

Trends in Trade Openness and Inflation Volatility Across European Countries

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ABSTRACT: This research quantitatively examines the relationship between globalisation and financial instability, focusing on two variables: trade openness relative to GDP and inflation volatility (proxied by annual CPI changes) across six developed and developing European countries between 2013 and 2023. This research shows the empirical relationship between trade openness and inflation stability, without accounting for other drivers such as monetary policy or capital flows. It examines the questionable relationship between globalisation and financial instability across the selected economies, offering insights into their differing vulnerabilities. Based on secondary data collected from reliable sources, we conducted Pearson correlation, regression, and trend analyses to establish these dynamics. Primary results reveal a stronger positive relationship between trade openness and inflation fluctuations in developed countries, particularly France and Germany, than in developing countries, including Hungary and Romania, which experienced more synchronised trends. These findings provide descriptive evidence of country-level differences in the relationship between trade openness and inflation volatility. They serve as a basis for further research rather than for drawing strong policy conclusions.

KEYWORDS: globalised markets, financial resilience, regression analysis, trend analysis, inflation fluctuations

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Introduction

Technological advancements and human innovations directly shape the world, simultaneously simplifying and complicating life patterns, with positive and negative economic, financial, social, and political impacts. The economic and financial sectors, which are elastic and risky, lost significant ground to financial instability following the world wars, a trend that continues to this day.

Financial Instability results from various financial and non-financial factors, including economic downturns, global imbalances, regulatory gaps, financial innovation, geopolitical changes, and new pandemics. Past crises like the global financial crisis of 2007/2008 give a great historical context, but this is not the focus of this research. Rather, this paper limits itself to trade openness and inflation volatility over the last few years. Furthermore, in this research, globalisation is understood in its economic dimension, measured through trade openness. Broader political, social, and cultural perspectives are acknowledged but fall outside the scope of this study.

Hence, this research is not exploring broader financial instability issues, including banking flows, capital movements, or monetary policy, but is narrowly focused on the relationship between trade openness and inflation volatility in selected European countries. Broader questions about globalisation and financial instability are acknowledged but remain outside the scope of this study. So, the research is structured as follows: First, we examine previous research regarding globalisation alongside financial instability. We then elaborate on our methodology before presenting the analysis of the empirical findings. Finally, we illustrate our discussion, followed by a conclusion section that presents implications and essential policy recommendations.

Literature Review

The research's theoretical framework is the literature review. Conventional research by various researchers in the current globalised world reveals that the levels of financial and economic crisis evident in many countries over the past decades have been characterised by the following aspects outlined in this review.

The effect of globalisation on the world economy was also explored by surveying the literature to identify key concerns, including exchange rate and monetary policy instabilities. Consequent research findings showed that globalisation in the period of higher capital mobility leading up to the 1990s was a route to a succession of three multitudinous financial and currency crises in emerging states. Thus, soft pegging, a system characterised by perfectly liberalised markets coupled with incomplete institutional changes, was postulated as the determinant that can increase financial vulnerability. With hard pegs like a currency board or dollarisation, severe crises can be avoided,

and they need a sound monetary system, the rule of law, fiscal discipline, and wage and price flexibility (Wagner, 2001; Wagner, 2002; Wagner, 2005).

Secondly, Azzimonti et al. (2013), in their research focusing on the linkage between financial globalisation, income inequality, and public debt based on conducting a multi-country politico-economic model and a cross-country empirical analysis using OECD (Organisation for Economic Co-operation and Development) data, concluded from their main results that debt crises are more likely to occur as public debts increase. As a result, increased government borrowing generated by capital market liberalisation and rising income disparities may lead to a sovereign debt crisis (Azzimonti et al., 2013).

Further, various scholarly works on the same topic gave an overview of the relationship between globalisation and the instability of financial markets following the global crisis of 2007-2008, offering diverse and valuable perspectives on the phenomenon (Hay, 2007; McGrew, 2007; Orłowski, 2008). Besides, several experts agreed on the view that globalisation may affect global financial market volatility in four areas: nation-state, financial and banking systems, economic inequality, and wealth distribution (Sklias & Maris, 2013). Also, Hryhoruk et al. (2019) identify global factors, including financial crises, as the main external causes of economic and financial stability in enterprises, based on the estimation and forecasting analysis of certain parameters.

On the other hand, recent research examined the influence of uncertainty in global financialisation on financial development in 53 African nations between 2000 and 2011, using the Generalised Method of Moments (GMM) and World Bank Financial Development and Structure Database data. In their findings, Asongu et al. (2017) show that financial globalisation uncertainty does not affect the money supply, financial system deposits, or financial size. However, financial globalisation improves the efficiency of the banking system and stimulates financial activity. Additionally, the study suggests that foreign capital uncertainty can boost local financing, particularly in managing surplus liquidity in African financial institutions. The result reveals that FDI and Financial openness are crucial for the increasing demand and activities across the African region. This aligns with another study that notes that such cross-border financial transactions may strengthen the financial sector and advance economic development, provided certain institutional preconditions are met (Trabelsi & Cherif, 2017).

Moreover, another recent study employed a GMM methodology to examine how financial globalisation affected economic growth in 72 developing countries between 1972 and 2011. The results showed that financial instability and indebtedness reduce growth, but financial globalisation and investment globalisation promote it. Additionally, globalisation's debt increases the impact of financial instability on growth, whereas globalisation's investment mitigates this effect (Gaies et al., 2019).

Along with the concept of interconnectedness between globalisation and its impacts on financial stability, another crucial challenge was recently raised by

some researchers: it underscores the consequences of financial globalisation for economic instability. Sudjono (2024) implemented a descriptive qualitative methodology to assess the complex relationship between financial globalisation and economic instability. He concludes that incorporating sustainability into policies regarding the world market is a priority, especially in light of the challenges and opportunities now confronting global society. Besides, Bublyk (2023) examined the impact of external factors on financial instability in Ukraine and concluded that fluctuations in the global commodity market, reliance on raw materials, and other external factors directly affect Ukraine's financial stability.

Furthermore, some studies support the present research by providing a comparative understanding of the cause-and-effect relationship between trade openness and inflation volatility, an aspect fundamental to examining the effects of globalisation on financial stability. First, Shah and Lavanya (2022) found that the relationship between trade openness and inflation volatility is asymmetric, varying with the state of the economy, based on a Panel Smooth Transition Regression (PSTR) analysis of 41 developing countries between 1972 and 2016. Similarly, Lin et al. (2022) used an endogenous switching regression model on a sample of 64 countries, concluding that trade openness can be either positive or negative, depending on inflation-targeting regimes and the country's economic level (developed or developing). Further, other researchers reported opposing findings; Ceyhan et al. (2023), for example, found that trade openness does not affect the inflation rate in MIKTA countries in their panel causality analysis from 1960 to 2020. Equivalently, another study employed a meta-analysis of 31 years of empirical studies, revealing that trade openness has a small, barely significant effect on domestic inflation in OECD countries. Still, the effect is more pronounced in non-OECD countries (Yang et al., 2024).

Our study contributes to the literature in several ways. First, it offers recent empirical evidence between 2013 and 2023 about globalization's relationship with financial instability in European countries. Second, it examines differences in financial risks between developed and developing economies by investigating the effects of trade openness on inflation volatility. Moreover, it provides essential guidance to policymakers, emphasising the need for specific financial plans to reduce the risks associated with global market integration.

Methods and Sampling

This primary section clearly explains the definitions of the research questions and the formulated hypotheses, the specifics of data collection, the sampling technique, and the analytical tools and approaches employed.

Research Aims, Questions, and Hypotheses

This research examines the relationship between globalisation and financial instability across the chosen sample of European countries. However, the study seeks to achieve the following objectives:

1. Understand how trade openness, measured in % of GDP, and inflation volatility in consumer prices, relate to developed and developing countries, seeking to grasp how globalisation affects financial instability.
2. Provide suggestions and recommendations on how stakeholders and legislators should handle financial instability in a global world.

Hence, the research addresses the following research questions:

General Research Question:

- ▶ What are the key external factors contributing to financial instability from a globalised perspective?

Specific Research Question:

- ▶ What is the relationship between trade openness and inflation volatility in developed and developing European countries? And how do the trends between them evolve between 2013 and 2023 across these countries?

Therefore, to answer these research questions, the following hypotheses were formulated to check whether they were validated, partially validated, or not validated based on the significant findings:

- ▶ Hypothesis 1 (H1): The significance and strength of the relationship between trade openness and inflation volatility differ between developed and developing European countries.
- ▶ Hypothesis 2 (H2): The dynamics in trade openness and inflation volatility evolved over time during the study period (2013–2023).

Data Source and Collection

This study employs secondary research from the World Bank databases and World Development Indicators (WDI) National Accounts from 2013 to 2023. These are broad and reliable databases containing economic and/or financial indicators of economic and financial alteration with the world economy and financial instability. More precisely, we selected six European countries: three developed countries, including Germany, the Netherlands, and France, and three developing economies, including Hungary, Poland, and Romania. Such a selection guarantees varied economic profiles and backgrounds among the countries, enabling a comparative analysis of the effects of globalisation on

financial instability. The collection of comprehensive and reliable data for the 2013–2023 period also justified the choice. In particular, these six countries were selected based on data availability and the intention to compare developed and developing economies within the European Union. The developed/developing classification is based on internationally recognised IMF standards, commonly used for comparability. Also, acknowledging that other classifications (such as HDI or World Bank criteria) might yield slightly different results, the IMF approach provides consistency and uniformity for this study. Furthermore, the findings of this research are derived from these highly informative data sources and provide the essential statistical correlations that offer a robust and realistic overview of the complexity of the issues facing countries as they attempt to coordinate integration into the global economy on the one hand, while providing for financial stability on the other. In using such a methodology, it makes sense to be more confident in the findings, bearing in mind that the world is an integrated yet diverse global economy where topics such as trade openness and inflation volatility compete for attention. Thus, other aspects of globalisation, such as capital flows or exchange rate dynamics, are not addressed here. The scope of this study is limited to examining trade openness and inflation volatility.

Globalisation and Financial Instability Measures/Variables (Sampling)

To grasp the fundamental relationship between globalisation and financial stability, we analysed two key variables: trade openness (% of GDP) and the annual percentage change in the consumer price index (CPI), which we refer to as ‘inflation volatility’ in this paper for simplicity. Trade openness can be defined as the proportion of a country’s overall commerce (the combined value of exports and imports) to its gross domestic product (GDP), which serves as a measure of economic activity (Brülhart, 2011; Özçağ & Bölükbaş, 2018). Moreover, inflation is a highly adaptable economic phenomenon characterised by a continuous rise in the price level, quantified by changes in the consumer price index (CPI %). CPI accurately reflects nuanced fluctuations in consumers’ ability to buy goods and services (Labonte & Makinen, 2008). Hence, a more detailed examination of consumer prices provides insight into the everyday economic encounters of the population. Strictly speaking, inflation volatility is defined as the deviation from expected inflation rather than the annual inflation rate itself. In this paper, we use annual CPI changes as a proxy for volatility, while acknowledging this as a limitation. In this study, however, the analysis is limited to aggregate CPI data, which offers only a broad measure rather than detailed insights into household-level encounters. Furthermore, the dataset is a panel of cross-sectional data from six EU countries, with annual data from 2013 to 2023, to provide a chronology of interconnected economies over the last decade.

Analytical Methods

This research investigates the complex relationship between globalisation, mainly through trade openness of GDP % and financial instability measured by inflation rates of consumer prices. Our methodology followed a systematic, reliable, and practical approach to determine the nature of this relationship among the six selected developed and developing European countries. First, the analytical methods comprised four major sections, starting with the use of descriptive statistics for the two variables to analyse each country's mean, variability, and overall economic features from 2013 to 2023. Second, understanding the nature of the relationship between the two variables justified using Pearson's correlation coefficient to estimate it. Third, to analyse the degree of trade openness and its role in explaining inflation variation, a linear regression equation is used for each country to account for cross-sectional variation. Finally, to monitor changes in the data, line charts for trend analysis were created, highlighting trends and changes in trade openness and inflation volatility over the last ten years. Thus, using IBM SPSS Statistics for all descriptive and analytical functions, precision and reliability were maintained throughout this study. It is noteworthy that Pearson's correlation is susceptible to small samples and outliers, which is a limitation of this research. Also, the measure of trade openness of the Netherlands could be exaggerated by re-exports, which can give biased results for that country. Thus, these points are taken into consideration when discussing the findings.

Results

Our key findings address the research questions and hypotheses regarding the relationship between globalisation and financial instability generally, as well as between trade openness and inflation volatility, specifically in six EU countries between 2013 and 2023. Descriptive statistics, correlation coefficients, regression analysis, and trend analysis results are systematically contextualised with insights from existing literature to enhance their relevance and interpretability.

Descriptive Statistics

The descriptive analysis includes the significant variables considered in this study: Trade Openness and Inflation Volatility of six European countries for 2013–2023. Such statistics range from the minimum and maximum values for the explanatory and dependent variables to the means and standard deviations, offering insights into the variability and central tendencies of developed and developing economies, as outlined in Table 2 below.

Table 2: Descriptive Statistics of Trade Openness and Inflation Rates (2013–2023)

Country	Variable	N	Min	Max	Mean	Std. Deviation
France	Trade Openness (% of GDP)	11	56.78	73.25	63.11	4.37
	Inflation Volatility (consumer prices annual %)	11	0.04	5.22	1.62	1.79
Germany	Trade Openness (% of GDP)	11	81.15	99.88	87.74	4.77
	Inflation Volatility (consumer prices annual %)	11	0.14	6.87	2.19	2.24
Netherlands	Trade Openness (% of GDP)	11	155.42	185.27	164.67	7.92
	Inflation Volatility (consumer prices annual %)	11	-0.23	17.12	4.60	5.83
Hungary	Trade Openness (% of GDP)	11	146.46	179.71	155.94	8.18
	Inflation Volatility (consumer prices annual %)	11	0.32	10.00	2.54	2.69
Poland	Trade Openness (% of GDP)	11	90.78	123.98	102.46	9.82
	Inflation Volatility (consumer prices annual %)	11	-0.87	14.43	3.64	4.97
Romania	Trade Openness (% of GDP)	11	78.06	93.23	84.86	3.85
	Inflation Volatility (consumer prices annual %)	11	-1.54	13.80	4.05	4.56

Source: authors' calculations based on World Bank Open Data

The descriptive statistics for developed and developing countries show significant differences. The Netherlands, among developed economies, ranked at the top for average trade openness (164.67%), recording the highest average inflation of 4.60%. However, Hungary had the highest average trade openness in the developing category at 155.94%. Others, like Romania and Poland, yield lower averages of trade openness (%84.86 and %102.46, respectively), suggesting they have not fully integrated into the global economy. In addition, their mean variation coefficients for inflation volatility are 4.05% for Romania and 3.64% for Poland, which are considerably higher than the world average, suggesting that developing countries are more vulnerable to financial risk than developed countries. developing countries such as France (1.79%) and Germany (2.24%) have comparatively low inflation standard deviations, providing a clearer picture for dealing with future financial shocks and crises.

Correlation Coefficients

The computation of the Pearson correlation coefficient investigates the nature of the relationship between each country's trade openness and inflation volatility.

The findings in Table 3 indicate the strength and statistical significance of the relationships between the variables in the six European countries.

Table 3: Pearson Correlation Coefficients Between Trade Openness and Inflation Rates (2013–2023)

Country	N	Pearson Correlation (r)	p-value	Significance Decision
France	11	0.879	0.000	Significant at 0.01 level
Germany	11	0.875	0.000	Significant at 0.01 level
Netherlands	11	0.864	0.001	Significant at 0.01 level
Hungary	11	0.219	0.519	Not significant
Poland	11	0.887	0.000	Significant at 0.01 level
Romania	11	0.464	0.151	Not significant

Source: authors' calculations using World Bank data

The findings emphasised the positive and significant relationships between the two variables in France, Germany, the Netherlands, and Poland, showing that greater trade openness is associated with higher inflation variability in these countries. Furthermore, Poland has the highest degree of relationship, $r = 0.887$, with a p-value of 0.000 (<0.01 significance level), indicating a very high positive relationship between the two variables. In contrast, the coefficient estimate is weaker and statistically insignificant in Hungary and Romania, suggesting that other economic forces or structures may be driving the influence of trade openness on inflation volatility. Furthermore, in Hungary and Romania, where no statistical significance was found, this may be associated with either structural economic differences, such as reliance on external energy markets, or volatility in national data series. External shocks, primarily the COVID-19 pandemic and post-2020 energy price increases, could also explain why no steady relationship was found. These findings imply that more country-specific studies are needed to clarify the dynamics in these economies.

Linear Regression Analysis

The regression analysis examines the cause-and-effect relationship and the impact of trade openness on financial instability and inflation volatility across the six chosen countries. The findings are illustrated in Table 4, highlighting these relationships' strength, direction, and statistical tests.

Table 4: Regression Analysis Summary

Country	R ²	F (Sig.)	Unstandardized Coefficient B	t-value	p-value	Summary
France	0.773	30.572	0.359	5.529	0.000	Significant positive relationship
Germany	0.766	29.537	0.410	5.435	0.000	Significant positive relationship
Netherlands	0.747	26.519	0.284	5.150	0.001	Significant positive relationship
Hungary	0.048	0.451	0.161	0.672	0.519	No significant relationship
Poland	0.786	33.144	0.449	5.757	0.000	Strongest positive relationship
Romania	0.215	2.466	0.548	1.570	0.151	No significant relationship

Source: authors' calculations using World Bank data

It is evident from the regression analysis results that all developed countries (France, Germany, and the Netherlands) reveal a significant positive relationship between the two variables from R² values of 0.773, 0.766, and 0.747, respectively. On the other hand, two-thirds of the developing countries, mainly Hungary and Romania, showed a weak, non-significant relationship between their R² and p-values. In contrast, Poland has the most substantial and statistically significant relationship, with an R²= 0.786 and an unstandardized coefficient of B = 0.449, indicating that a 1% increase in trade openness predicts a 0.449% increase in inflation volatility.

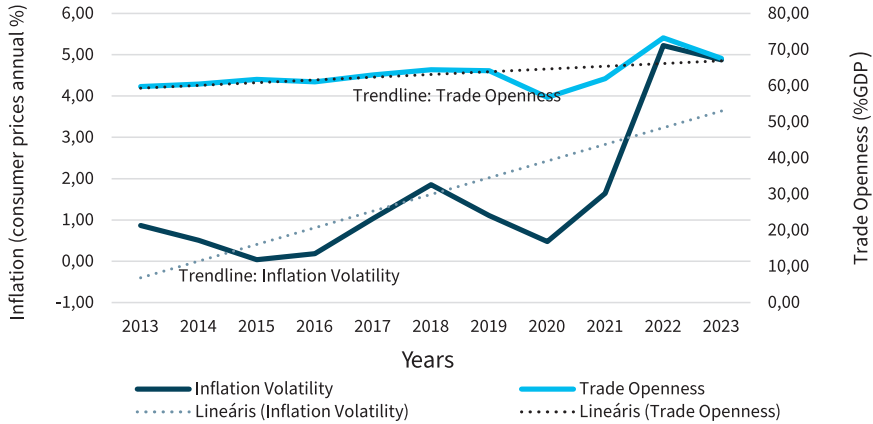
Trends Analysis (2013 to 2023)

This section presents the trend analysis conducted to track the yearly changes and dynamics of two variables across six European countries from 2013 to 2023. Trend analysis aims to identify patterns and anomalies corresponding to our previous statistical findings. The results are presented in Figures 1–6 below.

Developed Countries

► France:

Figure 1: Trends in Trade Openness and Inflation Volatility in France (2013–2023)

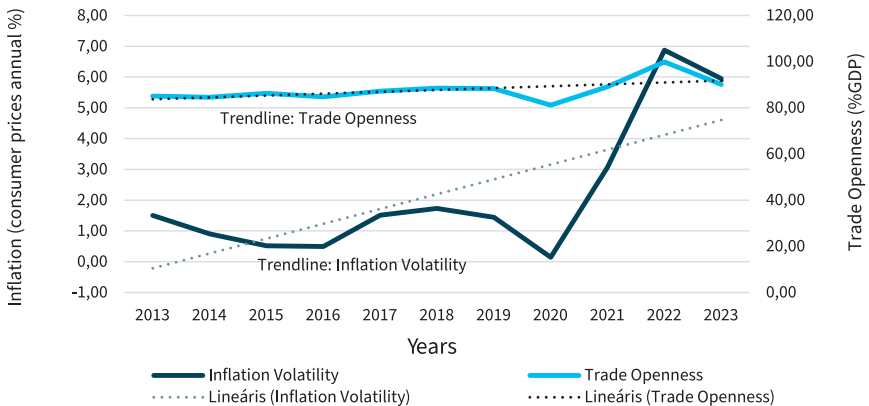


Source: authors' creation

Figure 1 presents trends of trade openness and inflation volatility in France. Trade openness gradually increased over the years, peaking at 73.25% in 2022. However, inflation volatility was relatively stable until 2019, with some fluctuations followed by a sharp increase afterwards to 5.22% in 2022 due to external economic circumstances. Yet both trendlines illustrate a dynamic, evolving relationship between globalisation and financial stability over the years.

► Germany:

Figure 2: Trends in Trade Openness and Inflation Volatility in Germany (2013–2023)

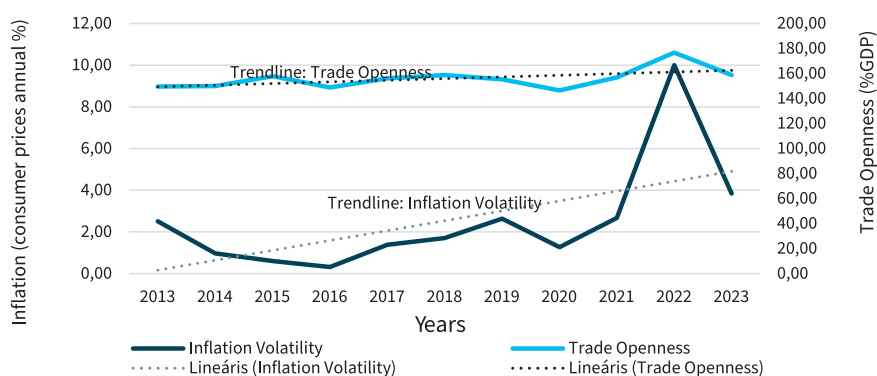


Source: authors' creation

In Germany, trade openness values have shown steady increases, with little fluctuation, ranging between 80 and 90%, and reached their highest value of 99.88% in 2022. However, the inflation rate was relatively low in the first few years, which enhanced financial stability. It tended to increase after 2020, reaching 6.87% in 2022, most likely due to external and domestic economic factors. The trendlines indicate an upward trend in trade openness and inflation volatility over the studied period.

► Netherlands:

Figure 3: Trends in Trade Openness and Inflation Volatility in the Netherlands (2013–2023)



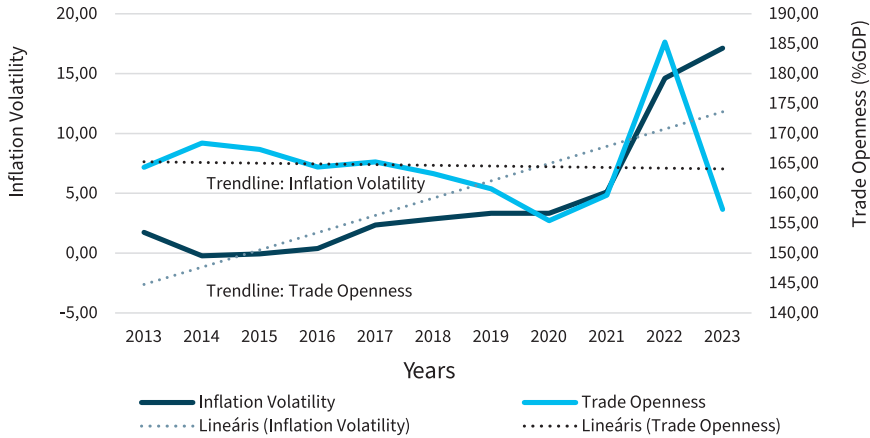
Source: authors' creation

The Netherlands' case here is very similar to Germany's. Generally, the Netherlands' trade openness shows a steady, continuously rising trend during 2013–2023, with a slight drop in 2023 to 158.82% and a peak of 176.61% in 2022. Similarly, inflation volatility was evident in the analysis, especially after 2020, reaching a peak of 10.001% in 2022. So, both trends illustrate, on a linear level, that the two variables are gradually increasing and interdependent.

Developing Countries

► Hungary

Figure 4: Trends in Trade Openness and Inflation Volatility in Hungary (2013–2023)

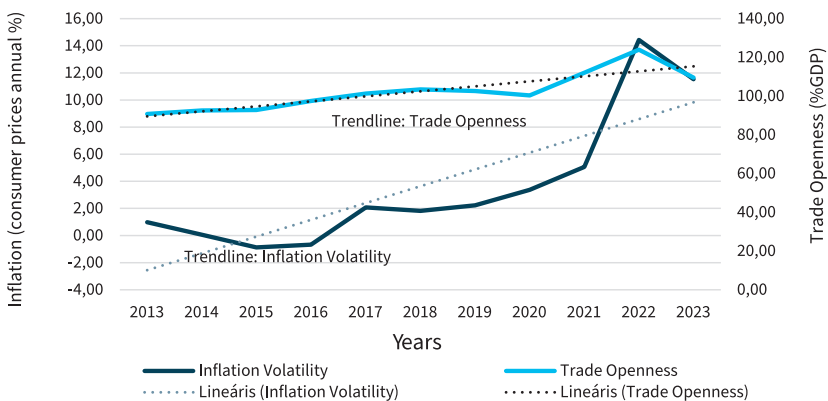


Source: authors' creation

Hungary showed a pattern different from the trend analysis of the three developing countries, in which trade openness and inflation demonstrated higher volatility. Trade openness reached 185.27% in 2022, the highest among all countries, followed by a significant drop in 2023. Inflation volatility follows a similar pattern, fluctuating most during the study period, reaching 17.12% in 2023. The trendlines show that both variables are slowly rising, underscoring the vulnerability of developing economies' finances to global markets.

► Poland:

Figure 5: Trends in Trade Openness and Inflation Volatility in Poland (2013–2023)

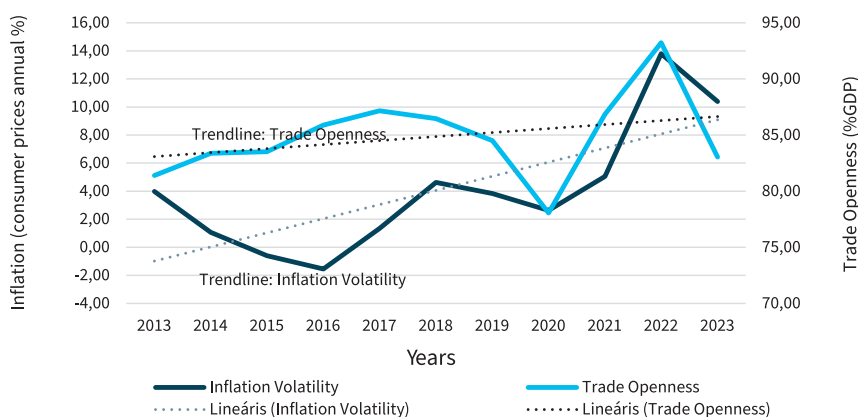


Source: authors' creation

Poland's trade openness level showed an upward trend, with a noticeable rapid increase after 2020 from 100.32% to 123.98% in 2022. However, inflation volatility was relatively less stable, with significant fluctuations peaking at 14.42% in 2022. It highlights the potential economic risks faced by developing countries amid increased global integration. These trend curves are consistent with the other observed positive time trends for both variables.

► Romania:

Figure 6: Trends in Trade Openness and Inflation Volatility in Romania (2013–2023)



Source: authors' creation

In Romania, trade openness averaged 80-90% across all years and rose to 93.23% in 2022, but then decreased slightly to 83.04% in 2023. Primarily, fluctuations in the inflation rate follow the same pattern as in Poland, with considerable rises over the years, reaching a high of 13.79% in 2022, emphasising economic instability. Hence, the trend lines show a continuous rise in the trade openness regime. Still, inflation volatility seems more irregular, thereby underlining the financial difficulties of developing economies aligning with globalisation.

Discussion and Conclusion

This research and previous scholarly works in the existing literature shared a common pathway in determining the nature of the interconnected, complex relationship between ongoing globalisation practices and unstable financial and economic conditions that emerged after the Great Recession of 2008. Specifically, the relationship between trade openness and inflation volatility in six European countries representing two distinct economies of developed countries (France,

Germany, the Netherlands) and developing countries (Hungary, Poland, Romania) between 2013 and 2023 was examined. Consequently, the findings help us draw conclusions about the effects of globalisation on the stability and resilience of financial systems in varying environments. These conclusions are descriptive and exploratory. They should not be generalised to broader claims about financial instability, given the limited scope of variables and the small sample of six countries.

First, one significant and general finding for all the studied countries was the emerging trend of growing trade openness and inflation volatility levels in the last 11 years, emphasizing the nuanced relationship between globalization and financial instability. Mainly, it can be caused by global disturbances such as the COVID-19 pandemic, which disrupted supply and fiscal chains, and the Russian-Ukrainian war in 2022, which, combined with energy price fluctuations and profound changes in countries' import and export levels. These kinds of events have a significant effect on financial stability, regardless of how developed an economy is, underscoring the global financial instability during crises.

However, it is significant to identify the differences between the two groups of countries for which a comparable pattern is observed. Regarding trade openness, the result seemed more stable to inflation volatility, especially among the developed countries. Nonetheless, the Pearson correlation reflects the strength of the overall statistical relationship but does not capture the temporal or causal dynamics seen in the trend analysis. The connection between trade openness and inflation volatility was weaker in developed countries than in developing economies, mainly because developed countries have stronger institutional environments.

Results suggest that trade openness is positively related to inflation volatility in developed countries, with high Pearson coefficients for France ($r=0.879$), Germany ($r=0.875$), and the Netherlands ($r=0.864$), all statistically significant ($p < 0.01$). Moreover, regression analysis supports the findings, as trade openness accounts for 77.3% of the variance in inflation variability in France ($R^2 = 0.773$, $p < 0.01$), whereas it accounts for only 4.8% of the variation in inflation variability in Hungary ($R^2 = 0.048$, $p > 0.05$). These results validated the second hypothesis (H2), suggesting the strength of the correlation between the two variables differs across different economic growth levels.

In addition, some temporal variations were observed across the sample, suggesting that trade openness and inflation volatility evolved between 2013 and 2023. These changes, however, are descriptive patterns rather than the result of a formal hypothesis test. Trade openness in developed countries like Germany and France was relatively stable and reached its peak in 2022, while inflation volatility was moderate and increased due to economic, financial, and political factors. For example, France's inflation rate increased from 1.64% in 2021 to 5.22% in 2022. Trend analysis also revealed that developing economies experience greater fluctuations in trade openness and inflation volatility. For instance, in Hungary in 2022, its trade openness reached 185.27%, accompanied

by an increase in inflation volatility to 17.12% in 2023, suggesting a more direct relationship between globalisation and financial instability in these countries.

Overall, our results are similar to previous scholars' findings about globalisation and financial stability, demonstrating the nuanced and complex relationship between them and validating the first hypothesis (H1). It suggests that the impacts of trade openness on GDP and consumer price inflation vary significantly across countries, depending on their economic structures and levels of integration, emphasising the need for tailored policy responses. Finally, developed economies should implement additional measures and mechanisms to address global shocks, while developing countries should focus on eliminating structural vulnerabilities to enhance financial strength and resilience.

Limitations and Future Developments

Although this research examined a crucial and interconnected phenomenon of globalisation and financial stability, covering two significant variables, the trade openness of GDP % and inflation volatility of consumer prices, certain limitations arose, which we should consider for future research. They include focusing the analysis on only two variables: trade openness and inflation volatility. However, other factors, including foreign direct investment (FDI) and official exchange rates, could explain the effects of globalisation and financial stability much more. Yet, future research can use longitudinal designs or increase sample sizes to include non-European countries and employ more advanced statistical models, such as panel data analysis and time-series models, to improve the reliability of results and investigate causality. ■

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