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The Central Bank of the Russian Federation

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Abstract: This paper first analyses the strengths and weaknesses of the Central Bank of Russia from two perspectives, the organisational structure and the decision-making mechanism. Crude oil prices rose under the influence of the Russian-Ukrainian war, and for the Russian economy, which is highly tied to the price of oil. The main objective of the policy implementation of the Central Bank of Russia is to adjust the exchange rate and to position the inflation rate in Russia at 4% to keep the economy running smoothly. Finally, the paper concludes that the Central Bank of Russia has to adopt both centralised and decentralised decision-making strategies, both of which are crucial as they help to make effective and accurate decisions that help to achieve the bank's goals and objectives.

1. The Organizational Structure and Decision-Making Methods.

1.1 The Organizational Structure

The Central Bank of Russia (CBR) is comprised of a bi-level organizational structure, hence during decision-making, the two systems co-jointly work to provide effective monetary policies that benefit the citizens of Russia and help to boost economic growth. The two levels of CBR organizational structure include the Central Bank of Russian Federations and non-bank financial firms and banks as well as representatives and branches of foreign banks. During the decision-making process, CBR depends on the macroeconomic predictions and factors in the condition of the financial markets and economy. The Central Bank of Russia makes decisions based on the key rate that targets to attain the goals of its monetary policy, which is to maintain an inflation rate of around 4% (Canuto, 2022) [1]. The Central Bank of Russia is an independent financial institution that is accountable to the State Duma of the Federal Assembly of Russia. CBR's key function is to formulate and implement monetary policy, control the banking sector, and maintain the stability of the Russian currency and the flow of money in the Economy.

Central Bank of Russia's organization structure is comprised of the Board of Directors which includes the Governor who is appointed by the president and approved by the State Duma and 14 members who are also appointed by the presidents based on the recommendation by the Governor of the Central Bank of Russia [2]. During the decision-making process, the following are the key management organs that make up the decision-making committee, the Executive Office, the Board of directors, and the Supervisory council. In the Central Bank of Russia, the decision-making process undergoes five stages namely, Stage I, “Forecast Preparation”, Stage II, “Discussion and specification of the forecast parameters”, Stage III, “The week when a key rate decision is to be made is known as the quiet period”, Stage IV, “Day of the decision”, and finally Stage V, “communication of the Decision”. Through this stage, the Central Bank of Russia meets regularly to discuss the monetary policy that can be applied the address the economic problems that face the economy, hence accurate and effective decision is arrived at after an in-depth consultation with the experts and members of the public.

1.2 Strengths and Weaknesses of how it's organized and Decision-Making Processes

1.2.1 Strengths

One of the key Strengths of the Central Bank of Russia's organisational structure and decision-making process is the independence of the Board of directors and selected member committees that do not have conflicts of interest. The independence of the CBR helps in the formulation of robust policies that benefit the banking system and the broader economy. Also, an independent committee is formulated which comprises the economic, financial, and policy experts, hence it will help in the formulation of effective policies and decisions.

Accountability is also another strength that has enabled the Central Bank of Russia to successfully make effective decisions that address the monetary problems faced in the Russian economy. Since CBR operates as an independent entity, its key role of safeguarding the stability of the Russian Currency, “The Ruble”, has helped to improve their decision-making process and develop a very competent organisational structure that will help to ensure accurate and effective decision-pertaining monetary policies which protect the national currency are made.

1.2.2 Weaknesses

Central Banks such as the Central Bank of Russia are very secretive when it comes to the decision-making process, decision made is not transparent to the members of the public, hence economic development can fail and the targets projected cannot be obtained since the policymakers and the experts in the central bank implemented the wrong monetary policy direction [3]. For example, during crises such as the recent global COVID-19 pandemic, the Bank of Russia responded by implementing a policy mix that entails FX policy, monetary policy, and regulatory forbearance to address the spike in the financial market volatility, this reduced economic performance, and the Country’s growth rate decline and the inflation rate increase to 9.4% as at September 2020[4].

2. Recent Monetary Policy Decision

The recent monetary policy formulated and implemented by the Central Bank of Russia Central Bank of Russia's is an increase in policy rate as a result of the War between Russia and Ukraine [5]. The Central Bank of Russia board and committees ordered a 100 basis point increase of the policy rate to 8.5% in response to inflationary pressure. The policy led to adjustments in the price of oil and other commodities. Central Bank of Russia data shows oil prices to be on an upward trend and has also reported how higher oil prices boost household earnings. Oil revenues helped offset this fall in domestic demand and had a beneficial effect on non-oil GDP primarily through an increase in investment and capital stock, in line with literature findings. Thus, the Central Bank of Russia can respond effectively to rising crude prices through various strategies. Oil Price, US dollars per barrel for 2014, 2015, 2016, and 2017 (Table 1), the following data points were considered inflation at year-end 7.57%-4.24%5% Inflation rates range from 4.5-0.1%-4% which increased over four quarters as follows: Loans to nonfinancial organizations and households occupying residential addresses for 12-13 weeks ranging between 9-11 and 11-13 (inclusive). The current account of balance of payments in billions of US dollars Net Private Capital Outflow by Sector in Billion US dollars in 2018. -90 Billion

Table presents indicators as year-on-year growth rates unless otherwise specified.

Table 1: Baseline scenario: moderate drop in oil prices, revocation of sanctions by 2015.

	2014	2015	2016	2017
Oil price, US dollars per barrel	106.5	105	103	102.5
Inflation, % at the year-end	7.5	4.5–5.0	3.7–4.2	3.7–4.2
GDP	0.4	1.0	1.9	2.3
Household consumption	2.2	0.8	1.9	2.5
Fixed capital investment	-2.5	1.5	2.5	3.5
Money supply, national definition	5.5–6.0	9–11	9–11	10–12
Loans to non-financial organizations and households	12–13	9–11	10–12	11–13
Current account of balance of payments, billions of US dollars	55	37	26	15
Net private capital outflow, billions of US dollars	-90	-35	-29	-18

2.1 Reason for the decision

The reason for the formulation and implementation of the increase in policy rate in July 2022, was to stabilize the inflation rate at approximately 4% as of 2024, despite the expert projection of the policy rate to be around 8.5% to 9.5%[6] After the country invaded Ukraine, it led to economic problems such as a sharp increase in oil prices and stagnant economic growth as well as depreciation of the local currency as a result of high inflation rates. High interest rates tend to have less of an immediate and long-lasting effect on real variables compared to current policies; their shock has less of an adverse impact on domestic variables over time [7]. Capital inflow shocks cause central banks to lower interest rates than is their actual policy, thus limiting deflation and weakening exports in the short term.

2.2 Goal of the Decision

The main goal of the policy implementation is to adjust the exchange rate, by struggling to reduce the gap of inflation which spikes as a result of war. Frankel [8] asserts that countries that specialize in exporting commodities often set their prices using local currency rates to adapt quickly in response to fluctuations in trade flows and economic shocks. Assuming an exchange rate peg, the CBR strategy entails including local currency oil prices in our intervention rule and setting its response coefficient at zero [9]. Monetary policies therefore do not affect foreign capital shocks while domestic variables also remain unchanged by their presence or absence in domestic variables. After an oil price shock, central banks extend appreciation through foreign exchange interventions, leading to import price decline and overall aggregate level decrease as import costs fall and incomes and prices decline as real appreciation causes decreased export demand, lower incomes, and prices to fall further. Once oil prices recover further domestic currency depreciates and import prices rebound further, which contributes to long-term stability within an otherwise volatile economy.

2.3 Decision Implementation Process and its Effect

The Central Bank of Russia operates under a two-tier banking structure comprised of the central bank, various financial institutions, and decentralized regional branches - which allows it to adapt easily to regional economic variations. Therefore, the Central Bank of Russia (CBR) adopted a centralized decision-making process with committees composed of experienced members and an independent board [10]. The implementation process is relevant and appropriate since streamlined, consistent, and effective policies and decisions are attained. When crude oil prices decline significantly, CBR uses various monetary tools - like changing key interest rates - to mitigate its impact on wages and inflation.

The effects of the decision formulation and implementation strategy adopted by the Central Bank of Russia are that it helps in the development of well-informed decisions that safeguard effectively the national currency and reduce the rate of inflation towards a target of 4% [11].

3. Summary of the Central Bank of Russia Decision Making

The adoption of both centralized and decentralized decision-making strategy has been fundamental for the Central Bank of Russia since it helps to make an effective and accurate decision which aids in attaining the bank's goals and objectives. The decision-making process by centralization promotes organizational objectivity which helps to focus on key things such as global oil prices and management inflation using the interest rate policy. In response to declining oil prices, the CBR employs monetary tools, including interest rate adjustments and currency interventions, to mitigate the effects on wages and inflation. In the future, to boost decision-making and efficiency in policymaking, the Central Bank of Russia should adopt the use of rapidly advancing technology on the forecast of macroeconomic issues, enhance the strategies and policies adopted to address the economic challenge and ensure that the policy formulation and implementation followed the right procedure.

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