

«MODELLING THE EFFECTS OF RUSSIAN MONETARY POLICY ON EAEU COUNTRIES»

In order to strengthen the economic linkages and to cooperate effectively within an economic union the member countries develop measures to coordinate their macroeconomic policy. In the Eurasian Economic union (EAEU) the fluctuations of Russian economy, the biggest economy of the economic union, affect all trade and resources flows. This study focuses on the estimation of the effects of monetary policy conducted by the Bank of Russia on the main economic indicators of other members of EAEU.

The key aspects of international monetary transmission are explained in vast theoretical and empirical literature, which is focused mostly on the effects of monetary policy in large open economies such as the USA or Eurozone on different advanced or developing countries. The literature highlights several key channels of international monetary policy transmission. The international trade channel creates two opposite effects of foreign monetary expansion: the expenditure switching effect emerges due to the appreciation of the partners' currency and results in decline of their trade and output; the demand expansion effect emerges due to the increase in income of the large economy and following increase in demand for exports from the smaller partners in contrary results in their output growth [1-5]. The effect of foreign monetary expansion on output through the interest rate channel is positive: the fall in interest rates in the whole region leads to the increase in consumption and investment [1-5]. The labour migration channel also explains opposite effects on foreign demand: on the one hand, expansionary policy in the large economy leads to the rise of aggregate demand due to personal transfers received by migrants' families; on the other hand, it reduces the aggregate supply because increased migration results in reduction of labour supply in these countries [6-7]. Several financial channels are distinguished in economic literature [8-10] but their analysis is different as it is usually conducted on banking data and uses different empirical methodology.

The empirical analysis in this study is based on a block-exogenous SVAR-model for international monetary transmission of Bank of Russia's policy (the method was implemented in several papers e.g. [5], [11-13]). It allows to identify Russian monetary shock and evaluate its impact on the main economic indicators of the other EAEU countries: real activity, consumer prices, short-term interest rates, money growth on the period between 2000 and 2021 and shorter subperiods. The study also provides the estimation of the impact of Russian monetary shock on some indicators that approximate different channels of policy transmission: volumes of trade between Russia and EAEU members, real bilateral exchange rates, cross-border personal transfers etc.

The empirical results show that contractionary monetary shock in Russia is transmitted to EAEU primarily through the money markets: it causes the increase in interest rates and reduction in money growth. Moreover, the role of this channel significantly increased recently in relation to the monetary regimes change: Kazakhstan, Belarus and Kyrgyz Republic abandoned fixed exchange rates and moved to managed floating and then to inflation or monetary targeting. The role of interest rate channel in Armenia, which applied inflation targeting since 2006, the role of this channel was important on the whole examined period.

The impact of Russian monetary shock on the real activity in EAEU is heterogeneous. Contractionary policy acts as a negative demand shock for Belarus and Kazakhstan, in Armenia and Kyrgyz Republic it leads to decline in inflation, but the impact on output is controversial. However, there is no clear evidence of “beggar-thy-neighbour” effect, as export to Russia reduces temporarily in response to the shock.

Literature

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