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DISTRUST AND INHERENT INSTABILITY OF THE FINANCIAL SYSTEM

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In the history of development economics, financial crises are a common phenomenon. Although the characteristics of each of the financial crises are never identical, there are often similar patterns. The financial crisis of 2007-2009, caused by the collapse of the residential real estate market in the United States, caused a deep global crisis. Significant economic losses have heightened the need to reconsider the introductory provisions of the financial system's stability.

In the literature on stability of the financial system, the relative importance of financial security (Esmanov., Dunne., 2017), financial shocks (Awujola., Iyakwari., Bot., 2020), economic security of the machine building complex (Bublyk., Koval., Redkva., 2017), military conflicts (Yelnikova., Kuzior., 2020), financial conglomerates (Vasilyeva., Kozyriev., 2017), development of the banking system(Adeyinka., Abdulkarim., Odi., 2019) are debated. There is a growing body of literature that recognizes factors of macroeconomic and financial instability (Zolkover., Georgiev., 2020; Frederick., Kasztelnik., 2020; Palienko., Lyulyov., Denysenko., 2017; Kendiukhov., Tvaronaviciene., 2017; Vasylieva., Harust., Vynnychenko., Vysochyna., 2018).

Studies over the past two decades have provided important information on new economic order for global prosperity (Louis., 2017). Several attempts have been made to explore tools for securing financial and banking systems in the European Union (Holobiuc., 2020; Naser., 2019) and in developing countries (Umadia., Kasztelnik., 2020; Lyulyov., Pimonenko., 2017). Researchers attempted to evaluate the impact of management aspects on economic stability(Levchenko., Kobzieva., Boiko., Shlapko., 2018). A great deal of previous research into financial system's stability has focused on social capital (Muneeb., Chughtai., Anjum., Ma., 2019; Itty., Garcia., Futterman., Austt., Mujtaba., 2019; Mercado., Vargas-Hernández., 2019; Mujtaba., 2019).

The idea of unintentionally ordering chaotic systems and the desire of markets to balance underlies the concept of the "invisible hand" of Adam Smith, which became the basis of an efficient market hypothesis. It was formed by Eugene Pham and is to reflect in the price of the asset all available information about it. All changes immediately affect the market value, leaving prices in equilibrium. Thus, the financial system always strives for stability (Bishop., 2009).

Gary J. Shinazi believes that the financial system's instability is manifested not only in the existence of financial crises. The financial system is considered unstable when it is unable to effectively allocate resources and financial risks, unable

to withstand external threats and shocks, and after surviving them, quickly returns to equilibrium (Shinazi., 2005).

According to Heiman Minsky's financial instability, the supply in the markets stimulates the demand for assets. Moreover, rising prices reflect the amount of credit available and people's unreasonable expectations rather than the asset's base value. Thus, prices steadily deviate from equilibrium, forming a debt bubble, and after periods of stability, the financial system finds itself in a spiral of instability (Minsky., 1992).

Minsky considered the expansion of credit to be the leading cause of financial instability. Lending, in turn, depends on trust (Minsky., 1992). Lenders should consider their borrowers creditworthy, and if there are grounds for distrust, the lender may demand payment of the existing debt or refuse a new loan. However, as memories of the recession fade, the false belief that asset prices can only rise is strengthened, and debt deepens as credit is used to finance investment (Barbera., 2009). It, in turn, continues to rise. Asset prices, inducing speculative euphoria - irrational revelry. Borrowers extrapolate recent trends to the future, become more prone to investment and willing to take on more debt, and lenders have an incentive to lend as much as possible. The dominance of troubled borrowers in the market, who constantly need refinancing and are unable to pay interest on loans, leads to a trust crisis, which provokes the financial system's vulnerability. Changes in investor sentiment attempts by the government to reduce inflation due to monetary constraints or the sudden failure of a well-known company can lead to a severe decline in borrowers' creditworthiness and the transformation of trust into distrust. The financial system becomes unable to withstand external risks and moves away from a state of equilibrium and stability, plunging into an economic crisis.

The issue of financial instability was covered by W. White, who emphasizes that the price equilibrium does not guarantee the absence of imbalances and lags in the financial system and, conversely, might be the cause of their occurrence (White., 2006). This phenomenon is due to the financial system's inherent instability, which acquires specific features to transform trust.

Figure 1 shows how the financial system deviates from equilibrium and finds itself in a spiral of instability. Price stability and the financial system strengthen trust in the financial and banking system and modify inflation in destabilization processes. This process results in a softer response from central banks to shocks, resulting in more favorable conditions for credit expansion in the financial market than if central banks had reacted harshly to the shock by preventing financial risks. The rapid expansion of liquidity allows domestic credit to multiply rapidly, generating false trust that generates aggregate demand that does not focus on consumer prices but spills over into asset value. This leads to an increase in problem loans. Borrowers become unable to pay their obligations, provoking distrust of creditors, which leads to distrust of borrowers in the banking and financial system. Debt growth and distrust

make the financial system shaky and weak, followed by financial instability.

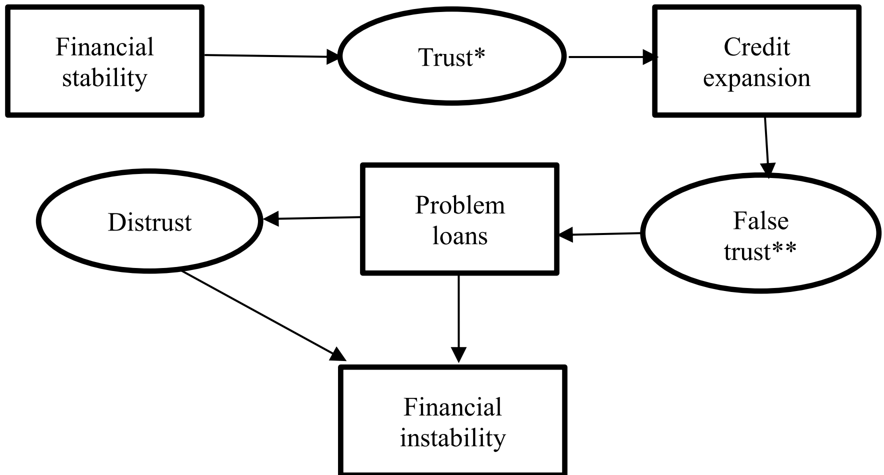

Figure 1. Stages of financial instability due to changes in trust (source: authors design)

* trust formed under the influence of rational factors

**trust, which is based on irrational factors, and therefore has the characteristics of false

The results of this investigation show that the financial system's stability concept depends on the trust or distrust of economic entities. False trust and sometimes euphoria lead to an increase in debt, the financial system's defeat, and a profound trust crisis. At each stage of the transformation of the financial system there is a transformation of trust, so in one case, trust is the cause, and in another consequence. When the financial system collapses, the decline is a mirror image of the previous rise. Thus, the more potent euphoria and trust in the financial system before the collapse, the stronger distrust after. The second significant finding was that re-establishing trust will be difficult, as consumers and companies rely on previous decision-making experience.

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