OeNB Seminar: Monetary Policy Regimes in CIS Economies and Their Ability to Provide for Price and Financial Stability

Compiled by Julia Wörz

On May 15, 2013, Professor Marek Dabrowski, former president of the Center for Social and Economic Research (CASE) in Warsaw and professor of economics, held a seminar at the Oesterreichische Nationalbank (OeNB) to discuss the economic outcomes of different monetary policy regimes in CIS economies since the early 1990s. Dabrowski was a co-founder of CASE and chairman of the Supervisory Council until 2011. Besides his academic career, he also held the positions of First Deputy Minister of Finance of the Republic of Poland (1989–90), Member of Parliament (1991–93) and Member of the Monetary Policy Council of Narodowy Bank Polski (1998–2004). He has been involved in policy advising and policy research in a wide range of CESEE countries since the late 1980s and is the author of several academic and policy papers as well as the editor of several books.

At the OeNB seminar, Dabrowski gave a comprehensive overview of monetary policy regimes in the CIS countries, highlighting the convertibility of CIS currencies, exchange rate trajectories, inflation performance, exchange rate arrangements and monetary policy frameworks in these countries. He elaborated on the evolution of monetary policy regimes with a special focus on the perspective of inflation targeting. One of the major challenges for the CIS countries was to achieve price stability after the transformational shock. In the first half of the 1990s, the dissolution of the Soviet ruble area led to very high inflation or even hyperinflation in the CIS countries, which moderated to two-digit levels after the introduction of new currencies and stabilization programs. However, this partial progress was not accompanied by sufficient fiscal policy support; in addition central banks' foreign exchange reserves were unstable and, in general, too low. All these factors added to the financial crisis of 1998/99. The currently excessive stocks of foreign exchange reserves, especially in Russia, should therefore be interpreted as a lesson from the 1998 crisis, i.e. as a build-up of safeguards and not as a sign of mercantilist policies. The economic boom of the 2000s allowed for a return to macroeconomic stability with stronger fiscal fundamentals, but nevertheless proved insufficient when it came to withstanding the shock from the global financial crisis of 2008/09.

Dabrowski went on to illustrate the regulatory frameworks and exchange rate trajectories of individual CIS countries, stating that all countries currently adopt an intermediate (hybrid) monetary policy regime with more flexibility than ten years ago. The choice of monetary policy regime is not strongly related to inflation performance in the region. Turkmenistan, for example, which employs an exchange rate peg, records the lowest inflation in the region but also imposes a number of price controls. Russia's performance, by contrast, improved in times when the Russian ruble was more flexible, suggesting some advantage of exchange rate flexibility.

By way of conclusion, Dabrowski argued that the fact that inflation targeting does not work in the CIS countries yet is mostly attributable to a widespread "fear of floating." He advised against the continuation of hybrid regimes in an increasingly financially integrated global environment as such regimes are nontransparent, noncredible and difficult to operate. The CIS countries are not yet fully integrated into the global financial markets, their financial sectors are strongly dominated by the banking sector. Moreover, the level of dollarization is high in the CIS with the exception of Russia and Kazakhstan. Finally, Dabrowski outlined the pros and cons of free-floating exchange rate regimes versus hard pegs without adopting a clear preference for either. In particular, he highlighted the problem of choosing the right anchor when trade structures are very diversified.

The general discussion was opened by a question about the underlying reasons for persistently high inflation in the CIS. Until 2011, inflation rates in the region were above those observed in all other emerging markets. Dabrowski pointed out that inflation rates have come down in relative terms in the last two years due to Russia's performance and rising inflation rates in Asia following quantitative easing in the United States. Still, the generally weak inflation performance in the CIS can be attributed to ill-defined monetary policies in the region, involving multiple targets and instruments. In response to a question on the surprisingly small role the euro plays in the CIS countries despite strong geographical and trade ties with the euro area, he clarified that the majority of trade is in U.S. dollar-denominated energy products and that euro-relevant trade ties are considerably less pronounced. Another question referred to the experience of other emerging markets, where exchange rates were often a source of shocks rather than a shock absorber, and the specific experience of CIS countries in this respect. Dabrowski emphasized that the ability of exchange rate movements to act as a buffer against external shocks depends on the degree of capital mobility and is in general limited to the short run. In the medium to long run, he sees some room for counter-cyclical reactions under a floating exchange rate regime.