

Institute for Economy and Forecasting, NAS of Ukraine



Financial openness: contradictions of European integration requirements under global economic destabilization

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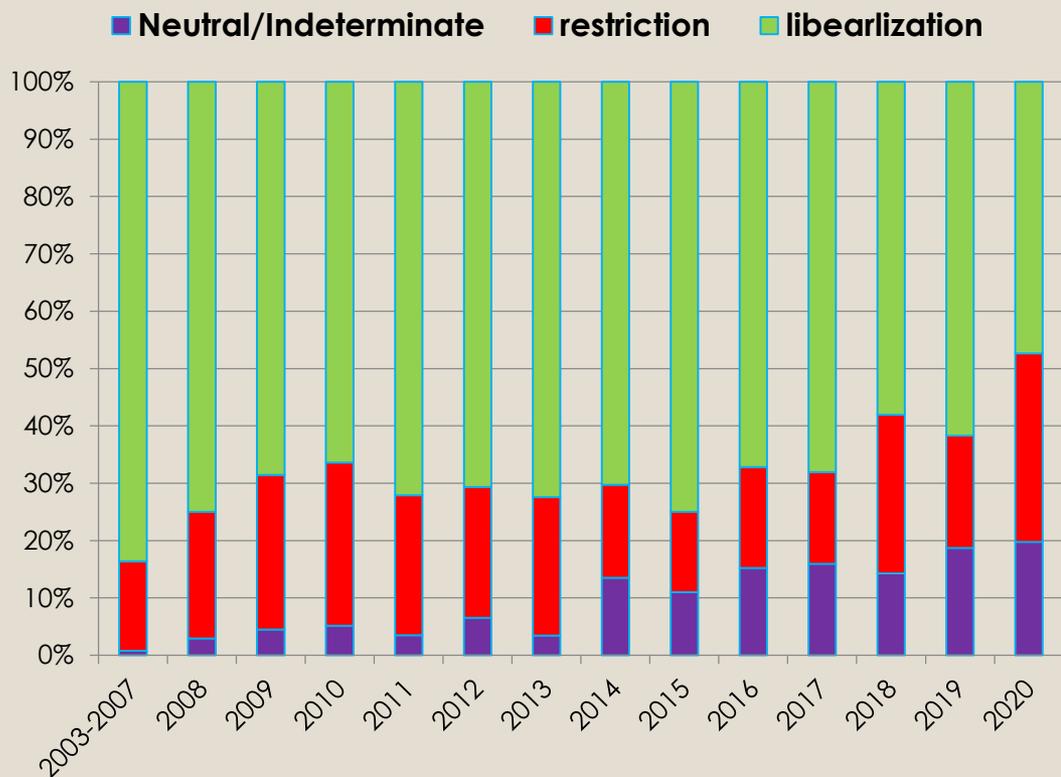
**THE IMPACT OF INTEGRATION PROCESSES ON THE MONETARY POLICY:
BULGARIAN EXPERIENCE AND UKRAINIAN PERSPECTIVE**

Kyiv-Sofia, 20 October 2021

Changes in authorities' view on the role of ICF in financial instability:

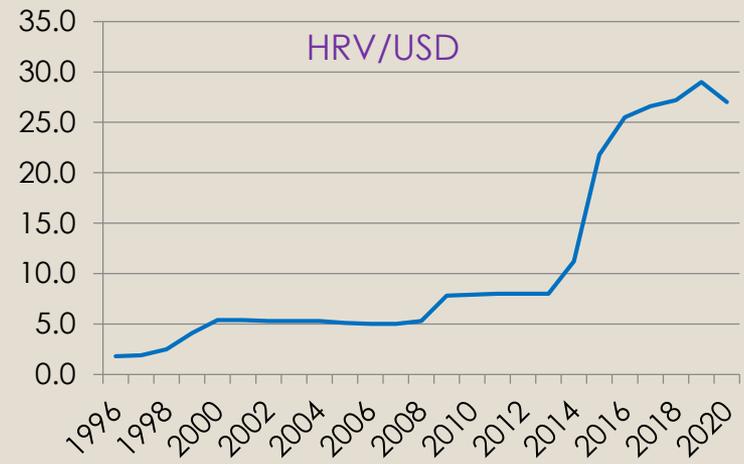
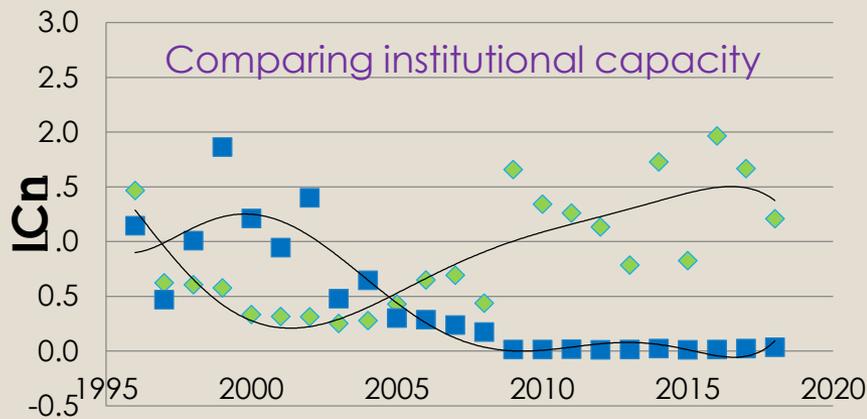
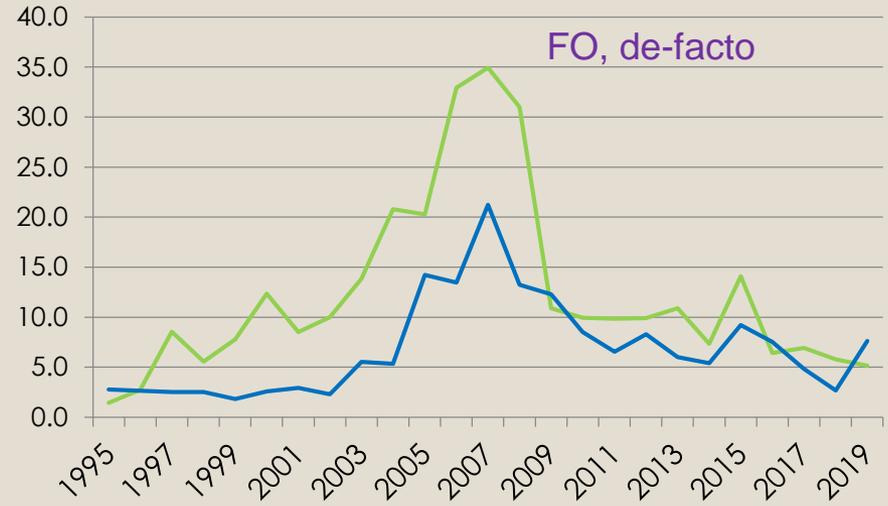
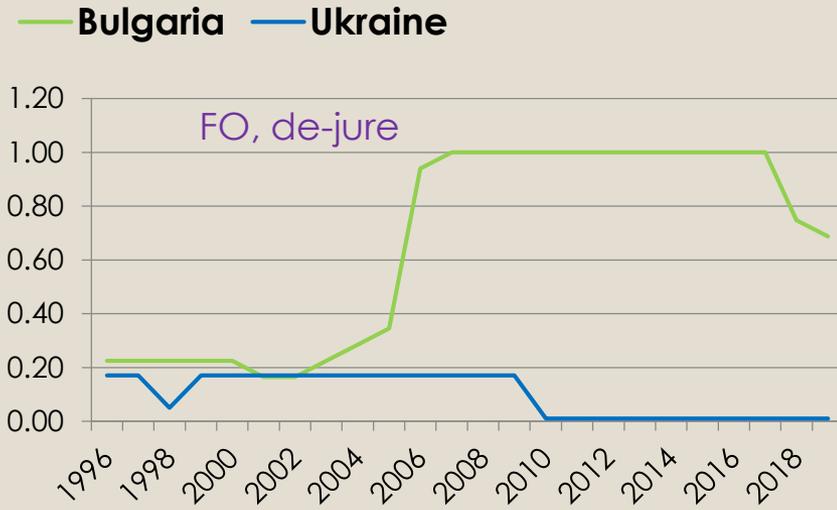
- ❑ “Experience has also shown that countries **will only remain on a path towards openness if they can manage episodes of excessive volatility in capital flows and exchange rates**, and protect domestic financial stability.” (World bank, 2018)
- ❑ “Private foreign capital is, as suggested earlier, increasingly being cast as the Good Samaritan in the resource gap story around the 2030 Agenda. But increased financial integration has already **exposed developing countries to global financial cycles and volatile capital flows. This has tended to widen macroeconomic imbalances, create financial vulnerabilities...**” (UNCTAD, 2019)
- ❑ But in reality financial openness has proven a double-edged sword. The typical emerging market economy (EME) receiving higher capital inflows will grow 0.3 percentage points faster, all else equal. But **the typical EME with higher capital flow volatility will grow 0.7 percentage points slower.** (Mark Carney Governor of the Bank of England, 2019)

Changes in investment policies through the World



Source: UNCTAD (2021)

ICF process assessing



preliminary measures of Ukrainian financial openness policy on the path to EU:

- *foreign exchange control regulations adjustment and using intervention to limit excessive volatility of the national currency caused by the speculative or panic behavior;*
- *developing of macroprudential policy tools to prevent the system risk of ICF's negative impact on financial stability;*
- *applying indirect influence on the ICF parameters by implementing international initiatives to limit illegal capital flows and capital fly (e.g. BEPS).*

... by limiting the illegal, volatile or systemically risky part of capital flows, these measures should free liberalization process for casual market participants on the path to EU.

Thank You for Your Attention!

