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PROSPECTS FOR THE USE OF FINANCIAL INSTABILITY HYPOTHESIS H. P. MINSKY IN THE FORMATION OF ANTI-CRISIS STRATEGY IN THE BANKING SYSTEM OF UKRAINE

Annotation. Article is devoted to the study of scientific and methodological aspects of using some elements of the financial instability hypothesis during the formation of anti-crisis strategy for the banking system of Ukraine..

Keywords: crisis management, crisis management in banking system, financial instability hypothesis, the banking system.

I. Introduction

In the current global economic conditions, which can be characterized by periodic and often sharp mutual changes in economic phases growth and recession, the financial systems of countries that are most based on banking sector, can't be considered like sustained, constant and unchangeable entities, they are dynamic structures. Moreover, their development depends on the condition of the financial and economic environment that has emerged as a separate country, and the international economic area. Therefore, from this position, we believe that theories of economic cycles currently have a special place in the consideration of various aspects of modern economic science.

One of these theories is the so-called financial instability hypothesis (in other sources – financial market fragility) which was developed by an American scientist, economist, representative of monetary post-Keynesian school Hyman Philip Minsky. This hypothesis with high confidence destiny can be considered the next step in the development of world economic thought, as it includes both the best aspects of existing cyclic patterns, and making a significant contribution to their improvement, which is extremely important in modern Ukrainian financial and economic realities which have demonstrated almost complete inability of the banking system to absorb adverse effects of external economic environment.

Therefore, we believe that this theory has considerable potential in the development and implementation of anti-crisis strategy in the banking system of Ukraine and determine the relevance of this study.

Problems cyclical economy is extremely well regarded in the works of both foreign and domestic scholars. In this respect it should be noted the works of these foreign scientists: P. Davidson, C. Juglar, J.M. Keynes, J. Kitchin, S. Kuznets, I. Rozmainsky, P. Samuelson, A. Skorobogatov, J. Hicks, J. Schumpeter and others. Special contribution to the development of the idea of economic cycles are also made

by domestic scientists, among which we note the works of: V. Geets, A. Halchynskiy, N. Hrebenyk, A. Gritsenko, S. Kozmenko, M. Makarenko, V. Podlesna, I. Salo, T. Savchenko, A. Somik, V. Stelmakh, M. Tugan-Baranovsky and others. Also a very important contribution to the theory of economic cycles made an outstanding Soviet scientist and economist N. Kondratiev.

However, the synthesis of the theories of business cycles and crisis management practices by the banking system of Ukraine in a single strategic counter-crisis direction are not significantly reflected in the economic literature.

II. Statement of the problem

The aim of the article is to examine the possibility of using H.P. Minsky's theory in the formation of counter-crisis strategy of the banking system of Ukraine.

III. Results

In modern economic theories, scientific literature, dissertations and research publications the research portfolio of an American economist and professor of economics H.P. Minsky hardly seen, while in the CIS financial instability hypothesis has become more or less well-known through the work of Russian scientist I. Rozmainsky. In this context it should be noted that this trend has developed not due to erroneous scientific opinions of the scientist or the inadequacy of his proposed hypothesis, but for the most part because of the personal qualities of H.P. Minsky, often openly criticized the work of other scientists, including P. Samuelson, J. Hicks, accusing them of distortion of the true meaning of works of J.M. Keynes, often at the same time criticizing and scientific achievements of the Keynesian school.[2]

One of the key aspects that marked him as drawbacks of these works is a weak justification for the role of the financial sector in social development. In this context it should be noted that Minsky considered this destabilizing role, which also enjoyed considerable popularity in his scientific opponents. [4]

Destabilizing role of the financial sector within the financial instability hypothesis, which in essence is the theory of economic cycles, the center of which is the study of the overall index as profitability within the financial and real sectors of the economy, manifested in the fact that the phases of economic expansion, when the profitability of the real sector (base for the country's GDP, or in other words, the sector that has been increasing surplus value through the physical production of goods or provision of services) is gradually increasing, with more projects in the industry begins to be realized not through internal funding sources, but by raising funds of the financial sector (ie those sector, that only redistributes cash flows and increases own capital based on its more profitable investment), thereby increasing its profitability. Thus the situation in which the profitability of the financial sector is close to the profitability of the real sector, appear the first signals that indicate the possibility of the

emergence of financial and economic crisis, and when the two data rates equalized, we can say that such a crisis in the economy has occurred [1].

This hypothesis is based on the fundamental financial and analytical studies, which were done by H.P. Minsky and fully consistent with economic fluctuations that existed in the U.S. before and after the formalization of the hypothesis [5].

Unfortunately, we concluded that our economic analysis of profitability of domestic real and financial sectors (Figure 1) does not entitle to believe that this hypothesis in the classical form may be adequate for Ukrainian economic realities, because the official data of the State Statistics Committee shows that the profitability of the financial sector is extremely higher than the same figure in the real sector from 2002 up to 2006 and after that period dramatically decreased. It is obvious that the actual trend does not correspond to those phases of economic cycles that existed in Ukrainian financial and economic system at this time.

However, this theory, we believe, has significant potential for use in the study of business cycles in terms of the domestic banking system.

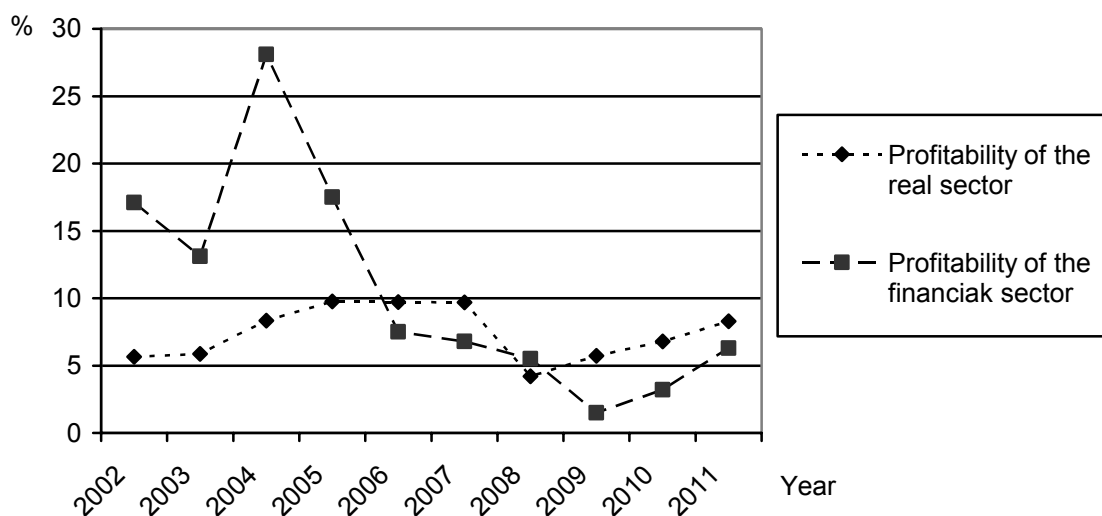


Figure 1 – Comparison of the dynamics of the profitability in real and financial sector of Ukraine [3]

Moreover, we note that because the dynamics of these indicators does not match the trends discussed in theory, in practice the Ukrainian banking system they can be replaced by coefficients that somehow analyze the overall banking system – rates of return on equity and assets, asset quality indicators, the volume and dynamics of lending held by banks of Ukraine, the dynamics of profits or losses of the banking system etc.

In this context, we note that even superficial systematization of data on these indicators gives clear theoretical interpretation and analysis of financial and economic environment of our country at a particular point in time, which opens up great prospects for the formation of counter-cyclical crisis management strategy for the domestic banking system.

In our opinion, the deepening of the theoretical assumptions presented to the level of real scientific research offers great opportunities for the National Bank of Ukraine not only to do more accurate assessment of the current economic situation, but also to build a forecast for the future. This ensures that the measures implemented by the National Bank in order to prevent or overcome the consequences of the global crisis, will be implemented within the framework of preventive anti-crisis strategy, as opposed to reacting, which demonstrated the National Bank during the global financial crisis of 2008-2010.

It should also emphasize that the main value of financial fragility hypothesis proposed by H.P. Minsky has a wide potential to adapt to the basic principles of Ukraine's financial system. It also provides an opportunity to improve the regulatory counter-crisis strategy (modern scientific studies indicate that regulatory control policy in banks and the banking system is not only inefficient, but also ineffective), which today has a high popularity in the practice of Ukrainian banking management.

This means that such unpopular anti-crisis measures as a moratorium on satisfaction of creditors' claims, which results in the saving of commercial banks from the onset of bankruptcy, limiting access to their savings depositors or create sanation banks, the actions of which only improved balance sheets of banks, would be used only as additional measures.

Thus, we believe the National Bank of Ukraine should pursue a dynamic preventive policy that is based on in-depth analytical studies and projections built on them. So the banking system will be able to respond effectively to early signals of possible instability, thereby introducing countercyclical anti-crisis strategy in their practice.

IV. Conclusions

Therefore, we believe that the adaptation of financial instability hypothesis proposed by H.P. Minsky to the conditions of modern Ukrainian economic realities is the basis for an effective mechanism to control not only the banking and financial system. With that, the main focus of the functioning of this mechanism should be based on the conduct of preventive measures that would allow smooth out economic cycles and to counteract the adverse effects of the international financial and economic environment.

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