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Time To Nationalize Russian Central Bank?

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Is it time to nationalize the Central Bank of Russia? This subject was discussed at the Moscow Economic Forum, held in early April. A public discussion of the issue has been going on for quite a while; financiers and industrialists express polarized views. The key complaint of the business about the Central Bank is that the top management of the CBR lives in illusions and does not keep the interests of the country in mind, pursuing its policy against both actions of the government, focused on development of real economic sectors, and businessmen. For instance, due to strong opposition by the CBR and the overall financial block of the government, a resolution of such crucial tasks for Russia as expansion of the BAM and the Trans-Siberian railways had been postponed.

Most of the disputes around the entity, headed by Elvira Nabiullina, come down to a discussion of the existing high key rate, maintained by the Central Bank. The CBR logic has been explained multiple times. The key objective, envisioned by the Bank of Russia officials, is containing inflation and bringing it to planned values. The Bank officials are also concerned with manpower shortage and overheating of the economy. The solution for the abovementioned issues, available to them, envisions contraction of the money supply in the real economy sector and making money more expensive with a higher key rate. At the same time, the head of the CBR does not see the inflation, arising due to rising costs to repay expensive loans, which is passed through into the end product price, because she believes that manufacturer competition prevents any significant product price growth. With this line of reasoning, the CBR policy is justified: early this year the current inflation pressure had been going down, lending had slowed down and private deposits had been climbing actively. There had also been signs of manpower shortage

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situation improvement. This speaks in favor of a possible slide of the economy overheating, contributing to lower inflation levels.

The business has a totally different view of the real situation. Vladimir Boglayev, director of the Cherepovets Foundry and Mechanical Plant, when moderating a session at the MEF, stated his position as follows: “The pressure of the existing sanctions slows the production cycle, to maintain our previous production levels we have to compensate a working capital shortage by raising funds elsewhere. Loans would be a logical solution, but this option is no longer available due to the position of the Central Bank. Moreover, a high rate is followed by other barriers to development. In parallel with the key rate, collateral requirements have been raised, and in these conditions even a low rate becomes prohibitive. Consequently, business is gradually going bust; the real sector is losing incentive for development; the country’s economy is deteriorating and becoming more dependent on external forces”. This is why, in the opinion of Vladimir Boglayev, “nationalization of the CBR RF means getting Russia’s sovereignty back”.

Anatoly Wasserman, State Duma deputy, spoke in support of the Central Bank position. He tried to explain the logic, followed by the Bank. Manufacturing requires not only working capital, but also various resources paid for by it, including production equipment and personnel. Pumping up loans to manufacturers without any opportunity to spend the received funds on purchasing equipment, which can be used to turn the funds over, and on personnel, which is now in short supply, could flood the economy and cause inflation. If money is printed faster than the growth of the physical production volume, money circulation accelerates, and consequently, their effective mass grows faster than the nominal one. Hence, there are growing prices. The CBR is currently acting out of these very concerns, says Anatoly Wasserman.

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Monetary expansion should correlate with production volume and also with throughput of import channels for production equipment. And real manufacturing depends on availability of required equipment for purchase. “The whole issue is not in the CBR policy, but in reviving production assets”, - emphasized the State Duma deputy.

But how can one develop production with a high key rate? This question remained unanswered at the session. However, it has been answered by E.Nabiullina many a time. The Central Bank thinks it can be resolved by raising funds at exchanges, by issuing shares. As the CBR head stated at the meeting of sector committees of the State Duma on April 3, 2025, dedicated to a review of the Annual Report of the Bank of Russia for 2024, “this approach is already being implemented for small and medium businesses, for the so-called small technology companies under agreements with the Government”. It is planned to roll this experience out to large businesses as well. But the actual high risks of this strategy are highlighted by the stock market events after the introduction of prohibitive tariffs by Donald Trump. The worldwide plunge of stock prices has had a negative effect on the Russian stock market.

Sergei Glazyev, RAS Academician, has been arguing with the Central Bank of the RF for many years. “The CBR relies on dogmas, formulated 100 years ago”, - believes the economist. Particularly, the top management of the Bank refers to the Phillips‘ curve, which correlates higher unemployment with increasing inflation, leading to an overheated economy. However, this obsolete dogma, according to Sergei Glazyev, is completely out of touch with reality. Sergei Glazyev believes that the CBR views the economy as a system in equilibrium, where money velocity remains invariable, volume of supply and products remains unchanged and the larger the money supply, the lower its price …

Money is a tool to tie down resources, available in an economy; it is blood of an economy. I.e. our economy, according to economist estimates, is under-utilized, a reduction of money supply would cause higher inflation. In our case, if money supply is increased, we will see lower inflation, because capacity will be utilized to a greater degree, there will be higher efficiency, greater product output, leading to macroeconomic stability. “Today money is required to tie down idle resources”, - as Academician Glazyev supported the position of the industrialists. And any overheating of the economy today is absolutely out of the question. Inflation under the current conditions is fueled by declining competitiveness and technological lag, caused by shrinking demand.

During the discussion it was also noted that the current production growth in Russia is driven only by increasing government orders and government investments.

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According to many experts, Russia is currently facing the objectives of development of a targeted lending policy, controlled by authorized banks and development institutions, mandatory sale of foreign currency revenues to stabilize the rouble exchange rate, shutting down capital outflows through currency regulations, transitioning to national currencies in foreign trade settlements. Cheap targeted loans could drive economic development, since modern technologies cannot be developed with working capital only, affordable loans are a must.

Ultimately, only scientific and technological progress could provide for long-term development and economic prosperity. This is well understood by the CBR. “Under the current conditions there is only one main path to expansion of the economic potential — it is implementation of new technologies and improvement of productivity”, - said Elvira Nabiullina in her speech at the State Duma. However, despite similar views of the common goal, positions of bankers and manufacturers display certain differences.

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