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CCAMTAC-IMF MCM Webinar on Unwinding COVID-19 Policy Interventions for Banking Systems Wednesday, May 19 at 7:00am (Washington DC time)

Presenters:

Paul A. Leonovich, Senior Financial Sector Expert, Monetary and Capital Markets Department, IMF

Leonard Chumo, Senior Financial Sector Expert, Monetary and Capital Markets Department, IMF

Mr. Oleg Smolyakov, First Deputy Chairman, Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan

Mr. Gotovsuren Borkhuu, Director of Risk Assessment Division, Banking Resolution and Policy Department, Central Bank of Mongolia

The COVID-19 pandemic has severely affected all countries. Countries have responded appropriately not only by loosening monetary and fiscal policies but also by using regulatory and supervisory measures, including providing borrower support, adjusting bank capital requirements, and putting in place liquidity measures. This Webinar reviewed key policy interventions in the banking sector and offered some guidance and broad principles for managing the exit from crisis-related regulatory and supervisory measures. It also suggested ways to prioritize supervisory tasks during the exit process.

In their presentation, Paul A. Leonovich and Leonard Chumo argued that to prepare for an exit, holistic strategies are called for. Information and advance preparation are key. Important elements include:

- Review government support which should be timebound, tailored to the fiscal and financial stability constraints. Some continued special measures may be needed to avoid social cliffs (e.g. owner-occupier mortgages);
- Start reversing capital measures that are not compatible with international standards, while maintaining some flexibility to restore capital levels in case of a new breach;
- Rebuild buffers once the recovery is firmly under way;
- Intensify supervisory monitoring and use stress tests to inform decision-making;
- Reverse measures that relaxed accounting standards on loan classification and provisioning;
- Supervisors should continue to limit capital distributions as long as uncertainty remains high;
- Update bank resolution plans;
- Set-up, if not yet existent, a systemic risk committee, which focuses on close monitoring of bank asset quality, preparing contingency plans, and preparing a holistic NPL management strategy.

Looking at the case of Kazakhstan, Mr. Smolyakov explained that the Agency together with the Government of Kazakhstan and the National Bank, had adopted a set of anti-crisis measures to successfully support the population and mitigate the impact on the economy and the financial system. Measures to support the population and business included those aimed at: reducing the debt burden, ensuring preferential business lending and subsidizing business loans. The prudential measures that were introduced were aimed at: allowing banks to use capital buffers to cover losses and expand lending, limiting speculative transactions in the FX market and supporting lending to priority sectors. As part of development of Risk-Based Supervision, supervisory stress testing was also conducted for 14 banks. The stress testing particularly assessed the impact of the crisis on the capital adequacy of banks based on two scenarios Mr. Smolyakov suggested that a key lesson for crisis management would be to be conservative in assessments, mitigate risks, and decrease uncertainty as much as possible.

Elaborating on measures in Mongolia, Mr. Gotovsuren highlighted that Mongolia also used a wide range of monetary, fiscal, and macro-financial policy measures to counter the impact of the pandemic. Financial and regulatory measures included postponing the implementation of the capital conservation buffer, temporarily reducing risk weights for credit lines for export purposes, temporarily adjusting loan classification criteria, and relaxing liquidity requirements. Plans to unwind measures, including the extent and speed of the unwinding, will be guided by further developments of the crisis. Various scenarios have been developed, with a full or partial exit, or a partial exit with more targeted measures, or in the least favorable scenario a continuation of current measures. For such a scenario-based approach, Mr. Gotovsuren emphasized the importance of keeping accurate information and validating your data. When the time comes to implement the exit strategy, authorities need to have a clear picture of financial statements and shifts in metrics. The subsequent discussion focused on the work of a systemic risk committee, the impact of uncertainty, and further technical questions on country-specific measures.

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