

BANK OF RUSSIA'S MONETARY POLICY REVIEW: PLANNED ANALYTICAL WORK AND EVENTS

In 2021–2022, the Bank of Russia will carry out a comprehensive analysis of its monetary policy over the period of inflation targeting (IT). The objective of this review is to assess how effective the selected regime is and how well the current monetary policy parameters conform to the changing environment.

Since 2015, the Bank of Russia has been implementing its monetary policy under the IT regime. The transition to this regime took place stage by stage during several years. Switching to IT, the Bank of Russia defined the objective of its monetary policy framework to reduce annual inflation to 4% in 2017 and maintain it close to this level further on.¹

The years of 2015 and 2016 were a period of disinflation when the Russian economy was overcoming the consequences of the external shocks of 2014 and adjusting gradually to the new monetary policy framework. Owing to the monetary policy pursued and considering the time lags in its effect on the economy, the inflation rate approached the Bank of Russia's target by early 2017. Beginning from 2017, annual inflation hovered around 4% on average, staying at its record lows.

As the transition to the IT regime was completed more than six years ago already, the Bank of Russia considers it reasonable to carry out a comprehensive analysis of the conditions of monetary policy implementation and the results achieved over this period – the Monetary Policy Review (MPR). In the future, the Bank of Russia plans to make such reviews regularly, every five years.



ANALYTICAL WORK

Within the MPR project, the Bank of Russia's research units will carry out analysis in six blocks of topics (work streams):

Work stream 1. Inflation target format.

Work stream 2. The operational procedure of monetary policy.

Work stream 3. Retrospective assessment of the effectiveness of the monetary policy pursued.

Work stream 4. Communication as a monetary policy instrument.

Work stream 5. Monetary policy and financial stability.

Work stream 6. New challenges to monetary policy.

¹ [Monetary Policy Guidelines for 2015–2017.](#)

The results of the analytical work within the six work streams are planned to be published simultaneously on the Bank of Russia website as authored analytical notes. Alongside the analytical notes, the Bank of Russia will release a summary report comprehensively presenting the findings based on the completed work and proposals regarding a possible adjustment of the parameters of the Bank of Russia's monetary policy.



PUBLIC CONSULTATIONS

Communication transparency is crucial to promote the society's confidence in the monetary policy pursued. Therefore, the Bank of Russia believes it essential to carry out a public discussion of the issues studied in the course of the MPR.

The Bank of Russia will hold a series of public consultations, including with the engagement of its regional branches. Representatives of the Bank of Russia will carry out meetings with business associations representing a wide range of industries of Russia's economy, small, medium-sized and large enterprises, government authorities, the academic and expert community, including professional financial market participants, and citizens from various social and demographic groups. An open dialogue will provide a more thorough understanding of the society's perception of inflation and the Bank of Russia's monetary policy. These meetings (panel discussions, sessions at economic conferences and forums, workshops, etc.) are planned to be held in 2021 Q4–2022 H1. The exact schedule and format of these events will be determined later, taking into account the epidemic situation, among other things.



THE MPR COMPLETION

The planned cycle of analytical works and events and the comprehensive consideration of their findings will last for four quarters. The results of the MPR will be presented by the middle of 2022.

During 2022 Q2, the Bank of Russia will release analytical notes and the summary report. By the middle of 2022, the Bank of Russia will make decisions on adjusting the parameters of monetary policy based on the results of the completed analytical work. These decisions will be taken into account when preparing the Monetary Policy Guidelines for 2023–2025.

ANALYTICAL WORK STREAMS

WORK STREAM 1

INFLATION TARGET FORMAT

The international experience of the last thirty years shows that the IT regime is highly efficient in ensuring price stability. However, the economic theory and the practice of macroeconomic policy worldwide do not give an unambiguous answer about the appropriate inflation target. Central banks set the level and format of their inflation targets depending on the specifics of their economies, the extent of fluctuations of absolute and relative prices, the magnitude of risks of deflation, etc. Switching to the IT regime in 2015, the Bank of Russia set the objective of maintaining annual inflation close to 4%.

Within work stream 1, the Bank of Russia plans to:

- analyse whether the inflation target of 'close to 4%' conforms to the current conditions of monetary policy implementation in Russia, including in the context of foreign countries' experience;
- assess whether the Russian economy has formed the conditions for reducing the inflation target;
- assess the pros and cons of various methods for setting the inflation target (e.g. a point estimate or a range);
- identify the most relevant indicator for IT, considering the current structure and state of the Russian economy (e.g. the headline consumer price index (CPI), the core CPI, etc.); and
- assess the pros and cons of alternative monetary policy frameworks aimed at maintaining price stability (e.g. average IT and price level targeting), including model-based assessments for the Russian economy.

WORK STREAM 2**THE OPERATIONAL PROCEDURE OF MONETARY POLICY**

The Bank of Russia built the system of monetary policy instruments in its current form back in 2013. Specifically, the Bank of Russia introduced a symmetrical interest rate corridor with the key rate as its centre and one-week auctions as the main operations. In the subsequent years, the Bank of Russia enhanced the existing monetary policy instruments and added new ones. However, their key parameters and approaches to their use remained unchanged. Nonetheless, foreign central banks have significantly altered their operational procedures over the last decade, including the formats of their operational goals, the range of counterparties in operations, etc. The conditions for managing money market rates in Russia have changed as well, with a structural deficit in the banking sector reversing to a structural surplus and new segments developing in the money market.

Taking into account these changes and relying on its own experience and the experience of foreign central banks, within work stream 2, the Bank of Russia plans to:

- assess the effectiveness of the current operational procedure of the Bank of Russia's monetary policy and outline possible areas of its development;
- assess whether the existing operational goal of monetary policy is coherent with the current conditions of monetary policy implementation in Russia;
- consider different types of monetary policy operational procedures and estimate the optimal width of the interest rate corridor; and
- analyse the evolution of the role of required reserves and the principles of counterparty policy.

WORK STREAM 3**RETROSPECTIVE ASSESSMENT OF THE EFFECTIVENESS OF THE MONETARY POLICY PURSUED**

Under the IT regime, the Bank of Russia makes its monetary policy decisions relying on a complex of model-based calculations and expert opinions of the Board of Directors regarding economic developments and price dynamics over the forecast horizon, potential risks created by internal and external conditions, and financial markets' response to these risks.

To make an in-depth assessment of IT results, within work stream 3 the Bank of Russia will carry out a retrospective analysis modelling alternatives to the earlier made monetary policy decisions and estimating their impact on the economy and inflation. In particular, the Bank of Russia plans to:

- explore the timeliness of the monetary policy response to proinflationary and disinflationary shocks;
- assess alternative strategies for making monetary policy decisions considering the nature and magnitude of shocks that actually materialised over the period of IT;
- analyse the role of non-observable variables in the Bank of Russia's model-based approaches; and
- assess the influence of fiscal policy measures on the conditions of monetary policy implementation, including the launch of the fiscal rule mechanism in 2017.

WORK STREAM 4 COMMUNICATION AS A MONETARY POLICY INSTRUMENT

Communication is an essential instrument of monetary policy within the IT framework. Enhancing the transparency of monetary policy, the central bank seeks to reduce inflation expectations and anchor them at a low level, strengthen confidence in the monetary policy pursued, and increase the predictability of interest rate levels in the economy. Beginning from 2015, the Bank of Russia has been consistently expanding and improving its communication policy, seeking to provide information in a timely and comprehensive manner.

Within work stream 4, the Bank of Russia plans to analyse the efficiency of these efforts, in particular to:

- assess the predictability of its monetary policy decisions, including as compared to the experience of foreign central banks;
- determine a set of key factors influencing the predictability of monetary policy decisions;
- assess whether the Bank of Russia's current communication is clear to the main target audiences; and
- identify the optimal parameters for the Bank of Russia's communication, including the range of target audiences, channels for communicating information to them, and its content and form.

WORK STREAM 5**MONETARY POLICY AND FINANCIAL STABILITY**

By influencing the financial sector, monetary policy may impact systemic risks in the economy, including in the financial industry. Mitigation of such risks is the objective of financial stability policy. The pursued monetary policy can both intensify and weaken systemic risks that may generate through the financial sector potentially adverse consequences for the stable functioning of the real sector. As monetary policy and financial stability are interconnected, it is critical to identify optimal approaches to their interaction.

Within work stream 5, the Bank of Russia plans to:

- make an integrated assessment of the world experience of interaction between monetary policy and financial stability policy, including in the context of achieving goals when cross-border capital flows are intense;
- analyse the Russian experience of monetary policy implementation under the IT regime in the conditions of emerging exogenous and endogenous risks to financial stability.
- assess whether it is reasonable for the Bank of Russia to continue its current practice in terms of interaction between monetary policy and financial stability policy and how it can be improved.

WORK STREAM 6 NEW CHALLENGES TO MONETARY POLICY

Monetary policy operates over a short-term horizon, but the conditions of its implementation transform gradually, influenced by long-term social and economic development processes. The society changes its priorities and preferences and its consumption, saving and investment patterns, which may ultimately impact the effectiveness of the monetary policy transmission mechanism.

In the next few years, important changes will be associated with the rapid development of innovations in the digitalisation of the economy which have been boosted even more by the COVID-19 pandemic. The financial industry as one of the main participants in the digitalisation process is offering increasingly more digital products and services altering the conventional understanding of finance management. Coupled with the problem of income inequality and differences in the level of financial literacy and financial inclusion, this trend may influence consumer preferences and the household saving behaviour model.

The advancement of digital solutions in the financial industry, including alternative methods and means of payments, has prompted central banks worldwide to develop sovereign digital currencies. In particular, the Bank of Russia presented its [Digital Ruble Concept](#) in April 2021. The pilot testing of a digital ruble will start already in 2022. The introduction of a digital ruble will become an important factor that may impact the conditions of monetary policy implementation in Russia in the medium term.

There are also increasingly growing concerns worldwide about climate change. The combination of individual and cross-country solutions to address climate change will have a direct impact on the structure of economies in the next few decades, macroeconomic stability, and the pace of adaptation to new conditions.

Within work stream 6, the Bank of Russia plans to analyse the influence of a number of challenges to monetary policy, including the following:

- 1. Introduction of digital currencies.** How strong will be the impact of the issue of digital currencies on the conditions of monetary policy implementation and the effectiveness of the operational procedure, including with account of the international experience?
- 2. Development of the financial market.** What are the main factors influencing economic agents' preferences when choosing savings instruments among available alternatives (bank products, services of non-bank financial intermediaries, etc.)? How will the evolving role of non-bank financial intermediaries in the financial system impact the conditions of monetary policy implementation and the effectiveness of the transmission mechanism?

- 3. Climate change.** What are the main risks to monetary policy that are associated with active domestic and foreign climate policies? How can changes in the structure of the economy and in economic agents' preferences (the circular economy, green products, etc.) influence the conditions of monetary policy implementation? What implications for monetary policy are possible in the case of a higher probability of materialisation of physical risks?
- 4. Demographic changes.** How do changes in the age structure of the population influence people's consumption and savings preferences (changes in the savings ratio and preferences in price segments, etc.)? How strong may be the impact of demographic changes on the neutral rate of interest in the Russian economy?
- 5. The problem of inequality.** How does inequality affect the conditions of monetary policy implementation? To what extent do regional specifics in the level of inequality generate differences in the efficiency of the monetary policy transmission mechanism? How does inequality in access to financial products and the level of financial knowledge impact the choice of households' behaviour models and monetary policy performance?