

METHODOLOGICAL NOTE

PROJECTED KEY RATE PATH TO BE INCLUDED IN BANK OF RUSSIA'S FORECAST

In accordance with the inflation targeting monetary policy framework, the Bank of Russia makes its monetary policy decisions based on a medium-term economic forecast. The forecast is updated at each of the core key rate meetings of the Board of Directors in February, April, July, and October. Key forecast indicators are published along with the press release after each of these meetings.

Starting from the Board of Directors' meeting on 23 April 2021, the list of indicators will be expanded to include information about the projected path of the Bank of Russia's key rate over the forecast period (currently, until 2023), which the Bank of Russia sees as the most probable at the time of the forecast update.

ON THE FORMAT OF THE PUBLICATION OF THE PROJECTED PATH OF THE KEY RATE.

The Bank of Russia's forecast of the key rate path will be published in the form of **ranges for the average key rate** for each calendar year covered by the forecast. This path will correspond to the macroeconomic conditions of the Bank of Russia's baseline forecast and the monetary policy aimed at attaining the price stability objective, which is to keep annual inflation 'close to 4% on a continuous basis'¹.

At the same time, in the course of the year, the key rate may be above and as well as below its average for the year. For example, from 2016 through 2020, when the key rate was trending down, it was usually above its average for the year at the beginning of the year and below this average level at year-end (see table and chart below). Otherwise, when the key rate is trending higher, it tends to be below its average for the year at the beginning of the year and above that level at year-end.

Thus, the ranges for the projected average key rate presented in the table along with the Bank of Russia's forecast should not be treated as the bounds of its variation in the respective year. The values of the key rate during the year may vary more substantially, i.e. they may fall outside these projected ranges (see Chart 2). That said, the Bank of Russia expects that the average value of the key rate in the respective year with high degree of probability will be within the ranges stated in the forecast table.

BANK OF RUSSIA'S KEY RATE BY CALENDAR YEAR, (2016-2020)

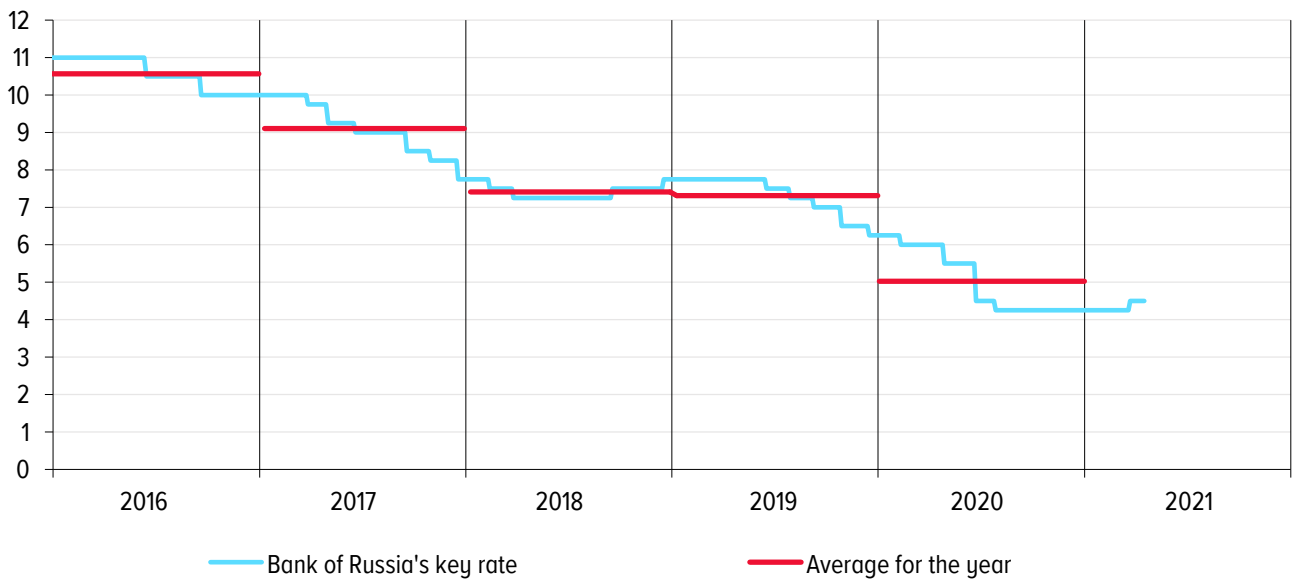
(% PER ANNUM)

	2016	2017	2018	2019	2020
Average	10.6	9.1	7.4	7.3	5.0
Maximum (deviation from average, pp)	11.00 (+0.4)	10.00 (+0.9)	7.75 (+0.4)	7.75 (+0.5)	6.25 (+1.3)
Minimum (deviation from average, pp)	10.00 (-0.6)	7.75 (-1.2)	7.25 (-0.1)	6.25 (-1.0)	4.25 (-0.7)
Start of year	11.00	10.00	7.75	7.75	6.25
End of year	10.00	7.75	7.75	6.25	4.25
<i>Change over a year (pp)</i>	<i>-1.00</i>	<i>-2.25</i>	<i>-</i>	<i>-1.50</i>	<i>-2.00</i>

¹ For details about the Bank of Russia's inflation target, refer to [the Monetary Policy Guidelines for 2021–2023](#).

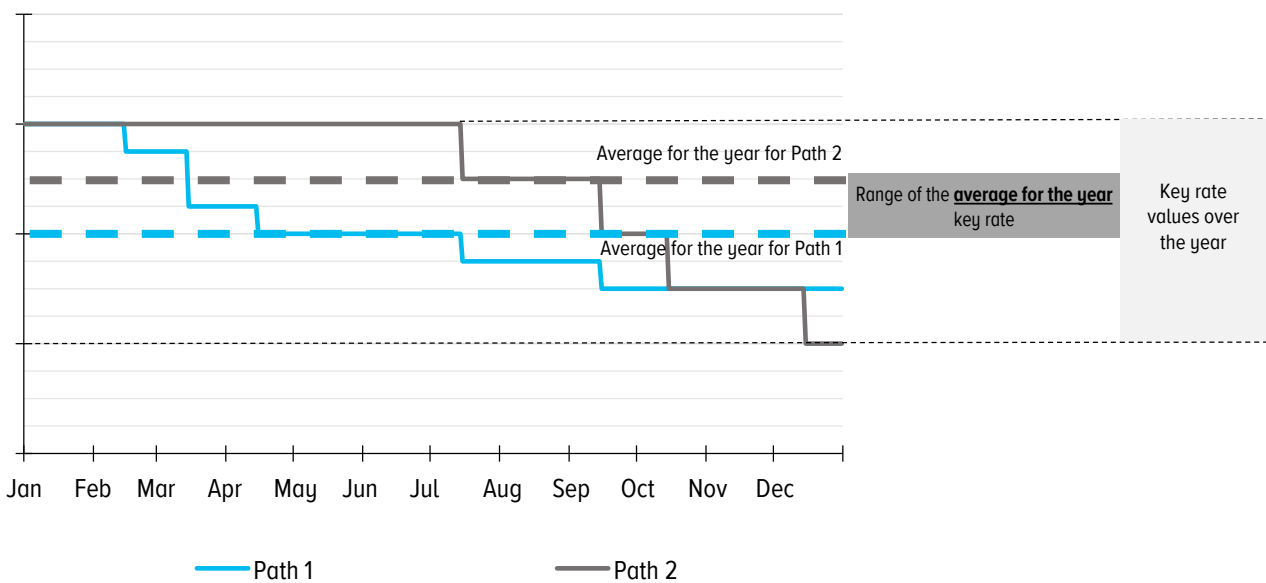
BANK OF RUSSIA'S KEY RATE BY CALENDAR YEAR, (2016-2020)
 (% PER ANNUM)

Chart 1



THE RANGES OF THE AVERAGE FOR THE YEAR KEY RATE AND THE KEY RATE VALUES OVER THE YEAR

Chart 2



Note: The chart demonstrates two hypothetical forecast paths of the key rate for the year from 1 January through 31 December. This example shows that the range of the average for the year key rate for each path (the dark gray area) is notably narrower than the range of the key rate values over the year.

ON THE BANK OF RUSSIA'S FORECAST UPDATE

The Bank of Russia also emphasises that the baseline forecast outlines the most probable scenario for the development of the macroeconomic situation in Russia and abroad based on the information available at the time of the respective Board of Directors' key rate meeting. The Bank of Russia updates its baseline forecast, including the projected key rate path, four times a year, at its core meetings.

In light of the foregoing, the projected key rate path presented in the forecast table should not be regarded as the Bank of Russia's commitment to follow this path regardless of the circumstances². An updated projected key rate path will be published in the follow-up to each core meeting.

² Also the projected key rate path published by the Bank of Russia should not be interpreted as using forward guidance. Forward guidance is an unconventional monetary policy tool used by central banks to intensify the transmission of their monetary policy when they have little space for further monetary policy easing through key rate cuts. For the Bank of Russia, this instrument is not on the agenda.