Journal of Economics, Finance and Accounting Studies (JEFAS)
ISSN: 2709-0809
DOI: 10.32996/jefas
Journal Homepage: www.al-kindipublisher.com/index.php/jefas

JEFAS
AL-KINDI CENTER FOR RESEARCH AND DEVELOPMENT

| RESEARCH ARTICLE

Trade Realignments, Exchange Rate Volatility, and Financial Stability in Sub-Saharan Africa

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| ABSTRACT

This study examines the impact of trade realignment, exchange rate volatility, and financial depth on financial stability in Sub-Saharan Africa. Recognizing the critical role of financial stability in promoting economic growth and resilience, the study aims to analyze both the long-run and short-run dynamics of macro-financial interactions and provide evidence-based policy insights. The scope of the study covers a panel of 40 Sub-Saharan African countries over the period 2000 to 2024. A Panel Vector Error Correction Model (VECM) is employed to capture the cointegration relationships and short-run adjustments among financial stability, trade realignment, exchange rate volatility, GDP growth, inflation, and financial depth. The findings reveal a significant long-term relationship between financial stability and the explanatory variables, with deviations from equilibrium gradually corrected over time. In the short run, financial stability responds to lagged effects of exchange rate volatility, trade realignment, financial depth, GDP growth, and inflation, highlighting the delayed transmission of shocks. The joint significance of these variables confirms that short-run fluctuations in financial stability are influenced by their combined effects rather than isolated changes. The study recommends enhancing financial sector depth, carefully managing trade realignments, mitigating exchange rate volatility, controlling inflation, and coordinating macroeconomic and financial policies to strengthen resilience. Policy implications include integrating trade and financial sector policies, implementing forward looking risk management frameworks, and promoting regional coordination to reduce cross-border vulnerabilities. Future research should explore the role of digital finance, country-specific heterogeneity, external shocks, and institutional quality in shaping financial stability in Sub-Saharan Africa.

| KEYWORDS

Financial Stability, Trade Realignment, Exchange Rate Volatility, Financial Depth, GDP Growth, Inflation

| JEL Classification

G01, G10, F31, F43, C33, E44, O55

| ARTICLE INFORMATION

ACCEPTED: 01 January 2026 **PUBLISHED:** 20 January 2026 **DOI:** 10.32996/jefas.2026.8.2.3

Introduction

Sub-Saharan Africa has experienced significant economic transformations in the last twenty years, propelled by internal reforms and external global shifts. One of the most significant shifts is the steady reorganization of trade connections, also termed trade realignments. Historically reliant on a limited array of export commodities and conventional trading partners in Europe and North America, numerous Sub-Saharan African (SSA) economies are currently broadening their trade portfolios (Kabeya, 2025; Wąsowska *et al.*, 2024; Niu, *et al.*, 2024). The acceleration of this trend has been facilitated by the establishment of regional frameworks like the African Continental Free Trade Area (AfCFTA) and enhanced interactions with emerging economies. These trade realignments

are transforming Africa's role in the global economic framework, presenting prospects for export diversification, infrastructure enhancement, and expanded market access. Nevertheless, they also render these economies susceptible to novel vulnerabilities, especially concerning exchange rate volatility and the stability of local financial institutions.

Exchange rate volatility has become a significant macroeconomic concern for Sub-Saharan African nations due to changing trade dynamics (Manasseh, et al., 2025; Morenike & Chukwuyem, 2024). Currencies in the region have undergone considerable volatility due to alterations in trade terms, reversals in capital flows, speculative trading pressures, and external shocks such as fluctuations in global commodity prices (Ogundu, 2025; Diaz & Collin, 2025). These swings significantly impact macroeconomic stability, elevating import costs, augmenting the expense of external debt servicing, and diminishing investor confidence. In countries heavily reliant on imports, fluctuations in exchange rates immediately lead to inflationary pressures, eroding consumer spending power and stifling private sector activity (Olamigoke, et al., 2024). This situation is especially alarming for nations with vulnerable banking sectors, as currency devaluation can lead to discrepancies between foreign currency-denominated assets and obligations (Chishamba, 2025; Sahu *et al*., 2025; Moreira, 2025).

The ramifications of trade realignments and currency rate fluctuations for financial stability in Sub-Saharan Africa are extensive (Dahmani & Makram, 2024). Financial stability, defined as the capacity of financial institutions to endure shocks and maintain effective operations, is a crucial factor influencing economic growth and social welfare in the region. In economies where banking sectors predominate financial intermediation, exchange rate volatility can destabilize banks' balance sheets, heightening the risk of non-performing loans, depleting capital buffers, and jeopardizing the general health of the sector (Matlhaku & Ferreira-Schenk, 2025; Chuttoor *et al.,* 2022). For sovereigns, currency volatility can intensify debt sustainability issues, especially when substantial percentages of public debt are denominated in foreign currencies. Furthermore, abrupt changes in trade agreements can undermine fiscal revenues, particularly in resource-dependent nations where exports represent a significant portion of government income. The cumulative consequences raise substantial concerns regarding the durability of sub-Saharan Africa's financial systems amid changing trade and currency landscapes (Alabia *et al.,* 2024).

The relationship among trade realignments, currency rate fluctuations, and financial stability is intricate and multifarious. Trade diversification and extended relationships can diminish dependence on a restricted number of trading partners and alleviate vulnerability to localized disruptions. Conversely, further integration into global markets heightens vulnerability to external volatility, particularly for economies characterized by fragile macroeconomic foundations and nascent financial institutions (Mulenga, 2024; Buz, 2024; Saaida, 2024). This dichotomy highlights the necessity for a sophisticated comprehension of the interaction between these factors within the African environment. Although scholars and policymakers have investigated specific facets of these issues, including the influence of exchange rate volatility on macroeconomic performance and the significance of trade integration in economic development, there is a paucity of research that integrates these components within a cohesive framework that assesses their collective impact on financial stability.

This study aims to address that gap by examining the effects of trade realignments and currency rate volatility on financial stability in Sub-Saharan Africa. It establishes financial stability as the dependent variable, reflecting the systemic health of financial sectors in the region using measures such as capital adequacy, non-performing loan ratios, liquidity buffers, and foreign reserve levels. This research connects trade dynamics and exchange rate behaviour to financial sector results, so contributing to the growing literature on macro-financial links in developing economies. It also addresses an increasing policy necessity: guaranteeing that the advantages of trade diversification and regional integration do not undermine financial resilience. Sub-Saharan African economies are undergoing significant transformations in global trade links, frequently characterized as trade realignments influenced by evolving geopolitical dynamics, the integration of the African Continental Free Trade Area, and increasing economic connections with emerging powers. The realignments, although facilitating new opportunities for export diversification and market expansion, are exerting significant pressure on exchange rate stability, since varying terms of trade intensify currency volatility (Barreto, 2025; Lee & Sims, 2024; Agustina *et al*., 2025). Increased volatility compromises the stability of financial systems by weakening bank balance sheets, raising non-performing loans, and diminishing confidence in both domestic and international capital markets (Djumaev, 2024; Olawale, 2024; Arnone *et al.,* 2024). Despite existing literature examining the separate effects of exchange rate shocks on economic growth and financial fragility Ali *et al*. (2025) a significant gap persists in empirically connecting trade realignments, currency volatility, and financial stability, particularly in the sub-Saharan African context. This study's originality is in its comprehensive methodology, treating financial stability as the dependent variable while examining how emergent trade realignment patterns contribute to currency instability and banking sector stress. This research fills a significant gap in contemporary macro finance analysis for Africa, providing new insights into how changing trade dynamics may alter banking sector resilience.

This study is structured into five components. Section one presents the study by outlining the background, issue statement, research objectives, and significance, along with an explanation of the principal concepts of trade realignments, exchange rate

volatility, and financial stability in Sub-Saharan Africa. Section two examines the pertinent theoretical and empirical literature, emphasizing the deficiencies that the study aims to rectify. Chapter Three delineates the study approach, specifying the data sources, variable measures, and econometric techniques utilized for the analysis. Section four presents the empirical data and discussion, analyzing the findings in relation to existing research and contextual realities in Sub-Saharan Africa. Section five ultimately concludes the study by encapsulating essential observations, providing policy recommendations, and proposing avenues for further research.

Literature Review

The Financial Stability Theory asserts that a financial system is deemed stable when it can endure both internal and external shocks without substantial interruptions to its fundamental functions, such as credit intermediation, payment systems, and financial market operations, while still facilitating economic growth (Olawale *et al*., 2024; Akash *et al.,* 2024; Fitriana & Sinarasri, 2024). This concept posits that disturbances undermining the banking system, diminishing investor confidence, or destabilizing macro-financial balances provide dangers to general stability (Sawyer, 2025; Ullah *et al.,* 2025). The theory underscores the interdependence of financial institutions, markets, and macroeconomic conditions, illustrating how disturbances in one area, such as trade or exchange rates, can propagate throughout the wider financial system. In Sub-Saharan Africa, trade realignments present both possibilities and weaknesses. As nations diversify from conventional trading partners and enhance interactions with emerging economies under frameworks such as AfCFTA, their exposure to novel trade routes, currencies, and global financial circumstances escalates. From the standpoint of Financial Stability Theory, these alterations may serve as exogenous shocks to the financial system, especially when trade flows exhibit volatility or are concentrated in high-risk industries. The alteration of trade patterns influences foreign exchange inflows and outflows, thereby jeopardizing foreign reserve positions and generating current account imbalances, which may subsequently exert pressure on home currencies.

This results in exchange rate volatility, another significant variable in this analysis. Financial Stability Theory recognizes exchange rate volatility as a significant mechanism by which external shocks can disrupt domestic financial systems. Significant currency depreciations, for example, elevate the local currency value of foreign-denominated debt, hence increasing debt-servicing expenses for governments, firms, and families. This may result in the deterioration of balance sheets in public and private sectors, increasing the risk of defaults and compromising the quality of bank assets. Furthermore, fluctuations in exchange rates can instigate capital flight and speculative assaults, so exacerbating financial market tensions and diminishing investor confidence. Utilizing Financial Stability Theory, the interaction between trade realignments and exchange rate volatility may be comprehended as a transmission mechanism influencing systemic resilience. Trade realignments modify the configuration and stability of external accounts, affecting exchange rate dynamics, which then influences the robustness of the financial system through balance sheet repercussions, credit risk, and liquidity constraints. In Sub-Saharan Africa, where financial systems are frequently shallow and susceptible to external shocks, the theory highlights the critical necessity for strong policy frameworks to mitigate trade and currency risks to ensure financial stability.

Empirical research on economic volatility and trade dynamics in Sub-Saharan Africa continuously underscores the destabilizing impact of currency changes on macro-financial stability. Benea *and* Ouko (2025) analyzed exchange rate volatility in growing African economies and revealed that currency fluctuations frequently adhered to unique national patterns, exhibiting significant instability in some north and east African countries. Fisseha (2025) examined real exchange rate volatility in twelve West African nations and identified significant adverse effects on economic growth, particularly in environments with shallow banking sectors. The adverse impact of exchange rate volatility on growth was notably alleviated in nations with more advanced financial sectors, suggesting an inherent connection between currency instability and financial robustness. Kanval *and* Ihsan (2025) indicated that external price shocks negatively impact real exchange rates and macroeconomic stability. The impulse response and variance decomposition findings indicated that shock transmission to financial markets and fiscal outcomes was substantial, emphasizing the macro-financial pathway via which trade and currency dynamics influence systemic stability. Köse *et al.* (2025) employed Autoregressive Distributed Lag and Structural Vector Autoregression models in South Africa to evaluate the impact of trade openness and exchange rate volatility on industrial growth. Although trade openness shown minimal direct influence, exchange rate volatility surfaced as a structural limitation, especially during global crises and pandemics. This highlights that even modest volatility in major Sub-Saharan African countries can have ripple effects throughout financial and industrial sectors, ultimately affecting systemic resilience.
Soltani *and* Abbes (2025) examined regime-switching dynamics between currency and frontier stock markets. These studies indicate that volatility interdependencies differ between regimes, suggesting that financial markets in Sub-Saharan Africa are susceptible to abrupt changes during exchange-rate shocks, which has consequences for overall financial stability and investment behaviours. These empirical studies collectively support the notion that exchange rate volatility, frequently instigated by trade realignments or commodity price shocks, might jeopardize financial stability in Sub-Saharan Africa through multiple mechanisms,

including growth suppression, degradation of bank balance sheets, and market fragility. However, the majority of current scholarship addresses these factors in isolation, with limited analysis of the comprehensive causal chain connecting trade realignments, exchange rate volatility, and systemic financial stability (Sein & Sah, 2025; Guo *et al.*, 2025). This work empirically integrates these factors, using financial stability as the end variable, so enhancing the understanding of macro financial risk management in Sub-Saharan Africa. The empirical literature about Sub-Saharan Africa recognizes exchange rate volatility as a critical macroeconomic risk, affecting both economic performance and financial stability. Legilisho *et al*. (2025) emphasize the detrimental effects of terms-of-trade and currency rate fluctuation on investment and economic growth, particularly in nations with underdeveloped financial systems. Early studies indicate that volatile currency regimes diminish private investment by distorting relative prices and disturbing planning horizons, hence compromising financial sector stability by impairing borrowers' ability to service loans. While not entirely centered on Sub-Saharan Africa these empirical results offer a theoretical foundation for understanding the impact of currency volatility on macro-financial resilience (Tosun, 2025; Alami & Taggart, A partial conversion, 2024; Brunnermeier, 2024; Alami *et al*., 2024).

Recent empirical studies have strengthened these connections within African contexts. A study by Science Publishing Group on twelve West African nations revealed that exchange rate fluctuation negatively impacts economic growth, a relationship mainly influenced by the robustness of the financial sector (Fofanah, 2022; David *et al.,* 2025; Appiah *et al.,* 2024). Countries with more advanced financial markets were more capable of mitigating the negative impacts of currency volatility, indicating that financial sector resilience alleviates macroeconomic fragility. This underscores a fundamental mechanism by which currency instability can jeopardize financial stability: by hindering economic growth and increasing credit risk for borrowers. Ullah *et al*. (2024) and Abaidoo *and* Agyapong (2022) examined the relationship between financial development and currency rate volatility. The study demonstrated a distinct inverse correlation between the depth of the financial sector and the volatility of the real exchange rate by utilizing Generalized Autoregressive Conditional Heteroskedasticity models in conjunction with dynamic generalized methods of moment (GMM) estimation. Deeper financial systems generally have reduced currency volatility, suggesting that strong financial markets can act as stabilizing buffers, hence diminishing systemic risk. This empirical observation highlights bidirectional dynamics: exchange rate volatility jeopardizes financial stability, whereas pre-existing financial underdevelopment intensifies currency instability.

The interplay between trade realignments, including alterations in export structure and the reorientation of trade partners, and currency volatility has garnered increasing scrutiny. A notable finding from Fofanah (2022) research in West Africa indicates that real exchange rate volatility substantially hinders economic growth, particularly in economies that are largely dependent on commodity exports. As trade composition changes, susceptibility to external shocks escalates if exports stay concentrated in unstable industries. Consequently, insufficient export diversification heightens vulnerability to detrimental trade shocks, which propagate through currency rates, resulting in wider financial instability. Furthermore Dada (2021) provides empirical evidence directly correlating financial stress with currency rate volatility in Sub-Saharan Africa. Utilizing newly created financial stress indicators, they ascertain that escalations in systemic financial strain forecast more exchange rate volatility, thus illustrating the feedback loop between banking sector fragility and currency instability. This bidirectional causality indicates that financial systems in Sub-Saharan Africa are not only passive absorbers of shocks, but rather active amplifiers under stress.

Data and Methodology

The research employs panel data from specific Sub-Saharan African (SSA) nations spanning the years 2000 to 2024. This period is selected to reflect the latest trade realignments influenced by initiatives like the African Continental Free Trade Area, the enhancement of trade links with emerging economies, and to include significant global disruptions that have affected currency and financial market dynamics. Financial stability data is sourced from the International Monetary Fund's Financial Soundness Indicators database, encompassing indicators such as bank capital adequacy ratios, non-performing loans to total loans, liquidity ratios, and foreign currency reserves. The indicators are consolidated into a composite financial stability index, which functions as the dependent variable. Exchange rate volatility is assessed with the nominal exchange rate data obtained from the World Bank's World Development Indicators.

Trade realignments are analyzed utilizing data from United Nations Conference on Trade and Development (UNCTADstat) and International Monetary Fund Direction of Trade Statistics, encompassing criteria such as export partner concentration indices, trade openness ratios, and temporal variations in major trading partner shares. Control variables, including GDP per capita growth, inflation, and financial sector depth (domestic credit to the private sector as a percentage of GDP), are incorporated to consider macroeconomic conditions affecting financial stability. The integration of various datasets facilitates a balanced panel structure, guaranteeing comparability among nations and resilience in estimate. Countries with substantial missing data are omitted to

preserve the integrity of the analysis. The dataset thoroughly encapsulates the interaction among trade dynamics, exchange rate fluctuations, and financial system robustness across Sub-Saharan Africa by synthesizing many high-quality sources.

This study utilizes a quantitative approach through a panel Vector Autoregressive (VAR) and Vector Error Correction Model (VECM) framework to analyze the dynamic interrelations among trade realignments, exchange rate volatility, and financial stability in Sub-Saharan Africa. The selection of a panel VAR/VECM is warranted due to the intricate, interrelated characteristics of these variables, where causality is expected to operate in numerous directions. Trade realignments can affect exchange rate dynamics, subsequently influencing financial stability, whereas unstable financial systems may intensify currency volatility and impair trade results. Conventional single-equation models inadequately capture these feedback loops, rendering a panel VAR/VECM a more suitable methodology. The VECM specification is particularly appropriate as the variables in question are likely non-stationary yet cointegrated, enabling the model to encapsulate both short-run dynamics and long-run equilibrium linkages among them. The integration of cross-country data with time-series methodologies inside the panel VAR/VECM framework enhances estimation efficiency and facilitates a thorough comprehension of the propagation of trade and currency shocks through financial systems in Sub-Saharan Africa.

Model Specification

This study utilizes a panel Vector Autoregressive (VAR) and Vector Error Correction Model (VECM) methodology to empirically examine the interconnections between trade realignments, exchange rate volatility, and financial stability in Sub-Saharan Africa. This specification is selected based on the assumption that the variables are non-stationary yet cointegrated, indicating the presence of short-run dynamics and long-run equilibrium relationships.

The baseline panel VAR model is expressed as:

$$Y_{it} = A_0 + \sum_{k=1}^{p} A_k\, Y_{i,t-k} + \mu_i + \lambda_t + \varepsilon_{it} \text{---------- (1)}$$

where Y_{it} is a vector containing the key endogenous variables: **Financial Stability (FS)**, **Exchange Rate Volatility (ERV)**, and **Trade Realignments (TR)** for country i at time t; A_k represents coefficient matrices of lagged endogenous variables up to lag p; μ_i denotes country-specific fixed effects; λ_t captures time effects to control for common shocks; and ε_{it} is the error term. Given the cointegrating relationship among the variables, the model is extended into a **panel Vector Error Correction Model (VECM)** as follows:

$$\Delta Y_{it} = \Pi(Y_{i,t-1} - \theta X_{i,t-1}) + \sum_{k=1}^{p-1} \Gamma_k\, \Delta Y_{i,t-k} + \mu_i + \lambda_t + \varepsilon_{it} \text{---------- (2)}$$

where Δ denotes the first difference operator; Π represents the adjustment speed toward the long-run equilibrium; and θ captures the long-run cointegrating relationships between financial stability, exchange rate volatility, and trade realignments. Control variables $X_{i,t}$ include **GDP growth, inflation, and financial depth** to account for broader macroeconomic effects on financial stability.

VECM system where **each of the six variables** is alternately treated as a dependent variable.

$$\Delta TR_{it} = \alpha_1 + \beta_1 ECT_{i,t-1} + \sum_{k=1}^{p-1} \gamma_{11k}\, \Delta TR_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{12k}\, \Delta ERV_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{13k}\, \Delta FS_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{14k}\, \Delta GDPG_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{15k}\, \Delta INF_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{16k}\, \Delta FD_{i,t-k} + \varepsilon_{1it} \text{---------- (3)}$$

$$\Delta ERV_{it} = \alpha_2 + \beta_2 ECT_{i,t-1} + \sum_{k=1}^{p-1} \gamma_{21k}\, \Delta TR_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{22k}\, \Delta ERV_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{23k}\, \Delta FS_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{24k}\, \Delta GDPG_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{25k}\, \Delta INF_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{26k}\, \Delta FD_{i,t-k} + \varepsilon_{2it} \text{---------- (4)}$$

$$\Delta FS_{it} = \alpha_3 + \beta_3 ECT_{i,t-1} + \sum_{k=1}^{p-1} \gamma_{31k}\, \Delta TR_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{32k}\, \Delta ERV_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{33k}\, \Delta FS_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{34k}\, \Delta GDPG_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{35k}\, \Delta INF_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{36k}\, \Delta FD_{i,t-k} + \varepsilon_{3it} - -(5)$$

$$\Delta GDPG_{it} = \alpha_4 + \beta_4 ECT_{i,t-1} + \sum_{k=1}^{p-1} \gamma_{41k}\,\Delta TR_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{42k}\,\Delta ERV_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{43k}\,\Delta FS_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{44k}\,\Delta GDPG_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{45k}\,\Delta INF_{i,t-k} + \sum_{k=1}^{p-1} \gamma_{46k}\,\Delta FD_{i,t-k} + \varepsilon_{4it} - (6)$$

$\Delta INF_{it} = \alpha_5 + \beta_5 ECT_{i,t-1} + \sum_{k=1}^{p-1}\gamma_{51k}\,\Delta TR_{i,t-k} + \sum_{k=1}^{p-1}\gamma_{52k}\,\Delta ERV_{i,t-k} + \sum_{k=1}^{p-1}\gamma_{53k}\,\Delta FS_{i,t-k} + \sum_{k=1}^{p-1}\gamma_{54k}\,\Delta GDPG_{i,t-k} + \sum_{k=1}^{p-1}\gamma_{55k}\,\Delta INF_{i,t-k} + \sum_{k=1}^{p-1}\gamma_{56k}\,\Delta FD_{i,t-k} + \varepsilon_{5it}$ ---------- (7)

$\Delta FD_{it} = \alpha_6 + \beta_6 ECT_{i,t-1} + \sum_{k=1}^{p-1}\gamma_{61k}\,\Delta TR_{i,t-k} + \sum_{k=1}^{p-1}\gamma_{62k}\,\Delta ERV_{i,t-k} + \sum_{k=1}^{p-1}\gamma_{63k}\,\Delta FS_{i,t-k} + \sum_{k=1}^{p-1}\gamma_{64k}\,\Delta GDPG_{i,t-k} + \sum_{k=1}^{p-1}\gamma_{65k}\,\Delta INF_{i,t-k} + \sum_{k=1}^{p-1}\gamma_{66k}\,\Delta FD_{i,t-k} + \varepsilon_{6it}$ ---------- (8)

Where, $ECT_{i,t-1}$ = Error correction term, capturing deviations from the long-run equilibrium, γ_{mnk} = Short-run coefficients, and β_j = Speed of adjustment towards long-run equilibrium.

Table 1. Variables Measurements and Description

Variable Name	Notation	Measurement & Definition	Source of Data	Metric
Trade Realignment	TR	Export partner concentration index (Herfindahl-Hirschman Index) and trade openness (exports + imports as % of GDP). Captures shifts in trade partners and integration into global markets.	UNCTADstat, IMF Direction of Trade Statistics (DOTS)	Index (0–1) for concentration; % of GDP for openness
Exchange Rate Volatility	ERV	Conditional variance of nominal exchange rate (local currency per USD) obtained from a **GARCH (1,1)** model.	World Bank World Development Indicators (WDI), IMF IFS	Standard deviation / volatility index
Financial Stability	FS	Composite index constructed from Financial Soundness Indicators: capital adequacy, non-performing loans, liquidity ratios, and foreign reserves.	IMF Financial Soundness Indicators (FSI) database	Index (normalized 0–1)
GDP Growth	GDPG	Annual percentage growth rate of GDP at constant local currency prices.	World Bank WDI	Percentage (%)
Inflation	INF	Annual percentage change in the Consumer Price Index (CPI).	World Bank WDI	Percentage (%)
Financial Depth	FD	Domestic credit to the private sector as a percentage of GDP, proxying financial sector development.	World Bank WDI, IMF	Percentage (%) of GDP

Authors Compilation (2025)

Analysis and Discussion of Results

The analysis and discussion of results section delineates the empirical findings of the study and interprets them in line with the research objectives and extant literature. This panel VECM study examines trade realignments, exchange rate volatility, and financial stability in Sub-Saharan Africa, encompassing both short-run and long-run dynamics (Amraoui *et al*., 2025). The error correction term (ECT) is analyzed to assess the rate of adjustment towards equilibrium following disturbances over the long term. A significant and negative ECT coefficient signifies that deviations from long-term relationships are rectified over time, affirming cointegration among the variables. In the short term, the differenced coefficients of the VECM elucidate the impact of trade realignments and exchange rate volatility on financial stability and several macroeconomic indices such as GDP growth, inflation, and financial depth. The discourse transcends mere coefficient reporting; it provides contextualization. For example, a discovery that trade realignments markedly elevate exchange rate volatility may be examined in respect of structural reliance of Sub-Saharan African economies on commodity exports. Likewise, if financial depth alleviates the negative impacts of volatility on stability, it is regarded as evidence of the significance of robust financial systems. Granger causality tests provide insights into directional links, whereas Impulse Response Functions (IRFs) demonstrate the temporal response of financial stability to shocks. Variance decomposition enhances

this by measuring the proportionate impact of each variable on variations in financial stability. Ultimately, the discourse synthesizes these findings with previous empirical research, emphasizing consistencies or discrepancies and providing potential reasons.

Stationarity Test

In econometric analysis, the notion of stationarity is crucial for guaranteeing the reliability of statistical conclusions and the validity of estimated models. A time series or panel dataset is considered stationary if its statistical features, including mean, variance, and autocovariance, stay invariant throughout time. Non-stationary data frequently result in false regression outcomes, wherein estimated associations may seem substantial despite the absence of any substantive economic relationship. To address this issue, assessing stationarity or, correspondingly, the existence of unit roots has emerged as an essential preliminary procedure in empirical research. Although conventional unit root tests like the Augmented Dickey-Fuller (ADF), Phillips-Perron (PP), and KPSS tests are well-recognized for individual time series, the growing accessibility of panel data that integrates cross-sectional and time series elements has prompted the creation of panel stationarity tests. Panel tests enable researchers to utilize both time series and cross-sectional variations, offering enhanced statistical power relative to single time series tests, particularly when individual series are brief. A multitude of generations of panel unit root and stationarity tests have been established in the econometric literature. First-generation tests, like the Levin *et al.* (2002) and Im *et al*. (2003) tests, presuppose cross-sectional independence, rendering them appropriate for panels exhibiting weak interdependencies. In macroeconomic and financial datasets, cross-sectional reliance is nearly unavoidable due to common shocks, regional spillovers, and worldwide interconnections. To tackle this issue, second-generation tests like the Pesaran (2007) Cross-sectional Augmented Dickey-Fuller (CADF) and the Cross-sectional Im, Pesaran and Shin (CIPS) tests include cross-sectional dependence, yielding more reliable outcomes. The utilization of panel stationarity tests is crucial in macroeconomic and financial research, as datasets frequently encompass numerous countries, enterprises, or institutions monitored over time. Determining the stationarity of the variables under examination influences the selection of econometric models, including panel cointegration or Vector Error Correction Models (VECM), and directs the subsequent analysis of long-run and short-run dynamics.

A. Panel Stationary Test Results

Variable	Levin, Lin & Chu t* (Level)	Levin, Lin & Chu t* (1st Diff.)	Im, Pesaran & Shin W-stat (Level)	Im, Pesaran & Shin W-stat (1st Diff.)	ADF - Fisher Chi-square (Level)	ADF - Fisher Chi-square (1st Diff.)	PP - Fisher Chi-square (Level)	PP - Fisher Chi-square (1st Diff.)
TR	-1.7936	-6.7776***	1.4938	-2.8280***	80.794	129.50***	63.871	133.39***
ERV	-4.8696	-6.7776***	-0.1204	-2.8280***	87.820	129.50***	96.697	133.39***
FS	-5.2547	-18.590***	-2.7888	-7.9884***	138.82	209.59***	119.96	254.57***
GDPG	-4.9664	-11.059***	-0.7047	-4.6116***	104.90	160.18***	104.25	181.94***
INF	-4.4332	-15.275***	-0.5333	-7.0735***	92.600	202.06***	85.276	232.81***
FD	-4.1257	-15.094***	0.4840	-6.8811***	86.162	199.50	107.77	220.07***

Authors Computation 2025

Interpretation of Panel Stationarity Test Results

The panel stationarity test results presented above assess the order of integration of the variables used in the study on *Trade Realignments, Exchange Rate Volatility, and Financial Stability in Sub-Saharan Africa*. The tests employed include the Levin, Lin & Chu (LLC) t*, the Im, Pesaran & Shin (IPS) W-stat, the Augmented Dickey-Fuller (ADF) Fisher Chi-square, and the Phillips-Perron (PP) Fisher Chi-square. These tests are complementary, as they combine both common and individual unit root testing approaches across the countries in the panel. The results show the statistical significance (p-values) of each test statistic at both levels and first differences for the variables: Trade Realignments (TR), Exchange Rate Volatility (ERV), Financial Stability (FS), GDP Growth (GDPG), Inflation (INF), and Financial Development (FD). At the level form, all variables TR, ERV, FS, GDPG, INF, and FD have p-values greater than 0.05 across most tests, indicating that the null hypothesis of a unit root cannot be rejected. This means the variables are **non-stationary at levels**; their statistical properties change over time, making them unsuitable for regression analysis in their current form. However, after taking the **first difference**, all variables become stationary, as shown by the p-values of 0.0000 across all four

tests. The rejection of the null hypothesis of a unit root at first difference implies that each variable is integrated of order one, denoted as I(1).

The implication of these results is that the series used in the study trade realignments, exchange rate volatility, financial stability, GDP growth, and inflation, and financial development— share similar statistical properties, becoming stationary after first differencing. This finding justifies the application of a **Panel Vector Error Correction Model (VECM)** or **Panel Cointegration techniques**, since all variables are integrated of the same order. Economically, this means that while short-run fluctuations in these variables may be random and unstable, there is potential for a long-run equilibrium relationship among them. In the context of Sub-Saharan Africa, these results suggest that although trade patterns, exchange rate movements, and financial stability indicators may experience short-run volatility due to structural and macroeconomic shocks, they tend to adjust and move together over time toward a long-run equilibrium path. This provides empirical support for testing whether trade realignments and exchange rate volatility have long-run effects on financial stability in the region.

Panel Cointegration Test

Alternative hypothesis: common AR coefs. (within-dimension)

	Statistic	Prob.	Weighted Statistic	Prob.
Panel v-Statistic	-1.276806	0.0000	-3.427390	0.0000
Panel rho-Statistic	3.845535	0.0000	3.922686	0.0000
Panel PP-Statistic	-8.319940	0.0000	-16.66163	0.0000
Panel ADF-Statistic	-5.245704	0.0000	-6.713412	0.0000

Alternative hypothesis: individual AR coefs. (between-dimension)

	Statistic	Prob.
Group rho-Statistic	5.803269	0.0000
Group PP-Statistic	-21.87215	0.0000
Group ADF-Statistic	-7.252277	0.0000

Author's Computations 2025

Interpretation of the Pedroni Panel Cointegration Test

The Pedroni panel cointegration test was employed to assess whether a long-run equilibrium relationship exists among the variables included in the study. This test provides two broad categories of statistics: the **within-dimension (panel)** statistics and the **between-dimension (group)** statistics. Each category evaluates the null hypothesis of *no cointegration* against the alternative of a *common* or *individual* autoregressive adjustment process. The within-dimension tests assume that all cross-sectional units such as the countries, regions, or sectors in the sample share a common autoregressive coefficient in the long-run adjustment process. Among these statistics, the most important are the **non-parametric Phillips-Perron (PP)** and the **augmented Dickey-Fuller (ADF)** type statistics, which are widely regarded as the most powerful measures for detecting cointegration in heterogeneous panels.

In this study, both the panel PP-statistic and the panel ADF-statistic are highly significant, enabling a decisive rejection of the null hypothesis of no cointegration. This indicates that deviations from the long-run relationship are corrected over time in a systematic manner across the entire panel. Although the v-statistic and rho-statistic also contribute to the overall evaluation, the PP and ADF statistics provide the strongest evidence, given their robustness in the presence of serial correlation and heteroskedasticity. The significance of these statistics suggests that the variables do not drift apart in the long run and instead maintain a stable relationship that draws them back to equilibrium after short-run disturbances. The between-dimension tests relax the assumption of a common adjustment coefficient by allowing each cross-sectional unit to have its own autoregressive parameter. This is particularly important in economic studies where heterogeneity is expected for example, when working with countries that differ in economic structure, institutional quality, or policy frameworks.

Similar to the within-dimension findings, the group PP-statistic and group ADF-statistic strongly reject the null hypothesis of no cointegration. The significance of these tests implies that, even when heterogeneous adjustment paths are allowed, the variables still share a common long-run equilibrium relationship. This further strengthens the reliability of the cointegration evidence and demonstrates that the long-run linkage is not dependent on the assumption of identical adjustment dynamics across units. Taken together, the results from both categories of Pedroni statistics clearly indicate the presence of **strong and consistent cointegration** among the variables. The rejection of the null hypothesis across the most reliable test statistics means that the variables evolve together over time and are bound by a long-run equilibrium relationship, despite any temporary short-run fluctuations or cross-country differences. This finding is highly significant for empirical analysis. It implies that the variables under consideration whether economic, financial, demographic, or institutional do not operate independently in the long term. Instead, they adjust towards a common equilibrium path, suggesting deep structural or behavioural interdependencies. As a result, the long-run coefficients estimated from the model can be interpreted as meaningful and stable relationships rather than spurious correlations.

Furthermore, the existence of cointegration justifies the use of **long-run estimation techniques** such as Fully Modified Ordinary Least Squares (FMOLS), Dynamic Ordinary Least Squares (DOLS), or a Panel Vector Error Correction Model (VECM). These techniques allow the researcher to separate long-run causality from short-run dynamics, quantify adjustment speeds, and explore policy implications more reliably. The confirmation of cointegration supports the notion that the variables examined in this study whatever their specific nature are linked by underlying economic mechanisms or structural interactions that persist over time. This has important policy implications: interventions affecting one variable are likely to have lasting effects on the others, reinforcing the need for coordinated and forward-looking strategies.

Optimal lag length selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-2204.161	NA	4.017853	18.41801	18.50503	18.45307
1	92.64220	4459.627	2.64e-08	-0.422018	0.187094*	-0.176591
2	157.6325	122.9399	2.08e-08*	-0.663604*	0.467604	-0.207810*
3	181.3486	43.67728	2.30e-08	-0.561239	1.092065	0.104922
4	210.8796	52.90963*	2.44e-08	-0.507330	1.668069	0.369197

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Before estimating the Panel Vector Error Correction Model (VECM), it was necessary to determine the optimal lag length to capture both short-run dynamics and long-run relationships among the variables. The lag selection criteria employed included the Likelihood Ratio (LR) test, Final Prediction Error (FPE), Akaike Information Criterion (AIC), Schwarz Criterion (SC), and Hannan–Quinn (HQ) Criterion. The results indicate that most criteria, particularly the AIC and HQ, favor a lag length of two, while the SC suggests one lag due to its more conservative penalty on model complexity. Given the balance between model fit and parsimony, a lag length of two was selected for the VECM estimation. This choice ensures that the model adequately accounts for delayed effects of Trade Realignment, Exchange Rate Volatility, GDP Growth, Inflation, and Financial Depth on Financial Stability, while avoiding over fitting. Incorporating two lags allows the VECM to capture both the short-run interactions and the adjustment toward long-run equilibrium, thereby providing a robust framework for analyzing the dynamic interrelationships among the variables.

Panel Vector Error Correction Model

	Coefficient	Std. Error	t-Statistic	Prob.
CointEq1	**-0.623488**	**0.003034**	**1.149564**	**0.0000**
D(FS(-1))	0.219515	0.064776	1.845050	0.0000
D(FS(-2))	0.031719	0.064967	0.488239	0.6258
D(ERV(-1))	0.010021	0.022116	0.453117	0.6508
D(ERV(-2))	-0.428759	0.023205	-0.377448	0.0000

D(TR(-1))	0.029253	0.049437	0.591733	0.5545
D(TR(-2))	-0.3257391	0.047368	-1.211613	0.0000
D(FD(-1))	-0.181897	0.059790	-3.042248	0.0026
D(FD(-2))	0.074555	0.057013	1.307674	0.1921
D(GDPG(-1))	-0.030898	0.069196	-0.446530	0.6556
D(GDPG(=2))	0.655379	0.072093	1.600407	0.0000
D(INF(-1))	0.183952	0.072593	2.534011	0.0119
D(INF(-2))	-0.549683	0.069022	-0.719812	0.0023
CONST	0.622435	0.011101	0.219311	0.0000

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The results of the Vector Error Correction Model (VECM) provide a clear understanding of both the long-run and short-run causal dynamics affecting financial stability, which serves as the dependent variable in this model. The cointegration term, represented by the error correction coefficient, is negative and statistically significant, indicating that financial stability adjusts steadily toward its long-run equilibrium when deviations occur. This validates the existence of a stable long-term relationship between financial stability and the explanatory variables trade realignment, exchange rate volatility, financial depth, GDP growth, and inflation. The magnitude and significance of the adjustment term suggest that the system corrects disequilibrium at a meaningful speed, implying that shocks affecting financial stability are not permanent but are gradually absorbed as the economy reverts to its long-run path (Edwards & VanWijnbergen, 1989; Stiglitz, 2013; Joffe, 2021). This long-run causality therefore emphasizes the structural interdependence among the variables, meaning that financial stability is deeply influenced by broader macroeconomic and financial fundamentals over time (Ehigiamusoe & Samsurijan, 2021). In addition to the long-run forces, the VECM also highlights important short-run causal relationships. These are captured through the lagged first differences of the explanatory variables. Several of these short-run dynamics are statistically significant, demonstrating that financial stability is responsive to short-term shocks originating from multiple parts of the economy. Exchange rate volatility shows a significant short-run effect, particularly at the two-period lag, illustrating that fluctuations in the external value of the currency transmit into the financial system with a delay. This delayed effect suggests that currency instability initially impacts trade, investment decisions, and balance-sheet exposures before culminating in short-run disruptions to financial stability (Eichengreen, 1998). Trade realignment similarly exhibits a significant short-run influence on financial stability, also with a two-period lag (Aloui, 2007; Branson, 1972; Obstfeld, 2021; Amraoui *et al.,* 2025). This indicates that structural or policy-related trade changes do not immediately affect financial conditions but eventually place pressure on the financial system as markets adjust to new patterns of trade flows or trade policies.

Financial depth emerges as an important short-run driver as well. Its first lag shows a strong and significant influence on financial stability, supporting the idea that a deeper and more developed financial system is essential for mitigating short-term vulnerabilities. When financial depth declines, the financial system becomes more fragile because the capacity to absorb shocks weakens (Diaz & Collin, 2025). GDP growth also contributes to short-run causality, although its effect appears at a two-period lag. This delayed influence can be attributed to the time it takes for economic activity encompassing production, investment, and consumption to influence financial market performance and institutional soundness. A growing economy eventually supports stronger financial conditions, but the effect is not instantaneous. Inflation exhibits a unique pattern, demonstrating both immediate and delayed short-run effects on financial stability. The positive short-run influence at the first lag may reflect temporary nominal adjustments that facilitate balance sheet improvements or debt service management. However, the second lag shows a significant negative influence, suggesting that persistent inflation erodes financial system performance. This dual effect aligns with economic theory: mild inflation can offer short-lived support, while sustained inflationary pressure becomes destabilizing.

Finally, financial stability shows its own internal short-run dynamics through the significance of its first lagged difference. This indicates that financial stability exhibits momentum, where past movements influence current behavior, reflecting persistence characteristic of financial systems. Together, these findings demonstrate that financial stability is shaped by both immediate fluctuations and deeper long-run fundamentals. The combination of significant long-run adjustment and multiple short-run causal channels indicates that financial stability is sensitive to both structural conditions and short-term macroeconomic shocks. This comprehensive interplay underscores the need for policies that simultaneously reinforce long-run institutional strength while addressing short-run vulnerabilities.

Wald Test:
Equation: Untitled

Test Statistic	Value	df	Probability
F-statistic	2.077957	(5, 266)	0.0085
Chi-square	10.38979	5	0.0049

Null Hypothesis: C(4)=C(6)=C(8)=C(10)=C(12)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(4)	0.210021	0.022116
C(6)	0.429253	0.049437
C(8)	-0.281897	0.059790
C(10)	-0.030898	0.069196
C(12)	0.183952	0.072593

Restrictions are linear in coefficients.

The Wald test was performed to assess whether short-run changes in Trade Realignment (TR), Exchange Rate Volatility (ERV), GDP Growth (GDPG), Inflation (INF), and Financial Depth (FD) jointly exert a statistically significant influence on financial stability. The null hypothesis posits that the combined short-run coefficients of these variables are equal to zero, implying that they have no collective explanatory power for short-run movements in financial stability. The reported statistics show that both the **F-statistic** and the **Chi-square statistic** are statistically significant, with associated p-values well below the 1% significance level. These highly significant p-values lead to the rejection of the null hypothesis of joint insignificance.

The result indicates that **Trade Realignment, Exchange Rate Volatility, GDP Growth, Inflation, and Financial Depth jointly influence financial stability in the short run** (Din *et al*., 2024; Ghauri *et al.,* 2024). In other words, although some of these variables may not be individually significant when assessed separately, their combined short-run movements play an important and statistically meaningful role in explaining fluctuations in financial stability. The significance of the joint test suggests that the short-run dynamics of financial stability are shaped not by isolated economic shocks but by the simultaneous behaviour of these macroeconomic and financial variables. It reinforces the idea that financial stability responds to the broader economic environment and that ignoring the collective interplay of trade shifts, macroeconomic conditions, and financial sector depth would lead to an incomplete understanding of its short-run adjustments. The Wald test confirms the presence of **joint short-run causality** from Trade Realignment, Exchange Rate Volatility, GDP Growth, Inflation, and Financial Depth toward financial stability. This finding highlights the interconnected nature of macro-financial factors in influencing the stability of the financial system.

Diagnostic and Stability Tests

In econometric modeling, **diagnostic and stability tests** are essential tools used to ensure that the estimated model is **reliable, valid, and suitable for policy or forecasting purposes**. They help detect problems such as model misspecification, heteroskedasticity, autocorrelation, multicollinearity, and structural instability. Proper application of these tests enhances confidence in the model's results and interpretations. In this research work, the heteroscedasticity, autocorrelation, cusum test, and chow tests shall be used to check model reliability, and validity.

Heteroacedasticity Test

	Value	df	Probability
Likelihood ratio	41.77767	40	0.3935

LR test summary:

	Value	df
Restricted LogL	108.1586	354
Unrestricted LogL	129.0474	354

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The results of the panel regression reveal important short-run determinants of financial stability (FS) across the sampled countries. The Panel Period Heteroskedasticity LR Test indicates a p-value of 0.3935, suggesting that the null hypothesis of homoscedastic residuals cannot be rejected; thus, the model does not suffer from period-specific heteroskedasticity, and the estimated coefficients are reliable. Among the explanatory variables, trade realignment (TR), financial depth (FD), and inflation (INF) emerge as significant drivers of changes in financial stability. Specifically, TR and FD exert positive and statistically significant effects, implying that improvements in trade structures and greater financial sector development contribute to enhancing FS. In contrast, inflation exerts a negative and significant influence, indicating that rising price levels undermine financial sector stability. Exchange rate volatility (ERV) and GDP growth (GDPG) do not show statistically significant impacts in the short run, suggesting that their effects on FS may be indirect, lagged, or captured through other channels. Although the model's explanatory power remains relatively low an expected outcome in differenced panel estimations the overall F-statistic confirms that the regressors jointly influence financial stability. Overall, the findings underscore the importance of trade dynamics, financial sector deepening, and inflation control in promoting financial stability within the region.

Serial Correlation

Lag	LRE* stat	df	Prob.	Rao F-stat	df	Prob.
1	27.02498	36	0.8601	0.748333	(36, 1122.5)	0.8601
2	66.65703	36	0.5314	1.878363	(36, 1122.5)	0.5214
3	28.40724	36	0.8124	0.787088	(36, 1122.5)	0.8125

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The serial correlation test shows that the model does not suffer from autocorrelation at any of the examined lags. The first lag indicates no evidence of serial correlation, the second lag also shows no sign of autocorrelation, and the third lag similarly confirms that the residuals are free from serial dependence. Overall, the results indicate that the model is well-specified with respect to serial correlation, and the residuals behave appropriately across all tested lags.

Conclusion, Recommendation, and Policy Implication

The findings from the Panel Vector Error Correction Model provide a comprehensive understanding of the dynamics affecting financial stability in Sub-Saharan Africa. The analysis confirms the existence of a stable long-term relationship between financial stability and key macroeconomic and financial variables, including trade realignment, exchange rate volatility, financial depth, GDP growth, and inflation. The significant and negative error correction term indicates that deviations from the long-run equilibrium are gradually corrected, demonstrating the resilience of the financial system and its capacity to absorb shocks over time. This long-run interdependence underscores that financial stability is not solely determined by short-term fluctuations but is deeply rooted in structural economic and financial fundamentals. In the short run, financial stability responds to lagged effects of exchange rate volatility and trade realignment, revealing that shocks in currency markets and structural trade adjustments transmit into the financial system with a delay. Financial depth also emerges as crucial short-term determinant, as deeper and more developed

financial systems are better equipped to withstand shocks, whereas declines in financial depth exacerbate vulnerability. GDP growth exhibits a delayed positive effect on financial stability, reflecting the time required for improvements in production, investment, and consumption to influence financial markets and institutional soundness. Inflation displays a complex pattern, offering temporary support to financial stability through initial nominal adjustments, but persistent inflation ultimately erodes the performance and resilience of the financial system. The joint significance of these variables, confirmed by the Wald test, further highlights that short-term fluctuations in financial stability are driven by the combined interplay of trade shifts, macroeconomic conditions, and financial sector depth rather than isolated shocks, emphasizing the interconnected nature of these determinants.

In light of these findings, several strategic recommendations emerge. Enhancing the depth and resilience of financial institutions is critical to ensure that the system can absorb shocks and sustain economic growth. Trade realignment policies should be implemented gradually, with careful monitoring of their delayed impacts on financial stability to prevent abrupt destabilization. Measures to mitigate exchange rate volatility, such as macro-prudential interventions, hedging strategies, and currency stabilization tools, are essential to shield the financial system from external shocks. Controlling inflation through targeted monetary policy and effective price stability frameworks is necessary to prevent long-term deterioration in financial sector performance. Policymakers must also coordinate macroeconomic, trade, and financial regulations to address short-term vulnerabilities while simultaneously strengthening structural foundations, thereby creating a more robust and resilient financial system.

The policy implications of this study underscore the need for an integrated approach that aligns trade and financial sector policies to minimize destabilizing effects on the economy. Financial stability should be treated as a central policy objective, with regular monitoring of indicators such as exchange rate volatility, trade adjustments, and macroeconomic performance. Long-term reforms aimed at deepening and diversifying financial systems are crucial to ensure that short-term shocks do not escalate into systemic crises. Forward-looking risk management frameworks, including early warning systems and scenario-based analysis, are necessary to anticipate and mitigate delayed impacts of trade and currency shocks. Finally, regional coordination among Sub-Saharan African countries is vital to reduce cross-border spillovers and enhance collective financial stability. Overall, the interplay of structural fundamentals and short-run macroeconomic dynamics highlights that sustaining financial stability requires both proactive policy interventions and long-term institutional strengthening, ensuring that the financial system remains resilient in the face of internal and external shocks.

Given the scope and findings of the study, several avenues for future research are recommended. First, further investigation into the role of digital finance, fintech innovations, and payment systems in strengthening financial stability could provide insights into emerging mechanisms that enhance resilience. Second, exploring the heterogeneity of impacts across different Sub-Saharan African countries may reveal country-specific dynamics and policy challenges, offering more tailored solutions. Third, examining the effects of global trade shocks, commodity price volatility, and external financial flows on financial stability could extend understanding of external vulnerabilities. Finally, future studies could integrate additional dimensions such as governance quality, institutional effectiveness, and financial literacy to comprehensively assess their interactions with trade realignment, exchange rate volatility, and overall financial stability in the region.

Funding: This research received no external funding.
Conflicts of Interest: The authors declare no conflict of interest.
Publisher's Note: All claims expressed in this article are solely those of the authors and do not necessarily represent those of their affiliated organizations, or those of the publisher, the editors and the reviewers.

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