



Bank of Russia

The Central Bank of the Russian Federation



**BANK OF RUSSIA  
KEY RATE DECISION:  
PREPARATION PROCESS  
AND COMMUNICATION**

Moscow

# Bank of Russia key rate decision: preparation process and communication

Key rate is the principal monetary policy instrument of the Bank of Russia. The Bank of Russia takes decisions on the level of the key rate in order to achieve its monetary policy objective, i.e., to keep annual inflation around 4%.

The Bank of Russia Board of Directors takes key rate decisions eight times a year: at four quarterly pivotal meetings and four intermediate meetings that are held in-between. After each meeting, the Bank of Russia publishes a key rate press release. After each pivotal meeting, the Monetary Policy Report is published in addition to the press release and the BoR Governor holds a press conference, comments on the decision, and answers reporters' questions.

Each key rate meeting of the Board of Directors is preceded by a long document preparation process.

The key rate decision is based on macroeconomic forecasts. Therefore, the process of the preparation and revision of the Bank of Russia's forecast and related analytical materials is called 'a joint forecasting round'. The round unites analysts and experts from various departments and regional branches of the Bank of Russia comprising the Bank of Russia expert team. Experts' work within the forecasting round is coordinated by the BoR Monetary Policy Department. The Bank of Russia's key rate decision is based on the thorough analysis of the up-to-date information and the forecast of the principal economic indicators. The wide range of the joint forecasting round participants ensures a comprehensive viewpoint on the current Russian and global economic situation and potential options for its development.

Below, we describe the main stages of the preparation for the key rate decision and provide clarifications of the decision in the follow-up to the Board of Director's meeting.

## Stage I Preliminary analysis of principal parameters of the baseline and alternative economy development scenarios

Timeframe: four to three weeks before the decision.

Primary participant:

- Monetary Policy Department
- With the assistance of:
  - Research and Forecasting Department;
  - BoR regional branches;
  - BoR departments (if necessary).

The primary objective of the joint forecasting round is to establish the parameters of the base forecast of the Bank of Russia and alternative scenarios that take into account potential risks. For this purpose, the Monetary Policy Department conducts regular monitoring and performs a detailed analysis of the statistical and other information, as well as key Russian and global events that might affect the situation in the Russian economy. The Department's experts assess to what extent current processes correspond to the earlier forecasts and whether they can lead to the adjustment of the forecast scenarios of the Bank of Russia.

Based upon these assessments, the Monetary Policy Department updates the prerequisites of the forecast scenarios, i.e., the external and internal economic factors that cannot be influenced directly by the Bank of Russia's actions but that can materially affect the Russian economy and inflation dynamics. These factors include, among other things, the situation in the global raw materials, commodity and financial markets, the economic policy of major foreign economies, and potential changes in the fiscal, tax, social and other areas of the Russian economic policy. The

risks for the base scenario, i.e., such events that might lead to a deviation of the situation from the base scenario, are also identified. Based upon the risk assessment, suggestions for alternative scenarios are prepared.

The Monetary Policy Department presents its suggestions regarding the adjusted base scenario prerequisites and risk factors to the BoR Governor and his or her deputies responsible for the primary areas of the Bank of Russia's activity. The director of the Research and Forecasting Department also takes part in the discussion. The discussion participants can also request an analysis of additional cases that are interesting from the point of view of the key rate decision and coverage in the Bank of Russia's publications.

This preliminary meeting leads to an approval by the BoR Governor and meeting participants of a number of prerequisites and risks for the Monetary Policy Department to work on further. This information constitutes the basis for the forecast analysis performed by the Department.

The experts of the Monetary Policy Department prepare short-term (up to two quarters) and medium-term (up to three years) forecasts of economic indicators using a wide range of analytical and model tools.

Complex forecasting models that capture the principal economic interrelationships at the macrolevel form the core of the medium-term forecasting framework. They serve as the basis for obtaining the key parameters of the base medium-term macroeconomic forecast of the Bank of Russia that are published after pivotal meetings. These parameters include the dynamics of inflation and economic growth, monetary indicators and the balance of payments. Moreover, the model toolkit allows calculating the scenario path of key rate changes. The parameters of possible alternative forecast scenarios are also calculated based on the models. The Bank of Russia pays great attention to the development of the model apparatus and conducting the economic research. For the detailed information on the current research, [see Annual Reports of the Bank of Russia \(since 2016\)](#). At the moment,

the Bank of Russia has not yet published its single model toolkit framework; there are plans to do it in the future. Individual economic research results are published [in the Research section](#) of the Bank of Russia's website, in the Russian Journal of Money and Finance, and in other leading academic journals (Voprosy Ekonomiki, Applied Econometrics, etc.).

Models are an instrument used for forecast calculations. The final forecast version is prepared taking into consideration expert judgements that are based on both the results of model calculations and a wider range of factors which cannot always be accounted for using model instruments.

A necessary element of the forecasting round is the interaction of experts from various BoR departments, which results in a complex assessment of the current economic situation and its prospects. Positions with regard to the assessment of key economic indicators, prerequisites and parameters of the forecast scenarios are clarified and agreed during working meetings held by the Monetary Policy Department. Such discussions and meetings with many diverse participants are also important as they help consider the mutual influence of the monetary policy and other policies of the Bank of Russia.

If necessary, certain issues can be discussed with the participation of representatives of banks and business, including industrial unions and associations. These meetings are organised by the Monetary Policy Department and the Research and Forecasting Department. Representatives of the Bank of Russia management can also take part in the meetings.

The Monetary Policy Department experts also constantly interact with their colleagues from the economic divisions of the Bank of Russia regional branches. The Monetary Policy Department sends the regional experts requests to work on individual tasks. Such requests are primarily related to additional analysis of cases and trends that cannot be unambiguously interpreted at the federal level. Regional branch experts perform a detailed analysis taking into account all the factors

that are available to them at the regional level. Along with the statistical data analysis, they can also interact with local authorities and business. This format allows both performing a more detailed analysis of certain issues and identifying potential trends and risks that have not yet been reflected in the statistics.

## **Stage II**

### **Discussion and approval of the parameters of the base and alternative economy development scenarios**

Timeframe: two to one weeks before the decision

Primary participant:

- Monetary Policy Department
- With the assistance of:
  - Research and Forecasting Department;
  - departments of the Bank of Russia;
  - BoR regional branches;
  - representatives of ministries and government bodies.

At this stage, the latest received statistical and other information that affects the parameters of the forecast scenarios is taken into account.

Usually, working meetings are held with the representatives of the Ministry of Economic Development of the Russian Federation and the Ministry of Finance of the Russian Federation with the participants discussing the key aspects of the current economic situation, macroeconomic policy measures and their implications for the forecasts. To discuss certain issues, the Bank of Russia experts can hold meetings with representatives of other ministries and government bodies. The Research and Forecasting Department also takes part in the meetings.

Moreover, a video conference is organised whereby the director of the Monetary Policy Department discusses the results of the regional analysis with the representatives of regional branches of the Bank of Russia. During the discussion, key conclusions are identified that will be included in the materials

to be submitted to the Bank of Russia Board of Directors.

The Bank of Russia also monitors market participants' expectations and any time before the 'week of silence' (see Stage III) can come out with any comments with regard to the upcoming decision. There can be various reasons for such comments, including incorrect interpretations of any statements made by the Bank of Russia or exceedingly large variation in the assessment of the economic situation or the upcoming decision by market participants and the Bank of Russia. The Bank of Russia assesses the necessity to come out with comments every time depending on the situation. Therefore, market participants should not consider such comments as a permanent practice or a mandatory activity that always precedes the key rate meeting of the Board of Directors.

## **Stage III**

### **The week of silence**

Timeframe: one week before the decision.

Primary participants:

- the Bank of Russia Governor;
- first deputies and deputies of the BoR Governor responsible for the principal areas of BoR activity (hereinafter, BoR Governor deputies);
  - Monetary Policy Department;
  - departments of the Bank of Russia;
  - BoR regional branches.

Seven days before the key rate decision (from 1:30 PM Moscow time on the seventh calendar day before the decision to 1:30 PM on the decision day) are called a 'week of silence'. During this period, all statements or publications the Bank of Russia representatives that might affect the expectations of financial market participants with regard to the upcoming decision are prohibited. Financial markets are traditionally sensitive to central banks' statements before monetary policy decisions. Therefore, it is important to eliminate the risk of ambiguous interpretation of such decisions or publications and, consequently,

to avoid the increased uncertainty of market participants' expectations and excessive market volatility. During the week of silence, BoR representatives also avoid meeting with banks, the expert community and investors on monetary policy issues. Observing a week of silence is a common practice among central banks in many countries.

Not long before the key rate meeting of the Bank of Russia Board of Directors, the BoR Governor holds a number of meetings with BoR Governor deputies responsible for the principal areas of BoR activity, heads of regional branches of the Bank of Russia, and representatives of certain BoR departments.

At these meetings, the director of the Monetary Policy Department presents main results of the analysis of the economic situation and inflation dynamics, the factors leading to forecast adjustment, and the final results of calculations under macroeconomic forecast scenarios. Based on the analysis and the forecast, he specifies the possible options for the key rate decision at the nearest key rate meeting and the key rate path over the whole forecast horizon. The Department director can turn the floor over to heads of regional branches so that they could provide more detailed comments on the situation in certain regions or on certain regional issues. The director of the Research and Forecasting Department also provides the assessment of the economic situation and forecast calculations.

Then, meeting participants ask their questions and clarify the line of reasoning. Moreover, BoR Governor deputies and department directors present at the meeting can, if necessary, provide additional comments on issues within their competence.

After that, possible options for the upcoming decision and potential versions of the signal on the Bank of Russia's intentions with regard to its monetary policy are discussed. The monetary policy signal is an important part of the decision package; it is included in the press release together with the key rate decision. Usually, the signal contains the Bank of Russia's assessment of the possibility of potential key rate adjustments in case of the

materialisation of the base scenario or the assessment of factors that may influence the Bank of Russia's key rate decision in the future. At the same time, the signal does not constitute an obligation of the Bank of Russia; its execution depends on whether the situation will be developing in accordance with the base forecast. The signal is necessary to help steer market participants with regard to further BoR actions, which is important for the establishment of their expectations. These expectations of market participants are, in turn, subject to regular monitoring by the Bank of Russia.

Thus, during the key rate discussion, each meeting participant voices their justified opinion on the following two points: (1) which key rate decision option they support; and (2) which signal should accompany the decision.

During preliminary meetings, a draft press release on the key rate decision is also discussed, taking into account the results of the debates; during pivotal rounds, a draft Monetary Policy Report is discussed as well.

As a result, preliminary meetings with the participation of the BoR Governor provide for a deep and thorough discussion of all the aspects that should be considered when taking the decision and reflected in the main public documents. During these debates, the rationale for the upcoming decision is worked out for final review by the Bank of Russia Board of Directors. At the same time, the preliminary meetings may prompt additional issues that are reviewed by the Monetary Policy Department before the meeting of the Board of Directors where the final key rate decision is taken.

## Stage IV Meeting of the Board of Directors. Key rate decision

Timeframe: by 1:30 PM Moscow time on the decision day

Primary participants:

- Bank of Russia Board of Directors
- With the assistance of:
- Monetary Policy Department;

- representatives of the Ministry of Economic Development of the Russian Federation and the Ministry of Finance of the Russian Federation;
- Public Relations Department of the Bank of Russia.

The Bank of Russia Board of Directors hears the report of the director of the Monetary Policy Department on the current situation, main parameters of the forecast scenarios, and the possible options for the key rate decision and the key rate future path. The report contains the latest information available as of the morning of the decision day. After that, a discussion on the principal issues takes place.

The discussion is held with the participation of representatives of the Ministry of Finance of the Russian Federation and the Ministry of Economic Development of the Russian Federation who can comment on issues in question, including the economic policy, within the competence of their institutions.

Members of the Board of Directors voice their opinions on the current situation, forecast scenarios, and the key rate decision. The Board of Directors aims to achieve a consensus on the most significant aspects of the discussion and the key rate decision. It is important, among other things, because the Bank of Russia sticks to the single vote policy when the public receives a single and unambiguous position of the Bank of Russia. This is essential for economic relations participants to correctly understand the actions of the Bank of Russia, which affects their expectations with regard to the monetary policy and inflation dynamics.

Members of the Bank of Russia Board of Directors take the key rate decision, discuss the text of the press release and approve its final version. The invited participants, including the representatives of the Ministry of Economic Development of the Russian Federation and the Ministry of Finance of the Russian Federation, do not take part in voting.

The press release describes the factors that the decision is based upon and provides an insight into the prospects for the development of the Russian economy and an informational signal on potential changes in the monetary policy. The press release has a clear structure: a preamble with the decision, its short rationale,

and the permanent sections Inflation dynamics, Monetary conditions, Economic activity, and Inflation risks. This structure facilitates the navigation and helps find the most important information quickly. As it was noted above, the press release also contains the signal on the future monetary policy of the Bank of Russia. Usually, it is located in the end of the preamble. The signal does not constitute an obligation of the Bank of Russia. It is executed if the situation develops in line with the base forecast. Using signals is popular among central banks that target inflation.

## Stage V Publication of the press release and the Monetary Policy Report, press conference of the BoR Governor

Timeframe: after 1:30 PM Moscow time on the decision day

Primary participants:

- the Bank of Russia Governor;
- Monetary Policy Department;
- Public Relations Department.

At 1:30 PM Moscow time, [the press release on the key rate is published](#). As noted above, this event ends the week of silence.

After that, on the day of a pivotal meeting, the BoR Governor makes a [public announcement on the decision](#) (3:00 PM Moscow time) that is broadcast in real time on the Bank of Russia website in Russian and in English and is publicly available. During the press conference, the BoR Governor can provide more detailed explanations regarding certain aspects of the decision and comments on the Bank of Russia's forecasts. The BoR Governor also answers reporters' questions.

One week after each of a pivotal meeting (on the sixth business day), the Bank of Russia also publishes a [Monetary Policy Report](#) reviewing the key aspects of the development of the current situation and providing detailed forecast scenarios and tables with principal forecast parameters. The Report also contains the results of the discussion of key issues during preliminary meetings and the meeting

of the Bank of Russia Board of Directors. The Report format provides for their detailed coverage.

## Stage VI

### Explanation of the decision

Timeframe: two weeks after the decision.

Primary participants:

- management of the Bank of Russia;
- Monetary Policy Department;
- Research and Forecasting Department;
- Public Relations Department;
- BoR regional branches.

The Bank of Russia provides explanations regarding its key rate decision and key aspects of its monetary policy not only on the decision day but also during the whole period until the next key rate decision. The Bank of Russia continues to communicate with the general public and representatives of authorities, business and expert community. The most intensive phase falls on the two weeks after the key rate decision.

After pivotal meetings, representatives of the BoR management, the Monetary Policy Department and the Research and Forecasting Department hold meetings with representatives of foreign financial institutions

(banks, funds), analysts, and experts, including representatives of higher educational institutions. The main purpose of such meetings is to answer questions on the monetary policy and to get a feedback.

Heads of regional branches of the Bank of Russia together with the Monetary Policy Department hold meetings with real sector enterprises, banks, local authorities, and higher educational institutions. These meetings are usually accompanied by interviews with BoR representatives in local media where they answer questions related to the implementation of the monetary policy. Interviews are granted to both business- and general public-oriented media. More active clarification of monetary policy issues at the regional level helps develop a more targeted approach to working with different audiences and influencing inflation expectations (see, for example, Samarskaya Gazeta, No. 140, 26 September 2017, 'Bank of Russia Goes Bear', interview with deputy director of the Bank of Russia Monetary Policy Department, A.E. Polonskiy; Business Information Agency Abireg.ru, 06 October 2017, interview with the director of the Bank of Russia Monetary Policy Department, I.A. Dmitriev).