

## MACROPRUDENTIAL POLICY UNDER CORONA-CRISIS: UKRAINIAN EXPERIENCE

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***Abstract.** The article discusses the theoretical aspects of macroprudential policy. The specifics of the current crisis caused by the coronavirus pandemic have been determined. The transmission mechanism of the current crisis in Ukraine has been formed. Potential losses and expenses during the crisis of 2020 in Ukraine have been assessed. The actions of the National Bank of Ukraine in modern conditions are analyzed.*

***Key words:** bank, state regulation, central bank, financial stability, macroprudential policy, financial crisis, transmission mechanism*

**JEL CLASSIFICATION: F30, F31**

### INTRODUCTION

Prior to the onset of the global economic crisis in 2007, the financial system was considered to be self-regulating, and existing instruments of stabilization policy, including monetary policy, could prevent a severe economic downturn. However, the crisis has led to the need to rethink modern approaches to the regulation of financial markets. It is considered that necessary to have a reliable regulatory and supervisory mechanism capable of recognizing and preventing financial shocks before they lead to a crisis, while maintaining favorable conditions for the development of financial innovation. The functioning of such a macroprudential policy mechanism should ensure the timely identification of systemic financial risks, the effectiveness of financial supervision instruments, as well as adequate coordination between monetary, fiscal and other sectoral policies. It should be noticed that macroprudential policy and its toolkit has been developed to overcome the consequences of the financial crisis of 2008-2008. However, the current crisis got the name corona-crisis creates new challenges for economic actors, the state and regulators.

The formation of anti-crisis policy requires deepening research in this area. In particular, the following objectives need to be addressed: identification of specific features of the current crisis, substantiation of its transmission mechanism, assessment of the NBU's anti-crisis policy and development of directions for its improvement.

### A SHORT ANALYSIS OF THE MAIN BIBLIOGRAPHICAL REFERENCES IN THE FIELD OF RESEARCH

The effectiveness of macroprudential policy is less developed than other central bank policies. In particular, this applies to monetary and micro-prudential policies. Nevertheless, a large number of scientific publications have appeared on macroprudential policy, its tools and implementation since 2007. Authors in research [1] explain the most important concepts related to macroprudential policy, describe its objectives and the relationship between macroprudential policy and other economic

policies. In the article [2] the preconditions for the emergence and the need to introduce macroprudential policy are considered. The research [3] is on the macroprudential policy tools, its tools and implementation; special attention is paid to the use of indicators to guide macroprudential policy. Recently, studies [4] devoted to the episode of financial instability identification and justifying the use of macroprudential toolkit have been developed. The article [5] investigates the effects of macroprudential policies on bank risk. In addition, in the context of the current economic crisis, it is worth paying attention to the scientist's conclusion that "macroprudential policies are more effective in a tightening than in an easing episode" [5].

## **A DESCRIPTION OF THE RESEARCH METHODS USE**

The transmission mechanism of systemic risk is a system of variables (links of the mechanism and distribution channels), through which the activities of banks can affect the financial stability of both the banking sector and the stability of the economy as a whole. The transmission mechanism of systemic risk is characterized by input (preconditions), transformative (activity of banks under the influence of factors and formation of risk sources) and initial (realization of a system event and materialization of risk) links. An important component of the mechanism is the transmission channels of systemic risk (sometimes called channels of financial contagion). After the realization of a system event, the materialization of systemic risk in the form of crises occurs precisely through its transmission channels [6]. There are credit, liquidity, currency, price, information and structural transmission channels of systemic risk and financial instability spread. The current crisis caused by covid-19 pandemic relates to borrower default channel that can be explain with the chain: "Real sector (borrower default) → Bank → Banking sector". In more detail, the transmission mechanism of the spread of crisis is presented in Fig.1.

As can be seen from Fig. 1, the shock event that triggered the transmission mechanism of the crisis was the emergence and spread of coronavirus infection. The introduction of quarantine has led to a slowdown in economic growth. Due to the deteriorating condition of borrowers with a high probability, we can predict the growth of non-performing loans. A number of these events may lead to a deterioration of socio-economic indicators, such as economic growth, unemployment, budget deficit and potential default.

Improving scientific and methodological approaches to understanding the consequences of the corona-crisis and substantiating the tools for its regulation requires a distinction between the concepts of "costs" and "losses" caused by the implementation of the shock event.

We propose to understand losses as a long-lasting negative impact on economic development and sustainable growth. In quantitative terms, this will be embodied in slowing GDP growth, unemployment, and increasing the debt burden. While costs are the use of public funds to mitigate the negative effects of the implementation and spread of systemic risk.

Losses from the realization of systemic risk of the banking sector will have a significant negative effect on the real sector and the economy as a whole. In this regard, we consider it necessary to assess the dynamics of the following indicators of socio-economic development of Ukraine: slowdown in GDP growth, growth of debt burden, dynamics of the consumer price index and unemployment rate.

Generalization of the largest of the Ukrainian economy from the crisis in 2020 and the costs that will be spent on coping with the consequences and directly dealing with the crisis are listed in Table 1.

**Table 1.** Estimation of potential losses and expenses during the crisis of 2020 in Ukraine

Losses			Costs		
Deterioration of indicators of socio-economic development	2020	2021	Direct and indirect costs	202.	2020-2021
1.1 Nominal GDP (government forecast), %	-4,2%	+2,4%	1. "Long" refinancing loans for banks (UAH million)	2721,0	-
1.2. Real GDP (IMF forecast), %	-7,7%	+3,6%	2. Unemployment benefits (UAH million)	6000,0	-
2. Total losses on exports and imports of tourist services (UAH million)	1500,0	-	3. "Available" loans 5-7-9% "fact: issued loans (UAH million) max. plan:	283,5	-
				35 000,0	
3. Inflation (NBU forecast), %	+7,0%	+4,1%	3.1. "Available loans 5-7-9%" compensation costs% (UAH million) forecast:	3 850,0	
4. Inflation (IMF forecast) y %	+4,5%	+7,2%	4. State program to support the agro-industrial complex (UAH million)	4 000,0	-
5. Revenue decline in %:			5. "Large Construction" Project (UAH million)	75000,0	-
5.1. microbusiness	-90%	-			
5.2. small and medium business	-50%				
5.3. big business	-25%				
6. Reduction of staff in%:					
6.1. microbusiness	-50%				
6.2. small and medium business	-25%	-		-	-
6.3. big business	-25%				

*Own elaboration based on [7-9].*

Predicting the consequences of the crisis in Ukraine in 2020, it should be noticed that the events would have a negative influence on all sectors of the economy and macroeconomic indicators. The main manifestations of the crisis are a sharp rise in unemployment; decline in business activity, loss of income of the real sector of the economy; reduction of GDP and budget revenues; growth of budget expenditures; falling revenues of the banking sector; deterioration of the quality of the loan portfolio of the banking system; negative balance of the normal balance.

The rise in unemployment is due to staff reductions, especially for micro-enterprises, where more than 50% of employees have been laid off. To overcome the losses in this direction and the costs associated with the deterioration of the population welfare, measures based on world experience are recommended. They are increase in unemployment benefits, subsidies for enterprises, tax benefits for the most vulnerable industries and small businesses, public procurement. To counteract the loss of income of the real sector of the economy, it is recommended to conduct a program to support entrepreneurs, provide loans to entrepreneurs at a reduced interest rate. It is

important to add, that most of help is required by small, medium-sized businesses and vulnerable industries. The following measures can be proposed to support the banking sector: providing refinancing loans, lowering the discount rate to stimulate the provision of affordable loans by banks, financial recovery of banks with solvency problems, particularly through their recapitalization and restructuring of problem assets. Maintenance of a stable national currency exchange rate is possible due to foreign exchange interventions and improvement of the Trade Balance. To implement the second measure, it is necessary to stimulate export industries and attract foreign investment. In the long run, these measures will lead to a revival of business activity, GDP growth and, as a consequence, replenishment of the budget.

It should be noted that some of these actions are already involved in the government and the NBU in particular. Also, to overcome the crisis, a necessary condition is to synchronise bank regulation and other sectors of the financial market based on the exchange of information between their regulators for taking prompt action to eliminate imbalances in the economy. With the introduction of anti-crisis measures, the question of filling the budget in the short term is acute. To address this issue, governments in other countries are redistributing funds to the most vulnerable sectors of the economy.

In order to mitigate the impact of the pandemic on the banking sector and to support the economy, the NBU has significantly eased regulatory requirements for banks. The introduction of capital buffers has been postponed, and banks are allowed to restructure customer loans on mutually beneficial terms. To facilitate lending, the NBU has also introduced a new floating-rate long-term refinancing instrument. This will increase the positive effect of lowering the discount rate.

## **CONCLUSIONS**

Macroprudential policy aims to ensure financial stability and overcome the negative effects of systemic risk. Nowadays, there is a lot of research on the effectiveness of macroprudential instruments. However, they have shown limited effectiveness during periods of mitigation, including recession.

The paper defines the transmission mechanism of systemic risk as a system of variables (links of the mechanism and distribution channels), through which the activities of banks can affect the financial stability of both the banking sector and the stability of the economy as a whole. The sequence of crisis phenomena caused by the Covid-19 pandemic is substantiated. The losses due to the development of the crisis, as well as direct expenditures of public funds aimed at overcoming it have been assessed. It is established that the NBU during the crisis has significantly eased regulatory requirements for banks. At the same time, taking into account the limited possibilities of macroprudential tools during the recession, the need to coordinate macroprudential policy with monetary, fiscal and sectoral policies has been identified.

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