The Moscow Times
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Nabiullina Nomination as Chief Banker Reveals Policy and Personality Nuances

By The Moscow Times

April 01, 2013



Kremlin conservatives and government liberals are saying good things about Nabiullina's ability to do the job. **Vladimir Filonov**

Elvira Nabiullina meets with State Duma deputies from A Just Russia on Wednesday to review her candidacy to head the Central Bank as part of a confirmation process that is scheduled to be complete by the end of this month.

But no one doubts she will get the job, having been handpicked by President Vladimir Putin last month.

"It will be a surprise — you'll like it," Putin said with a smile when asked on March 7 whether he had decided who should be next head of the Central Bank.

The former KGB intelligence officer said nothing more to reporters, but the timing of his comment on the eve of International Women's Day sent a coded message that was quickly

deciphered.

Before the holiday weekend was out, his top economic aide, Elvira Nabiullina, had emerged as the sole viable candidate after months of intrigue and disinformation over whom Putin would name to the coveted post.

Although her confirmation as Central Bank chief is expected this month, she wasn't Putin's first choice.

In an era when central bankers have come to be seen as the high priests of global finance, creating money out of nothing, Putin's choice of the soft-spoken former economic development minister delivered as big a surprise to Kremlin watchers as did the election of Pope Francis to the world's 1.2 billion Roman Catholics.

Nabiullina's name, derived from the Arabic for "Prophet of Allah," had not appeared on any shortlist. It was precisely her status as a non-candidate that defined the 49-year-old ethnic Tatar as a compromise choice to head the financial regulator, insiders and analysts said.

Compromise Candidate

She is both trusted by Putin and acceptable to his opponents. Her selection reflects the growing challenges that Putin, now a year into his third presidential term, faces in sustaining the personalized system of rule he created after first succeeding Boris Yeltsin in 2000.

Although the Kremlin propagates an image of Putin as a master string-puller at the peak of a unified administration, in reality he is more like a circus master trying to control factions that relentlessly vie for influence, according to longtime political observers.

A slowing economy and growing middle-class discontent have deepened a rift between Putin and his coterie of intelligence service alumni known as the siloviki, or "men of power," and the so-called "system liberals" to whom he has always delegated the fiscal and monetary management of Russia's $2 trillion economy.

The liberals' standard bearer, Alexei Kudrin, ran budget surpluses, repaid debts and saved windfall oil revenues in a rainy-day fund during an 11-year term as finance minister, until he was ousted in 2011.

But a rising group of Kremlin economists is determined to mobilize state resources to crank up flagging economic growth, including by slashing interest rates, a move that would be anathema to the inflation hawks who until now have been in charge of the Central Bank.

Putin, 60, considered half a dozen other candidates before finally opting for Nabiullina, according to sources familiar with the process. In choosing a trusted confidante, he has extended his influence but stopped short of provoking an open rift with the liberals. But it was a close call.

"She is probably the most balanced person," said Igor Yurgens, head of the Institute of Contemporary Development, a think tank with close ties to Prime Minister Dmitry Medvedev. Nabiullina "has the closest distance to the president. She can influence him," Yurgens said.

Experience Matters

Supporters describe Nabiullina as a skilled economist, administrator and negotiator. They emphasize her role in drafting the market reforms of Putin's first term that supported Russia's return to rapid growth after the trauma of the ruble devaluation and domestic debt default of 1998.

"She's serious and she's smart," said Martin Gilman, a former International Monetary Fund staffer who heads the Center for Advanced Studies at Moscow's Higher School of Economics.

Others are less complimentary, saying Nabiullina exerts tight control over her subordinates and focuses on managing upward rather than outward — weaknesses in a Central Bank boss who needs to be a good delegator and an adept communicator.

Where policy makers and economists agree is that Nabiullina is a compromise choice, lacking independence compared with the Central Bank's current head, Sergei Ignatyev, who retires in June after 11 years in the job.

"Putin and Medvedev perceived Ignatyev as someone who can take responsibility for what he says or does. His recommendations were in a way seen as an instruction manual," said one senior administration official who requested anonymity.

"Will Elvira have this authority? I doubt it," the official added. "She is one of those people who would understand how things need to be done, as a professional, but realizes that if the Kremlin wants something different, this is what must be done. End of story."

Nabiullina declined to comment, but Gilman defended her independence. "Nabiullina takes the responsibility of public policy very seriously," he said. "She is appreciated within the elite as a technocrat who does her homework and solicits views. She knows her stuff."

Kudrin's Rejection

Putin's "you'll like it" remark had a familiar ring — he used exactly the same phrase when he was prime minister in August 2011, the month before he announced he would run again for the presidency.

On Sept. 24, 2011, when Putin announced that he would swap jobs with Medvedev, his partner in Russia's ruling tandem power structure, then-Finance Minister Kudrin was 8,000 kilometers away in Washington D.C. and most certainly did not like what he heard. Offbase at the autumn meetings of the International Monetary Fund and World Bank, Kudrin — said

to harbor prime ministerial ambitions of his own — summoned reporters to a briefing and declared that he would not serve in a Medvedev-led government.

His remarks caused a furor. Medvedev demanded Kudrin's head, and the finance minister promptly found himself out of a job.

After the ruling party won the December 2011 parliamentary election with a reduced majority, Putin offered the post of Central Bank chairman to Kudrin, an old ally who back in 1996 had helped Putin get his first job in the Kremlin.

Kudrin, however, showed some sympathy with demonstrators protesting over what he called "major violations" in the conduct of the elections. In private, he turned down Putin's job offer, sources familiar with the matter said.

Throughout the selection process Kudrin played his cards close to his chest and avoided public comment on the issue. Although he did not completely break with Putin, Kudrin's rejection of the president's offer challenged the code of loyalty Putin relies on to control Russia's bureaucracy.

Asked about Kudrin's political future at a televised call-in show not long after the election, Putin's discomfort was palpable. "Alexei Leonidovich Kudrin has not left my team. We are old comrades, he's my friend," he said.

Putin had miscalculated, said economist Sergei Aleksashenko, who in the 1990s served as a deputy finance minister and later as first deputy chairman of the Central Bank.

"He [Putin] was sure that Kudrin would accept this position," Aleksashenko said. "Kudrin rejected this proposal. It was a big surprise for Putin. Then he started to look around for who he could rely on."

Policy Battle

Putin's attention turned to Sergei Glazyev, a Soviet-educated economic prodigy and former rival. Glazyev ran against Putin for president in 2004 and, before losing heavily, accused the Russian leader of running a "corrupt and irresponsible regime."

But in February 2012, a month before the presidential election, Glazyev had thrown his lot in with Putin, writing in a blog post that the Russian leader's decisions were "always in the interest of the country." Soon after taking office, Putin appointed Glazyev to a Kremlin role advising on economic integration among post-Soviet states.

Glazyev had made his name as an unorthodox economist, arguing the state should play a leading role in development and spurning the liberal consensus that has sought to bring Russia into the global financial and economic mainstream.

His views soon gained influence, inspiring increasingly strident official calls for the Central Bank to ease policy to bolster growth that, at 3.4 percent last year, was about half the average rate of Putin's first two terms.

Russia's liberal establishment recoiled at the rise of Glazyev, who is on the record accusing

the West of conspiring to turn Russia into an economic colony and who once described the Russian Central Bank as a branch of the U.S. Federal Reserve.

"A person who argues in all seriousness that the United States and Europe are issuing money so that they can grab Russian assets on the cheap can be anyone as long as he is healthy; just not an economist," Anatoly Chubais, architect of Russia's 1990s-era mass privatizations, wrote in January.

Glazyev was unmasked as a contender for the Central Bank job in February, just over month before the deadline for Putin to make his choice, in an apparent bid by the liberal camp to undermine his candidacy.

Glazyev declined to comment. But pro-Kremlin commentators rallied to his support, with TV pundit Mikhail Leontyev saying Glazyev was the best man for the job, regardless of whether he was a candidate.

The contest for the Central Bank job was really a proxy battle, one senior former Central Banker said at the time, between the fiscal and monetary orthodoxy personified by Kudrin and the Glazyev state-led dash for growth.

"It's about policies, not about personalities," he said.

No Insider

The name of Alexei Ulyukayev, Ignatyev's most senior deputy at the Central Bank, appeared as the most credible insider on shortlists that did the rounds in January and February. But his opposition to rate cuts counted against him.

Putin also passed over candidates from powerful state banks that, many economists argue, bear far greater responsibility for the high cost of borrowing in the country than the Central Bank itself.

His eventual choice of Nabiullina caught many by surprise. "I myself learned she was nominated from the Internet," said a senior government source. "I am not kidding. Whoever tells you he knew which candidate Putin would pick long ago is lying."

When her nomination became public, Kudrin tweeted to wish her success.

Nabiullina will face a challenge in bringing Russia's unruly banks to heel. The role is complicated by a plan to transform the Central Bank into a "mega-regulator," with added responsibility for oversight of financial markets.

Even senior officials admit that huge sums escape the oversight of banking regulators. In unusually forthright remarks, Ignatyev, the outgoing bank chief, said last month that nearly $50 billion was illegally siphoned abroad last year.

Much of that money, Ignatyev said, appeared to be controlled by "one well-organized group of people." He did not name them, but Putin's critics have interpreted the remarks to refer to the state officials who, if not involved, at least tolerate fraud and money laundering by Russian banks.

A Question of Loyalty

Nabiullina cut an uncertain figure when Putin proposed the post to her at a meeting on March 12 at his Novo-Ogaryovo residence outside Moscow. Kremlin reporters spotted her waiting, with Ignatyev, more than an hour before the two were ushered into Putin's office.

"I would like to thank you for the confidence you have shown in proposing my candidacy. I understand how much this is a responsible, complex and professional task," she told Putin in a meeting staged in front of journalists.

With television cameras rolling, Nabiullina then requested that, if parliament approved her candidacy, the 65-year-old Ignatyev stay on as an adviser after he retired. Putin agreed.

That may suggest that Nabiullina, who advocated pro-growth policies as economy minister but did not launch any landmark initiatives, will not stray far from the policy course demanded by Putin. But it does not mean that the system liberals, many of whom sympathize with protestors' calls to fight official corruption and boost democratic accountability, are on board for good.

It was Nabiullina's husband, Yaroslav Kuzminov, rector of the Higher School of Economics, who in April 2011 warned of a social confrontation in five to 10 years if Russia's leaders fail to address the concerns of the rising middle class.

It is that very proximity of potential dissent to the center of Kremlin power that poses a threat to the fragile cohesion of the Russian elite. For now, Putin has succeeded in keeping the key liberal players inside the tent of Kremlin politics — and his nomination of Nabiullina for the Central Bank job is part of that strategy. But it will be a tough act to sustain as he likely eyes a fourth presidential term in 2018.

"When Putin switched jobs with Medvedev, it divided society," said a critical Moscow-based economist. "By picking Nabiullina, he has divided the country's intellectual elite even further than it is already divided.

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