

Sense or Sabotage? Russia's Central Bank Takes Flak for Interest Rate Hike

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A man walks past the headquarters of the Central Bank in Moscow.

The Central Bank's midnight decision to hike Russia's key interest rate to 17 percent set off clashing waves of support and opprobrium Tuesday as Russia struggled to come to terms with its new economic reality.

The regulator's decision to raise rates by 6.5 percent followed the ruble's 10 percent nosedive against the U.S. dollar on Monday, its steepest single-day decline since the financial crisis of 1998.

Despite the measure, the Russian currency fell sharply on Tuesday, at one point weakening 20 percent to touch a new low of 80 rubles to the dollar.

Western sanctions over the Ukraine crisis, oil price falls and recession fears have seen the ruble lose more than half of its value against the dollar this year.

As liberal economists and prominent figures in the ruling United Russia party backed the regulator's decision, minority parties and economic conservatives pilloried the Central Bank and its head, Elvira Nabiullina.

Amid the clamor, President Vladimir Putin kept mum. Putin's spokesman Dmitry Peskov acknowledged “turbulence” on the Russian market and attributed it to “emotions and speculative sentiments,” RIA Novosti reported.

The rate hike had been approved by Putin, news agency Reuters reported Tuesday citing a source close the Kremlin.

Opposition

As the ruling United Russia party urged calm, all major minority factions lined up to take a swing at the regulator with hyperbolic accusations of madness and even evil intent.

Parliament member Nikolai Aferyev of the Communist Party called for Central Bank head Nabiullina to be called to parliament to explain her actions.

“These measures, which have been repeated six times in Russia, have not produced any result. ... I can't call the Central Bank's actions anything other than sabotage,” news agency Prime quoted Aferyev as saying.

Vladimir Zhirinovsky, the vehemently anti-Western head of Russia's Liberal Democratic Party, on Tuesday accused Nabiullina of taking Russia down the wrong road and called for capital controls and the criminalization of “improper use” of foreign currencies.

Oksana Dmitriyeva, a member of the social democratic A Just Russia party, told radio station Kommersant FM that, for once, she agreed with Zhirinovsky.

“What the Central Bank is doing is not only a mistake, it is not ignorance, it is not even unprofessionalism — all of these actions are closer to schizophrenia, to madness,” said Dmitriyeva, who is also deputy head of the lower house of parliament's budget and taxes committee.

The deputies were joined in their disapproval by Boris Titov, who Putin appointed last year to the newly established post of business ombudsman.

In an interview on Kommersant FM, Titov declared the rate hike a “dead end” that would poison economic growth and plans for import replacement.

“To save the ruble at the expense of economic development is unwise, to say the least,” Titov said.

Mikhail Leontyev, pundit and press secretary for state-owned oil giant Rosneft, also took the opportunity to lambast the Central Bank.

“[The Central Bank] shot the country's economy so that it wouldn't suffer,” Leontyev told Russian News Service radio.

The criticism comes amid growing opposition to the Central Bank and support for drastic measures among conservative circles in the government.

Kremlin aide Sergei Glazyev, an advocate of state control over the economy who has proposed fixing the exchange rate, last week accused the Central Bank of incompetence and “malicious intent.”

“[The Central Bank] is driving money onto the speculative market,” Glazyev said at a business forum in Moscow.

Support

But as minority factions foamed, members of the ruling United Russia party, pro-Kremlin commentators and liberal economists came out in support of the regulator's policy.

Parliament member Andrei Makarov, a top United Russia official and head of the budget and taxes committee, on Tuesday defended the Central Bank's actions and urged Russians not to fall into a hard currency buying panic, news agency TASS reported.

Makarov defended Nabiullina herself as a “professional of the highest level ... unlike those politicians who exist only to pull the wool over people's eyes on a wave of populism.”

Viktor Zvagelsky, another United Russia member and deputy head of the lower house of parliament's economic policy committee, also backed the rate increase in an interview on Kommersant FM.

He added, however, that the Central Bank must now conduct currency interventions in order to calm the markets. When it free-floated the ruble in November, the Central Bank said that it would only return to currency interventions if necessary to preserve Russia's financial stability.

In a more radical interpretation of events, pro-Kremlin pundit Sergei Markov defended the rate hike as the Central Bank's single possible response to a political play by Western leaders intent on bringing the ruble down before a hypothetical escalation in the conflict in eastern Ukraine.

“How can Nabiullina deal with this? One must understand that the fundamental reasons for the ruble's fall are not financial or economic, but political,” Markov wrote.

Meanwhile, liberal Russian economists have approved the decision as a necessary response to Monday's precipitous devaluation.

Former Finance Minister Alexei Kudrin on Twitter defended the rate hike as “forced, but correct,” and shifted blame to the government.

“The fall of the ruble and stock market is not only a reaction to the low oil price and sanctions, but distrust toward the government's economic actions,” Kudrin said.

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