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## TRANSFORMING CONSUMER AND IT'S IMPLICATIONS FOR THE UKRAINIAN SOCIETY

*This article reviews the changes of consumption patterns in the Ukrainian society over the last 25 years and the impact this transformation had on Ukrainian consumers. The author researches the market forces and the influence those market forces had on the consumer behavior. Finally, the author concludes that the market forces present on the Ukrainian market resulted in transforming consumption patterns and consumer behavior. In this scientific research also presents a critical analysis of the implications for the Ukrainian society and the possible choices of market models.*

**Keywords:** Consumption, Consumer behavior, Ukrainian consumer, Ukrainian economy, Ukrainian society.

An evaluation of Ukrainian economic indexes since 1991, demonstrate a performing well lower its potential. After the difficult transition of the 1990-s, it was an economic boom in the early 2000 – s with growth rates more than 7 %. The shock of the 2008 global financial crisis showed the vulnerability of the economic model. GDP in Ukraine contracted by nearly 15 % in 2009, for example, the OECD countries average was 3.7 %. Economy in Ukraine is very delicate and dependent on external support. This article reviews the changes of consumption patterns in the Ukrainian society over the last 25 years and the impact this transformation had on Ukrainian consumers. The author researches the market forces and the influence those market forces had on the consumer behavior. Finally, the author concludes that the market forces present on the Ukrainian market resulted in transforming consumption patterns and consumer behavior. In this scientific research also presents a critical analysis of the implications for the Ukrainian society and the possible choices of market models.

**Introduction.** The Ukrainian consumption segment operates according to the cultural and social norms and is based in stratification systems that change over time. Consumer patterns transform for both macro and micro factors. At the macro level, such transformation occurs because of structural changes in the environment. At the micro level, this transformation is attributable to personality consumer's varying tastes.

This paper examines the changes of consumption patterns in the Ukrainian society over the last 25 years (1991 – 2016) and the transformation of the Ukrainian consumers as a result of these processes. Also the paper studies the market forces and the influence those market forces had on the consumer behavior. This scientific research is based on the relevant data from the published research papers, government documents, publications and reports.

The objective of this research is to give a picture of transformation of the Ukrainian consumer, the effects and implications for the Ukrainian society. In this paper the following research questions will be answered:

- *What are the effects and implications of the consumer transformation in Ukraine?*
- *How the consumer transformation influence for the Ukrainian society?*

This research paper is structured as follows: Section 2 – Literature review; Section 3 – Conceptual Framework; Section 4 – Practical outcomes; and Section 5 – Conclusions.

**Literature review.** Consumer behavior has been always of huge interest to economists. The understanding of consumer behavior helps the economists to realize how customers select their products and brands; think and feel, also how the consumers are impacted by the economical situation, environment, the reference groups, and family, etc. Consumer's buying behavior is influenced by cultural, social, economic, psychological, and personal factors. Most of these factors are out of control.

Consumer is the study "of the processes involved when individuals or groups select, purchase, use, or order of products, ideas, experiences, or services to satisfy needs and desires" [14, p. 7].

In the economical context, "consumer" refers to patterns of total buying; post purchase and pre purchase activities has implications for repurchase and purchase (Foxall, 1987).

Engel, et al. (1986) generated the term "consumer behavior" as "those acts of individuals directly involved in obtaining, using, and disposing of economic goods and services, including the decision processes that precede and determine these acts" (p. 5). Cheung et al. (2005) collected specific literature in order to categorize the contradictory and fragmented studies (published from 1994 until 2002; 351 papers), presenting an integrated framework of the motivating factors of consumer behavior. They thought that five factors clarify consumer behavior: individual characteristics; product or service characteristics; merchant; medium characteristics; and intermediaries characteristics.

The economists were the primary to dominate model constructing, in the context of buying behaviour. Economic theory holds that purchasing decisions are the effect of mostly conscious and "rational" economic calculations.

Thus, every buyer wants to spend the income on those products that will bring the most satisfaction according to his relative prices and tastes. The background of this vision can be traced back to Adam Smith (1776).

Alfred Marshall (1890) generated the classical and neoclassical theory in economics, into a refined theoretical framework. His theoretical work was about simplification assumptions and examination the effects of changes in

single variables (e.g., price) holding all additional variables constant. For example, Eva Muller (1954) wrote that only one-fourth of the consumers bought with any significant degree of deliberation. The Marshallian model ignores the main question of how brand and product preferences are created. Quite a few studies have recognized the impacts of price differentials on consumers' brand preferences; changes in product cues on demand variations; changes in price on demand sensitivity; and scarcity on consumer choice behavior amongst many others (Lewis, et al 1995).

Hirschman and Holbrook (1982) advocated that the purchase decision is a very small component in the constellation of proceedings involved in the consumption experience. Holbrook (1987) suggested that consumer researchers have to expand their view to study "all facets of the value potentially provided when some living organism acquires, uses, or disposes of any product that might achieve a goal, fulfill a need, or satisfy a want" (p. 49).

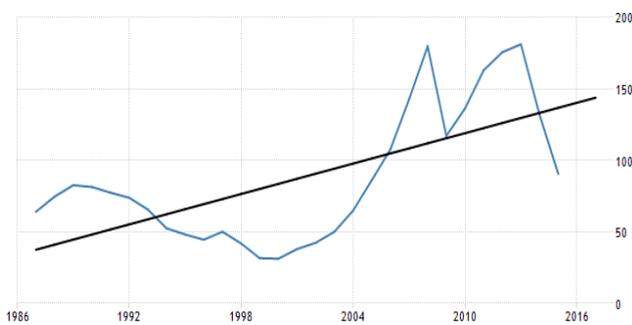


Fig. 1. Ukraine's GDP, USD Billion

Source: The World Bank (2016)

Overall, it is argued that the scientific study of consumer behaviour is rapidly growing as researchers identify and implement innovative transdisciplinary perspectives and techniques to recognize the nature of consumption behaviour and purchase. This wider view attempts to research consumer behaviour in the light of rapidly evolving values, lifestyles, priorities, and social contexts.

**Conceptual framework.** An evaluation of economic indicators in Ukrainian since 1991, demonstrate a nation performing well lower its potential. After the difficult transition of the 1990-s, it was an economic boom in the early 2000-s with growth rates of more than 7 % [2]. The shock of the 2008 global financial crisis showed the vulnerability of the economic model. GDP in Ukraine contracted by nearly 15 % in 2009 (Fig. 1, 2), for example, the OECD countries average was 3,7 % (Fig. 3, 4), and was followed by a sluggish recovery [1]. Economy of Ukraine is very delicate and dependent on external support.

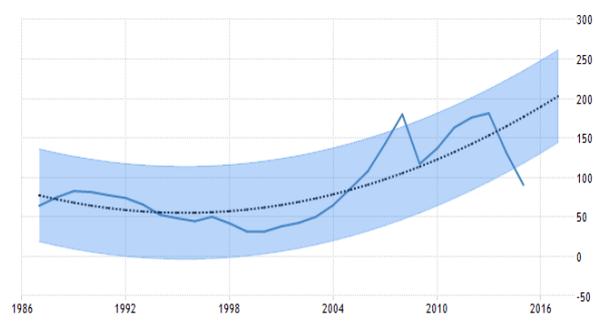


Fig. 2. Ukraine's GDP (forecast), USD Billion

Source: The World Bank (2016)

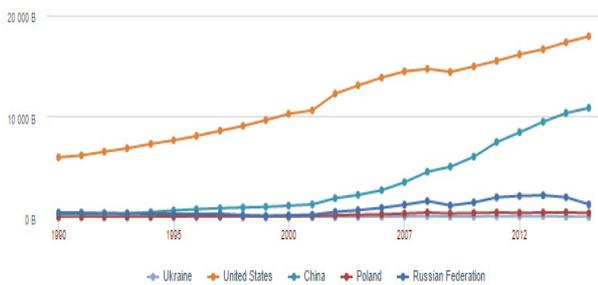


Fig. 3. GDP of some countries, USD

Source: World Development Indicators (2016)

Since 1991 the market of consumer goods has undergone significant changes. Since the economy was gradually transforming from mostly planned to more market-driven model, the supply eventually became in equilibrium with the demand, in some sectors as a result of increasing the import of consumer goods.

The Market forces that influenced consumer behavior in the last 25 years were:

- 1) Increase in product choices increased consumers feelings of happiness and satisfaction;
- 2) When prices of the products started reflecting market forces, consumers became more efficient;
- 3) High inflation rates correlated with the increase in consumption;
- 4) Development of market economy restructured social stratification.

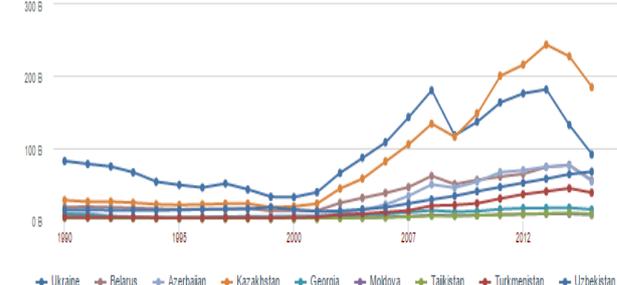


Fig. 4. GDP of some countries, USD

Source: World Development Indicators (2016)

After the crisis that started in 2013 the market forces were influenced by the decline of most economic indicators, such as the decrease in overall consumption as a response to political instability. As a result of the increasing variety and availability of products on the market, the adjusting processes in consumer behavior patterns continue to transform the Ukrainian consumer. Some of the responses and adjustments that consumers made during the last 25 years were:

- 1) Changing consumption basket;
- 2) Becoming more brand loyal;
- 3) Participating in the private economy;
- 4) Doing more comparative shopping;
- 5) Taking fewer risks;
- 6) Buying less;
- 7) Becoming more price conscious;
- 8) Increase in consumerism;

9) Consumerism correlates with the increase in supply and growing national output.

Ukraine wants to move further towards economic integration, because it is the path to modernization. From the one hand, the early years of adaptation to deep and comprehensive free trade area could be complicated in a quite a few areas. This is not surprising because systemic transformations all the time lead to short-term losses for some. From the other hand, domestic consumers, in turn, will have access to high-quality goods in Ukraine at lower prices. Furthermore, safety and better health standards will benefit Ukrainian consumers as they will be guaranteed of the hygiene and quality of the products on sale and reduce the risk of harm to all.

An additional impediment is that the political situation has to be taken into account. Ukraine became independent when

the Soviet Union collapsed in 1991; it remained for the most part dependent on Russia in the ensuing decades. The "Orange Revolution" in 2004 promised new beginnings. However, the post-revolutionary government finally succumbed to scandals and infighting. Pro-Western protests turned into the "Maidan Revolution" in February 2014.

Economic and political turbulence has exacerbated the economic concerns of the majority consumers and influenced them to keep on to cut back on their spending. The political changes correlated with changes towards developing market economy. These changes resulted in high inflation rates (Fig. 5), increase in unemployment (Fig. 6), decrease in social spendings (Fig. 7, 8). Increase in consumption (Fig. 9, 10) up until 2013, and decrease until now.

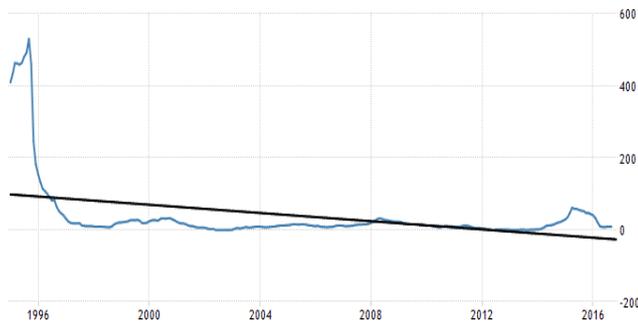


Fig. 5. Ukraine Inflation Rate

Source: State Statistics Service of Ukraine (2016)

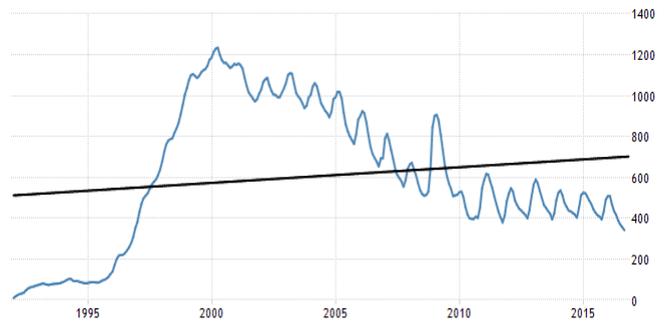


Fig. 6. Ukraine Unemployed Persons, thousands

Source: State Statistics Service of Ukraine (2016)

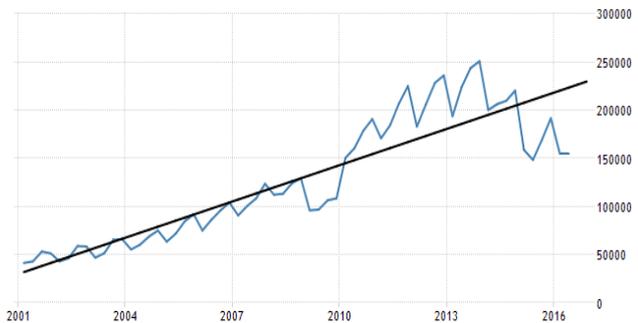


Fig. 7. Ukraine Consumer Spending, UAH/million (2001-2016)

Source: State Statistics Service of Ukraine (2016)



Fig. 8. Ukraine Consumer Spending, UAH/million (2013-2016)

Source: State Statistics Service of Ukraine (2016)

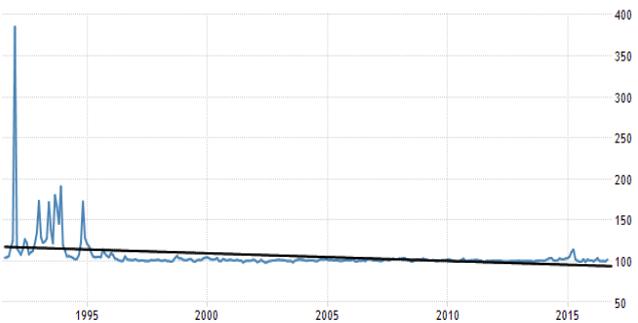


Fig. 9. Ukraine Consumer Price Index (CPI), Index points (1991-2015)

Source: State Statistics Service of Ukraine (2016)

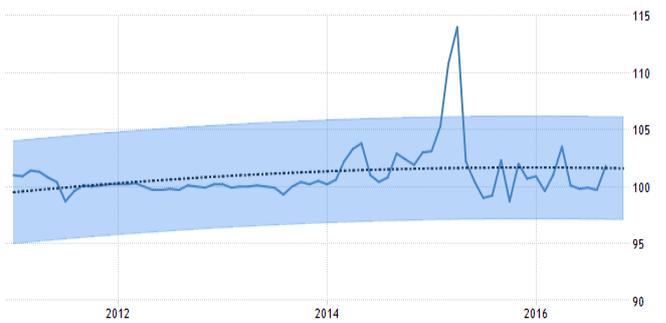


Fig. 10. Ukraine Consumer Price Index (CPI), Index points (2011-2016)

Source: State Statistics Service of Ukraine (2016)

The author concluded that market forces that influenced consumer behavior:

- Product choice increases consumers feelings of happiness and satisfaction;
- When prices of the products started reflecting market forces, consumers became more efficient;
- High inflation rates correlated with increase in consumption;
- Consumer behavior reflects Maslow's hierarchy (Abraham Maslow, 1943) of needs;
- Development of market economy restructured social stratification;
- Market forces in 2004-2013;
- Further social stratification;
- Consumer behavior reflects Maslow's hierarchy of needs;
- Further Increase in product choices increases materialism and consumerism.

Also, the researcher identified market forces in 2013-2016: decrease in consumption as a response to political instability; further increase in materialism and consumerism; further growth of product choices.

**Practical outcomes.**

*Implications for society:*

An overall increase of product choices leads to continuous growth of consumerism and materialism:

1. The consumer's behavior correlates with Hierarchy of needs (Shama, 1992).

2. The consumer behavior also reflects the correlates with the society individualism vs. collectivism. The change in consumption patterns from decision making motivated by symbolic and experiential needs which correlates with collectivism to consumer behavior based more on own preferences, needs, personal goals – features indicative of individualistic society (Kim, Song, & Yuan, 2011).

Materialism is widely measured by 18 item scale. It distinguishes three dimensions: centrality of possessions, happiness through possessions, success symbolized by possessions. Materialism is defined as a set of centrally held beliefs about the significance of possessions in lives (Richins & Dawson, 1992).

It is also defined as the extent to which individuals allow the pursuit of material possessions and goods to assume a main place in their life (Belk, 1994; Richins, & Dawson, 1992).

Materialism correlates with reduced well being because it promotes the lifestyle that undermines the ability to meet the basic psychological needs (Deci & Ryan, 2000; Kasser, 2002).

Material acquisition that is guided by extrinsic controlled reasons reduces well-being (Dittmar et al., 2014). It lowers psychological adjustability and social productivity (Kasser and Ryan, 1994).

There are different reasons why people become materialistic (Fig. 11).

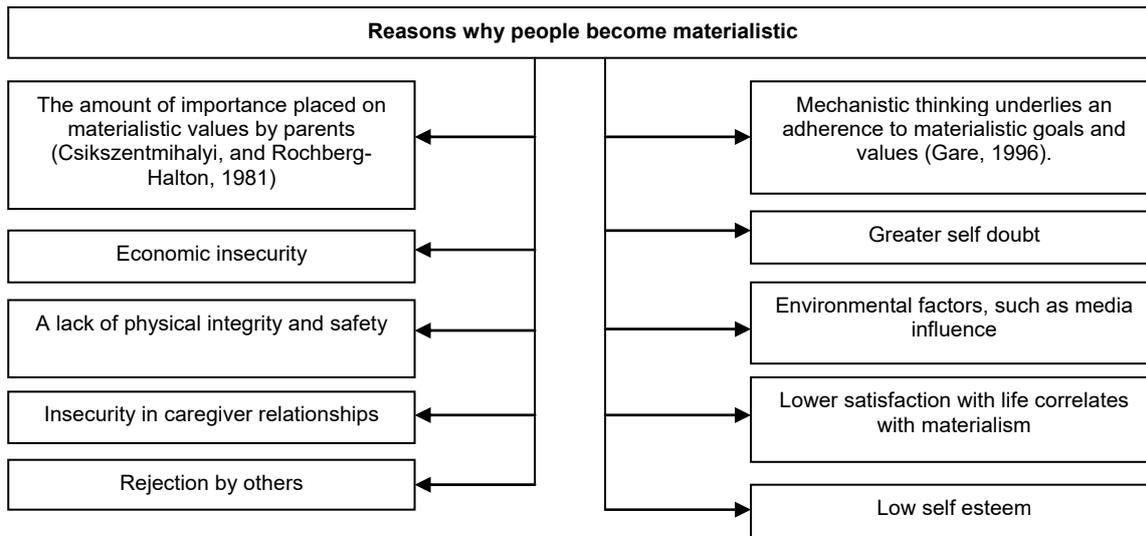


Fig. 11. Different reasons why people become materialistic

Source: Author

Materialistic goals and values can be viewed as means to deal with insecurities and low self esteem. Crisis and similar factors can act as an antidote to materialism (Kasser, et al., 2014).

Another factor that contributes to materialism is how individuals reify extrinsic.

Superior levels of materialism are connected with higher self enhancement motives (wealth, authority, power).

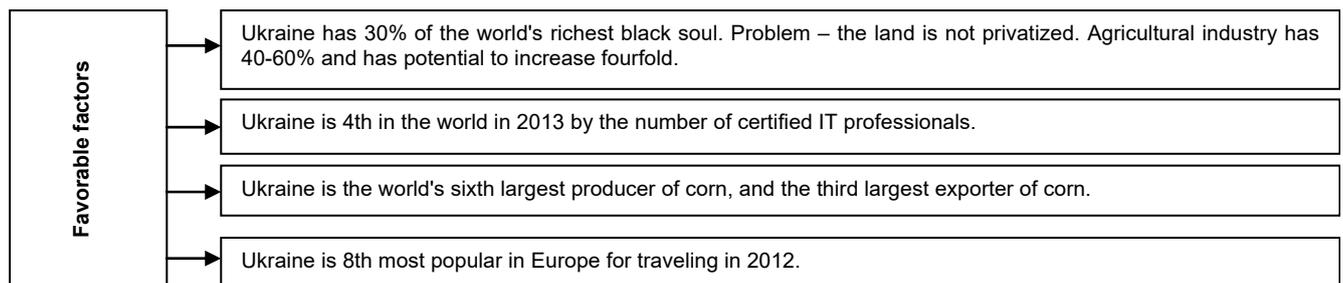


Fig. 12. Favorable factors

Source: Author

*Effects on the society:*

Increase in consumption continues to influence various segments of Ukrainian society. In this article we discuss five aspects of the changes in consumption. We argue that the increase in consumption affected economic, social, cultural, environmental spheres and that it fostered the Ukraine's progress of embracing globalization.

*Social sphere. Restructuring social stratification:*

The class boundaries are no longer centered around the relations to the means of production, but the consumption patterns and capacities create a new way of defining class differences. Spatial marginalization of the working class contributes and compliments the processes of economic marginalization (Ryabchuck, A., & Onyshchenko N., 2012).

*Globalization*

Increase in variety of the consumed goods correlates with increased exposure to globalization. Globalization has formed the ability to buy life changing products for consumers. It has provided the ability of having a lot of consumption alternatives at sensible prices. It has created changes in cultures and societies across the world.

*Cultural*

The productive system of the modern capitalism is geared towards creating, stimulating and multiplying consumer needs. The maximum satisfaction of wants in the market became accepted as the highest social good. Mass consumption, mass production and Homogeneity of tastes and patterns of consumption. Consumer credit stimulates consumerism ("Conspicuous consumption" is extremely elastic). Contrary to Alfred Marshall's Marginal Utility theory, wants for goods and services are not confined to utility, according to "Conspicuous consumption" theory by Thorstein Veblen, consumption can be "conspicuous" or meant to acquire a certain status through its conspicuous display. The demand in this case will become extremely elastic. Increase in brand loyalty as a result of advertising and importance of image-based difference which has to be manufactured along with the product in order to be competitive. The utility of the product based on its use or differentiation becomes secondary to its brand association.

*Economic*

Sociocultural visibility of consumer expenditures correlate with cross-product elasticities. Income elasticities correlate positively with product visibility. Consumers' needs and desire of new products shortens products life span and becomes a driver of economic growth. Research and development becomes a tool to achieve innovations that satisfy customers needs in new ways and create new wants.

A set of EU policies for consumer protection includes safety policy and legislation, consumer law to combat unfair commercial practice, unfair contract terms and misleading advertising, both in domestic and international purchases.

To create new products companies directly engage with customers through social media and digital technologies to collect customers feedback on their products. According to recent research, 30 % of the developed market consumers provide more online feedback to companies about their products and services. And 65 % of the developed market consumers use the internet more to research products and services (Accentuate, 2012).

Social media creates platforms for the companies that can be used at every stage of original product development: idea generation, strategy development, product development, testing and commercializations.

As more and more consumers prefer to buy from the companies that use sustainable practices, it be-

comes essential that companies develop sustainable innovation strategies.

The companies that have capacity to readjust their innovation strategies gain a better understanding of end-user needs and thus have bigger potential in the long run. For example, Proctor & Gamble Connect and Develop Innovation model (C+D) have been successful for over a decade.

Consumers are willing to participate in idea generation stage of product development through practices such as crowdsourcing and lead user innovation. Such practices allow the companies to combine internal research and innovation with external sources and ideas from customers. Practices such as crowdsourcing satisfy consumers needs of creativity, impulsiveness, problem solving and affiliation.

Two major approaches in co-creation process at this stage are random sampling and more knowledgeable users.

Companies also try to empower customers and change the existing concept of consumer involvement at every stage of product development, including testing and launch, when customers help companies to diffuse the innovation and overcome the barriers to it.

*Environmental*

The increase in consumption correlates with increase in environmental pollution.

Postmodernism as a cultural logic of late capitalism (Jameson).

Another important aspect of increase in consumption is the need to enforce a set of ethical principles and rules that will allow to turn the consumer markets and economy into a system that benefits all the members of the Ukrainian society.

In the West a similar idea is referred to as ethical capitalism. In ideal scenario ethical capitalism correlates with ethical consumerism, which can also be viewed as a dominant culture mode where consumers are thoughtful about their purchases and certain things are protected in the procedure of customer decision making. The primary concerns would be environment, people's health and conditions of labor (Cole, 2006).

*Impact on culture*

Some of the most negative impacts of consumerism are mass production, standardization and deterioration of individualism and critical thinking. Essentially the same products are offered to everyone by the standardized production (Arato, 1982). This is referred to as pseudo-individualization phenomenon.

**Conclusions.** As the consumption continues growing and Ukrainian economy enforces more market driven structures, it is important to choose the model of free market that is beneficial for both Ukrainian economy and Ukrainian society: Classical liberal capitalism, Neoliberal capitalism, Social liberalism, Ordoliberalism. Classical liberal capitalism supports private property rights, complete freedom of trade, manufacturing and labor contracting. Markets work with minimal government intervention in terms of restrictions. Neoliberal capitalism emphasizes private property rights, open markets with complete economic freedom, deregulation and privatization, a very limited government role in the economic sphere. Social liberalism as a reaction against classical laissez-fair aligns with the political position of social democracy and proposes balancing individual freedom and social justice. Ordoliberalism strong presence of the state to ensure that free market produces results close to its theoretical potential. However, there are many practical challenges in making a step-change to choose the best model for Ukrainian economy. The author believes that a stronger political will is needed to execute basics in this area.

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### ПЕРЕТВОРЕННЯ СПОЖИВАННЯ І ЙОГО НАСЛІДКИ ДЛЯ УКРАЇНСЬКОГО ТОВАРИСТВА

*Розглянуто зміни структури споживання в українському суспільстві за останні 25 років, а також проаналізовано вплив цієї трансформації на українських споживачів. Досліджено ринкові сили та їхній вплив на поведінку споживачів. І, нарешті, зроблено висновок про те, що ринкові сили, які концентруються на українському ринку, привели до трансформації моделей споживання і поведінки споживачів. У науковому дослідженні також представлено критичний аналіз наслідків для українського суспільства і можливих варіантів ринкових моделей.*

*Ключові слова: споживання, споживча поведінка, український споживач, українська економіка, українське суспільство.*

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### ПРЕОБРАЗОВАНИЕ ПОТРЕБЛЕНИЯ И ЕГО ПОСЛЕДСТВИЯ ДЛЯ УКРАИНСКОГО ОБЩЕСТВА

*Рассмотрены изменения структуры потребления в украинском обществе за последние 25 лет, а также проанализировано влияние этой трансформации на украинских потребителей. Исследуются рыночные силы, и их влияние на поведение потребителей. И, наконец, сделан вывод о том, что рыночные силы, присутствующие на украинском рынке, привели к трансформации моделей потребления и поведения потребителей. В этом научном исследовании также представляется критический анализ последствий для украинского общества и возможных вариантов рыночных моделей.*

*Ключевые слова: потребление, потребительское поведение, украинский потребитель, украинская экономика, украинское общество.*

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## MACROECONOMIC FORECASTING USING BAYESIAN VECTOR AUTOREGRESSIVE APPROACH

*There are many arguments that can be advanced to support the forecasting activities of business entities. The underlying argument in favor of forecasting is that managerial decisions are significantly dependent on proper evaluation of future trends as market conditions are constantly changing and require a detailed analysis of future dynamics. The article discusses the importance of using reasonable macro-econometric tool by suggesting the idea of conditional forecasting through a Vector Autoregressive (VAR) modeling framework. Under this framework, a macroeconomic model for Georgian economy is constructed with the few variables believed to be shaping business environment. Based on the model, forecasts of macroeconomic variables are produced, and three types of scenarios are analyzed – a baseline and two alternative ones. The results of the study provide confirmatory evidence that suggested methodology is adequately addressing the research phenomenon and can be used widely by business entities in responding their strategic and operational planning challenges. Given this set-up, it is shown empirically that Bayesian Vector Autoregressive approach provides reasonable forecasts for the variables of interest.*

*Keywords: forecasting, macroeconomic modeling, bayesian VAR, litterman prior, scenario analysis, IFRS 9.*

**Introduction.** Forecasting, in general, plays a significant role in many aspects of modern business administration. It represents an important part in operation planning and decision-making process, which in turn are prerequi-

sites for successful business management. Since forecasting involves estimation of business-relevant factors both in quantitative and qualitative terms in short-, medium- and/or long-run, organizational decisions and strategy, of course,