

The Financial Turbulence in the Economy: Case of Ukraine

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Abstract

The article analyzes the causes and consequences of violation of financial stability. The famous historical examples of inflationary bursts emerging have been showed, as well as ways of establishing financial equilibrium. In particular, the article states that the main cause of violations of financial stability becomes inflationary boom, which arose by wars, socio-economic and political contradictions. The paper examines the impact of modern social and economic challenges on growth in inflation and on the deterioration of other macroeconomic indicators in Ukraine. At the end, recommendations to overcome financial problems in national economy have been provided. The importance of the exchange rate stability of currency has been emphasized.

Keywords: financial stability, market economy, banks, inflation, institutional reforms, European integration.

Introduction

Nowadays Ukraine is in a difficult historical period of reformation socioeconomic and geopolitical relations. In this regard the circumstances have developed, under which our country has to properly

address current global challenges. This caused changes in social and political course, and therefore disrupted balance of the state institutional basis; specifically it caused financial instability, disclosed contradictions in the current legal background that regulates business instruments for cooperation and institutional incompliance with the economic reality, wherein the implementation of European principles and public administration methods take place.

Methodology and Purpose of the study

Theoretic background includes fundamental conditions of economic and institutional theories, research papers of national and foreign scientists related to the issue. The methodological framework consists of general scientific methods such as analysis and synthesis, comparison, historical method etc. In particular, both the examination of core of the financial stability, main causes and consequences of its violation, and provision of practice advises on overcoming of financial problems of the national economy were based on the historical method.

The purpose of the article is to analyze financial stability on the basis of examination of historical retrospectives and current Ukrainian realities.

Literature review

Institutional theory has recently being used in the sphere of economic researches. Basis of its methodology was provided in research papers of T. Veblen (1970), J. Clark (1908), J. Commons (1961), V. Mitchell (1949) and others, and soon it was developed with theoretical advances of neo-constitutionalists R. Couz (1937), D. North (1990), Eirik G. Furubotn, R. Richter (1997). Amid the economic transformations, capacities of institutional theory have also been applied by Ukrainian scientists: T. Gaidai (2008), A. Chukhno (Chukhno, Yukhymenko, Leonenko 2008), who tried to apply this theory, taking into consideration the problems which causes economic disturbance. This issue was also analyzed by many foreign scientist's, such as R. Gabbard (2007), M. Friedman (1953) and others. Today there are still discussions concerning specific aspects of this issue.

Results of the study***The causes and consequences of violation of financial stability: historical retrospective***

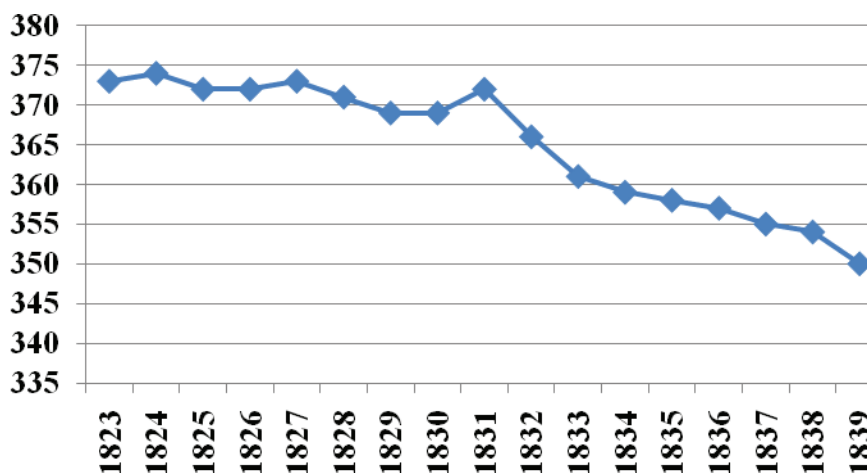
Historical examples of violation of financial stability of a country show that frequently, the inflationary boom alongside with its frustrating and detrimental effects on a state and people has been becoming the main cause of it. Therefore, in tsarist Russia this happened during the period of feudal-servile system. In the early 19th century, the need to finance the war against Napoleon caused the need of essential banknote (assignments) issue, which for the first time was put into circulation in the mid-1769. The fourfold increase of the assignments issue caused exceptional depreciation of assignments. Alexander the First failed in his attempts to stop inflationary boom (Orlov, Georgiev, Georgieva, Sivohina, 2004). Since that time the economy of the empire had frequently suffered disturbances while state budget bore crushing blows of wars, crop setbacks and epidemics, though certain public executives had been ensuring quotable solving of these extremely difficult economic circumstances.

Thus, in 1839-1844, a financial reform upon the initiative of the Minister of Finance (1823-1844) count Kankrin was implemented, according to which the basis for money turnover was silver ruble. Since 1843, the extracting of assignments has started. It was implemented by exchange of the compulsory course (3.5 Ruble in assignments were set equal to 1 silver Karbovanets) to credit tickets, which could be exchanged to silver. This reform had strengthened the financial system of the state and provided stability of financial-credit operations.

Thinking of the ways to obtain the utmost efficient operation of the monetary system, the statesman noticed that “paper money” is to be treated “carefully and responsibly” and the administrative measures in regulation and support purchase of paper currency are to be conducted very carefully, because incorrect actions can provoke their depreciation. “In case of war it is better to resort to crediting, T-bonds issuing, setting of special taxes and, only when absolutely necessary, to the banknote issuing. Moreover, it should be done openly. Following the end of war, it is necessary to rapidly take appropriate measures to support purchase” (Russkiy rubl, 1994). Furthermore, the financier was persuaded that even in extreme cases, the problem of deficiency of necessary financial resources in budget needs to be closed by proper governmental profit alongside with maximal avoiding of new borrowing, specifically foreign

(Bozheryanov, 1897). Although full giving up of credits had not been obtained, the external loans had folded insignificant part in the deficits of state budgets of that period. It allowed to retain a stable course relatively, both on an internal and external international economic scene. Thus, for 16 years ruble depreciated only in 23 kopecks or in 6 percent.

Figure no. 1. The silver ruble's rate to the assignation kopecks in 1823-1839



Source: Based on the data (Russkiy rubl, 1994)

However, the Crimean War (1853-1856) violated the established rate equilibrium again, and the military campaign required colossal spending that nearly reached biennial profit of the state in 1855-56 (Russkiy rubl, 1994). Due to the money scarcity for its proper primarily military necessity, the state had to borrow loans. The need of loans that had been growing during few years has caused rapid internal debt growth, so it was 550 million rubles and 1 billion rubles with warrant papers respectfully, in 1861 (Gindin, 1927).

Table no. 1. The budget of Russian Empire in 1852-1857

Year	Regular budget, million rubles		Emergency budget, million rubles		Deficit
	Profit	Expenses	Profit *	Expenses	
1852	252.4	280.3	-	-	-27.9
1853	265.3	313.1	-	-	-47.8
1854	283.5	383.8	-	-	-100.3
1855	270.0	526.0	2.7	-	-253.3
1856	361.8	619.4	2.8	-	-254.8
1857	297.3	347.9	11.0	-	-39.6
Total:					-723.7

* Profit data on the emergency budget is unadjusted for loans.

Source: (Russkiy rubl, 1994)

The internal loans come from consumer's savings. The establishment of excess interests provided inflow of such savings. The capitals of defense contractors, who collected a lot of "cheap" money during the military campaign, presented the main part of these savings. This money was directed to the bank institutions in order to increase percent (Borovoy, 1958). Therefore, as borrowing external loans was problematic during the war, and the internal loans did not save the situation, government decided to carry out additional emission that was really supported by nothing. Such decision had provoked inflation. The inflation stipulated spike in gold prices, demand for which has considerably grown at once. The urgent need of defense of finance and credit sector of economics has risen. By order of the Ministry of Finance from February 27, 1854, it was prohibited to export gold. During the next few years, these measures had positive effect. Nevertheless, after the end of the Crimean War it became obvious that retaining of considerable part of deposits in government-owned banks was inappropriate and overburden some, because the banks were not capable of paying out tremendous sums, made up through interest charge on the savings that were directed to nothing.

To stop the inflow of incomes and direct "dead" money to the development of branches of domestic economy, the government decided to mark down bank deposit interest rates from 4 to 3 percent (Batyushkov, 1904). In addition, although interest rates were marked

down only by one percent, it has entailed the continual and out-of-control process of outflow from the banks of capitals.

Massive outflow of bank savings of people led to unexpected and quite unwelcome result – panic. The daily swift ebb of capitals has grown quickly, deflating the bank tills and absorbing new issues of currency (Batyushkov, 1904). Moreover, in outflowing bank capitals, nearly 150 million rubles belonged to foreign citizens, who started to redeem the earned credit notes in gold at once. Moreover, as metal part of exchange fund of the Empire did not fully cover issued credit notes until 1858, the critical situation has been brewing. Everything was happening so fast that the government had to take measures to restrict the exchange of credit notes into gold emergently. On November 22, 1857 it was approved by the regulations of the Committee of Finance that not more than 500 rubles could be exchanged into gold (for one person) and the daily total has amounted to 15000 half imperials. Soon, this conversion started to apply only for silver and from May 16, 1858, it nearly stopped at all (Mihalevskiy, 1925). Nevertheless, even after that, the capitals that have been growing for decades continued to outflow from the state. It was supported by the new customs schedule adopted in January 1857, according to which, the interest rates for all foreign goods were rapidly marked down, specifically for expensive manufacturing goods (Vessel, 1897).

However, the financial fragility of the state, persistent budget deficit of those years and spurts in inflation were related not only to the war, but also to tsarist extravagance, with its need to subsidize landowners and to the containing of large bureaucratic and police apparatus etc., that have prompted the tsarist government to the systematic use of printing presses.

In addition, one of the major causes that have strengthened massive outflow of capital from the pre-reform banks of tsarist Russia in late 1850-ies was a fight between weakened landowners and progressive industrialists for carrying the palm of impact on the market. Thus, a group of foreign and Russian capitalists was very interested in that; it consisted of members of the “Main Society of Russian Railways” and some high officials who intended to direct the bank deposits that were pushed out to their own securities. According to the researchers, they have succeeded (Mihalevskiy, 1925).

The deplorable result of military hostilities of the Crimean War proved that state needed constructive, radical changes in all the sectors

of the economy. The exploitative form of government has not justified itself and deepened the socio-economic backwardness, which in its turn had negative impact not only on domestic, but also on foreign economic and political conditions.

Normal methods of getting rich of sedentary nobility and government officials have not produced the desired result. Overtaxes have taken almost all the profit from farmers and completely deprived them from the possibility to survive and continue to produce agricultural products. It required purchasing of tools, extension of their crop area etc. The disincentive caused a stable trend of decline in production in agricultural sector. Noble tenures have also experienced a decline. Serfs, not interested in making profits, have been performing the exploitation of land with primitive tools. Landowners hardly ever spent on new harvesters, mowers and plows, as the workers who were forced to work has been breaking the expensive tools constantly. Military actions, unsuccessful monetary and fiscal policies, backward agricultural production have led to a critical drop of the primary means of support to gold (exports). During the war, the exports of bread decreased 13 times, the exports of flax – 8 times, of claps – 2.5 times, and the imports of machinery fell 10 times (Shevchuk, 2009).

The circumstances have given a rise to evolutionary institutional changes that led to changes in public administration. As during the military campaign, initiative of effective getting rich has shifted from passive landowners to enterprising merchants, industrialists, factory owners and lenders, who provided the initial capital although under unacceptable conditions for business. Therefore, the transformation of informal economic rules has occurred following by changes of institutional structure of political system and economy. The evolution of production urgently needed an attraction of investments and capital accumulation; however, the pre-reform state banks, because of their bureaucracy and economic inequalities, were not able to supply the demand for credit that was induced mainly by medium and small traders and producers.

After the war, a question of solving the problem of protection and security of financial and credit sector in new market environment arose. To achieve that, an importation of formal institutions has occurred, i.e. the adoption and implementation of certain legal provisions, official and generally binding regulations. In particular, further development of financial and credit system involved the

formation of commercial financial institutions that had to be adopted and approved by the legislative and were to become a powerful financial advantage for trade and production. Structural reform of the state system of that period was a decision making process that took into account many contingencies and unpredictable factors such as:

- depressed state of domestic economy;
- impact of various political organizations representing business;
- effect of prevailing attitudes in the society;
- prevailing economic concepts, including the views of the French economists-sensimonists and members of the Manchester school of economics, which essence reduced to the glorification of role of industrial class (“everything for the industry, all with industry” (Bunge, 1895) and establishment of dominant role of a loan for industrial development of the country;
- demands of international organizations.

Changes in basic institutions of the feudal society have become the core of institutional reforms. These were the changes of feudal methods of economy management and principles, on which it relied. As a result, the feudalism was replaced with capitalism.

With formation of new institutional environment, significant changes in property relations occurred, new management techniques were formed, as well as some types of partnerships between the state and the entrepreneurs. The need of a combination of public and private interests has encouraged the rise of new forms of economy management, including trusts, corporations, syndicates etc. Transformational changes in the financial sector occurred as well, following by the initiating of market financial and credit system establishment.

The long-term development plans of either the state or business have defined the expectations of new socio-economic relations. However, under these circumstances, the government tried to maintain its dominant position by imposing such forms of cooperation with employers that were advantageous for it, which did not meet the terms of development of mutually beneficial public-private cooperation. In this context, the asymmetry of relationships between the state and private capital becomes apparent. Institutional gaps and barriers that have arisen in the course of forthcoming new individual business patterns and the lack of package of measures aimed to implementation of system approach to economic cooperation management processes

between business and the state, have facilitated its deepening. The dominant approach had been repeatedly criticized either by public servants at various levels or private entrepreneurs, industrialists, financiers and caused ambiguous attitude regarding methods of private purposes adaptation to the new policy.

The lack of clearly defined “awards” for conducting and implementing relevant reforms which were necessary in certain areas (particularly in financial) was also a significant institutional barrier that baulked progress towards building economic relations based on market principles. In addition, the ultimate purpose of gradual reforming was not defined clearly. Thus, the organization principles of the reformed market banking system activity (that has also been acting on Ukrainian territory since 1860), were borrowed from the developed Western states, but the State Bank continued to exercise dubious functions, namely to give soft, “irregular loans” to nobility, which mostly were not returned, to subsidize other state banks and to cover government debts at its own expense, i.e. with private deposits. Therefore, it is worth paying attention to subjective conditions, such as benefits from a privileged form of cooperation, which are determined by interests of ruling elite, keep the state from full relying on the new institutional framework, and carry more impact on the measure and rate of changes in economic areas, than formally declared general rules. Obviously, under certain circumstances, the political preferences of the ruling elite have greater impact on intensification or weakening of any socio-economic process than engagements of a state according to officially adopted resolutions or laws.

That is why the era of inflation in tsarist Russia ended up in the late nineteenth century, with the introduction of reforms of talented Minister of Finance, S. Witte.

It should be noted that during the XVIII-XX centuries, the rage of financial instability which mainly has shown itself in form of inflation, has also occurred in another countries in certain periods and under certain circumstances. Thus, the US during the American War of Independence has issued an oversize amount of “continental money” for funding of military operations in 1775-1779, which have depreciated sharply (in early 1780 a silver dollar costed 50-60 dollars). For the second time, the acute inflation in the US was observed during the Civil War between the northern and southern states in 1861-1865, where the federal government has issued 450 million dollars, so-called

"greenbacks" (i.e. "green backs", as their reverse side was green) to fund the war (Rotbard, 2009). Exceptionally unfortunate financial and economic, including monetary policy, has caused uncontrolled emissions and sharp increase of total money supply in the state (gold coins, banknotes of states' banks, subsidiary silver coins, "small currencies", notes and checks of the national banking system and greenbacks). In 1860, it came to 745.4 million dollars and by the end of 1865, this criterion increased up to 1.773 billion dollars or by 137.9 percent (Rotbard, 2009).

The panic, created as a result of it, led to hyperinflation, which helped industrialists to make huge profit out of production price bulge and erosion of wages. Since 1860 to 1865, only the wholesale price index in the US has risen by an average of 110.9 percent (from 100 in 1860 to 210.9 in 1865), while the nominal wages index has increased only by 43 percent (Rotbard, 2009). The US top finance officials shifted a responsibility for continued economic disaster onto innominate "currency profiteers". In March 1863, the functionary campaign of accusations against the gold market has started, of which then, Minister of Finance S. Chase, in behalf of the fight against the devaluation of national currency, tried to take his own control and to phase out. However, all this vanity has lasted until the Minister was dismissed from office.

The hyperinflation of 1919-1923 in Germany, which was the result of lost World War I and disastrous post-war financial policy, is also an instructive example of economic, in particular financial destabilization for contemporaries. Uncontrolled emissions of d-mark during this period resulted in thousand fold increase of prices in the state in some months of 1923. The people's bank savings, securities, government loan bonds etc., the sum of which has come to over 100 billion d-marks before the War, were totally depreciated with inflation (Potashov, 2012). The middle class and highly qualified workers and farmers, who have had money deposits and steady income, suffered most. Social groups, whose incomes were made of government payments (primarily the holders of annuity, people with disabilities, combat veterans etc., as well as educators, operators and other salaried workers), have also become victims of the inflation. The inflation rage had its positive aspect, as during the years of disorder, a new middle class that has got rich because of financial difficulties, was formed. Financial resources of these people were invested in real values, and credit debts were leveled off through the inflation. Distorted reality has

created new opportunities of getting rich for speculators and profiteers who have been skillfully using the monetary chaos and making their way to the power.

Stabilization of d-mark was reached in late 1923 by creation and issuance of the new currency - rental mark, which emission has been exercised by the rent bank. The rental mark's stability has been ensured by hard restriction of emission and its "binding" to gold at fixed rate of 4.2 marks for 1 dollar, corresponding to the pre-war parity of gold mark. One rental mark was exchanged for 1 billion inflation marks. Such measures led to improvements in already few weeks - the increase of price for goods and services and outflows of bank deposits stopped, the level of interest rates was recessed, favorable investment climate was set up. However, tough monetary measures of the government had also negative outcomes for the economy in such cases. The need of substantial cuts in public spending led to forced dismissal of workers and employees. The private sector has also suffered of staff redundancy, resulted in temporary increased unemployment. Nevertheless, the disastrous difficulties were overcome. Since that time, the German financial policy has been remaining traditionally conservative and anti-inflationary, and the German mark as the most hard currency in Europe has become the basis of the common European currency, the euro.

Consequently, in conditions of the market economy establishment, the entities' status depends on such institutional factors as efficiency of democratic institutions, the level of social and economic responsibility, principles of financial and fiscal policies, methods of business regulation, approaches to the protection of property rights and so on. In particular, the success of financial institutions is affected by degree and nature of their compliance with formal and informal rules, which were established in certain societies. The incompleteness of laws (formal rules) determines the identification mechanism of financial transactions accuracy and provokes breach of economic relations by their parties. Conscious or unconscious ignorance of role and importance of institutions, and institutional changes, incompatibility, inconsistency and untimeliness of proposed measures concerning changes in the financial system and established hierarchy of financial institutions, will invite the failure of reform from its inception.

The capability of the system to change in coherent, evolutionary way substantially depends on how the basic structure of society's moral values can adapt to new problems and challenges. Formation of new

rules of the civil society in a state has to be accompanied by preparation of an appropriate level of the rights and stateness. The systems which are not capable of structural adaptation, so necessary for their survival, disappear. However, their collapse does not mean that in place of the old system a new one can be created easily. For a new system to start satisfying core requirements of legitimacy, order and welfare, the time during which even the smallest changes of institutional structure, can cause a transformation chain. The benefits of sustainable institutional changes are usually distributed among all the economic actors; the cost is borne only by certain groups of people. There is a probability of parasitism on inconsistency of rules.

The accumulated historical experience should be a warning for states, allowing significant financial fluctuations, as the situation may get out of control at its certain stage of development and prohibit the financial institutions to perform functions, which are vital for the economy. In this regard, D. North has introduced into scientific discourse the definition of the development historical dependence (North, 1997). Thus, it is fair to say that evolutionary changes allow only the development of rules by analogy, except for their radical correction and interpretation in accordance to changed conditions and/or public demand. In fact, the same rule can reflect endlessly under various circumstances, in different forms, both legal and illegal. Problems do not arise if the rule is efficient for insurance of interaction and multifunctional ab initio.

The effectiveness of work of the institute of finance in Ukraine: present realities

The effectiveness of the institute of finance is crucial for efficient exercise of stabilization functions by the state of Ukraine, as well as reconstruction and development of the Ukrainian market economy. Thorough analysis of the causes and consequences of violation of financial stability indicates that the main cause of this phenomenon in contemporary Ukraine is the institutional instability and the lack of clear formal and informal priorities, poor accountability, dual approach to the definition of property rights, the formation of the environment in which different groups can play by their own rules etc. All this promotes:

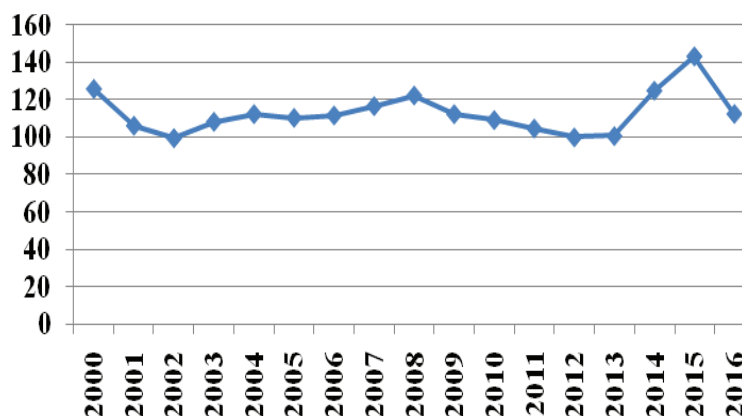
- political crisis (2013-2014, the Revolution of Dignity and modern power conflicts);

- oligarchic opposition;
- geopolitical challenges (annexation of Crimea, anti-terror operation), followed by loss of energy resources and the need of substantial increase in funding for defense;
- policy changes (EU integration vector);
- excessive inflationary expectations;
- imbalance between revenues and expenditures;
- uncontrolled money supply growth, due to excessive emissions.

The consequences of violation of financial balance in recent years are:

- growth of the budget deficit;
- growth of the volume of public debt [on 31 December, 2016, the total public and publicly guaranteed debt amounted to 70.97 billion USD (Statystychna informatsiia shchodo borhu, 2016); this amount is especially catastrophic, given the present disappointing hryvnia exchange rate, as well as the continuing trend of its depreciation];
- galloping inflation growth [thus, only in 2015, the official inflation rate was 143.3 percent, in 2016 - 112.4 percent (Figure no. 2)], and therefore the Ukraine ranked second in the world anti-rating, the first went to Venezuela, where the inflation rate exceeded 275 percent due to fall of oil prices (Za rivnem infliatsii Ukraina nablyzylas do Venesuely, 2017).

Fig. no. 2. The movement of the inflation index in Ukraine in the period 2000-2016



Source: (Statystychna informatsiia: Derzhavna sluzhba statyky Ukrainy, 2017)

- growth of investments inflation peril, lowering of investment activity;

- reduction of overall foreign direct investment (from 57.1 billion USD in 2014, to 3,76 billion USD in 2015 (Statystychna informatsiia: Derzhavna sluzhba statystyky Ukrainy, 2017);

- decline in real incomes (significant erosion of wages – Table no. 2);

- significant increase in prices of goods and services (producer price index for 2012 was 100.4, in 2014 - 131.8, in 2015 - 125.5, in 2016 - 135.8 7 (Statystychna informatsiia: Derzhavna sluzhba statystyky Ukrainy, 2017);

Table no. 2. Rate of hike/erosion of nominal and real wages (2001-2016)

Year	Nominal wages December through December of previous year, %	Real wages December through December of previous year, %
2001	127.7	120.4
2002	117.0	115.6
2003	124.4	113.8
2004	127.7	120.8
2005	144.9	131.5
2006	125.2	111.7
2007	131.1	110.3
2008	119.5	97.0
2009	111.6	99.1
2010	120.1	110.5
2011	116.2	111.0
2012	110.6	111.4
2013	107.9	106.7
2014	114.2	89.0
2015	125.2	94.0
2016	128,5	114,3

Source: Statystychna informatsiia: Derzhavna sluzhba statystyky Ukrainy 2017; Statystychna informatsiia: ...u m. Kyievi 2017.

- depreciation of savings of individuals and entities in national currency (since 2013, the national currency had depreciated by more than 3 times);

- collapse in confidence in the banking system (in early 2017, 100 solvent banks have continued operating in Ukraine and 77 more were classified as insolvent by the National Bank of Ukraine during 2014-2016) (Statystyka: Natsionalnyi bank Ukrainy, 2017); the outflow of deposits from banks at year-end 2014 has become the largest crisis after 2009: 56.5 billion or 13.4 percent in the national currency and foreign 11.4 billion or 36.9 percent in USD (Zvit pro vykonannia Zakonu Ukrainy, 2016);

- increase rate of discount from 6.5 percent in 2013 to 30 percent (!) in 2015 (Statystyka: Natsionalnyi bank Ukrainy, 2016);

- breaches of economic relations, growth of arrears in payments (at the end of January 2017 households debt only for housing and utility payments amounted to 25.4 billion (Statystychnyi portal, 2017);

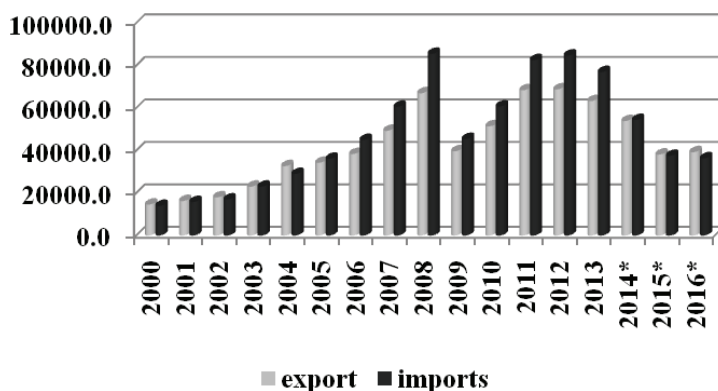
- deterioration of living conditions of the majority of citizens, a significant decrease of their purchasing capacity;

- strengthening of explicit and hidden unemployment (the lowest unemployment rate since 2000 was in 2008 and amounted to 6.9 percent, i.e. 596 thousand officially registered unemployed; in 2015, according to official statistics, it reached 9.7 percent or 458.6 thousand (Statystychna informatsiia: Derzhavna sluzhba statystyky Ukrainy, 2016), it is significantly that the number of economically active and formally-employed has considerably decreased due to the annexation of Crimea and conducting the anti-terrorist operation;

- loss of traditional markets;

- fall of exports, which in 2015 fell to 38.1 million USD, while the pre-crisis 2012 totaled at 68.8 billion USD (Figure no. 3);

Fig. no. 3. Movement of volume of visible exports and imports of Ukraine in 2000-2016, million USD



*Without including of temporarily occupied territory of Autonomous Republic of Crimea and Sevastopol
 **Excluding the zone of anti-terrorist operation

Source: Statystychna informatsiia: Derzhavna sluzhba statystyky Ukrainy, 2017

- decline in commodity production (2014): in industry by 10%, in construction by 21.7% (Zvit pro vykonannya Zakonu Ukrainy, 2017);
- lowering of quality of products on the market;
- difficulties of long-term planning of economic activity;
- redistribution of income and wealth;
- transfer of savings into foreign currency and its deficit;
- reduction of confidence in government;
- strengthening of the shadow economy development;
- worsening of socio-economic contradictions;
- growth of social inequality.

Conclusions

Consequently, the foregoing indicates that financial instability harms a society. It is the cause and consequence of social conflicts and redistribution of income, and the fall of the real economy. The basis of violation of financial balance is primarily institutional changes that give rise to social challenges and contradictions. Typically, the most disastrous outcome of the violation of market, including financial

stability, is hyperinflation, which results primarily affect owners of savings, qualified employees and social strata of the population, whose income are state benefits (especially pensioners, the disabled and other low-income groups of the society). Urban residents are needier, while farmers are experiencing it less. Debtors and borrowers often find themselves on the winning side, i.e. when loans were received in the national currency, as well as energetic and resourceful entrepreneurs, who can quickly cross over to new market conditions and needs. The main form of fighting against financial instability is tough monetary reform, which has to restore the stability of currency as soon as possible. For this purpose, it is necessary to:

- take measures to reduce/eliminate the budget deficit;
- stimulate export growth, including through the real support of local business and increasing competitiveness of goods;
- activate the real fight against corruption;
- eliminate the structural distortions;
- destroy monopolistically-oligarchic system on the market;
- adapt tax legislation to the new realities and trends, international standards and practices;
- stimulate lending and investment activities, including by reduction in liquidity of savings due to growth of interest rates;
- develop market services, especially in education and science.

Discussion

The historical experience should be a warning for states, allowing significant financial fluctuations, as the situation may get out of control at its certain stage of development and prohibit the financial institutions to perform functions, which are vital for the economy of a state. Economic, including financial stability can be achieved through the institutional equilibrium and evolutionary changes involving the establishment of formal and informal social rules, including the preparation of relevant level of the law and stateness, real support of the prioritized areas of the national economy etc.

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