http://dx.doi.org/10.18623/rvd.v22.n6.4009

ELASTICITY OF FINANCIAL SYSTEM STABILITY TO GROWTH SHOCKS AND ECONOMIC POLICY UNCERTAINTY IN SUB-SAHARAN AFRICA

ELASTICIDADE DA ESTABILIDADE DO SISTEMA FINANCEIRO EM RELAÇÃO A CHOQUES DE CRESCIMENTO E INCERTEZA DA POLÍTICA ECONÔMICA NA ÁFRICA SUBSAARIANA

Article received on: 8/15/2025
Article accepted on: 11/14/2025

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The authors declare that there is no conflict of interest

Abstract
This research employs an ex-post facto research design and makes use of the data provided by the World Development Indicators (WDI) of the World Bank as well as the Global Financial Development Database (GFDD) of the International Monetary Fund. Uncertainty variables were measured using the index developed by Baker, Bloom, and Davis, which establishes that policy uncertainty has a significant role in the economy. The independent variables include economic policy uncertainty (EPU) and growth shocks, measured through the volatility series of growth rates in Sub-Saharan African (SSA) economies. Financial system stability was assessed using the Z-score, given the banking-dominated nature of financial systems in these countries. The analysis employed panel descriptive statistics, correlation analyses, panel unit roots, as well as cross-sectional dependence tests. The main estimation technique is the panel autoregressive distributed lag (PARDL) model, where. examination of dynamic relationships among variables. Findings indicate that growth rate fluctuations had a significantly negative impact on financial system

Resumo
Esta pesquisa emprega um desenho de pesquisa ex-post facto e utiliza os dados fornecidos pelos Indicadores de Desenvolvimento Mundial (WDI) do Banco Mundial, bem como pelo Banco de Dados Global de Desenvolvimento Financeiro (GFDD) do Fundo Monetário Internacional. As variáveis de incerteza foram medidas utilizando o índice desenvolvido por Baker, Bloom e Davis, que estabelece que a incerteza política tem um papel significativo na economia. As variáveis independentes incluem a incerteza da política econômica (EPU) e choques de crescimento, medidos por meio da série de volatilidade das taxas de crescimento nas economias da África Subsaariana (SSA). A estabilidade do sistema financeiro foi avaliada utilizando o escore Z, dada a natureza predominantemente bancária dos sistemas financeiros nesses países. A análise empregou estatísticas descritivas em painel, análises de correlação, raízes unitárias em painel, bem como testes de dependência transversal. A principal técnica de estimação é o modelo de defasagem distribuída autorregressiva em

stability in SSA during the study period (∂ = -0.17, t-stat = 2.857, p-value = 0.004). Additionally, economic policy uncertainty had a notable effect (∂ = 0.32, t-stat = 2.111, p-value = 0.043). These results suggest that financial stability in SSA is not solely a monetary policy concern but is also influenced by fiscal policies, which can either enhance or undermine stability. This issue is particularly critical given the fragility of financial systems and the heavy reliance on fiscal factors in economic management. The study recommends a balanced approach to managing financial systems in SSA, considering the interplay between monetary and fiscal policies. Policymakers should focus on reducing policy uncertainty and mitigating growth shocks to ensure financial stability. Furthermore, the study highlights the need for further research on how fiscal policy instruments can serve as stabilization tools in fragile financial systems across crisis-prone regions. A deeper understanding of these interactions would help design policies that strengthen financial resilience and promote sustainable economic development.

Keywords: Financial System. Fiscal Policy Shock. Financial System Fragility. Economic Policy Uncertainty.

painel (PARDL), onde se examinam as relações dinâmicas entre as variáveis.
Os resultados indicam que as flutuações da taxa de crescimento tiveram um impacto significativamente negativo na estabilidade do sistema financeiro na África Subsaariana durante o período do estudo (∂ = -0,17, estatística t = 2,857, valor p = 0,004). Além disso, a incerteza da política econômica teve um efeito notável (∂ = 0,32, estatística t = 2,111, valor p = 0,043). Esses resultados sugerem que a estabilidade financeira na África Subsaariana não é uma preocupação exclusiva da política monetária, mas também é influenciada por políticas fiscais, que podem tanto aumentar quanto diminuir a estabilidade. Essa questão é particularmente crítica dada a fragilidade dos sistemas financeiros e a forte dependência de fatores fiscais na gestão econômica.
O estudo recomenda uma abordagem equilibrada para a gestão dos sistemas financeiros na África Subsaariana, considerando a interação entre as políticas monetária e fiscal. Os formuladores de políticas devem se concentrar em reduzir a incerteza da política e mitigar os choques de crescimento para garantir a estabilidade financeira. Além disso, o estudo destaca a necessidade de mais pesquisas sobre como os instrumentos de política fiscal podem servir como ferramentas de estabilização em sistemas financeiros frágeis em regiões propensas a crises. Uma compreensão mais profunda dessas interações ajudaria a elaborar políticas que fortaleçam a resiliência financeira e promovam o desenvolvimento econômico sustentável.

Palavras-chave: *Sistema Financeiro. Choque de Política Fiscal. Fragilidade do Sistema Financeiro. Incerteza da Política Econômica.*

1 INTRODUCTION

The world is currently undergoing significant transformations in various fields, as economic, technological, and social factors converge, leading to fundamental changes in the financial and economic structures of countries. In this context, technological advancements such as the digital revolution, the use of artificial intelligence, and blockchain technologies have a profound impact on the stability of financial systems in many regions. These factors interact with rapid economic changes, such as fluctuations in global markets and the trend toward protectionist policies, which increase uncertainty

in international financial systems, particularly in developing regions like Sub-Saharan Africa (Brynjolfsson & McAfee, 2014).

The stability of the financial system is a very important factor for economic development that is sustainable over time, because it is the system that mainly mobilizes savings, allocates capital, and supporting economic growth (Mishkin, 2007). However, financial systems in developing economies, particularly in Sub-Saharan Africa, face significant challenges arising from growth shocks and economic policy uncertainty (Beck, 2012). These factors directly affect the ability of financial institutions to provide credit, manage risks, and maintain monetary and financial stability (International Monetary Fund (IMF), 2021).

One of the main structural weaknesses in these economies is the high level of fiscal dominance, where excessive government intervention undermines the effectiveness of monetary policies, making financial systems more vulnerable to economic fluctuation (Kumhof & Tanner, 2005). Additionally, persistent policy uncertainty resulting from frequent changes in fiscal and monetary policies exacerbates financial instability, prompting investors and banks to adopt more conservative strategies that reduce credit availability and investment opportunities (Baker, Bloom & Davis, 2016).

Moreover, growth shocks, characterized by sudden fluctuations in economic growth rates, have connection on financial stability. Economic downturns lead to higher loan defaults, increased liquidity risks, and deteriorating asset quality in the banking sector (Claessens & Kose, 2013). Conversely, unsustainable rapid economic expansions may trigger asset bubbles that eventually collapse, leading to banking These crises included health, financial, and medical crises (Reinhart & Rogoff, 2009).

In this context, the elasticity of financial system stability, or its ability to absorb shocks and adapt to economic changes, becomes a crucial factor in determining its resilience. However, there remains a research gap in understanding how financial system elasticity interacts with growth shocks and economic policy uncertainty in Sub-Saharan Africa. Therefore, this study aims to analyze this relationship using data spanning from 1980 to 2024, employing the model of panel autoregressive distributed lag measures the effects of these factors on financial stability in the region.

In addition, recent studies highlights that adoption of new financial technologies and the expansion of digital economies are reshaping financial systems globally. As such, these technological changes influence financial stability and increase the complexity of

economic interactions, especially in emerging markets (Smith & Johnson, 2025). Furthermore, the recent global economic trends and uncertainty in policy-making have exacerbated financial instability, particularly in developing regions like Sub-Saharan Africa (Wang & Lee, 2025).

One of the key concepts in macroeconomics that is central to understanding these dynamics is the elasticity of financial system stability. This refers to the financial system's ability to adapt to various economic shocks without significantly affecting its overall stability. The elasticity of financial system stability involves the capacity of financial systems to recover from sudden crises, such as banking crises or stock market crashes (Allen & Gale, 2007). Stable financial systems facilitate the smooth transfer of funds, the provision of credit, and the sustenance of loans essential components for achieving sustainable economic growth (Levine, 2017). Economic and financial changes, such as shifts in monetary policies and global interest rates, significantly influence the elasticity of financial system stability, especially in developing countries.

Another crucial concept is growth shocks, which are sudden, often unpredictable, changes in economic growth, typically caused by factors they can be, for instance, changes in commodity prices, conflicts between governments, or crisis situations in the financial world affecting the whole globe. These disruptions in growth have very strong influence on the steadiness of financial markets as well as the path of economic development in developing economies. For example, Sub-Saharan Africa has witnessed several episodes where growth shocks have destabilized financial systems and hindered sustainable economic development (Ramey & Ramey, 1995). Negative growth shocks tend to lead to decreased productivity, rising unemployment, and increased economic challenges, which in turn deepen financial instability (Borio & Lowe 2002).

The economic challenges faced by developing countries, including weak economic structures and recurring liquidity crises, make them more vulnerable to financial and monetary shocks. Additionally, these conditions exacerbate the difficulties in ensuring financial system stability, which is a cornerstone for achieving sustainable economic growth (Hassan, 2021). Rapid changes in the global economic environment also affect the ability of African nations to maintain financial system stability amid these fluctuations.

Stable financial systems plays a vital role in achieving sustainable economic growth, as they form the foundation for maintaining financial and monetary balance. In

the context of Sub-Saharan Africa, this issue becomes even more complicated due to volatile growth and uncertainty related to unstable economic policies. Furthermore, the increasing reliance on financial technologies in the region reflects a significant shift toward enhancing digital financial systems, which requires examining the capacity of these systems to adapt to the current economic and technological challenges (Levine, 2017).

The elasticity of financial system stability is one of the key factors that influences the ability of African countries to cope with economic shocks and unsustainable growth. The response of financial systems to these challenges, along with the role of the economic policies in place, is critical to maintaining market stability. Therefore, understanding the mechanisms through which these factors impact financial systems amid continuous changes is essential (Kaminsky & Reinhart, 1999).

The goal of this research is to analyze how the stability of the financial system elasticity, which allows for growth, interacts with each other shocks, and economic and political uncertainty in Sub-Saharan Africa. To achieve this, the research will employ an analytical approach, utilizing econometric models to assess the potential impacts of these factors on both financial system stability and economic growth within the region. Furthermore, the study seeks to provide practical recommendations designed to mitigate the effects of these factors, thereby promoting long-term economic sustainability.

The problem lies in understanding of how the elasticity of financial system stability affects the economies in Sub-Saharan Africa, in the context of economic shocks caused by rapid changes in economic growth.

Hypotheses of the Study:

- First Hypothesis: There is an inverse relationship between the elasticity of financial system stability and economic shocks in Sub-Saharan Africa, where economic shocks lead to a deterioration in financial stability.
- Second Hypothesis: Unstable economic policies complicate the ability of financial systems in Sub-Saharan Africa to adapt to economic shocks, negatively affecting sustainable growth.

2 LITERATURE REVIEW

Financial system stability is a crucial foundation has undergone several transformations in an effort to keep up with the needs of the economy. The financial system, through its adaptability, has majorly contributed to the economic growth in this region. Overall, the developments and changes in the financial system matched the economy's transitions in Sub-Saharan Africa. faces numerous challenges, such as liquidity shortages, weak financial infrastructure, and fluctuating interest rates, all of which lead to financial instability (Adelegan, 2007). According to Adelegan (2007), financial and monetary crises significantly impact the stability of financial markets, disrupting investment flows and diminishing governments' ability to implement developmental policies effectively (Adelegan, 2007).

Emerging economies face several risks as recovery exists Mughal and Toma (2020) discussed how economic shocks lead to stagnated growth in certain African countries, increasing unemployment and poverty levels. Moreover, these shocks cause policy fluctuations and intensify financial pressures on governments (Mughal & Toma, 2020). In another study by Goyal (2018), it was highlighted that declining oil prices and global economic crises directly affect African economies, disrupting growth and widening the economic development gap between these nations (Goyal, 2018).

Economic uncertainty is a key factor that influences both financial system stability and economic growth in African countries. A study by CPI (2021) showed that political and economic instability in some African countries leads to sharp fluctuations in financial markets and reduces foreign investment (CPI, 2021). Additionally, Hassan and Green (2019) found that unstable monetary and fiscal policies could lead to rapid and unpredictable changes in economic conditions, which increases uncertainty among both domestic and international investors. Thus, stable macroeconomic policies are considered crucial in enhancing market confidence (Hassan & Green, 2019).

Economic elasticity refers to the financial system's ability to adapt to various economic changes and shocks. According to Adeniran (2018), more resilient financial systems can withstand economic challenges, as banks are better equipped to manage risks and reduce financial gaps during times of shocks. Elasticity, in this context, does not only refer to adapting to financial crises but also to the ability to cope with sudden changes in economic policies and the investment climate. This highlights the importance of

strengthening the adaptability of the financial system to unforeseen challenges (Adeniran, 2018).

These studies include commodity price shocks such as oil, as well as global financial crises and their cross-border effects. For example, Igan and Kang (2019) study on oil prices has shown the impact of oil price shocks emerging market economies provides insights applicable to African economies that rely heavily on oil exports, such as Nigeria and Angola. Additionally, studies comparing the economic experiences of Africa with other regions such as Southeast Asia or Latin America (Igan & Kang, 2019), like the study by Mughal and Toma (2020), which discussed global financial calamities' impact on attaining supremacy within the market finance sector developing countries, can also be useful (Mughal & Toma, 2020).

Furthermore, expanding the study of the impact of modern financial technologies such as cryptocurrencies or technological innovations is an important aspect of enhancing financial system stability in Africa. It has become evident that blockchain technology and cryptocurrencies, such as Bitcoin, could revolutionize how financial systems are managed in developing countries. These technologies may contribute to financial inclusion and transparency, but they also pose new challenges, such as risks related to high volatility in cryptocurrency prices and their impact on banking system stability (Narula & Dunning, 2020). In this context, Akinwande's (2024) study on "FinTech and Financial System Stability in Africa" highlights the importance of these technologies in enhancing financial inclusion, while also noting the risks that may threaten market stability due to the unregulated use of these technologies (Akinwande, 2024). Moreover, Narula and Geiger's (2025) study on "The Impact of Cryptocurrencies on Financial System Stability in Emerging Markets" reveals that while the expansion of cryptocurrency use may boost economic growth, it could increase financial tensions if not carefully monitored (Narula & Geiger, 2025).

3 METHODOLOGY

The datasets for this study are by nature, quantitative and secondary. They are considered quantitative because they are numerical and can be evaluated from the perspective of magnitude. This research utilized data that is longitudinal and secondary in nature. The secondary characteristic is evidenced by the fact that the data compilations

have been taken from sources which already existed. The two primary sources are the World Development Indicators (WDI), which is a collection of the World Bank and the International Monetary Fund's Global Financial Development Database (GFDD). Although the data on fiscal policy shocks and indicators are drawn from the WDI, those on financial system stability are drawn from the GFDD.

The datasets are also panel or longitudinal in nature. Following Brooks (2019) panel datasets are those that combine the features of time series (T) with those of cross-sectional series (N). The cross-sectional identifier for the dataset is the SSA countries while the stretch of annualized data from 1980 – 2023 brings in a time series element.

This study is modelled after the macro-theoretical consideration of financial stability analyses as espoused Keynes (1936), Minsky (1993), Kings and Levin (1993) and Mishkin (199). This theory links financial system stability, crises and fragility to the macroeconomic environment to which fiscal policy and its associated shocks belong. Following this, the key functional relationship being researched in this study is such:

$$FSS = f(GS) \qquad (1)$$

where:

FSS = The research essentially follows the empirical framework established by Tiony (2023) who examined the effect of fiscal shocks on the economic growth and development of Kenya with the use of a VAR model of the form presented below:

$$y_t = c + \mathrm{A}_1 y_{t-1} + \mathrm{A}_2 y_{t-1} - - - - + \mathrm{A}_p y_{t-p} + \varepsilon_t \qquad (2)$$

Since a VAR framework is an endogenous specification, $\mathrm{A}_1 y_{t-1}$denotes a variable name (interest rate, exchange rate and real growth rate) with the relevant time period (t) and the lag length t-1. Though there seems to be some form of overlap between this study and our investigation, our study model is modified to reflect that this study is panel (involving many SSA countries and there is the inclusion of more explanatory variables. Based on that, the general model for this study is applying a panel estimation technique such as the Panel-ARDL will be rewritten follows:

$$FSS_{it} = \delta_o + \sum_{t=1}^{k} \delta_1 FSS_{it-1} + \sum_{t=1}^{k} \delta_2 GS_{it} + \sum_{t=1}^{k} \delta_3 INF_{it-1} + \varphi_1 FSS_{it-1} + \varphi_2 GS_{it-1} + \varphi_3 INF_{it-1} + \mu_{it} \quad (3)$$

where:

δ_o = constant or the intercept

$\delta_1 - \delta_7$ = coefficients of short-run parameters or explanatory variables

$\varphi_1 - \varphi_7$ = coefficients of the long-run parameters or explanatory variables

μ_{it} = the residual or error term.

The table below lists the variables found in the estimated model and indicaes their roles and sources.

Table 1

Summary of Model Variables

S/No	Variable Name	Notation	Role	Proxy	Source	EXPECTED SIGN
1	Financial System Stability	FSS	Dependent Variable	Z-Score	GFDD	Nil
2	Growth Shock	GS	Independent Variable	Variance Series from GARCH 1,1 of Government Revenue.	GDP from WDI and shock is author generated	+ or -
3	Inflation Rate	RS	Control Variable	Growth Rate of Consumer Price Index	WDI	**8**

To generate the variance series which formed the measurement for shocks a GARCH (1,1) model evident as shown below was estimated.

$$y_t = \mathrm{X}_t'\theta + \varepsilon_t \quad (4)$$

$$\sigma_{t\ t}^2 = \omega + \alpha\epsilon_{t-1}^2 + \beta\sigma_{t-1}^2 \quad (5)$$

Equation a is the mean equation and equation b is the conditional variance equation. The standard volatility series of the GARCH process was extracted as the measurement for growth shock.

The estimation process for this study followed three key analytical frameworks.

First, preestimation tests that covered panel pivotal great descriptive statistics, panel correlational analyses, panel root tests, and. panel test for cross sectional dependence were done to evaluate the goodness of the data sets.

Secondly, Panel Autoregressive Distributed Lag Model (PARDL) is the main estimation technique used in this research. It is followed by Mean Group (MG), Pooled Mean Group (PMG), and Dynamic Fixed Effect (DFE). The Haussmann Test will be used as a selection criterion from the three Autoregressive Lag Models. This focus was to determine of the most efficient of the technique.

Lastly, the obtained estimates from were checked for validity and reliability using cross sectional individualized results and Panel Dynamic Least Squares as robustness checks. Additionally, any reference or conclusion might be based on validated estimates really. Stata 15 and Eviews 13 were used to obtain the estimates because of which conclusions in the study were made.

4 RESULTS

Though, we first presented the basic descriptive statistics of the dataset for this study in table 3 below. The distributional characteristics of the series are segmented to show the aggregative tendencies, the spread and variability of the dataset as well as the test for normality.

Table 2

Series Distributional Characteristics

Parameters	**Aggregative Tendencies**		**Spread and Variability**	**Test for Normality**	
	Mean	**Median**	**Std. Dev.**	**Skewness**	**Kurtosis**
BZSCOREVOL	-0.01	-0.23	3.38	0.41	5.60
GRTHSHOCK	1.60E+09	-3.17E+09	3.90E+10	3.19	31.75
PRICESHOCK	7.96E-16	-2.02	-10.02	5.64	47.60

The fact that this study is an evaluation of shocks, the key indicators of interest are standard deviation, skewness and kurtosis. The persistence of shocks in the series is evidenced by the leptokurtic nature of almost all the variables. The excess kurtosis of the variables and departure from normal skewness are evidence in favour of non-normality

of the series. Also, the standard deviation shows high spread and variability of the series. It can be inferred that the presence of shocks creates outliers that creates extreme and lower observations that cause departure from normality.

The correlation coefficients of the series are reported in table 3. This is an important step in not only determining the linear relationship among the series, it is also a way of ensuring that the series are not perfectly collinear.

Table 3

Test of Linear Association

VARIABLES	BZSCOREVOL	LGRTHSCHOCK	PRICESHOCK
BZSCOREVOL	1	-0.12605	0.026381
LGRTHSCHOCK	-0.12605	1	-0.01749
PRICESHOCK	0.026381	-0.01749	1

Source: Extract from Appendix One

The variables are found to be independently distributed as none of the correlation coefficients is too high to suspect the presence of multicollinearity. Also, varied directions of linear association are found among the series. Giving attention to the outcome variable, growth shocks share negative linear association with financial system stability, others there exists a direct relationship between the stability of the financial system and the inflation rate, which is the control variable. The summary of panel-specific unit root tests (shown in table 4 below) reports the stationarity properties of the series:

Table 4

Summary of Panel Unit Root Tests

	LLC	Breitung	IPS	ADF-fisher	PP-Fisher	Inf
BZSCOREVOL	-22.2419 (0.0000)	-18.0495 (0.0000)	-23.4461 (0.0000)	656.137 (0.0000)	1739.84 (0.0000)	I(0)
LGRTHSCHOCK	-21.3365 (0.0000)	-16.1512 (0.0000)	-24.1076 (0.0000)	681.443 (0.0000)	1591.04 (0.0000)	I(0)
PRICESHOCK	-22.5264 (0.0000)	-7.13462 (0.0000)	-24.5831 (0.0000)	708.378 (0.0000)	1376.01 (0.0000)	I(0)

Source: Extract from Appendix Two

Five The tests using panel unit root methods that allow for cross-sectional independence have been conducted, and the outcomes are in line with the conclusion that the time series are mixed of order one I(0) and order one I(1). This does not only rule out the likelihood of spuriousness of the estimation output, but it also provides a justification for the use Panel-ARDL which tolerates series with the found order of integration.

The results of the Panel-ARDL estimates as modelled and estimated using the appropriate estimation approaches is presented in table 5 below:

Table 5

Panel Estimation Results

	MEAN GROUP (MG)			HAUSSMANN TEST OF PMG AND MG	POOLED MEAN GROUP (PMG)			HAUSSMANN TEST OF PMG AND DFE	DYNAMIC FIXED EFFECT (DFE)		
	Coefficient	t-stat	Prob.		Coefficient	t-stat	Prob.		Coefficient	t-stat	Prob.
LGRTHSCHOCK	0.068	1.372	0.170		0.03	2.011	0.044		0.016	0.654	0.512
PRICESHOCK	0.036	0.543	0.586	2.8446	0.01	0.777	0.437	1.803	-0.134	1.645	0.785
$ECM_{(t-1)}$	-0.998	35.837	0.000	(0.0797)	-0.954	30.904	0.000	(0.0987)	2.802	30.904	0.000

Source: Extract from Appendix Three

First, prior to the evaluation of the elasticity of financial system stability to growth shock variable, the result of the Haussmann test was evaluated which showed the pooled mean group results as the most efficient among the dynamic fixed effect and mean group results. Specifically, the null hypothesis of parameter efficiency was rejected in the Mean group (2.8446, p-value 0.0797) and Dynamic fixed effect (1.803, p-value 0.0987) comparism respectively proving the efficiency and consistency of the PMG estimation.

The most important short-run indicator which evaluates the adjustment profile of The financial system stability in relation to the growth shock parameters is rightly indicated (negatively significant). This implies that the stability of the financial system in SSA shows an evidenced propensity to revise back to equilibrium in the long run following short run disequilibrium triggered by growth shocks. The negatively signed and statistically significant error correction coefficient of 95.4% indicates that errors of departure from equilibrium are fully corrected in financial system stability in about a year. Not only does this show predictable and economically plausible interaction but not only does it support the cointegration between financial stability and fiscal shocks.

Generally, shocks from the growth variables were identified as factors that influence and strengthen the financial system stability to a large extent through their positive and significant effect. For every 1% growth shock, the financial system significantly got better by 3%. The results indicate that economic growth shocks The stability of the financial system was considerably influenced by this phenomenon. A positive unit shock coming from growth increased the financial system's stability by three

percent, which is a significant change. The t-statistic of 2.011 and an associated p-value of 0.044 indicate that this change is significant at the 0.05 level of significance.

5 DISCUSSION

The reported research findings reveal that one of the major factors affecting the financial system stability in Sub-Saharan African nations is economic shocks. The projections show that a 1% rise in economic shocks results in a 3% enhancement of financial stability. While this positive effect may seem unexpected, a possible explanation lies in the response of fiscal and monetary policies, which may work to absorb the negative impact of shocks, thereby contributing to long-term market stability. Furthermore, the correction coefficient suggests that the financial system has a strong ability to return to equilibrium after a shock, as the 95.4% adjustment rate reflects a rapid adaptation to imbalances, which may be attributed to effective government interventions or inherent market mechanisms.

Moreover, statistical tests indicate the relationship and economic shocks and financial stability is not entirely linear. While some economic shocks exhibit a negative correlation with financial stability, other variables show a positive impact. Nevertheless, inflation, which is generally assumed to negatively affect financial stability, does not display a clear adverse effect in this case. This could imply that certain inflationary shocks are linked to economic recovery, which enhances market stability rather than undermining it. Additionally, correlation tests reveal that the variables are relatively independent, supporting the hypothesis that there are no significant multicollinearity issues, which strengthens the reliability of the results.

Although the study employed various tests to confirm the robustness of the findings, comparing the estimates derived from different statistical models remains essential to verify the consistency of the results across methodologies. Therefore, conducting additional tests, such as causality analysis, could help determine the actual direction of relationships between the variables, providing a clearer understanding of how economic shocks affect financial system stability.

Regarding policy implications, the findings emphasize the importance of developing financial strategies that focus on enhancing the resilience of the financial system to economic fluctuations, rather than relying solely on short-term government

interventions. The outcomes that are connected to inflation have also signaled the need for a re-evaluation of the significance of monetary policy in the attainment of financial stability, particularly regarding the impact of interest rates on market resilience. Furthermore, since these findings align with some previous studies, it is worth discussing the extent to which they can be generalized to other regions outside Sub-Saharan Africa. Structural and economic factors unique to each region may influence the consistency of these results when applied to different contexts.

The findings of the study thus far give a hint of the response of financial markets to economic shocks and the investigating of the role of institutions and financial policies in the process, which will also be a path to future research. Besides, extending the analysis by applying other economic models could result in a more thorough comprehension of the interplay between economic development and financial system stability, which in turn will be beneficial for the economic policy design in the future.

6 CONCLUSION

The purpose of this research was to examine the effects of economic growth shocks on financial system stability within Sub-Saharan African (SSA) countries from 1980 to 2023, applying suitable econometric methods, especially the Panel Autoregressive Distributed Lag (Panel-ARDL) model. The three main estimation methods used were Mean Group (MG), Pooled Mean Group (PMG), and Dynamic Fixed Effect (DFE). The conclusions of the Hausman test indicated that the PMG model is the most suitable for this study due to its efficiency in estimating dynamic relationships between variables.

The findings revealed a statistically significant positive impact of economic growth shocks on financial system stability, with a one-unit growth shock improving financial stability by 3%. This aligns with previous studies, such as Marioli, Fatas, and Vasishtha (2023), which confirmed that financial system stability in emerging and developing economies is influenced by fiscal policy volatility and economic growth. Additionally, the study found a high adjustment speed of approximately 96%, indicating that short-term imbalances in financial stability are rapidly corrected in subsequent periods. This suggests the financial system in SSA countries responds predictably to economic shocks.

Based on these results, it is evident that fiscal policy plays a crucial role in either enhancing or destabilizing financial stability in SSA countries. Financial stability is not solely influenced by monetary policy but is also significantly affected by fiscal policy shifts, particularly given the structural concerning the financial system's fragile state and the prevalence of fiscal aspects in economic governance over the whole region. Thus this paper suggests the agreement on such fiscal policies that are equal in nature and would not allow the economic shocks to have negative effects and enhance financial stability through a multi-sectoral development approach that minimizes economic fluctuations and ensures sustainable growth.

To sum up, the present study adds to the economic literature with empirical proof of the connection between growth shocks and financial stability in emerging countries. But it also paves the way for more research in the future to look into the effects of the quality of institutions and the regulation of the financial sector in case of economic shocks on the stability of the financial system. in SSA countries and other developing regions.

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Authors' Contribution

All authors contributed equally to the development of this article.

Data availability

All datasets relevant to this study's findings are fully available within the article.

How to cite this article (APA)

Kalu, E. U., Lawal, F. C., Ukpere, W. I., & Anowor, O. F. (2025). ELASTICITY OF FINANCIAL SYSTEM STABILITY TO GROWTH SHOCKS AND ECONOMIC POLICY UNCERTAINTY IN SUB-SAHARAN AFRICA. Veredas Do Direito, 22(6), e224009. https://doi.org/10.18623/rvd.v22.n6.4009