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THEORETICAL FOUNDATIONS OF THE CONCEPT OF "FINANCIAL STABILITY"

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Abstract:
This article examines the methodological foundations for justifying the term "stability" and highlights its distinctive features compared to other related terms such as "sustainability", "security", and others. By relying on the views of economists with substantial expertise in this field, the author establishes his own perspective on the problem under study.

Keywords: Stability, sustainability, development, financial activity, financial leverage, financial instrument, financial condition, financial sector.

INTRODUCTION.

In the system of ensuring financial stability, the economic component namely, financial resources—plays a crucial role. The term *"finance"* (from the French *les finances*) originally referred to "the entire state wealth of government administration."

The Great Depression of the late 1920s and early 1930s compelled governments of many countries to develop a new quality of financial and fiscal policy, which served as a special method of stabilizing the economy at the macro level. Since then, the priority role of finance as *"state wealth"* has steadily increased.

At the same time, capital, which had previously been of a private nature comparable to financial capital, transformed from a mediator serving the reproduction process into its key link, exerting influence on the very mechanism that had generated it.

Confusion has prevailed in studies devoted to financial stability, primarily because some authors understood the term *"finance"* in its original sense, *"state wealth and the condition of government administration"*, which, before the transition to a market economy, was managed through a centralized, hierarchically organized administrative system.

LITERATURE REVIEW.

In contemporary scholarly works, the category of *finance* is presented as the financial component of the economic system: *"Given the dominant position of the financial component in the modern economy, we are entitled to characterize the latter as an economy fundamentally governed in financial terms—through financial mechanisms, by means of financial levers, financial incentives, and for financial purposes"* (Kozyrin & Yalbulganov, 1998).

The evolution of perspectives on the essential content of the concept of *"financial stability"* is presented in Table 1.

Table 1.
The Evolution of Perspectives on the Essential Content of the Concept of "Financial Stability" (Vovchenko, 2006)

Author	Definition
John Chant, Special Advisor to the Bank of Canada	Financial stability is a situation in financial markets that harms or threatens economic activity; thus, financial stability represents the opposite.
Andrew Crockett, Head of the Financial Stability Forum	Financial stability is the absence of instability—a situation in which economic activity is negatively affected by fluctuations in financial asset prices or the inability of financial institutions to meet their obligations.
Deutsche Bundesbank	Financial stability describes a sustainable state in which the financial system effectively performs its key economic functions, such as resource allocation, risk reduction, and the execution of payments.
Michael Foot, UK Financial Services Authority	Financial stability is defined by: (a) monetary stability; (b) an employment level close to the natural rate of employment in the economy; (c) confidence of market participants in financial institutions and markets; (d) the absence of excessive fluctuations in the prices of real or financial assets.

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Wim Duisenberg, President of the European Central Bank	Financial stability means the smooth functioning of the key elements that make up the financial system.
Roger Ferguson Jr., Member of the Board of Governors, U.S. Federal Reserve System	Financial stability is best defined through its opposite—financial instability. For central banks and other authorities, financial instability involves market failures or externalities that adversely affect real economic activity. It is characterized by three criteria: (1) key financial asset prices that deviate sharply from fundamental values and/or disruptions in securities markets and access to credit domestically and internationally; (2) aggregate expenditures that deviate significantly… *(text continues)*

Any definition of the stability of the financial system is based on the concepts of trust in a country's financial institutions, as well as their resilience and liquidity (Vovchenko, 2006). The presence of the trust factor within the economic system is an essential component of stable interaction between financial structures and the population. The trust of financial market participants, which ensures the proper functioning of the financial sector, represents a particular manifestation of the accumulated institutional trust within society. At the same time, the financial sphere itself becomes either a domain for the consolidation of expectations of stability and confidence in the future, or, conversely, a sphere in which trust in institutions is actively undermined and the foundations of social interaction are eroded. Reliability and trust have thus become the dominant criteria in the choice of financial services (Ryndina, 2008).

Thus, the financial system is considered stable when there is an effective allocation of economic resources, the distribution of financial risks, their assessment, and their management (Shinasi, 2005). In this definition, Schinasi (2005) highlights a particular aspect of achieving financial stability—namely, the assessment and management of risks.

ANALYSIS AND RESULTS.

Unlike "public finances," the economic system represents a self-organizing structure to which the notion of "security as a state" is not entirely applicable. It functions according to the laws of synergetics, operating in a cycle of "external challenge – system response – new challenge," where stability reflects a form of dynamic equilibrium. This equilibrium indicates the absence of threats, a high degree of resilience, and the overall robustness of the system.

Thus, on the one hand, the financial component of economic stability is understood as an economic category designed to demonstrate the state of a country's macroeconomic balance (Osipov, 2000):

- The concept encompasses a set of measures, methods, and instruments aimed at safeguarding the economic interests of the state at the macro level, as well as those of corporate structures and the financial activities of enterprises. At the macroeconomic level, financial stability refers to the state's ability to adequately respond to internal and external adverse financial shocks during extraordinary circumstances. Financial stability reflects the condition and preparedness of the national financial system to provide timely and reliable financial support for economic needs in amounts sufficient to maintain the required level of the country's economic stability. Financial stability is achieved through activities not only in the financial sector but also in closely related areas such as monetary and credit policy, economic and social policy, and international financial relations. The key objectives of ensuring stability, both for the state and for corporations, include identifying the factors affecting financial and production activities, their formalization, and building a system of constraints that eliminates both unintentional and deliberate adverse influences. The creation of a financial stability system is a heuristic process, involving the resolution of complex tasks that require the participation of highly qualified professionals across various fields (Financial Encyclopedia 1979);
- a set of activities aimed at ensuring the highest possible level of solvency and liquidity of current assets, optimizing the personnel structure across all sectors, improving the quality of planning and implementation of the financial and economic activities of economic entities in all areas of strategic and operational planning, as well as managing technological, intellectual, and human resources, together

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with fixed and current assets, in order to maximize profits and increase the level of business profitability (Dementyev, 2004);

- Financial stability, which is associated with ensuring such a development of the financial system, financial relations, and processes in the economy that create the necessary conditions for the socio-economic and financial stability of the country's development, the preservation of the integrity and unity of the financial system, and the successful overcoming of internal and external threats in the financial sphere. In this regard, one of the most important aspects of ensuring the financial stability of the state is the condition of its financial system, which, along with the monetary, credit, and banking sectors and the securities market, also includes the fiscal and tax system (Meleshev, 2008);
- A kind of "litmus test" that reflects the overall state of stability in society. Depending on the circumstances, crisis phenomena in a particular sphere or at a specific stage of the reproduction cycle manifest themselves in various forms and affect different areas of finance in different ways: the stock market, the banking system, public finance, the exchange rate, rising prices for various types of goods, and so on. (Maltseva, 2006);
- A state of the financial and banking system in which the government is able, within certain limits, to guarantee the general economic conditions necessary for the functioning of public institutions of authority and market institutions (Senchagov, 2002);
- Ensuring such a development of the financial system, as well as financial relations and processes within the economy, that creates the necessary financial conditions for the country's socio-economic and financial stability, preserves the integrity and unity of the financial system (including the monetary, budgetary, credit, tax, and currency systems), and enables the successful overcoming of internal and external threats in the financial sphere (*Economic Security of Russia. General Course.* 2005; Novikov, 2001).
- • A state of the financial system in which its institutions and instruments create the necessary conditions for the dynamic development of the economy, the inflow of financial resources and the normal circulation of monetary flows, as well as the neutralization of negative impacts of global financial markets on the country's economic system. Financial security is part of the overall system of economic security, but its level is assessed through indicators specific only to it (Danilov, 2008);
- Ensuring the stability (resilience) of the monetary and financial systems of individual countries and their regional associations in relation to external threats (Kruglov, 2007).
- On the other hand, financial stability is understood as the ability of a self-organizing financial system to maintain its resilience (stability of key parameters) under the influence of challenges from the external environment (in relation to the given system):
- the balance of internal and external conditions of the financial system's existence, which enables it to realize the interests of current and future development, is the main property that determines the security of such a system;
- a dynamic state of financial relations and processes in which acceptable conditions and necessary resources are created for expanded reproduction, economic growth, and the improvement of public welfare, as well as for the stability, integrity, and unity of the financial system (including the budgetary, tax, monetary, credit, and currency systems), ensuring successful resistance to internal and external factors that destabilize the financial situation of the country (Konstantinov, 2005).

A highly developed economy does not in itself provide unconditional insurance against various types of threats; on the contrary, this stage of development gives rise to new problems, new challenges, and new threats to the secure and sustainable development of the economy and society (Maltseva, 2006). Each resolved problem leads to the emergence of new challenges, often more significant and complex than the previous ones (Abalkin, 2001). It is impossible to prevent all financial problems. It is unrealistic to expect that the financial system will never experience instability and will respond seamlessly to emerging threats; moreover, from the perspective of fundamental economic theory, such a state of affairs is not even desirable (Podkuiko, 2007).

CONCLUSION AND FINDINGS

A financially stable system is one in which shocks that arise or propagate within the financial system—whether associated with endogenous or exogenous causal

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factors—do not significantly alter the optimal savings and investment plans of either the state or private entrepreneurs. Financial resilience, in turn, refers to the ability of an organization to meet its key obligations while maintaining sufficient own capital to fully cover all unsecured liabilities, taking into account the constantly changing conditions of the market environment (Belotelova, 2007).

Financial stability does not imply that all elements of the financial system must operate with maximum efficiency. A stable financial system should possess the capacity to contain and correct imbalances through self-adjustment mechanisms before they escalate into a crisis (Shinasi, 2005). Since the financial system exists in a state of constant dynamics and transformation, financial stability should be viewed as a continuum, encompassing a wide range of indicators that serve as quantitative characteristics of the system's stability.

Thus, when considering financial security as an economic category, two distinct approaches to understanding the term can be identified, with the division lying in how the very notion of "finance" is interpreted.

Financial security in the "narrow sense" refers to the state of protection of macroeconomic balance, primarily associated with the execution of the state budget. Within this approach, nearly all market processes in the economy are regarded as potential threats.

Financial security in the "broad sense" denotes the ability of the state's financial system—which includes all financial institutions, both public and market-based—to maintain its resilience (the stability of key indicators) under the influence of external challenges to the system, which are conceptualized as risks

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