MONETARY INTERVENTIONISM AND FINANCIAL INSTABILITY: A PRAXEOLOGICAL PERSPECTIVE ON THE LIMITS OF GOVERNMENT REGULATION

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The contemporary global economy is marked by mounting macro-financial instability, escalating debt burdens, heightened financial market volatility, and pervasive uncertainty. Against the backdrop of large-scale economic and geopolitical shocks, market — based adjustment mechanisms are increasingly complemented by government intervention aimed at mitigating systemic crises, including measures affecting the money supply, credit conditions, and interest rates. Yet excessive or prolonged intervention may distort price signals, reshape the incentives of economic agents, and contribute to the accumulation of structural and financial imbalances.

Ludwig von Mises's praxeological approach provides a framework for examining monetary interventionism through its effects on the purposive actions of economic agents, their expectations, and the mechanisms of market coordination. Under conditions of incomplete and dispersed knowledge, prices and interest rates perform a crucial signalling function that centralized regulation cannot fully replicate.

Monetary interventionism manifests itself through the deliberate influence of governments and central banks on the monetary and credit system by altering

the money supply, interest rates, credit conditions, and foreign exchange markets. Within the Austrian economic tradition, particular attention is devoted to credit expansion and artificially suppressed interest rates, which may generate misleading signals regarding the availability of real savings and encourage investment decisions that are inconsistent with the underlying structure of available resources [1].

As a result, monetary expansion affects not only the general price level but also relative prices, intertemporal coordination, and the allocation of resources. Excessive credit expansion may contribute to the accumulation of investment imbalances, asset price bubbles, and debt-related risks, which tend to materialize during subsequent market corrections.

This perspective is further complemented by F. A. Hayek's concept of dispersed knowledge: the information required for economic coordination is distributed among numerous market participants and is constantly evolving, making it impossible to concentrate it fully within a single decision — making center [2]. Consequently, monetary regulation cannot fully replicate the decentralized process through which market signals and expectations are formed.

Within the Austrian business cycle framework, credit expansion and artificially suppressed interest rates are associated with the risk of distorting signals concerning resource availability. Such distortions may encourage investment decisions that are inconsistent with the underlying structure of real savings, thereby contributing to the accumulation of economic imbalances, asset price bubbles, and debt — related risks [3; 4].

Empirical evidence substantiates the association between credit booms and the subsequent incidence of financial

crises. Based on a panel of 14 advanced economies over the period 1870–2008, M. Schularick and A. M. Taylor demonstrate that rapid credit expansion constitutes a significant predictor of future financial crises [6]. The magnitude of the associated financial vulnerabilities, however, depends on the quality and allocation of credit, the institutional structure of the financial system, the degree of leverage, and the broader regulatory environment [7].

The experience of unconventional monetary policy following the 2008–2009 global financial crisis illustrates its dual effects. While accommodative monetary conditions, including persistently low policy rates and quantitative easing, supported credit supply and aggregate demand, they also contributed to asset-price appreciation and the accumulation of financial risks [8]. Prolonged deviations of monetary conditions from market-determined levels may therefore alter risk-taking incentives, portfolio allocation, and the intertemporal allocation of resources.

For Ukraine, these challenges are compounded by the economic consequences of the full — scale war, substantial fiscal financing requirements, and heightened foreign-exchange risks. Accordingly, the monetary policy of the National Bank of Ukraine (NBU) must reconcile the objectives of price and financial stability with the structural transformation of the economy and prevailing conditions in the foreign — exchange market [9].

At the same time, emergency crisis-management measures should be clearly distinguished from long — term monetary stimulus.

The need for government intervention becomes particularly acute during systemic crises, when liquidity provision and support for financial infrastructure may prevent systemic collapse. However, prolonged state support may generate moral hazard if expectations of government assistance

weaken financial institutions' incentives to bear responsibility for the risks they undertake.

From the perspective of the Austrian School of Economics, government regulation is subject to epistemic constraints, as public authorities cannot possess the full body of dispersed knowledge required for the centralized coordination of financial markets [1; 2]. This, however, does not imply the abandonment of regulation. Its legitimate functions should include establishing predictable rules, protecting property rights, enforcing contracts, ensuring prudential supervision, and maintaining the stability of the payment system.

The full — scale war has fundamentally altered the operating environment of Ukraine's financial system, intensifying fiscal financing needs, foreign — exchange risks, external financial dependence, and pressures on the banking sector. During the initial months of the war, the NBU introduced extraordinary measures to safeguard the banking system, payment infrastructure, and foreign-exchange market. Under conditions of systemic threat, such interventions were justified; however, their prolonged use may weaken market discipline. As economic conditions stabilize, the gradual restoration of competition, market — based price formation, and financial institutions' accountability becomes essential.

In the post — war period, priority should be given to establishing a predictable and competitive financial environment, developing both banking and non — bank financial sectors, protecting the rights of investors and creditors, and mobilizing private capital for reconstruction. The role of the state should primarily focus on maintaining a stable institutional framework, safeguarding property and contractual rights, and mitigating systemic risks. The principal directions of the proposed crisis — management strategy are presented in Table 1 (see p. 84).

Table 1

Key Directions of the Crisis-Management Strategy

Strategic directions	**Key risks**	**Strategic responses**
Predictability of monetary policy	Distortion of interest — rate signals	Transparency of policy objectives and instruments
Preservation of market signals	Accumulation of economic imbalances	Targeted, proportionate, and temporary measures
Accountability of financial institutions	Moral hazard	Avoidance of systematic coverage of private — sector losses
Promotion of competition	Erosion of market discipline	A level playing field for banking and non — bank financial sectors
Market self — coordination	Dependence on government support	Gradual phase — out of extraordinary measures

Conclusion. Thus, from a praxeological perspective, the boundary of government regulation lies where stabilizing intervention begins to undermine the accountability of economic agents, the informational function of price signals, and competition. The Austrian approach should therefore be regarded not as a ready-made set of policy instruments, but as a methodological framework for delineating the appropriate boundaries of intervention [1; 2].

The author's position is that government intervention should be minimally necessary, proportionate, predictable, and temporary. Its effectiveness should be assessed by its ability to stabilize the financial system without undermining the accountability of economic agents, the informational function of market signals, or competitive processes. For Ukraine, this implies combining necessary crisis support with

the gradual restoration of decentralized market coordination as a foundation for long-term financial resilience.

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