The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

# Nabiullina's Priorities as Central Bank Head

March 20, 2013

On Wednesday, President Vladimir Putin officially nominated Elvira Nabiullina to head the Central Bank by sending her candidacy to the State Duma for approval. In the recent weeks, the heated discussion over who will head the Central Bank has led to debate over what the bank's larger role should be when setting its monetary policy. For some analysts and policymakers, including Federal Council chairman Valentina Matviyenko, it is not enough to simply charge the bank with keeping the ruble stable. Why not add the goal of keeping unemployment low and stimulating economic growth? After all, there is a precedent for this. The main task before the U.S. Federal Reserve System is to keep both inflation and unemployment levels low simultaneously.

Despite such arguments, it makes good sense to define low inflation as the top priority for the Central Bank. Considering Russia's relatively high inflation rate and its expanding production, the goal of creating jobs and sustaining growth seems secondary by comparison. This is not to say those goals are unimportant. On the contrary, nothing could be more economically vital than increasing production, demand and employment. The problem is that in Russian circumstances there is little the Central Bank can do to increase these key economic indicators.

An active monetary policy that includes low interest rates on loans to commercial banks would help if the Russian economy was in a cyclical downturn, but it is not. As a result, manipulating the monetary policy would do nothing to increase production or curb unemployment. The only thing it would lead to is more inflation. Although inflation is not inherently dangerous if it is kept at low or even medium rates, as it is the case in Russia today, it still amounts to a direct tax paid by every citizen and makes it more difficult for businesses to plan future activity.

Some still believe that the Central Bank can significantly change the economic picture by pursuing an active monetary policy, but this is misguided. Twenty years ago, this idea was pursued by what might be called "direct beneficiaries" — that is, businesses that received money almost directly from the Central Bank and intermediary banks that profited by having the right to operate the funds. But those players have long since lost their former influence, meaning that the belief in the "omnipotence" of the Central Bank stems from another source.

Clearly, if the Central Bank sold off some of its assets or told commercial banks that they must increase their reserves, it would cause a decline in production and a sharp rise in unemployment. This is precisely what happened in the fall of 2008 as the Central Bank maintained a dollar peg. This led many to conclude that if the Central Bank took actions in the opposite direction, it would have a correspondingly positive impact on the economy. But that rule does not apply to monetary policy.

As British economist John Maynard Keynes once explained, the system works more like a dog's leash: You can tug on the leash to slow the dog — or the economy — down, but pushing on it won't make either go any faster.

That idea bears repeating now and will certainly need repeating many more times in the future.

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