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Central Banker Plays Down Ability to Revive Economy

By The Moscow Times

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The Central Bank has limited scope to reverse an economic slowdown that reflects underlying structural problems rather than tight credit, the bank's new head of monetary policy said.

Ksenia Yudayeva, appointed to head of monetary policy under new chairwoman Elvira Nabiullina, defended the bank against political pressure to cut interest rates to boost growth.

"One should not exaggerate the possibilities for the Central Bank to increase economic growth," the U.S.-educated economist said.

The Central Bank has left its main lending rates unchanged for the past year, ignoring calls to cut them even though the economy has slowed dramatically. Economic growth is expected to be less than 2 percent this year, well below initial forecasts.

Yudayeva said the bank was not to blame for the slowdown.

"The fall in growth that we are seeing most probably has a structural character," Yudayeva said.

"In essence, all the unused capacities for economic growth have been exhausted," she added. "We need investment-led growth for changing the economic structure, and for any economy that's a definite challenge."

She estimated that Russia's potential economic growth rate was now 2 to 2.5 percent — well down from the 4 percent growth seen over recent years and of about 7 percent before the 2008-09 financial crisis.

Yudayeva said that slowing growth potential was visible in all the BRIC economies — Brazil, Russia, India and China — suggesting that this reflects a global economic rebalancing.

In Russia's case, it also reflects problems such as weak institutional development and over-reliance on natural resources, she added.

Yudayeva said the biggest contribution the Central Bank could make to the country's economic development would be to bring down inflation, which in turn would mean bearing down on stubbornly high expectations of inflation among ordinary Russians.

"For now, the population expects fairly high inflation," she said, referring to research the Central Bank has commissioned.

Next year, the Central Bank aims to bring inflation down to 4.5 percent from above 6 percent at present. The 2014 target may be raised as a result of a recent government decision to increase some utility prices, but Yudayeva said the Central Bank was still examining the impact of this decision.

She said inflation ought to fall further before the bank would be in a position to use active monetary policy as a tool for boosting a sluggish economy.

"If the Central Bank can really reduce inflation to 3 to 4 percent and reduce inflation expectations, then we will be able really to pursue a counter-cyclical policy. At the moment, these possibilities are very, very limited," she said.

Lower inflation would also help long-term investment in the economy by reducing uncertainty, she added.

Although playing down the prospects for interest rate cuts to boost growth, Yudayeva said the Central Bank was aiding economic development by improving the structure of the money market. For example, it was introducing medium-term operations that widen the range of collateral that banks could use to refinance cheaply.

She also said the bank would press on with its transition to inflation targeting, a regime that involves tighter control of interest rates instead of targeting the ruble's exchange rate.

"We do not have a policy of targeting any level of the ruble: We have quite a flexible and free exchange rate, and we will go further in that direction," she said.

Nor would the Central Bank be distracted from its long-term goals by temporary market jitters caused by the impending tapering of the U.S. Federal Reserve's monetary stimulus, whose impact on Russia was of secondary importance compared with domestic economic trends, she said.

"We will look at what happens in the economy," she said. "It would not make much sense to make any special efforts to react to the actions of the Fed."

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