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FINANCIAL STABILITY AS A NECESSARY BUT INSUFFICIENT CONDITION FOR ECONOMIC SECURITY

The article explores the conceptual relationship between financial stability and economic security, emphasizing their analytical distinction and functional asymmetry. Financial stability is examined as a condition primarily associated with the resilience of financial systems, liquidity, and risk containment, while economic security is interpreted as a broader socio-economic category encompassing structural capacity, institutional robustness, and social sustainability. The study argues that although financial stability supports economic security by mitigating acute systemic shocks, it cannot be regarded as its sufficient proxy. Situations in which stable financial indicators coexist with structural decline and institutional vulnerability are highlighted as critical analytical challenges. The paper substantiates the need for integrated frameworks that distinguish between these concepts while addressing their intersections in economic analysis and policy design.

Keywords: economic security, financial stability, systemic risk, economic resilience, institutional vulnerability.

Problem Statement. In contemporary economic research and policy discourse, financial stability is frequently treated as a proxy for economic security. This implicit substitution is particularly evident in crisis management frameworks, where the stabilization of financial systems is often assumed to ensure broader economic security. However, such an approach reflects a methodological simplification that obscures fundamental conceptual differences between these two categories.

Financial stability primarily focuses on the resilience and functioning of financial systems, emphasizing liquidity, solvency, and risk containment within banking and capital markets. Economic security, by contrast, encompasses a wider set of socio-economic dimensions, including production capacity, institutional robustness, social stability, and the ability of economic systems to withstand and adapt to structural and strategic threats. Conflating these concepts leads to analytical distortions, as financial stability may coexist with deep structural vulnerabilities that undermine long-term economic security. The problem is further intensified under contemporary crisis conditions, where financial indicators may signal stability while economic security deteriorates due to deindustrialization, institutional erosion, social polarization, or exposure to hybrid and non-financial threats. In such contexts, reliance on financial stability metrics alone risks masking systemic weaknesses and producing misguided policy responses.

Despite the growing recognition of these challenges, existing literature often fails to clearly delineate the conceptual boundaries between economic security and financial stability. Their intersections remain insufficiently theorized, while their differences are frequently overlooked or treated implicitly. This lack of conceptual clarity limits both theoretical progress and the effectiveness of economic security governance. Accordingly, the core problem addressed in this study lies in the absence of a systematic conceptual framework that distinguishes economic security from financial stability while identifying their areas of interaction. Addressing this gap is essential for improving analytical rigor and for designing policy instruments capable of responding to complex and multi-dimensional economic threats.

Analysis of Recent Research and Publications. The literature on economic security and financial stability can be analytically grouped into several interconnected strands that reflect different conceptual and methodological traditions. The first strand conceptualizes economic security as a broad systemic category embedded in national and socio-economic security frameworks. Within this tradition, Buzan B. emphasized economic security as a core component of national security, shaped by vulnerability, dependence, and political-economic pressures [2]. This perspective is further developed in institutional and development-oriented research, where economic security is linked



to governance capacity, institutional robustness, and long-term socio-economic resilience [6; 7; 8]. These studies consistently treat economic security as a multidimensional condition extending beyond financial system performance.

The second strand focuses on financial stability as a distinct analytical and policy objective. Research by the Bank for International Settlements conceptualizes financial stability through global liquidity dynamics, cross-border capital flows, and systemic financial risk [1]. Similarly, analytical frameworks of the European Central Bank emphasize vulnerabilities within banking systems, credit cycles, and financial markets [3]. While these approaches provide sophisticated tools for monitoring financial fragility, their analytical scope remains largely confined to the financial sector.

A third strand highlights the conceptual and methodological limitations of equating financial stability with broader economic security. Classical contributions by Knight F.H. demonstrate that fundamental uncertainty cannot be adequately addressed through probabilistic risk-based models [8]. Building on this insight, Minsky H.P. showed that financial stability itself may generate systemic fragility, implying that financial stabilization does not necessarily ensure economic security [4].

Finally, contemporary global risk assessments emphasize the growing relevance of non-financial and systemic threats. Reports by the World Economic Forum identify geopolitical fragmentation, information manipulation, and cascading risks as key drivers of economic insecurity that may materialize independently of financial instability [9]. Complementary analyses by the World Bank underline that persistent structural constraints and institutional erosion can undermine economic security even when financial systems remain operational [8].

Overall, the reviewed literature demonstrates a clear conceptual divergence between economic security and financial stability. However, their boundaries remain insufficiently articulated, and their intersections are often treated implicitly. This fragmentation underscores the need for a systematic framework that distinguishes these categories while clarifying the conditions under which financial stability contributes to, but does not substitute for, economic security.

The purpose of this article is to delineate the conceptual boundaries between economic security and financial stability by critically examining their analytical foundations, identifying their areas of intersection, and highlighting the risks of their methodological conflation in economic research and policy design.

Presentation of the main research material. The concept of financial stability emerged within macroeconomic and financial economics as a response to recurring banking crises and systemic financial disruptions. Initially, financial stability was associated with the ability of the financial system to perform its core functions (intermediation, payment facilitation, and risk allocation) without significant disruptions. Over time, this concept became institutionalized within central banking and financial supervision frameworks,

particularly in the context of post-crisis regulatory reforms.

Analytically, financial stability focuses on the financial system as the primary object of protection, with emphasis on liquidity conditions, solvency of financial institutions, asset price dynamics, and systemic risk accumulation. Reports by the Bank for International Settlements conceptualize financial stability through global liquidity cycles, leverage dynamics, and cross-border capital flows, highlighting how financial vulnerabilities may propagate through interconnected markets [1]. In this framework, instability is primarily understood as a disruption of financial intermediation and market functioning.

The role of central banks and macroprudential authorities is central to financial stability governance. Institutions such as the European Central Bank operationalize financial stability through continuous monitoring of banking sector resilience, credit cycles, and market-based indicators of stress [3]. Macro-financial supervision relies on stress testing, early-warning indicators, and regulatory instruments designed to contain systemic risk within the financial sector.

However, theoretical contributions emphasize inherent limitations of this approach. Minsky's theory of financial instability demonstrates that financial systems are endogenously prone to fragility, as periods of stability encourage risk-taking and leverage accumulation [5]. This insight suggests that financial stability is inherently cyclical and temporary, reinforcing its character as a sector-specific and analytically bounded category, rather than a comprehensive measure of overall economic security.

In contrast to financial stability, economic security has developed as a broader socio-economic concept embedded in national security, development economics, and institutional analysis. Early theoretical foundations framed economic security as a condition ensuring the capacity of national economies to withstand external pressures, maintain sovereignty over key resources, and support societal stability. Within this tradition, Buzan B. positioned economic security as a core dimension of national security, emphasizing vulnerability, dependence, and the political nature of economic relations [2].

Contemporary interpretations extend economic security beyond the financial sector, incorporating institutional, social, and productive dimensions. Economic security increasingly refers to the ability of economic systems to sustain production capacity, employment, income stability, and access to essential goods and services under adverse conditions. Institutional analyses by the OECD link economic security to governance quality, regulatory coherence, and the adaptive capacity of public institutions [6].

From a development perspective, economic security is closely associated with long-term structural resilience. The World Bank emphasizes that persistent structural constraints, inequality, and institutional fragility undermine economic security even in the absence of financial crises [8]. Similarly, strategic frameworks of

the United Nations Development Programme highlight the role of inclusive growth, institutional effectiveness, and social protection systems in sustaining economic security at both national and societal levels [7].

Importantly, economic security maintains a direct link with social and national security. Deterioration of economic security manifests not only in macroeconomic indicators but also in social instability, erosion of trust, and weakened institutional legitimacy. As a result, economic security represents a system-wide condition, shaped by interactions between economic performance, institutional capacity, and social cohesion, and cannot be reduced to the stability of financial systems alone.

Despite their frequent joint use in academic and policy discourse, economic security and financial stability represent analytically distinct categories with different objects of protection, levels of analysis, and governance instruments. The lack of a clear conceptual boundary between these concepts often leads to methodological confusion and policy misinterpretation, particularly in crisis management frameworks where financial stabilization is implicitly assumed to ensure broader economic security.

Financial stability constitutes a sector-specific analytical category, primarily concerned with the resilience and functioning of the financial system. Economic security, by contrast, represents a system-wide socio-economic condition, encompassing financial, institutional, productive, and social dimensions. While financial stability may contribute to economic security, it cannot substitute for it, nor does it capture the full spectrum of vulnerabilities affecting economic systems.

The table 1 illustrates that financial stability and economic security differ not only in scope but also in analytical logic. Financial stability addresses the prevention of disruptions within the financial sector, whereas economic security concerns the capacity of economic systems to function and adapt under a broad range of economic, institutional, and strategic pressures. Importantly, situations may arise in which financial stability is preserved while economic security deteriorates

due to deindustrialization, institutional erosion, social polarization, or exposure to hybrid threats.

Therefore, the conceptual distinction between economic security and financial stability is not merely terminological but has significant methodological and policy implications. Treating financial stability as a proxy for economic security risks overlooking non-financial vulnerabilities and may result in policy responses that stabilize financial indicators while allowing deeper structural threats to persist.

Although financial stability and economic security are conceptually distinct, they are not independent. Financial stability constitutes an important enabling condition for economic security, particularly by preventing acute systemic shocks. However, its contribution is conditional and limited, as financial stability alone cannot address structural, institutional, or strategic vulnerabilities affecting the broader economy. Financial stability supports economic security by ensuring the continuity of financial intermediation, access to credit, and the functioning of payment systems. In this sense, it represents a necessary condition for economic security, as severe financial instability may rapidly undermine production, employment, and public finances. At the same time, financial stability does not guarantee economic security. Structural weaknesses, institutional erosion, or exposure to hybrid threats may persist even when financial indicators signal stability. This asymmetry explains why economic security may deteriorate without an accompanying financial crisis.

The coexistence of financial stability and economic insecurity can be observed in several analytically relevant situations, including:

- sustained financial sector resilience alongside deindustrialization and loss of productive capacity;
- stable banking systems accompanied by declining employment and income insecurity;
- effective monetary stabilization combined with institutional weakening and governance failures;
- resilient financial markets amid geopolitical pressure and strategic economic coercion.

These situations illustrate that financial stability may coexist with long-term erosion of economic security, particularly when systemic risks originate outside the financial sector.

Table 1

Conceptual Boundaries between Economic Security and Financial Stability

| Criterion | Financial Stability | Economic Security |
|-----------------------------|---|--|
| Primary object of analysis | Financial system (banks, markets, liquidity) | Economic system as a whole |
| Core focus | Liquidity, solvency, risk containment | Systemic resilience, structural capacity, adaptability |
| Dominant level of analysis | Macro-financial | Macro-, meso-, and micro-economic |
| Main sources of threat | Financial cycles, leverage, market shocks | Structural imbalances, institutional fragility, hybrid and non-financial threats |
| Time horizon | Short- to medium-term | Medium- to long-term |
| Key policy actors | Central banks, financial regulators | Governments, international institutions, private and non-state actors |
| Analytical tools | Stress tests, early-warning indicators, risk models | Integrated frameworks, scenario analysis, resilience assessment |
| Relation to social outcomes | Indirect | Direct (employment, income stability, social cohesion) |

Source: developed by the author based on [1; 2; 3; 4; 5; 6; 8]

Zones of Intersection between Financial Stability and Economic Security

| Analytical Dimension | Contribution of Financial Stability | Limitations for Economic Security |
|--------------------------|---|--|
| Shock absorption | Mitigates immediate financial contagion | Does not prevent structural decline |
| Credit provision | Supports investment and liquidity | Credit may be misallocated |
| Macroeconomic confidence | Stabilizes expectations | Confidence may mask latent vulnerabilities |
| Crisis prevention | Reduces probability of financial collapse | Non-financial crises remain unaddressed |

Source: developed by the author based on [1; 4; 5; 6; 9]

Systemic risks constitute the primary channel through which financial stability and economic security intersect. Financial systems may remain stable in the short term while systemic risks accumulate through interconnected supply chains, institutional fragility, or hybrid threats. Endogenous instability theories demonstrate that such risks often remain latent until they materialize abruptly, transforming apparent stability into sudden insecurity [5].

Global risk assessments further confirm that cascading and non-linear risks increasingly operate across financial and non-financial domains, reinforcing the need to treat financial stability as a supportive but limited component of economic security rather than its substitute [9].

Conclusions. The comparative consideration of economic security and financial stability highlights their different analytical nature and functional roles within contemporary economic systems. Financial stability is primarily associated with the resilience and orderly functioning of financial institutions and markets, whereas economic security reflects a broader socio-economic condition encompassing structural capacity, institutional effectiveness, social cohesion, and long-term adaptability of the economy. The relationship between these categories is characterized by asymmetry. Financial stability supports economic security by reducing the likelihood of acute financial disruptions and maintaining access to financial resources. At the same time, the preservation of financial

stability does not preclude the accumulation of structural, institutional, or social vulnerabilities that undermine economic security over longer time horizons. This divergence becomes particularly visible in environments shaped by systemic uncertainty and hybrid threats, where non-financial factors play a decisive role.

The conceptual separation of economic security from financial stability underscores the limitations of approaches that rely exclusively on financial indicators as proxies for broader economic resilience. While financial metrics remain an important component of economic analysis, their explanatory power is constrained when economic insecurity originates from deindustrialization, governance weaknesses, social fragmentation, or strategic external pressures. In such cases, financial stability may coexist with a gradual erosion of economic security.

These considerations point to the need for integrated analytical frameworks that distinguish between financial stability and economic security while explicitly addressing their intersections. A comprehensive understanding of economic security requires the inclusion of financial, institutional, productive, and social dimensions, as well as an explicit recognition of uncertainty and systemic risk. Such an approach provides a more adequate theoretical basis for economic analysis and for the formulation of policies aimed at sustaining economic systems in complex and crisis-prone environments.

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ФІНАНСОВА СТАБІЛЬНІСТЬ ЯК НЕОБХІДНА, АЛЕ НЕДОСТАТНЯ УМОВА ЕКОНОМІЧНОЇ БЕЗПЕКИ

Анотація. Пропоноване дослідження присвячене аналізу співвідношення фінансової стабільності та економічної безпеки з метою визначення меж їх застосування та ролі в оцінюванні стійкості економічних систем. Фінансова стабільність не може розглядатися як самодостатній показник або універсальний замітник економічної безпеки, незважаючи на їх тісний взаємозв'язок у сучасних аналітичних і політичних практиках. Ототожнення цих категорій є результатом методологічного спрощення, яке звужує розуміння економічної безпеки до меж фінансового сектору та призводить до викривлених управлінських рішень, особливо в умовах структурних трансформацій і системної невизначеності. Фінансова стабільність у статті інтерпретується як функціональна характеристика фінансової системи, що відображає її здатність забезпечувати безперервність фінансового посередництва, підтримувати ліквідність і стримувати системні фінансові ризики. Натомість економічна безпека розглядається як ширша соціально-економічна категорія, яка охоплює здатність економіки зберігати виробничий потенціал, інституційну спроможність, соціальну стійкість і адаптивність до довгострокових внутрішніх та зовнішніх загроз. Ключовим аргументом дослідження є положення про асиметричний характер взаємозв'язку між фінансовою стабільністю та економічною безпекою. Фінансова стабільність виступає необхідною умовою економічної безпеки, оскільки її порушення здатне швидко трансформуватися у загальноекономічну кризу. Водночас її збереження не гарантує економічної безпеки, оскільки остання може деградувати внаслідок структурної деіндустріалізації, інституційного ослаблення, соціальної поляризації або впливу нефінансових і гібридних загроз навіть за відсутності фінансової дестабілізації. Таким чином, що орієнтація виключно на фінансові індикатори створює ілюзію безпеки та ускладнює своєчасне виявлення системних уразливостей, які формуються поза фінансовим сектором. За таких умов фінансова стабільність може виконувати маскувальну функцію, приховуючи глибші процеси ерозії економічної безпеки. Це особливо характерно для економік, що перебувають у стані структурних зрушень або під впливом зовнішнього економічного тиску.

Ключові слова: економічна безпека, фінансова стабільність, системні ризики, структурні вразливості, інституційна спроможність, економічна стійкість.

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