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Monetary Policy Reaction on Crisis Shocks in Central and Eastern European Economies and Russia during 2008-2016 Years

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During the period from 2008 till now Central and Eastern European (CEE) and Russian economies have come through the consecutive turbulences starting from global economic and financial crisis in 2008-2009, then European debt crisis from 2010, the end of quantitative easing in USA (2013-2014), fall in oil prices (2014-2016) and economic sanctions (the last two – mainly for Russian economy).

The main objective of the paper is to focus on monetary policy reaction on external shocks in these countries from point of view of regime choice and instruments selection. The comparative analysis is used based on macroeconomic statistics from World Economic Outlook Database.

By mid 2000's CEE countries had been split into two groups from point of view of monetary policy regimes (Central And Eastern Europe, 2015): on the hand, countries with currency boards and hard pegs (Estonia, Lithuania, Latvia, Bulgaria, Croatia, Bosnia and Herzegovina, FYR Macedonia), on the other - with inflation targeting regime (Poland, Czech Republic, Slovak Republic, Hungary, Romania, Serbia, Albania). Thus the region supports the "bipolar view" hypothesis. Slovenia with its dual targeting framework (monetary and exchange rate) had stand alone, but it entered the Economic and Monetary Union first in 2007. Russia also was on the side of this trend, trying to implement implicit real exchange rate targeting with monetary policy focusing on nominal exchanger rate and fiscal policy – on monetary sterilization.

During the 2008-2016 turbulent period in CEE countries there has not been any large shifts in monetary policy regimes except for the enlargement of the euro area (Slovak Republic, Estonia, Latvia and Lithuania entered the EMU). Russia on the opposite undertook serious changes - gradual shift towards more flexible exchange rate regime during 2009-2014 and introduction of free floating and inflation targeting framework in late 2014.

Comparative analysis of different monetary policy regimes based on average macroeconomic indicators of groups of countries with these regimes show that fixed exchange rate (especially currency board) demonstrate better outcomes (both from economic growth and inflation point of view) during calm periods, while countries with this regime performing much worse during crisis times than inflation targeting countries. The best results were shown in crisis period by euro area members. Abrupt transition to inflation targeting framework in Russia have led to deterioration of macroeconomic indicators: both economic growth and inflation (caused by exchange rate dynamics).

Standard monetary policy instruments during global economic and financial crisis of 2008-2009 were aimed mainly at stabilizing exchange rates either through maintaining relatively high interest rates or through exchange interventions. The latter can be estimated using International Financial Statistics data on changes in international reserves. Some special liquidity-providing measures were introduced in Autumn 2008 in Czech Republic and Russia. Special focus was placed on exchange rate through the introduction of exchange rate floor in Czech Republic (Czech Republic, 2016) and Self-financing Program in Hungary (Kolozsi, Hoffmann, 2016).

Keywords: finance, monetary policy, CEE countries, Russia, external shocks

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Note:

By CEE countries we mean Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, FYR Macedonia, Poland, Serbia, Slovak Republic, Slovenia, Romania.