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## CCAMTAC- Regional Research/Analytical Economic Policy Seminar

### “Monetary Policy Frameworks: An Index and New Evidence”

Thursday, July 28, 2022

Introduction:

**Norbert Funke**, Director, CCAMTAC

Moderator:

**Altynai Aidarova**, Resident Advisor, CCAMTAC

Presenter:

**Filiz Unsal**, Deputy Division Chief, Research Department, IMF

Discussant:

**Haykaz Igityan**, Head of Model Improvement Division, Central Bank of Armenia

**Azat Kozubekov**, Head of Economic Department, National Bank of Kyrgyz Republic

Better monetary policy frameworks (MPFs) contribute to better monetary policy outcomes. In this regard, a comprehensive assessment of central banks' frameworks is important both for external parties and policymakers. There have been many attempts to measure specific elements of MPFs. Most recently IMF staff (Filiz Unsal, Chris Papageorgiou, and their external coauthor Hendre Garbers) published a new index that is meant to provide a multidimensional characterization of MPFs across three pillars: Independence and Accountability, Policy and Operational Strategy, and Communications (IAPOC). In the context of the region, IAPOC covers several CCAM countries and shows how their MPFs were developing over time.

In her presentation, Ms. Filiz Unsal, one of the main developers of the IAPOC index, gave a very detailed explanation of the intuition behind the index, the methodology and the data collection process, and shared the main evidence obtained from the analysis of the index in terms of global and regional trends in monetary policy frameworks. IAPOC index was built based on the analysis of central banks' laws and websites for 50 advanced economies, emerging markets, and low-income developing countries, from 2007 to 2018. Due to its scope and granularity, the index is expected to provide a holistic view of monetary policy frameworks, which goes beyond existing measures of transparency or independence indices, as well as monetary policy or exchange rate regime classifications. In their judgement, the developers of the index focused also on the transparency, coherence, and consistency of MPFs to ensure the IAPOC index complies with broad applicability across countries regardless of prevailing differences in



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economic aspects. The IAPOC index also captures and differentiates de facto and de jure characteristics of MPF, which proved to be important in assessing MPF in emerging markets and low-income countries.

The evidence obtained from the IAPOC index shows that in 2007-2018 MPFs have improved significantly both in emerging markets and low-income countries, mostly in terms of the Policy and Operational Strategy and Communications pillars, while advanced economies saw most of the improvement in the Communications pillar. Moreover, the index expands the boundaries for analysis by uncovering changes in dimensions of monetary policymaking. Overall, the index revealed more heterogeneity and dynamism of MPFs compared to conventional monetary policy regime classifications. Regarding the CCA countries, there were general improvements in MPFs since 2007, which to some extent could be attributed to the adoption of an inflation targeting regime. Ms. Unsal reflected on some key strengths and issues of implementation of MPFs in selected CCA countries.

In his comments, Mr. Haykaz Igityan from the Central Bank of Armenia tried to clarify how the index manages to account for different combinations of MPFs features, provided useful feedback on behalf of monetary policymakers, and shared the institution's desire to cooperate. In addition, the Central Bank of Armenia calculated the IAPOC index for Armenia in 2021 and, by doing so, confirmed that any central bank can assess its framework on its own using the publicly available methodology of the IAPOC index. Mr. Azat Kozubekov, representing the National Bank of Kyrgyz Republic, appreciate the work done in developing the index and its descriptive power and shared his thoughts about how the index can be improved further over time.

During the general discussion the questions to the presenter covered (i) the estimation of the IAPOC index by central banks, (ii) IAPOC index performance during the pandemic shock period, (iii) assessment of criteria in terms of the dual mandate, setting of inflation target, (iv) reasons behind the difference between the de jure and de facto measurements, and (v) improving Independence pillar in the region and usage of the IAPOC index in IMF's surveillance

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