounter more financial risks because of their weak financial structures and several external vulnerabilities (Le Fort, 1989; Ruch, 2020). First, key findings on 53 African countries between 2001 and 2011 revealed that financial globalization can significantly enhance banking efficiency rather than financial stability (Asongu et al., 2017). Similarly, Gaies et al. (2019) in their study, employing the GMM model on 72 developing countries between 1972 and 2011, found that investments from globalization improve economic development, whereas debt-dependent globalization results in increased financial instability. Hence, these studies confirm the dual roles of globalization by enhancing economic growth opportunities and exposing more systematic risks to developing economies. In contrast, research on some Asian and European financial markets stated that enhanced global financial integration created stronger regional interdependencies, leading to increased danger of financial crisis spread and instabilities (Chakrabarti & Roll, 2002; Johansson, 2011; Trabelsi & Cherif, 2017; Devereux & Yu, 2020). Further, as for the developed economies, globalization and financial instability have complex interactions, as financial liberalization can decrease instability (Ouerghi, & Ouesleti, 2020) from one side in developing countries, but also associated with higher inequality, more economic disequilibrium and financial instability due to the financial deregulation of some developed countries (Plihon, 1996; Pollin, 2000; Gray & Dilyard, 2005).

Therefore, it is noted that previous studies examined the direct relationship between globalization and significant variables such as growth, inflation, and financial crises at the macro level. Comparatively, few literature pieces have attempted to make a direct comparison of globalization indices with the financial stability indices across developing and developed countries, particularly focusing on exchange rate fluctuations relative to trade openness, especially in areas of volatile political and economic regions. This study aims to fill these gaps by examining the interaction between globalization variables (trade openness and

FDI) and financial instability measures (inflation and official exchange rates) across diverse economies. Hence, this study will highlight these gaps and propose the following hypotheses:

H1: Higher levels of financial globalization cause greater instability within developing economies' financial systems.

H2: Trade openness and FDI have a higher volatility on financial markets in developing economies than in developed countries.

H3: Volatility in trade openness and FDI levels depends on inflation and exchange rate movements, which leads to higher financial instability.

2. DATA AND METHODOLOGY

The study follows a structured methodology to assess the relationship between globalization and financial instability. It includes data collection, country selection and their characteristics, tested variables and their definitions, which consisted of globalization and financial instability measures, and the empirical models and techniques. This outlines the quantitative research approach to ensure novelty and reliability.

The study examined 15 selected countries from across all continents in a purposive and balanced manner to ensure geographic diversity, including developed and developing economies. This selection of nations was made through data availability and geographical coverage methods to observe worldwide patterns of financial stability. This study employs cross-sectional data from the World Bank databases, the World Development Indicators (WDI), and the Organization for Economic Co-Operation and Development (OECD) National Accounts. These databases deliver trusted economic and financial information for evaluating the changes in globalization and financial instability over time, especially in the last twenty years.

Table 1 shows the classification of the 15 countries, which allows for regional comparisons and helps identify how globalization affects financial stability in economies with differing regulatory structures and market conditions. For example, Aruba (ABW) is an island state in North America, which was chosen to analyze the effects of globalization on this small tourism-dependent economy. These two classes under 'Arab World' and 'Africa Eastern & Southern' represent regional contexts instead of single nations, yet they were included for regional impact analysis when national data did not adequately capture financial globalization effects. Thus, these countries' choice aimed to create a balanced sample between regions with varying development levels, thus enhancing the cross-continental comparative assessment.

Furthermore, this study defines the two-category variables (two globalization and two financial instability measures) selected according to previous-

Table 1. Classification of countries by continent and development level

Country Name	Continent	Economic Development Level
Aruba (ABW)	North America	Developing
Africa Eastern & Southern (AFE)	Africa	Developing
Angola (AGO)	Africa	Developing
Albania (ALB)	Europe	Developing
Arab World (ARB)	Asia	Developing
United Arab Emirates (ARE)	Asia	Developed
Argentina (ARG)	South America	Developing
Armenia (ARM)	Asia	Developing
Australia (AUS)	Australia	Developed
Austria (AUT)	Europe	Developed
Azerbaijan (AZE)	Asia	Developing
Burundi (BDI)	Africa	Developing
Belgium (BEL)	Europe	Developed
Benin (BEN)	Africa	Developing
Bangladesh (BGD)	Asia	Developing

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ly reviewed literature, including FDI and net inflow, trade openness (in % of GDP), inflation and consumer prices, and official exchange rates (LCU per US$, period average). First, FDI and net inflow levels present capital inflows as a percentage of GDP, reflecting foreign investment participation in a country's economy. Likewise, trade openness measures the country's economic integration based on the sum of export and import levels relative to GDP (Brülhart, 2011). Collectively, these measurements reveal the degree to which states have integrated into the complex fabric of the global economy (Duce & España, 2003). Secondly, financial systems remain stable based on the relationship between price rises and exchange rates, as well as price changes in consumer markets. The economic phenomenon of inflation adapts easily to changes, and its measurement requires percentage calculations of consumer price index (CPI) changes. CPI determines price stability levels while measuring the percentage change in goods and services costs. However, official exchange rates are also referred to as nominal exchange rates, official exchange rates, or the par value, representing the currency value relative to the US dollar, as these rates form the basis of global commerce and are one of the primary factors impacting international trade and financial stability. Table 2 presents the examined variables according to their data source and classification.

Table 2. Globalization and financial stability variables employed in the study

Variable	Measurement	Source
Trade Openness (in % of GDP)	Globalization indicator	World Bank Data
FDI and Net Inflow Level	Globalization indicator	World Bank Data
Inflation and Consumer Prices	Financial stability indicator	World Bank Data
Official Exchange Rates (LCU per US$, period average)	Financial stability indicator	World Bank Data

The four key indicators (see Table 2) were chosen because they demonstrate the primary mechanisms that show how globalization affects financial stability between trade flows and capital movements, as well as price stability and currency values. Moreover, this study employs a comparative analysis to examine the relationship between globalization and financial instability across 15 selected countries over 22 years (2001–2022). The analysis focuses on two globalization variables (FDI and trade openness) and two financial stability measures (inflation & exchange rates) to assess the impact of globalization on financial stability across different economic contexts. The main goal in performing the correlation analysis between the four variables was first to determine the direction and strength of the relationships between globalization and financial stability, also, the variations in growth and globalization levels between developed and developing economies may cause different effects on financial stability based on a country's economic status. The Pearson correlation coefficient (R) is calculated as follows:

$$R = \frac{\sum\left(X_i - \overline{X}\right)\left(Y_i - \overline{Y}\right)}{\sqrt{\sum\left(X_i - \overline{X}\right)^2 \cdot \sum\left(Y_i - \overline{Y}\right)^2}}, \qquad (1)$$

where R is the Pearson correlation coefficient, measuring the linear relationship between variables. X_i is the given values of globalization measures (trade openness, FDI). Y_i is the given values of financial stability measures (inflation, official exchange rates). X_i and $\overline{Y}$ are the mean values of globalization and financial stability indicators, respectively.

In this model, the interpretation of R values is, if R > 0: positive correlation, which means higher globalization is associated with higher financial stability or instability, emphasizing the direct relationship between globalization and financial instability in the chosen sample. If R < 0: negative correlation, which means higher globalization is associated with lower financial stability or instability, emphasizing the weak or indirect relationship between globalization and financial instability in the chosen sample. Additionally, if R = 0: no correlation between globalization and financial stability measures. Hence, in this study, the objective is not solely focused on statistics but also on constructing a detailed overview that aims to explore the intricate dynamics of how countries negotiate the challenges of global integration while preserving their financial stability. It will also contribute to a deeper understanding of the complex relationship between economic and financial instability and the globalized world.

3. RESULTS

This section presents how financial instability metrics relate to globalization indicators from 2001 to 2022 for the 15 selected countries. Figures 1 to 8 illustrate the data variations while showing correlation coefficients to substantiate the empirical findings of the study.

Figures 1 and 2 illustrate the trends in trade openness (as % of GDP) and its correlation with financial stability across the selected countries from 2001 to 2022. First, Figure 1 shows that each country has a different level of trade openness over the year. Aruba experienced a steady rise in trade openness levels from 140.4% to 160.5%, reflecting deeper economic global integration. In contrast to other countries, such as Angola, Burundi, Azerbaijan, and Armenia exhibited significant fluctuations in their trade openness levels, indicating instability in their economic and financial conditions and vulnerability of economies to external shocks and inconsistent trade policies. These variations suggest that the ability of countries to benefit from global trade openness is influenced by policy effectiveness and institutional capacity.

Figure 2 illustrates the correlation coefficients between trade openness and financial stability for each pair of countries, showing contrasting dy-

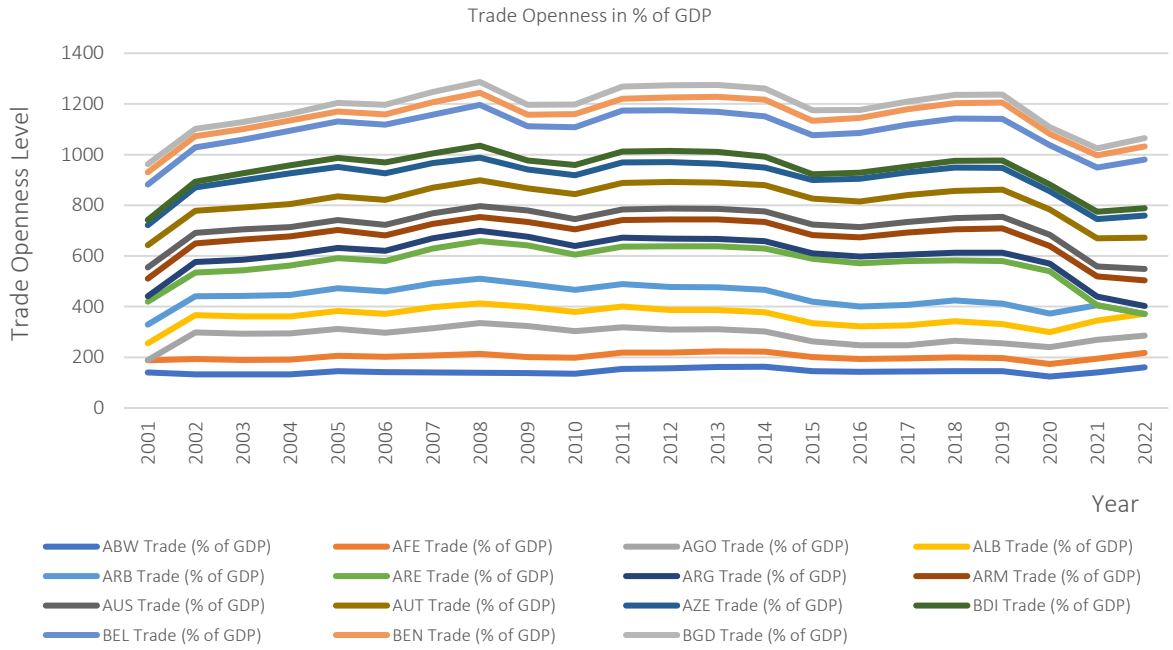

Figure 1. Trade openness in % of GDP for the 15 countries for the last 22 years

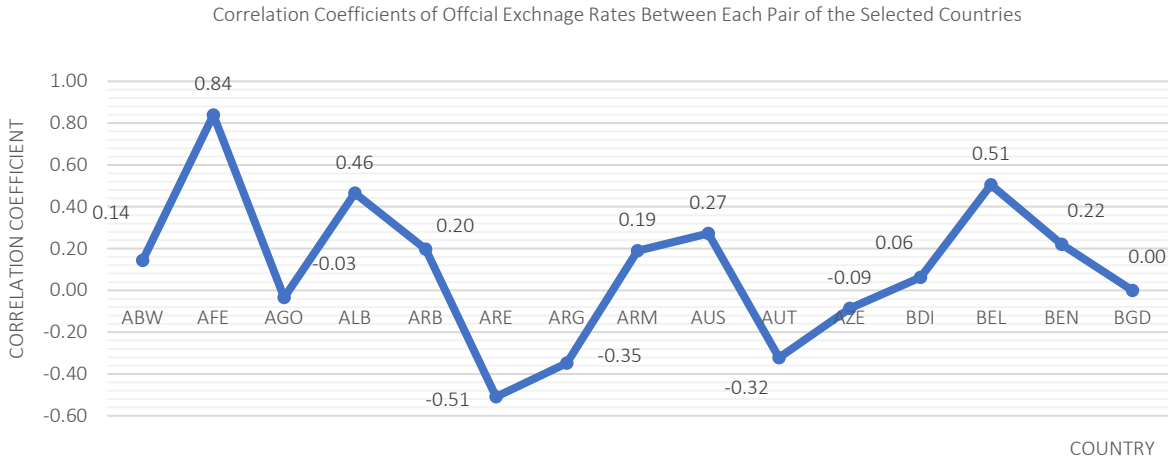

Figure 2. Trade openness correlation coefficients

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namics. AFE and AGO demonstrate a very strong positive relationship (R = 0.84), which shows that openness promotes financial stability in particular, in developing economic settings. The analysis between ARE and ARG demonstrates a negative relationship (R = –0.51), which indicates that these countries may experience worsened financial risks when exposed to trade openness. This contrast in the findings shows opposing trends because global influences function within specific national contexts and regulatory frameworks, as well as economic systems and external market variables, as Brülhart (2011) observed.

The analysis of Foreign Direct Investment (FDI) and net inflows levels, and their correlation coefficients from 2001 to 2022 can be observed in Figures 3 and 4. Figure 1 shows the noticeable

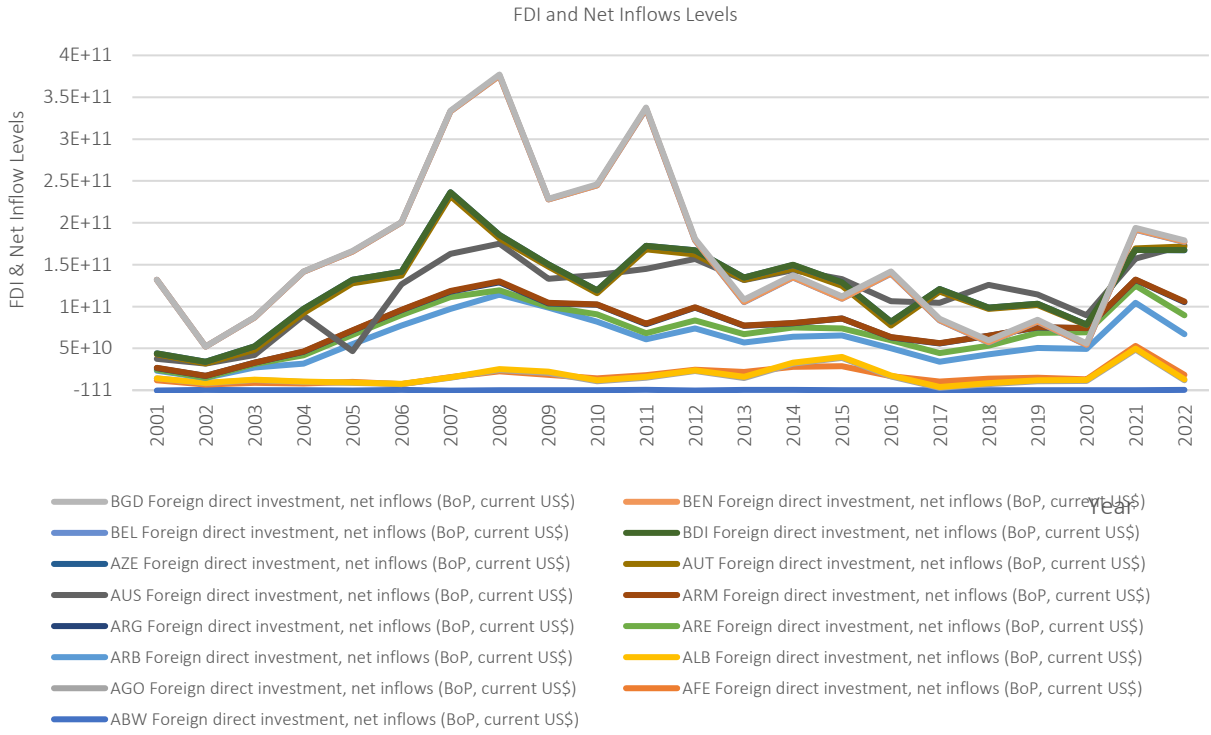

Figure 3. FDI & net inflows for the 15 countries for the last 22 years

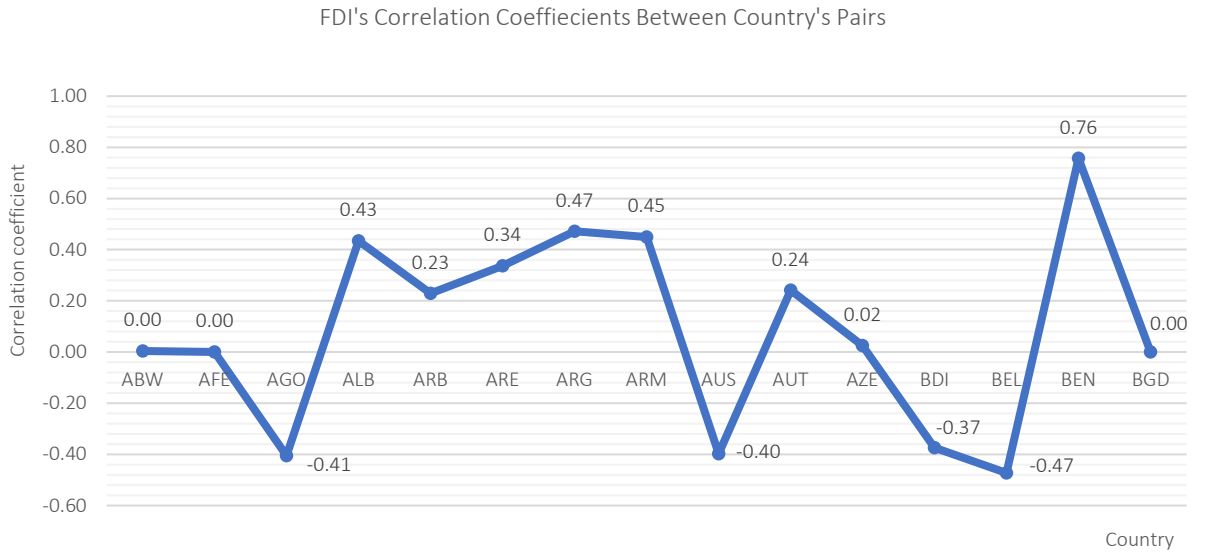

Figure 4. Correlation coefficients of FDI for countries respectively

variations between countries' FDI levels, where some countries, such as Australia and Belgium, have high FDI levels, highlighting financial and institutional strength. However, others face sharp fluctuations in their FDI levels, such as Angola and Armenia, reflecting external capital risk, which emphasizes the necessity for stable economic policies and investment regulations in exposed economic systems.

Figure 4 shows that FDI has a diverse correlation with financial stability across countries, showing both positive and negative impacts. The FDI supports financial resilience under stable conditions through positive relationships between ALB & ARW (R = 0.41) and ARG & ARM (R = 0.47). In contrast, AGO & ALB (R = –0.41) and AUS & AUT (R = –0.40) present weak to negative correlations, indicating that economic instability occurs when FDI becomes volatile because it especially affects countries with weak financial governance structures. Hence, the results show FDI generates financial stability benefits when institutions are robust, which is consistent with Rodrik (2012) who argues that proper institutions enable FDI to produce positive outcomes.

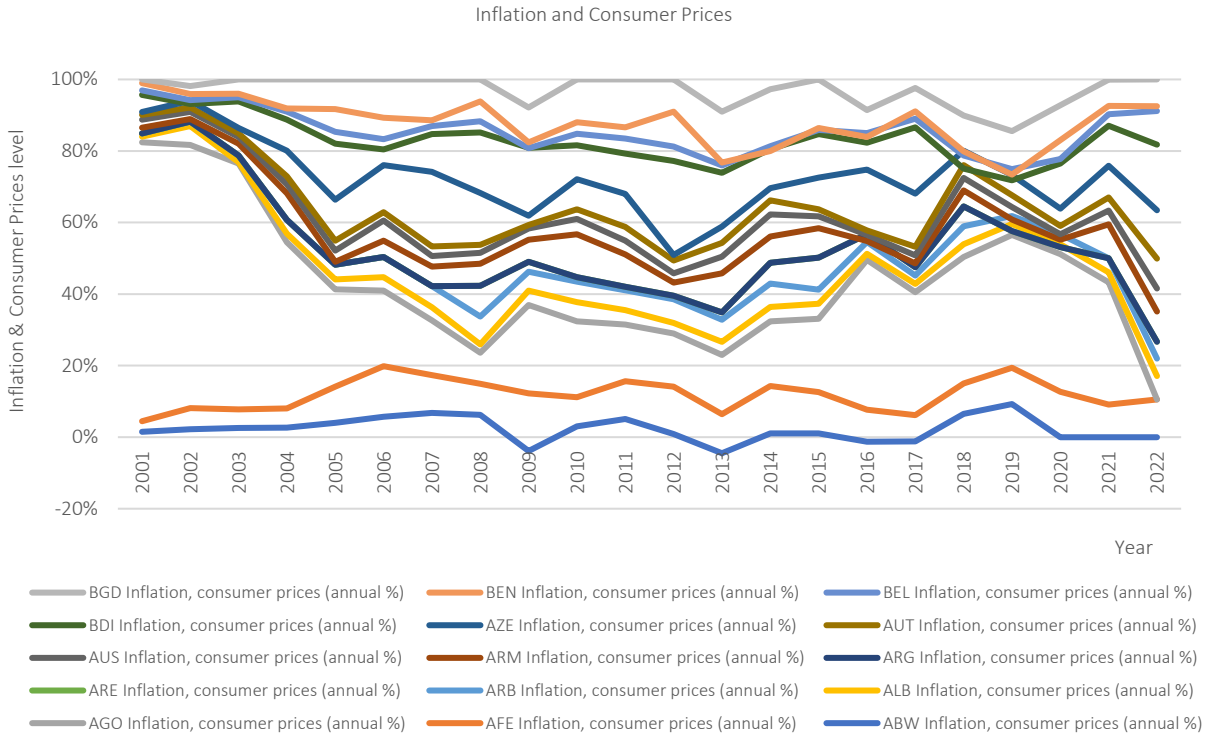

Figure 5. Inflation and consumer prices for the 15 countries for the last 22 years

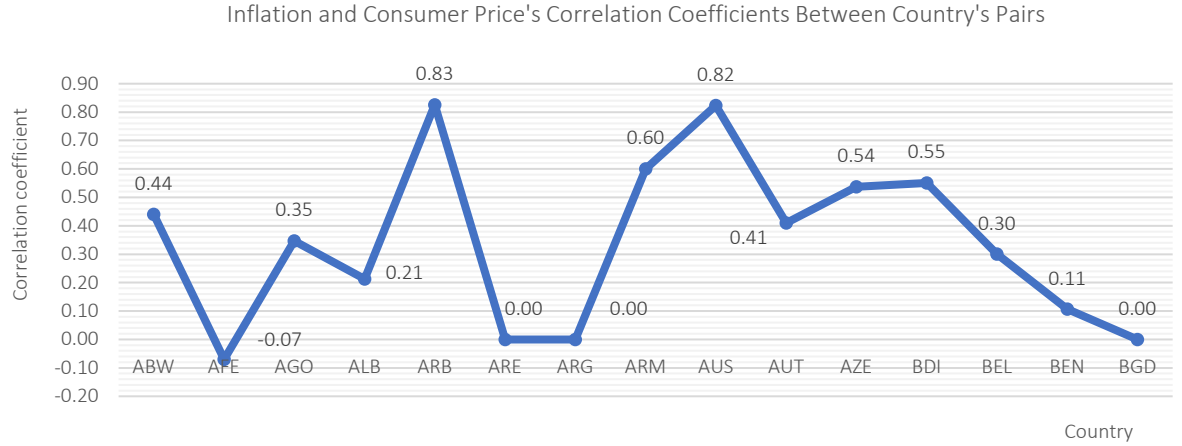

Figure 6. Correlation coefficients of inflation and consumer prices for countries respectively

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Figures 5 and 6 illustrate inflation and consumer price levels trends and their correlations for the selected regions as a first indicator of financial instability. First, Figure 5 shows that most countries exhibit comparatively steady inflation rates and variations of consumer prices over the years, including Albania, Austria, and Australia, while others, such as Angola, Azerbaijan, and Burundi experience a substantial increase and volatile inflation levels, where various risk factors affecting inflation include currency exchange movements alongside fiscal deficits together with financial institutions that lack stability. The differences in macroeconomic conditions and fiscal imbalances across countries emphasize why effective governance systems should be implemented to mitigate the inflation-related financial risks.

In Figure 6, some countries highlight positive inflation correlations with closely linked economic and financial systems, such as ARW & ARE (R = 0.83) and AUS & AUT (R = 0.82. However, ARE & ARG (R = 0.00) and BEN & BNG (R = 0.01) show no significant correlations, indicating that inflation levels in these economies are more influenced by internal economic factors and policies than external ones. Hence, globalization does not necessarily create uniform inflation effects since economies can protect their monetary strategies through localized approaches. These findings emphasize that institutional capacity, along with policy independence, play critical roles in controlling inflation during times of globalization.

Figures 7 and 8 illustrate the official exchange rate fluctuations (LCU per US$, period average) movements and their correlations for the last 22 years, aligned with many economic, financial, social, and political changes and difficulties. The

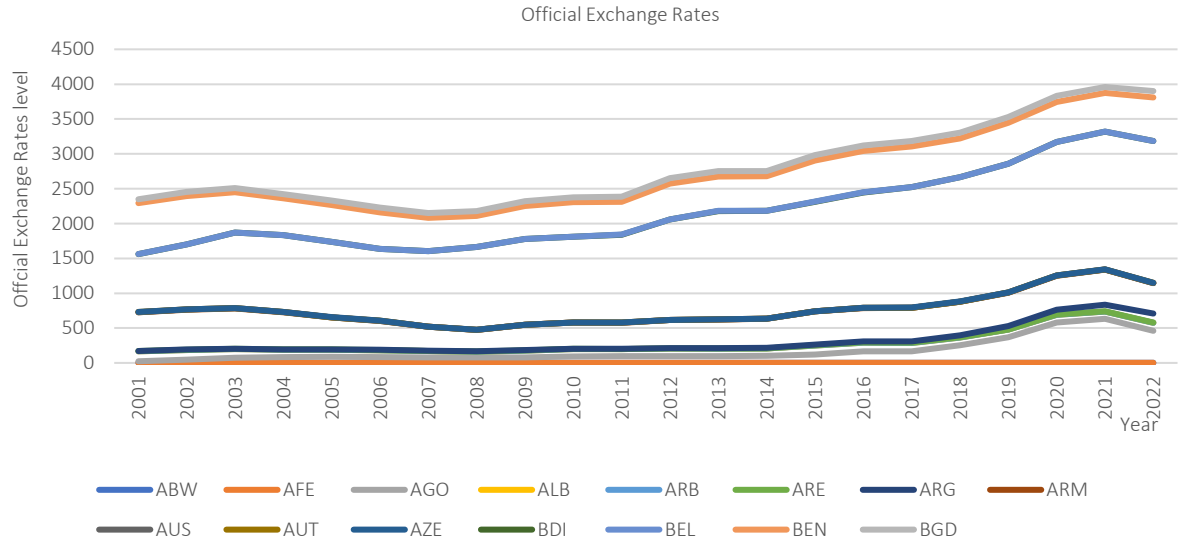

Figure 7. Official exchange rates' movements for the 15 countries for the last 22 years

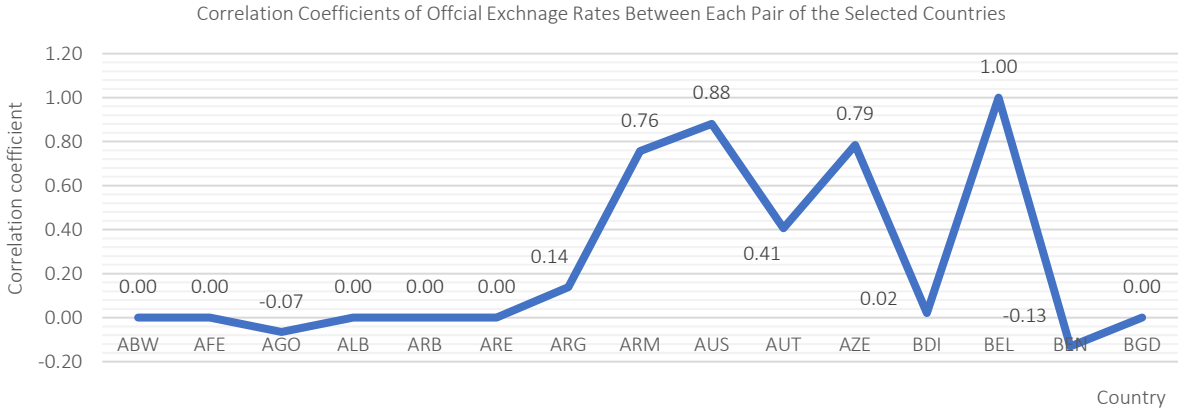

Figure 8. Correlation coefficients of official exchange rate fluctuations for countries respectively

Table 3. Summary results of the proposed hypotheses

No.	Hypothesis	Verification Result
H1	Higher levels of financial globalization cause greater instability within developing economies' financial systems	Partially Supported in AGO and ARG
H2	Trade openness and FDI have a higher volatility on financial markets in developing economies than in developed countries	Supported in AGO, AUS, and AUT
H3	Volatility in trade openness and FDI levels depends on inflation and exchange rate movements, leading to higher financial instability	Supported in ARW, BEN, BDI, BEL, and AUT

exchange rate stability in Figure 7 reveals economic and financial stability in Austria, Australia, and Belgium, while Angola, Argentina, Armenia, Burundi, and Benin demonstrate significant exchange rate volatility, reflecting high economic instability. This shows that developing economies experience volatile exchange rates because of external shocks, together with inflation pressures, coupled with inadequate capital regulations.

Figure 8 shows the correlation of exchange rate patterns between each pair of countries. Some demonstrate a strong positive relationship between countries with stable macroeconomic policies, such as AUT and AUS, with an R value of 0.88, and the corresponding relationships between BEL and BLN present an R value of 1.00. This shows that these linked countries operate with similar monetary strategies and comparable financial policy standards. In contrast, weak or negative correlations between AGO and ALB (R = –0.07) and BEN and BGD (R = –0.13), indicating that currency fluctuations are affected by domestic policy dynamics combined with structural differences more than global linkages. The results suggest that economic interdependence occurs primarily between connected nations, but other economies maintain weaknesses in macroeconomic vulnerability based on domestic factors.

Consequently, Table 3 illustrates the hypothesis testing results derived from the empirical findings of the study for the selected sample.

4. DISCUSSION

The study findings highlight critical insights into the relationship between globalization indicators and financial instability measures, which show different patterns and directions in developed and developing countries. The findings of this study emphasize that both globalization measures FDI and trade openness levels and play dual roles, enhancing higher financial stability in some countries, especially among developed economies due to their considerable financial institutional frameworks, while increasing economic risks and financial uncertainties in others, mainly in developing countries with weaker financial structures and policy regulations that encounter serious financial uncertainties.

First, trade openness correlation analysis confirms distinct effects on the financial stability of the selected economies. For instance, trade openness correlates positively with financial stability in Aruba and African eastern and southern regions, with a strong positive correlation (R = 0.84), likely due to successful integration strategies and diversified trade portfolios in the financial markets. However, Argentina and the United Arab Emirates show a negative correlation (R = –0.51), suggesting that trade openness levels in these countries may be affected by external factors and sectoral vulnerabilities. These results align with Brülhart (2011), who argued that trade openness enhances economic and financial resilience but can intensify market uncertainty and volatility in some countries reliant on a few industries. On the other hand, the divergent findings in some countries highlight the critical role of quality institutional frameworks and economic policy structures in determining the effect of trade openness on financial stability.

Like trade openness, the findings for FDI and net inflows follow a similar path, demonstrating a dual impact on financial instability. For example, in some countries, steady FDI inflows in Australia and Belgium tend to enhance financial stability in line with Duce and España (2003), who showed the benefits and remarkable effects of well-regulated investment flows. However, in Angola, the high FDI volatility correlated negatively with financial stability (R =

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–0.41), indicating that weak institutional structures prevent the country from leveraging foreign investment benefits. This supports the findings of Rodrik (2012), who proved that institutional structures place limits on both foreign investment benefits and their magnitude. This evidence demonstrates that the financial stability effects of FDI depend on the maturity state of markets, together with their governance systems and legal structures.

Second, inflation and official exchange rate fluctuations directly determine financial stability and strengthen the understanding of how stable economic conditions promote financial strength. The findings' analysis shows a strong inflationary correlation (R = 0.82) between Austria and Australia because their well-organized monetary policies and deep integration of trade systems result in parallel inflation patterns. Conversely, developing economies such as Angola and Burundi exhibit volatile inflation rates, leading to macroeconomic and financial uncertainties, which align with the global inflation transmission patterns discussed by Reinhart and Rogoff (2010). Likewise, the high volatility of currency exchange levels, particularly in Angola, Argentina, and Burundi, demonstrates their high exposure to external financial shocks and pressures, which validates the monetary stability theory presented by Obstfeld and Rogoff (1995) for stabilizing financial stability.

Consequently, these empirical findings conclude that although globalization creates financial development potential, its destabilizing impacts will affect countries that maintain weak institutions alongside insufficient trade diversity and inadequate regulatory measures, and suggest several key policy implications. Developing nations should strategically focus on implementing high-standard regulatory measures and a balanced approach for their FDI inflows and trade openness levels to stabilize their financial markets against internal and external shocks. Furthermore, governments should prioritize taking proactive steps to stabilize exchange rates because currency movement and rising inflation negatively impact economies that show volatility in their macroeconomic conditions. This strategy involves using inflation-targeting policies alongside independent central banks to achieve economic diversity, which decreases dependence on one sector or foreign business connections.

Thus, future research should examine the underlying and causal mechanisms driving these complex relationships between globalization and financial instability using advanced econometric models. In addition, investigating how globalization affects financial stability would become more thorough through an analysis expansion to a larger sample of multiple countries over an extended timeframe. Also, examining the role of technological advancements and digital financial integration systems in shaping the relationship between globalization and financial stability could provide new strategies and suitable insights to mitigate financial instability problems in the digital era.

CONCLUSION

The study aims to investigate the complex relationship between globalization and financial instability across 15 countries on different continents from 2001 to 2022. It clarifies the indirect characteristics of this relationship and how they relate to one another in the contemporary economic environment. The study evaluates the influence of trade openness, foreign direct investment (FDI), official exchange rate movements, and inflation rates of consumer prices.

The findings reveal that the relationship between globalization and financial instability is complex and that financial stability is not only determined by globalization factors but is also shaped by internal national factors and external influences, including regulatory policies, economic structures, and institutional strength. Results show that higher FDI levels and open trade systems boost financial resilience for some countries, such as Australia and Belgium, while increasing instability in others, including Angola and Argentina, because of unstable capital movements and external dependencies. Similarly, the stability of financial systems depends on controlling inflation and exchange rates in some countries, espe-

cially Benin and Burundi, which face enhanced financial risks. However, Aruba, Bangladesh, Austria, and Belgium maintain financial stability due to their effective economic and financial measures. The findings establish that global aspects alone do not dictate financial stability because national regulatory structures and economic stability contribute to such outcomes. According to the study, financial stability responds to exchange rate fluctuations and inflation rates at varying intensities between different countries. Exchange rate changes aligned with inflation rates affect a country's financial stability, yet produce distinct effects across various nations. Financial stability shows either strong positive, weak negative, or moderate correlations with these factors across different economies. In this regard, applying a regulatory national financial policy is an essential tool to mitigate risks associated with globalization practices.

Finally, this study enhances a deeper understanding of financial performance and provides insights for economists, regulators, and policymakers. It highlights the need for countries to deploy strong regulatory systems to stabilize FDI inflows, manage their volatility, protect trade openness, and establish exchange rate control mechanisms and stabilization practices for inflation and consumer prices to safeguard financial systems from external shocks. Last, future research must expand the scope by examining additional factors by evaluating digital globalization and financial technology due to their critical roles in shaping financial stability in a growing globalized world. Yet, financial globalization needs continuous and broader understanding to ensure sustainable economic growth and enhance financial stability in the interconnected and diverse economies in the global context.

AUTHOR CONTRIBUTIONS

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