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Path-Dependent Independence

The Central Bank of Russia in the 1990s

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Abstract

Independent central banks, because of their purported ability to restrain government officials from manipulating their economies in pursuit of short-term political goals, have been championed by scholars and policy makers alike as guarantors of macroeconomic stability for emerging post-communist democracies. However, Russia's experience in the 1990s calls this argument into question. Although the Central Bank of Russia (CBR) was able to develop a significant degree of freedom from political interference during its early years, its monetary policies at that time were anything but conservative and anti-inflationary. Then, when the CBR's political autonomy began to erode after mid-1993 while its technical capabilities improved, its increasingly monetarist actions began to appear more typical of an "independent" central bank and inflation receded accordingly. This should lead us to rethink our theories on central bank independence - both how we define independence and what we can and cannot expect of an independent central bank. Given the CBR's continuity of personnel, historical objectives, and technical capabilities, even a politically autonomous CBR can not have been expected to internalize and implement new policy goals overnight.

Keywords

Central banking, Russia, institutionalism, independence, and post-communist democracies

Comments

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Life has proved to be richer and more
complex than the theoretical notions
that all of us were guided by.[1]
(Aleksandr Khandruev, CBR deputy director)

Over the past several years, scholars and policy makers have increasingly come to emphasize the importance of creating insulated, independent central banks to safeguard the currency and lead macroeconomic policy during post-communist transition periods.[2] As Joan Nelson states, "responsible, ongoing monetary policy is probably best protected by a largely autonomous central bank … there is considerable agreement [on this point]."[3] This proposition stems from the view of an independent central bank as one that can restrain government officials from manipulating the economy in pursuit of short-term political goals in defiance of the state's longer-term interests.[4] It receives further support from mainstream economists who argue that, in general, the more independent the central bank, the lower the inflation rate.[5] Therefore, an independent central bank, although undemocratic itself by definition, successfully

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[1] Aleksandr Khandruev, deputy director of the Central Bank of Russia, quoted in Vladimir Sluzhakov, "Every Country Has The Central Bank That It Deserves," *Rossiskaia gazeta*, 26 September 1992, p. 6, translated in *Current Digest of the Post-Soviet Press*, XLIV, 39 (1992), p. 14.

[2] By "independent" or "autonomous," they primarily refer to formal and informal insulation of the central bank from political pressure from the government (both the executive and legislative branches) or from other societal interest groups (such as credit-hungry industrial lobbies). See, for example, Joan Nelson, "The Politics of Economic Transformation: Is Third World Experience Relevant in Eastern Europe?" *World Politics*, 45, 3 (1993); Jeffrey Sachs and David Lipton, "Remaining Steps to a Market-Based Monetary System in Russia," in Anders Aslund, ed., *Changing the Economic System in Russia* (London: Pinter Publishers, 1992); Christine Kessides, *et. al., Financial Reform in Socialist Economies* (Washington, DC: World Bank, 1989); The Economist, leader, 21 April 1991, p. 17; contributions by Volcker and Lagayette in Federal Reserve Bank of Kansas City Symposium, *Central Banking Issues in Emerging Market-Oriented Economies* (Kansas City, MO: Federal Reserve Bank of Kansas City, 1990); and contributions by Burdekin and Willett, Hochreiter, and Lewarne in Thomas Willett, *et. al.*, eds., *Establishing Monetary Stability in Emerging Market Economies* (Boulder, CO: Westview, 1995). See also the critical discussion of the growing consensus on the desirability of central bank independence in Paul Bowles and Gordon White, "Central Bank Independence: A Political Economy Approach," *Journal of Development Studies*, 31, 2 (December 1994).

[3] Nelson, *op. cit.*, pp. 441 and 460.

[4] For example, see William Nordhaus, "The Political Business Cycle," *Review of Economic Studies*, 42 (April 1975); John Williams, "The Political Manipulation of Macroeconomic Policy," *American Political Science Review*, 84 (September 1980); Edward Tufte, *The Political Control of the Economy* (Princeton, NJ: Princeton University Press, 1978); and John Goodman, *Monetary Sovereignty: The Politics of Central Banking in Western Europe* (Ithaca, NY: Cornell University Press, 1992).

[5] Recently several scholars, most notably Posen, have begun to question the independence/low inflation correlation for developed market economies. See Adam Posen, "Why Central Bank Independence Does Not Cause Low Inflation: There Is No Institutional Fix For Politics," *The AMEX Bank Review, Finance and the International Economy: 7* (1994).

compensates for one of the major weaknesses of democracy by serving as an "agent of horizontal accountability."

The argument is a compelling one. Radical economic transformation requires a strong state that can implement sometimes unpopular reforms. Democratization demands just the opposite, that the state become more responsive to and representative of the diverse interest groups in society. If an independent central bank can provide economic stability and serve as a scapegoat for painful yet vital economic reforms, the chances for a successful dual transition should intuitively be greater. Western scholars and advisors thus encouraged post-communist countries to adopt measures to raise the independence level of their central banks, with the expectation that this would lead to anti-inflationary monetary policies.

However, as this paper will demonstrate, Russia's experience in the 1990s did not bear out this thesis.[6] Although the Central Bank of Russia (CBR) was able to develop a significant degree of freedom from political interference during its early years, its monetary policies at that time were anything but conservative and anti-inflationary. Then, when the CBR's political autonomy began to erode after mid-1993 while its technical capabilities improved, its increasingly monetarist actions began to appear more typical of an "independent" central bank and inflation receded accordingly. An autonomous central bank, it turns out, was no panacea for insuring stable monetary policy during Russia's dual transition.

1. Central Bank Independence in Theory and Practice

This study is grounded in historical institutionalist theory, which places power relations and historical context at the center of its analysis. Historical institutionalists believe that institutions are legacies of previous political battles; that institutions come to reflect and represent a certain set of ideas; that institutions are the political battleground in which decisions must be made; and that the structures of these institutions affect the way in which political decisions are made and which political issues get on the agenda for debate. Therefore, the structure and nature of institutions set the parameters in which the state and society interact with one another.[7]

For historical institutionalists, the dominant paradigm regarding institutional change has revolved around the complementary notions of "path dependency" and "punctuated

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[6] In the interest of brevity, this paper focuses only on the CBR's role in conducting monetary policy and thus does not deal with the equally important and intriguing issue of the CBR's regulation of and relationship to Russia's emerging commercial banking sector.

[7] Kathleen Thelen and Sven Steinmo, "Historical institutionalism in comparative politics," in Steinmo, *et. al*., *Structuring Politics* (Cambridge, UK: Cambridge University Press, 1992).

equilibrium."[8] Borrowed from evolutionary biology, these concepts describe the process of institutional change during periods of state stability and state crisis, respectively. Path dependency implies that in relatively normal conditions institutions change predictably, in a constrained manner. Similar to a tree that grows new branches from its trunk, the way in which the institution changes will be heavily conditioned by the shape of the previous institutional framework. Punctuated equilibrium, on the other hand, means that institutions normally characterized by inertia and autonomy lose that autonomy during crisis situations and can then be changed in fundamental ways. In other words, crisis situations wipe out old institutional structures and provide a "window of opportunity" in which policy makers can restructure institutions to their liking. The period immediately after the breakdown of communist rule in Eastern Europe and the former Soviet Union is often suggested to have presented such a window of opportunity. The advocates of introducing independent central banks into transitional economies implicitly adopt this notion of punctuated equilibrium, assuming that granting autonomy to a central bank provides incentive for change in and of itself, that stability can be achieved by leaving properly insulated institutions alone to carry out their assigned tasks.

But, although it is certainly true that institutions may be more easily changed during crisis situations, scholars have posited a dichotomy between periods of path dependency and punctuated equilibrium when in reality a continuum exists. Even in crisis the old institutions remain and continue to function at some level. In such a crisis period, then, the structures, practices, and values of old institutions will have a fundamental impact on the way in which these institutions react and adapt to the new circumstances. The advocates of central bank independence would thus fail to predict Russia's combination of political autonomy for the central bank with highly inflationary central banking policies and vice-versa for two principal reasons: their reification of "autonomy" and the limitations of current conceptions of central bank independence.

First, although the CBR had a great deal of political autonomy by 1992, it had also inherited socialist values and technical capabilities suited to a command economy from its Soviet predecessor. These characteristics naturally take much longer to change. For the CBR, this meant that its increasing political autonomy was not matched either by technical competence or by an internal or external consensus on the economic goals that the bank should pursue.

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[8] At first historical institutionalists were primarily interested in showing how institutions act as independent variables in periods of stability and in pointing out the exogenous factors that create opportunities for fundamental institutional change. Only later did the research agenda turn towards investigating the process of institutional change itself. On institutions as independent variables, see especially the pioneering works of Peter Hall, Governing the Economy: The Politics of State Intervention in Britain and France (New York: Oxford University Press, 1986); John Zysman, Governments, Markets, and Growth (Ithaca, NY: Cornell University Press, 1983); and James March and Johan Olsen, "The New Institutionalism: Organizational Factors in Political Life," APSR, 78 (September 1984). Some of the most interesting works on factors creating opportunities for institutional change are Peter Gourevitch, Politics in Hard Times (Ithaca, NY: Cornell University Press, 1986); Stephen Krasner, "Approaches to the State," Comparative Politics, January 1984; and Thelen and Steinmo, op. cit.

Therefore, during the period of time when the Russian executive branch most wanted to carry out macroeconomic reforms, the central bank was both unable and unwilling to cooperate.

Second, the theoretical confusion stems from academic assumptions about the independence of central banks which inadvertently obscure our understanding of the CBR's role in Russian economic policy making. These assumptions conflate formal and informal political autonomy with the technical capacity for carrying out particular kinds of monetary and regulatory functions. Moreover, they presume that an independent central bank will always have inflation-fighting as a primary goal and that central bankers will always care more about restraining inflation than will politicians. These assumptions simply do not hold in the post-communist context. We must take into account exactly what an "independent" central bank actually has the power and desire to do.

Therefore, traditional definitions of independence must be unpacked and re-evaluated in order to understand the policy choices and roles of central banks in transitional post-communist economies.[9] The key components of central bank independence include formal legal autonomy (the bank's independent legal status), political autonomy (the bank's freedom to set its own goals and to implement its desired policies despite outside pressures), and technical capacity (its practical ability to act on the goals it sets). In doing such an evaluation, it is important to remember that no precise "tipping point" exists beyond which we can say that a particular central bank is definitively politically autonomous or has been captured by outside forces, or is technically incapable or adept. Moreover, no central bank can be completely separate from politics. Scholars across the board acknowledge that central banks need political support in order to maintain their independence and that central banks never act without taking politics into consideration.[10]

The first section of the analysis evaluates the CBR's level of formal legal autonomy, demonstrating both that the CBR has enjoyed a high and rising level of formal legal autonomy and that this kind of autonomy is not particularly indicative of the actual power of a central bank. The next section focuses on the development of the CBR's political autonomy and technical capacity during three discrete periods. The first describes the pre-1992 creation of

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[9] While the term independence is in itself problematic (since no governmental institution is ever really independent from all of the others), I use it in this paper and attempt to clarify its meaning because it is the term the central bankers themselves use to describe their desired relationship with the government. For works on measuring central bank independence, see Alex Cukierman, *Central Bank Strategy, Credibility, and Independence* (Cambridge, MA: MIT, 1992); Alberto Alesina and Lawrence Summers, "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence," *Journal of Money, Credit, and Banking*, 25:2 (May 1993); Mark Swinburne and Marta Castello-Branco, "Central Bank Independence and Central Bank Functions," in Downes and Vaez-Zadeh, eds., *The Evolving Role of Central Banks* (Washington, DC: IMF, 1991); Alex Cukierman, Steven Webb, and Bilin Neyapti, "Measuring the Independence of Central Banks and Its Effect on Policy Outcomes," *The World Bank Economic Review*, 6:3 (1992); and Eugenia Froedge Toma and Mark Toma, *Central Bankers, Bureaucratic Incentives, and Monetary Policy* (Boston: Kluwer Academic Publishers, 1986).

[10] For example, see C.A.E. Goodhart, *The Central Bank and the Financial System* (Cambridge, MA: The MIT Press, 1995), p. 64; and Swinburne and Castello-Branco, *op. cit.*, p. 421.

the CBR, a historically contingent process that explains why the CBR emerged from the wreckage of the Soviet Union with a high level of political autonomy and formal legal autonomy but a low level of technical capacity. The second covers the time period from 1992 through mid-1993, exploring the high political autonomy and low technical capacity of the bank and demonstrating the perverse effects that this combination had on two key events during that era: the attempt at shock therapy and the breakup of the ruble zone. The third section covers the time period from mid-1993 through the present, explaining how the CBR lost much of its political autonomy from the government while gaining in technical capacity, leading to comparatively stable monetary policy in Russia but not to deeper structural economic reform.

2. Formal Legal Autonomy

Many studies measuring central bank independence focus primarily on the legal protections the central bank enjoys, finding that in developed market economies the extent of the central bank's legal independence correlates well with its political autonomy in practice.[11] The CBR has enjoyed extensive formal legal autonomy since its inception, for reasons rooted in its emergence as a result of the 1990–91 struggle between the Russian and Soviet governments (discussed below). This formal autonomy has, moreover, continually been strengthened throughout the transition period – the CBR's formal autonomy today compares favorably with the German Bundesbank (widely considered to be the most independent central bank in the world) on all of the accepted measures of formal legal autonomy (see Table 1). The CBR's formal autonomy from the government was enshrined in the 1990 RSFSR Law on the Central Bank, enhanced by the 1993 Russian Constitution, and confirmed in the 1995 revised Law on the Central Bank, which states that "The Bank of Russia … is independent in its activities. Federal organs of state power, organs of state power of the subjects of the Russian Federation, and organs of local self-government do not have the right to interfere in the activities of the Bank of Russia," (see Table 2). According to the law, the head of the CBR, who must be nominated by the president and confirmed by parliament, controls the board of the bank and makes many decisions autonomously.

In addition, the CBR has jurisdiction over a wider array of areas than do most other central banks. It completely controlled the exchange rate regime until late 1995, then introduced a ruble corridor in cooperation with the government. In contrast, most governments reserve control over their country's exchange rate regime for themselves.[12] The CBR decides on emission levels for cash and credit and sets the discount rate. It also regulates commercial bank activities, including some securities operations, and issues and repeals commercial bank licenses. By contrast, many Western central banks (such as those in Switzerland, Chile, and

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[11] For example, see Goodman, *op. cit.*, p. 9.
[12] Goodhart, *op. cit.*, p. 65.

Germany) do not regulate commercial banks at all – this power is reserved for separate banking supervisory institutions.

However, as Maxfield points out, in developing countries formal legal autonomy is a poor measure of a central bank's actual behavior.[13] While granting a central bank formal legal autonomy may be a necessary first step in the process of establishing a trusted, competent central bank, it is far from a sufficient condition. Where the court system and the rule of law have not traditionally been strong, where corruption and clientelism reign, and where the entire political and economic framework of a society is undergoing upheaval, autonomy granted on paper provides little comfort to central bankers. Therefore, to understand the CBR's role in the Russian economy during the transition period and the obstacles it faces in the future, we need to concentrate on an evaluation of the development of the CBR's political autonomy and technical capacity.

3. The Origins of the CBR

We first turn to the evolution of the CBR from Gosbank (the Soviet central bank) from 1987 through 1991 to understand how and why it gained formal legal and political autonomy so quickly. This autonomy resulted from the nature of the old Gosbank structure, the unintended consequences of government policies, and the war of the banks carried out between Gosbank and the CBR from mid-1990 through 1991. The central banking system's latent power came to the fore in the face of economic restructuring and decentralization because it had special expertise in an important area duplicated by no other institution and a national presence in the form of its numerous branches throughout the country. The Soviet government's decision to liberalize the financial system more quickly than the rest of the economy further expanded the central bank's powers and responsibilities. Most importantly, the political conflict between the Russian and Soviet governments gave each of them incentives to increase the autonomy of their competing central banks. Thus, the evolution of the Soviet and then Russian central banking system progressed primarily through political struggles for power and through policies that clashed with the old institutional framework leading to unintended consequences, not through a controlled, conscious effort to create more efficient or insulated economic institutions. The CBR's ever-growing power and autonomy tell the quintessential story of how a previously unimportant institution quickly took on a central, dynamic role under changed economic and political circumstances.

The transformation began in 1987, when the Soviet government decided that it needed to create a two-tiered banking system as part of the overall economic reform process. This system was

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[13] Sylvia Maxfield, "Financial Incentives and Central Bank Authority in Industrializing Nations," World Politics, 46, 4 (July 1994).

composed of Gosbank and five banks sheared off of the old Gosbank structure called *spetsbanks* (specialized banks).[14] Gosbank itself underwent little further change until 1990, when the strains in the fabric of the USSR began to show. After the election of the Russian Republic's Congress of People's Deputies in March 1990 and Boris Yeltsin's ascension as its chair, Russia began to distance itself from the Union government and finally declared its sovereignty on 12 June 1990. By then the decentralization of power from the center to regional and local levels had begun in earnest.

Economic policy represented a major source of conflict between Soviet leader Mikhail Gorbachev and Russian leader Boris Yeltsin, with Yeltsin pushing for more radical reforms and devolution of decision-making power to the republics than Gorbachev felt comfortable with. Gosbank's reign over 15 separate central bank divisions, one in each republic of the USSR, created the perfect institutional battleground for this conflict. It resulted in the so-called war of the banks, the long and successful attempt by the Central Bank of Russia to break free of Gosbank USSR.

The USSR Council of Ministers fired the first salvo in the war of the banks. On 10 July 1990, as a direct response to Russia's declaration of sovereignty in June, the Council announced that it would reorganize two of the specialized banks into commercial joint-stock banks, giving a controlling block of their shares to the USSR Ministry of Finance.[15] This was a clear attempt to keep the banks under control of the Union government rather than the Russian Republic. So, three days later the Supreme Soviet of the Russian Federation adopted a resolution calling for the creation of a two-tiered banking system in the Russian Republic headed by an independent Central Bank of Russia. The resolution declared all specialized banks on Russian territory, save their union-level governing boards, to be Russian property and provided for their rapid transformation into joint-stock banks.

Gosbank responded by sending a telegram to all Soviet banking institutions instructing them to ignore republic legislation that conflicted with Union laws. The situation became so tense that on July 29 Gorbachev himself published a decree "recommending" that the republics "refrain from adopting and applying any legislative acts that destroy the existing financial and banking system."[16] He followed this up with a stronger decree advising the spetsbanks to take active

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[14] These spetsbanks were Agroprombank, which dealt with agriculture; Promstroibank, which dealt with industry; Zhilsotsbank, which handled small enterprise, housing, and social finances; Vneshtorgbank (renamed Vneshekonombank), which dealt with foreign trade; and Sberbank, the state savings bank.

[15] A joint-stock company is one in which the ownership has been divided into shares. It is different from a privatized company in that state-owned enterprises (or state government agencies themselves) may still retain control over all of the shares in a joint-stock company.

[16] "Decree of the President of the USSR: On Cooperation Between Union and Republican Agencies in Financial and Credit Matters During the Period of Preparation of the Union Treaty," *Izvestiia*, 30 July 1990, p. 1, translated in *Current Digest of the Soviet Press*, XLII, 30 (1990), p. 30.

measures to protect themselves against attempts by the republics to commandeer their resources.

Meanwhile, Georgii Matiukhin was confirmed as the first chair of the CBR in August 1990 and immediately busied himself with taking over the Gosbank and spetsbank branches on Russian territory through a mixture of coercion, persuasion, and bribery. As Matiukhin describes it:

It was necessary to create the bank and find myself a place under the sun. In Moscow was the Russian Republic Bank of Gosbank USSR with branches in all of the oblasts. … I decided to 'storm' [the bank] with a group of Russian deputies under the leadership of M.A. Bocharov. … Fortunately, our 'storm' succeeded, and Mikhail Aleksandrovich introduced me to the staff at the bank, saying that in agreement with the resolution of the Supreme Soviet a Central Bank must be founded, and it would be desirable not to start from scratch but on the basis of the already existing bank. The collective supported this idea and we began to work.[17]

Matiukhin quickly ordered the spetsbanks on Russian territory to transfer their assets to the CBR. Seven other republics followed Russia's lead between July and October 1990, adopting sovereignty decrees that provided for independent central banks and control over their republics' spetsbanks. This impending disintegration of the all-union banking system, initiated by the Russian Federation, highlighted the need to renegotiate the structure of the financial system among the republics. Both the USSR and RSFSR governments had begun discussing the adoption of new fundamental banking laws in earnest during mid-1990 as part of the war of the banks. The political-legal battle resulted in Russia's adoption of the Law on the Central Bank and the Law on Banks and Banking Activity in December 1990, nine days before the USSR passed its own corresponding banking legislation. This Russian legislation, conceived in haste to strike a blow again the Union, formalized the independence of the CBR as a major symbol of Russian sovereignty.

The CBR and Gosbank continued to operate in parallel until the attempted coup in August 1991, when the Union organs lost their hold on power. On August 23, after the failure of the putsch, Yeltsin published a decree "On ensuring the economic foundation of the sovereign RSFSR" that ordered the Council of Ministers to complete the transfer of Union-level organizations on Russian territory to the custody of the Russian state by the end of the year. On 1 January 1992, Gosbank officially ceased to exist and the CBR absorbed the rest of its staff, offices, and functions in Russian territory. This 17-month period of co-existence for the two central banks, culminating in the CBR's absorption of Gosbank, allowed the CBR the freedom to assert its own independence without providing it with additional technical tools with which to wield its growing power. These mixed institutional legacies set the stage for the battle between Yeltsin and the CBR that began in 1992.

[17] Georgii Matiukhin, *Ya byl glavnim bankirom Rossii* (Moscow: *Vyshaia shkola*, 1993), p. 53.

4. The Era of Autonomy

Before mid-1993, while the CBR lacked many technical capabilities, it regularly exercised its political autonomy in a way that would be impossible for central banks in more developed market economies.[18] Most Western central banks make headlines by adjusting interest rates by fractions of a percentage point. The CBR, in contrast, introduced a new currency without informing the executive or parliament, attempted to save and then inadvertently destroyed the ruble zone, introduced a new and unpopular payments system, cleared the interenterprise debts of thousands of state enterprises, and printed money almost at will. In short, the CBR often formulated and carried out its own policies, and in doing so demonstrated the capacity to act much more radically than almost any other central bank in the world.

Measuring a central bank's level of political autonomy is, of course, always somewhat problematic because of the unavoidable difficulties inherent in analyzing informal channels of authority. This problem becomes even more severe in transitional economies, where alliances, preferences, and the relative power of actors can change fairly quickly. In addition, because post-communist economies have only recently created true central banks, many measures of informal autonomy based on time-sensitive data remain unhelpful in these cases. For example, although Maxfield found that the extent of turnover of central bank governors in developing countries during the period 1950–1989 adequately predicted a bank's corresponding level of political autonomy, the seven-year existence of the CBR is too short for this to be a reliable measure.[19] For this reason, my analysis of the CBR's political autonomy relies on a deeper case-specific look at what Maxfield calls "classic indicators of power: the number of instances in which a central bank achieves compliance with its policy preferences from those opposed and, more subtly, the number of instances in which a central bank manages to keep opposing policy options off the policy agenda entirely."[20]

The CBR's high level of political autonomy during 1992 to mid-1993 can thus be demonstrated by examining both the president and the parliament's continual and vociferous complaints that the CBR ignored their wishes and directives.[21] The CBR's actions in contradiction of the president's wishes, most notably the monetary and credit emissions in July 1992 and the introduction of new ruble notes in 1993, are discussed extensively in the next section. The

[18] Swinburne and Castello-Branco, *op. cit.*, pp. 422 and 425.
[19] Maxfield, *op. cit*. However, for comparison's sake, the CBR emerges from such a calculation with an average level of political autonomy. There have been two official turnovers in CBR directors in Russia since the CBR's inception – Matiukhin to Gerashchenko in May 1992 and Gerashchenko to Dubinin in 1994/1995. If we count Tatiana Paramonova's stint as acting director from October 1994 through November 1995, there have been three turnovers. Therefore, without Paramonova the average turnover per year figure is .29, while with Paramonova the figure is .43 per year. Maxfield's paper examines, in part, the exceptionally strong political autonomy of the central banks of Thailand and Mexico, with respective turnover ratios of .21 and .15 per year.
[20] *Ibid*.
[21] Sergei Yegorov in "Roundtable discussion on the State of Russian Banking," *Moscow News*, 7–14 June 1992, p. 10.

CBR, though, just as regularly defied the wishes of parliament.[22] For example, from 1990–1992 the Russian Supreme Soviet, according to the 1990 Law on the Central Bank, was supposed to confirm members of the CBR's board, but then-CBR head Matiukhin ignored this law and appointed them personally without seeking confirmation.[23] A May 1992 Supreme Soviet memorandum criticized Matiukhin for arbitrary, autonomous, and dangerous actions in the areas of monetary and credit policy, clearing, budget operations, and relations with commercial banks.[24] In 1992, parliament could not get any reports on the CBR's balance sheet or on its monetary and credit principles, and complained that "the leadership of the Central Bank of Russia systematically refuses to fulfill the decisions of the Russian Federation Supreme Soviet and its Presidium."[25] In May 1992, experts with the parliament's subcommittee on banking affairs stated, among other criticisms, that "monetary policy, for which the Russian Central Bank is mainly responsible, is in need of serious adjustment."[26] In January 1993, well after the CBR directorship had passed to Viktor Gerashchenko, the same subcommittee experts published an extensive article in the influential journal *Den'gi i kredit* (*Money and Banking*) again charging that the CBR was accountable to the parliament in name only. Among the CBR's offenses: not providing information on the bank's operations, strategizing and taking decisions without the input of parliament, regularly violating the Law on the Central Bank of Russia, and not allowing the parliament to confirm members of the Board of Directors.[27] In addition, under Gerashchenko the bank's board did not meet regularly and decisions were often not taken in consultation with the entire board.[28]

This political autonomy becomes a key issue when we realize that at this time Russia's central bankers had very different conceptions of the proper role of a central bank than a typical central banker in an established market economy. Gosbank was designed to disburse centralized credits, and after Russia became independent the first CBR leaders continued to see this task as vital in order to shore up Russia's failing industrial and agricultural enterprises.[29] Moreover, some central bankers, especially in the early years of reform, did not

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[22] On this general point, see Inna Vysman, "The New Banking Legislation in Russia: Theoretical Adequacy, Practical Difficulties, and Potential Solutions," *Fordham Law Review*, 62 (October 1993).

[23] Sergei Chugaev, "Central Bank Scored For Arbitrary Actions," Izvestiia, 15 May 1992, translated from Current Digest of the Post-Soviet Press, XLIV, 20 (1992), p. 6.

[24] "Explanatory Memorandum on the Agenda Item of the Meeting of the Presidium of the Russian Federation Supreme Soviet 'On the Chairman of the Russian Federation Central Bank," published in *Nezavisimaia gazeta*, 19 May 1992, p. 4, translated in FBIS *Central Eurasia*, 5 June 1992, pp. 34–36.

[25] Document of the Presidium of the Supreme Soviet, published in Nezavisimaia gazeta, 19 May 1992, translated in Current Digest of the Post-Soviet Press, XLVI, 20 (1992), p. 8.

[26] O. Lavrushkin and B. Mirkin, "Russia's Central Bank Continues to Follow a Policy of Supporting the State, Not Entrepreneurs," Izvestiia, 20 May 1992, translated from Current Digest of the Post-Soviet Press, XLVI, 20 (1992), p. 25.

[27] O. I. Lavrushin and Y. M. Mirkin, "*Dolgosrochnaia konseptsiia razvitiia denezhno-kreditnoi sistema Rossii*," *Den'gi i kredit*, 1 (1993), p. 6.

[28] Joshua Chadajo, "The Independence of the Central Bank of Russia," *RFE/RL Research Report*, 3, 27 (8 July 1994), p. 27.

[29] Steve Lewarne, "The Russian Central Bank and the Conduct of Monetary Policy," in Willett, *et.al., op.cit.*, p. 174.

accept the tenets of Western economic theory.[30] They saw, for example, no inherent incompatibility between controlling inflation and supporting enterprises with subsidized credits. Many CBR officials simply did not believe that inflation could be caused by expanding the money supply. As an IMF official observed, "There was a widespread view, including within the central bank, that inflation in Russia resulted from the high degree of monopolization of the economy."[31]

Gerashchenko, the second, longest-serving, and most influential director of the CBR, particularly supported an active CBR role in enterprise policy and became infamous for claiming that it was "impossible to apply economic theory to Russia."[32] Most fundamentally, Gerashchenko saw no necessary connection between monetary emission and inflation. According to *Izvestiia*, "the Chairman of the Central Bank himself considers credit emission to be the main financial source for the conversion [of military industry to civilian production] and the structural reform of industry."[33] As late as September 1994, Gerashchenko stated that the fall in production and the related catastrophic drop in long-term investment by commercial banks could not be solved by monetary-credit methods and that the government should impose a state investment policy in order to turn it around.[34] These policy preferences that prioritized employment and production over lowering inflation strongly affected the CBR's actions, especially during 1992.

Why did the CBR enjoy this high level of political autonomy from 1992 through mid-1993? The CBR's political autonomy, born in the struggle between Gosbank and the CBR, continued to increase primarily due to the ongoing duel between Boris Yeltsin and the parliament. The CBR was at the nexus of many of the battles between Yeltsin and the parliament for two reasons. First, in practice, the CBR did not have to answer to or cooperate with the president, parliament, or any other policy-making institution, which heightened the level of tension among these groups. As the CBR's first leader, Georgii Matiukhin, put it: "despite the widely stated suspicion of parliament that I was subordinate to the executive and of the executive that I was subordinate to the parliament … the Central Bank was in actuality independent."[35] No coordinating institution to resolve conflicts over high-level macroeconomic policy existed. Although numerous decrees, resolutions, and laws were sent down requiring the creation of such a coordinating body, this did not occur. Indeed, even though the revised Law on the

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[30] Anders Aslund, *How Russia Became a Market Economy* (Washington, DC: Brookings, 1995), p. 220.
[31] Ernesto Hernandez-Cata, "Russia and the IMF: The Political Economy of Macro-Stabilization," *Problems of Post-Communism*, May/June 1995, p. 20.
[32] Quoted in Claudia Rosett, "Rooted in Soviet Past, Russia's Central Bank Lacks Grasp of Basics," *Wall Street Journal*, 23 September 1993.
[33] Irina Demchenko, "Central Bank Chairman Accuses Russian Government of Distorting Facts," Izvestiia, 10 February 1993, translated in the *Current Digest of the Post-Soviet Press*, XLV, 6 (1993), p. 2.
[34] Viktor Gerashchenko, *"Denezhno-kreditnaia sistema v Rossii v perekhodny period," Biznes i banki,* September 1994, p. 2. Also, see his address to the Fourth Annual Congress of the Association of Russian Banks on 29 April 1994, printed in *Biznes i banki*, May 1994, pp. 7–8.
[35] Matiukhin, *Ya byl glavnim bankirom Rossii*, p. 71.

Central Bank passed in April 1995 explicitly required the creation of a National Banking Council, this institution was not formed until 1997.

But most importantly, the president and the parliament had deeply conflicting ideas about the proper conduct of monetary policy, with the parliament preferring a loose policy and the executive a tight one. Both sides realized that the CBR represented the key to Russian macroeconomic policy making. As former Finance Minister Boris Fedorov put it during his own unsuccessful campaign to be named director of the CBR, "If you can control the Central Bank, you can control a dozen other things."[36] Because of its importance, neither president nor parliament could allow the other to gain control over the CBR. For example, the parliament firmly blocked Yegor Gaidar's November 1991 attempt to subordinate the CBR to the executive. This standoff led to a string of initiatives on the part of both president and parliament to enshrine the CBR's institutional independence in law, even as each tried (and usually failed) to undermine the CBR regarding specific policies. This conflictual relationship between the equally powerful president and parliament gave the CBR wide latitude in implementing its own preferred policies in the face of political opposition.

4.1 Technical Difficulties

This politically powerful CBR began its life with limited technical capabilities due to its constrained responsibilities under the Soviet system and the lack of attention paid to improving the bank's capacity during the political battles of 1990–91. In its early years the CBR had little control over the money supply because of the existence of the ruble zone and burgeoning interenterprise debt, suffered with poorly trained staff, had few tools of monetary policy, had no choice but to lend money to the government, and suffered under an extremely weak payments system. This section covers the technical problems of the CBR in more detail, making clear that in its early years it would have been all but impossible for even an inflation-averse CBR to prevent the meltdown of Russia's economy.

1) **The Federal Structure of Gosbank**

   When the USSR broke up at the end of 1991, the CBR found itself saddled with many of the institutional legacies but none of the all-Union power of Gosbank. Suddenly, the CBR faced fourteen other "independent" central banks, all using the ruble as their sole currency. Although their central banks could not print rubles like the CBR (since all of the printing presses were on Russian territory), the banks could and did emit large quantities of ruble credits to local enterprises, dramatically increasing the money supply. For example, in 1992 Ukraine's government issued credits totalling 1.3 trillion rubles, which led to 2,000% inflation in Ukraine and adversely affected other states in the ruble zone.[37]

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[36] Boris Fedorov, quoted in Terence Roth, "Fedorov aims for top post at Russia's bank," *Wall Street Journal*, 1 November 1993, p. A13.

[37] "Ukraine: Tough Enough," *The Economist*, 13 March 1993, p. 56.

A lack of coordination also snarled the payments systems among the former republics, because clearing a transaction required it to be routed through two central banks instead of one. To further complicate matters, the Russian Federation had always subsidized the other republics, and the other republics naturally preferred to continue that arrangement. This transitional legacy put the CBR in a unique position as compared to the post-communist central banks in Eastern Europe, one which was not taken into account by Yeltsin's radical reform team in 1992.

2) Central Bankers Wanted, No Experience Necessary

As Douglass North notes, "the incentives that are built into the institutional framework play the decisive role in shaping the kinds of skills and knowledge that pay off."[38] The skills that central bankers developed under communism were entirely different from those necessary to function within a market economy. Georgii Matiukhin flatly stated that "the problem of cadres was and remains to this day one of the main problems for the Central Bank of Russia."[39] Former Finance Minister Boris Fedorov echoed this frustration, saying that "the problem with the Central Bank is that there are practically no central bankers over there." [40] CBR staffers, the great majority of whom were holdovers from the days of Gosbank, were in no way technically prepared to take the leading role in guiding Russia's monetary policy and regulating its commercial banks.

In Soviet times, the poorly paid, lowly Gosbank staffer had little to do besides shuffle papers in fulfillment of orders from above. When Matiukhin's CBR took over the Russian Republic branch of Gosbank in 1990, he noted that only 17.4% of the employees had any higher education at all.[41] Central bankers, with only a few exceptions, did not know how they might use different tools of monetary policy to affect the money supply and inflation rate, did not know how commercial banks ought to be licensed and regulated, and did not understand how security markets worked. As a central banker in Riazan admitted, "problems arise that no one can solve. … Our work used to be easier."[42] To make matters worse, as Matiukhin pointed out, "the most qualified specialists began to leave the Central Bank for commercial banks, inasmuch as the commercial banks offered them a significantly higher salary."[43] This left the CBR, especially in Moscow, with an unstable and comparatively inexperienced staff just when the CBR's new responsibilities began to mushroom.

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[38] Douglass North, *Institutions, Institutional Change, and Economic Performance* (Cambridge, UK: Cambridge University Press, 1990), p. 78.

[39] Matiukhin, p. 67.

[40] Boris Fedorov, former Russian Finance Minister, quoted in Claudia Rosett, "Obstacle to Reform: Rooted in Soviet Past, Russia's Central Bank Lacks Grasp of Basics," *Wall Street Journal*, 23 September 1993, p. A1.

[41] Matiukhin, *op.cit.*

[42] Elena Morozova, Head Economist, Department of Analysis and Regulation of the Activities of Commercial Banks, CBR Riazan, interview with author, 2 September 1994.

[43] Matiukhin, p. 54. Also see comments by Boris Fedorov in Leontiev interview, op. cit., p. 25.

The early 1990s gave Russia's central bankers a painful crash course in financial policy making and market economics. They had to learn their new roles while on the job, through trial and error. Many took classes at one of the numerous new financial academies that sprouted up around the country or visited banks overseas. As early as 1991, Matiukhin opened a training center in the CBR and sent many of his staffers abroad for training.[44] Nevertheless, such skills take time to accrue, and most central bankers only gradually began to feel comfortable in their positions. In the interim, experimentation and on-the-job training lent a large degree of unpredictability to the CBR's policy decisions, from top-level judgements on credit disbursement to local-level decisions on how to sanction commercial banks for infractions of CBR regulations.

3) The Empty Toolbox

The limited tools of monetary policy in the CBR's arsenal constrained its policy options. The central bank never needed such tools under the command economy, when monetary output, exchange rates, and so on were determined by the government. For example, instead of using the discount window as an expensive source of short-term liquidity for the commercial banking system, the CBR continued the Soviet-era practice of using it as a way of disbursing centralized credit.[45] Directed credits from the CBR or the federal budget still formed about half of all commercial bank loans granted in 1992, and their level remained high through 1994.[46] Moreover, the CBR's discount rate was actually negative in real terms until October 1993. Neither Matiukhin nor Gerashchenko wanted to cut off credits to industry or shock industrialists by raising rates to what would appear to be, in nominal terms, extremely high levels in order to compensate for the 2,500% yearly inflation in 1992.[47] As then-Deputy Prime Minister Boris Fedorov exclaimed in March 1993, "[because of the] abyss between [commercial bank rates] and the Central Bank's rates … seekers of free credit are flocking to Moscow."[48] Therefore, during this period the banking system continued to act as an allocator of resources, not as a guardian of money.

Another serious problem was the CBR's inability to use the open market to control the money supply due to the previous lack of instruments such as treasury bills in Russia. The US Federal Reserve, for example, can buy or sell US Treasury Bills on the

[44] Matiukhin, pp. 54–55. In fact, he was widely criticized in Russia for sending so many staffers abroad, which was viewed as a suspicious, money–wasting activity.

[45] The 2.8 billion rubles in directed credits disbursed by the CBR in 1992 represented over 95% of the CBR's credit to commercial banks. Terms of the loans were negotiated with the CBR, government, and local authorities. World Bank, *Russia: The Banking System During the Transition*, 14 September 1993, p. 7.

[46] World Bank, op. cit., p. 4.

[47] Both CBR chairs did continually raise interest rates, however, antagonizing the Parliament, commercial banks, and enterprises outraged at the "obscene" rates they were being charged. For example, see Mark Masarskii's comments in "Roundtable discussion on the State of Russian Banking," *Moscow News*, 7–14 June 1992, p. 10.

[48] Boris Fedorov, "Fedorov Confronts Gerashchenko on Credits," Segodnia, 16 March 1993, translated in Current Digest of the Post-Soviet Press, XLV, 13 (1993), p. 14.

secondary markets in order to affect the money supply, a much more effective instrument of control than simply printing (or not printing) money. But, as Lewarne explains, "One of the underlying rationales for [relying on open market operations] is that people have faith in the government's ability and willingness to honor these contracts. Such a contractual relationship does not exist in the transitional economy."[49] Treasury bill sales require time to prepare, a certain level of economic and political stability to carry out, and a domestic financial sector with the desire and wherewithal to support the market. In Russia, the CBR did not carry out its first, experimental treasury bill (GKO) auction until March 1993.

4) Financing the Government

Partial CBR financing of the government's budget deficit was unavoidable in the early years of the transition for structural reasons. The government had no other way in which to finance its expenditures. It lost much of its traditional revenue sources through privatization, exchange rate liberalization, and the falling value of private deposits in Sberbank. At the same time, it could not instantaneously develop the tools that market economies use to acquire government revenue such as tax collection, treasury bill sales, and foreign loans.[50] Russia entered the transition period with no infrastructure for collecting taxes – no equivalent of the IRS, no tax code, and no legal system within which to punish tax offenders. Moreover, Russians, who had never been expected to pay direct taxes and who had become quite adept at getting around officialdom in Soviet times, felt no moral compunction to pay up. Foreign loans were also not an immediate option because of Russia's previous separation from the world economy and the contentious issue of the repayment of debts from the Soviet Union. Until these structural economic reforms were put into place, it would have been impossible to finance the Russian government without funds from the CBR.

5) The Payments and Clearing System

Another institutional legacy that proved to be nearly catastrophic for the CBR was the almost complete lack of a payments and clearing system in Russia to handle the financial traffic of the commercial banks.[51] In early 1992 the CBR began forcing commercial banks to use the *RKTs* (*raschetno-kassovykh tsentr*, or payments-cash center) payments system, which had originally been developed to transfer tax money from the Russian Federation to the Union budget. This was problematic from the beginning because of the lack of computer technology and skills in the CBR combined

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[49] Stephen Lewarne, "Legal Aspects of Monetary Policy in the Former Soviet Union," Europe-Asia Studies, 45, 2 (1993), p. 200.

[50] Indeed, 47% of government debt in developing countries and 12% in developed countries is financed by direct borrowing from central banks because of shallow domestic financial markets. World Bank, *World Development Report* (Washington, DC: World Bank, 1989), p. 62.

[51] For the most detailed information available on the development of the Russian payments and clearing system, see M.P. Berezina and Yu.S. Krupnov, *Mezhbankovskie raschety* (Moscow: Finstatinform, 1994).

with the rapidly rising volume of interbank transactions to overwhelm the system immediately.

To make matters worse, the persistent Soviet-era separation of rubles into *nalichnye* (cash) and *beznalichnye* (noncash) in effect necessitated two kinds of payments systems. For example, an enterprise that received noncash rubles (*i.e.*, state credits) in the planning process could use these credits to purchase inputs from other state enterprises but could not take this money out of the bank as cash to pay wages or to make purchases from private firms. This dual monetary circuit allowed Gosbank to give so-called "soft credit" to enterprises with few adverse macroeconomic consequences in the command economy and created a relaxed attitude on all sides towards completing timely payments transfers. The old payments system transferred money from one bank to the next, and "it did not matter in particular to whom the money belonged. It belonged to the state."[52] However, in 1988–1989 cooperatives began to figure out how to turn noncash rubles into cash by purchasing goods from state enterprises (often enterprises affiliated with the cooperatives) for low, noncash payments and then turning around and selling these goods for cash.[53] As inflation began to rise and cash (but not credits) became hard to come by, the CBR came under increasing pressure to streamline the payments system, unify the dual monetary circuit, and expedite the increasing volume of credit transfers.

So on 1 April 1992, in an effort to increase its control over payments transfers, the CBR began to require that all commercial bank payments be processed through the CBR's RKTs channels. This unpopular move caused incredible backlogs, contributing to the parliament's May 1992 decision to call for a vote of no confidence in CBR chair Georgii Matiukhin and his subsequent resignation.[54] Payments got especially backed up in July and August 1992 – former acting CBR director Tatiana Paramonova "remembers with terror" the mountains of sacks filled with different bank payments documents that piled up in the CBR during that time.[55] In a 1993

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[52] Vladimir Vinogradov in "Payments Crisis Tied to Central Bank," *Moskovskaia pravda*, 8 May 1992, pp. 1–2, translated in FBIS *Central Eurasia*, 5 June 1992, p. 33.

[53] Mikhail Leontiev noted in May 1992 that "the CBR has in recent times been implementing a policy which hinders the transfer of noncash money into cash. It is always trying to create some kind of barrier with purely fiscal methods. . . . The CBR is today conducting a counter-revolutionary policy. There is an entire industry of cash conversion." "Former Finance Minister on Central Bank's Role," *Nezavisimaia gazeta*, 25 April 1992, p. 4, translated in FBIS Central Eurasia, 9 May 1992, p. 22.

[54] Conventional wisdom holds that Matiukhin was asked to resign by the Supreme Soviet because of his unacceptably tight monetary policy, but this was only one of many reasons. In fact, Matiukhin's monetary policies were tight only in comparison to Gerashchenko's. Many of the Supreme Soviet's complaints focused on issues of competence, including the CBR's secrecy, its continual flaunting of the Law on the Central Bank, the payments system fiasco, its interference in the work of commercial banks, and late wage payments. See the summary of Supreme Soviet complaints about Matiukhin published in *Nezavisimaia gazeta*, 19 May 1992, p. 4.

[55] Tatiana Paramonova, remarks, Plenary Session of the Russian-American Bankers' Forum, 30 June 1995, St. Petersburg, Russia.

survey of commercial bankers, 77% named the payments system as the problem most in need of immediate resolution for the successful development of the banking system.[56]

But worse, the problems in the payments system proved to be a tempting opportunity for corruption. Commercial bankers, politicians, and entrepreneurs alike accused the CBR of keeping money in order to speculate with it while it continually lost value, while the CBR admitted to holding up payments often for 30 days and occasionally for several months.[57] According to a commercial banker in Volgograd, "The Central Bank is not interested in speeding up payments. Money takes 15–20 days to be processed through Moscow."[58] This easy source of profits encouraged the CBR to resist making changes to the payments system until it began to face competition from commercial bank payments networks, despite the vociferous complaints of commercial bankers.

5. Policy Consequences

This section looks at how the political autonomy and technical incapacity of the CBR from 1992 through mid-1993 combined to affect concrete policy outcomes in two significant issue areas, with major consequences for the Russian political and economic transition. The issue areas it examines are the CBR's actions during Russia's shock therapy attempt in 1992 and during the breakup of the ruble zone in 1993. These investigations point out the lack of coordination among different Russian institutions, the problems created by the CBR's policy autonomy, and the structural and technical barriers to the implementation of rapid economic reform programs in the post-communist context.

5.1 The Unpredictable Money Supply

After the failure of the coup, Yeltsin began to advocate Russia's adoption of a kind of radical economic reform known as shock therapy. Directed by economist Yegor Gaidar and pushed by the IMF and Western economic advisors, this strategy aimed to "shock" the Russian economy into modernity by simultaneously liberalizing prices and trade, eliminating the budget deficit, and rapidly privatizing state enterprises. "Shock therapy" represented an ill-defined economic program with an explicit political strategy. Yeltsin and Gaidar adopted shock therapy hoping to

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[56] Survey by Cassandra research service. Results reported in the ARB *Informatsionnyi bulletin* #6, 1994.

[57] See for example Sergei Yegorov's comments in "Roundtable discussion on the State of Russian Banking," Moscow News, 7–14 June 1992, p. 10 ("after all it's an open secret: if a remittance exceeds five million rubles it is bound to be 'lost' at the Central Bank"); Ivan Zhagel, "We're Not Going to Rescind the Central Bank's Telegram," Izvestiia, 4 August 1992, translated in Current Digest of the Post-Soviet Press, vol. XLIV, no. 31 (1992), p. 4; and "Explanatory Memorandum on the Agenda Item of the Meeting of the Presidium of the Russian Federation Supreme Soviet 'On the Chairman of the Russian Federation Central Bank'," published in Nezavisimaia gazeta, 19 May 1992, p. 4, translated in FBIS Central Eurasia, 5 June 1992, pp. 34–36.

[58] Liudmila Khomutetskaia, director of Slavianin Bank, quoted in Anna Stepanova and Vladimir Teplitskii, "Pri slaboi ekonomike ne budet sil'nykh bankov," Delovoe povolzh'e, 14 (April 1994), p. 1.

take advantage of the purported window of opportunity that existed after the failed coup had discredited old Soviet institutions.[59] Yeltsin promised that this decisive blow, although causing some brief economic pain, would tame inflation rapidly and restore the productive power of the Russian economy.[60] After much debate the Russian parliament granted Yeltsin emergency decree powers for one year to allow him to whip the economy into shape. Accordingly, on 2 January 1992, Russia freed prices and set the wheels of shock therapy into motion.

The results proved to be disastrous, as the shock therapists' utopian plans clashed brutally with the entrenched institutional framework of Russia's economy. Higher-than-expected inflation wiped out people's life savings, cash became scarce, capital flight and the dollarization of the economy both skyrocketed, the ruble's value fell, and the level of mutual debt among enterprises reached billions of rubles. Perhaps worst of all, shock therapy accelerated the long-term decline in economic production, starting with a 25% drop by the end of 1992 and continuing to decline each quarter through mid-1996, when it exceeded 50%.[61] As the IMF admits, "the magnitude of decline has exceeded the depth of any depression in Russia during the previous seventy years and may have been on the same order as … in the United States between 1929 and 1933."[62]

The CBR played a pivotal role in the progress of the Russian shock therapy attempt, epitomizing the political and institutional barriers to the success of such a policy at that time. When Yeltsin and Gaidar tried to introduce shock therapy into Russia, they had no choice but to implement their monetary policies through the CBR. The CBR, however, was not willing or able to control cash and credit emissions. The inefficient interbank payments system, the CBR's lack of tools of monetary policy, and the persistence of the credit-hungry ruble zone left the CBR technically unable to control the levels of cash and credit in the economy. Moreover, the CBR's two directors during this period, the agents upon whom tight monetary policy depended, had differences with the Yeltsin plan. Matiukhin said in January 1992 that "an evolutionary way is better for us."[63] Gerashchenko thought that the rise in interenterprise debt and the cash shortages had occurred because there was not enough money in the economy

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59 For example, "Price liberalization or exchange rate unification can be decreed overnight . . . If reformers want to use their political window of opportunity wisely, they should press ahead with those measures that can be promptly executed," Biswajit Banerjee, et.al., Road Maps of the Transition (Washington, DC: IMF, 1995), p. 64.

60 On this point, see Gaidar and Matiukhin, *"Memorandum ob ekonomicheskoi politike Rossiiskoi Federatsii," Ekonomika i zhizn'*, 10 (March 1992), pp. 4–5. In three separate places, including at the beginning and end of the memorandum, Gaidar and Matiukhin make clear that the success of the program depended upon significant external financing from the international community. Although much of the expected support did not materialize, Gaidar and his reform team now blame institutional constraints rather than the IMF for the failure of shock therapy in Russia.

61 Lynn Nelson and Irina Kuzes, *Radical Reform in Yeltsin's Russia* (Armonk, NY: M.E. Sharpe, 1995), p. 26.

62 Banerjee, *op. cit.*, p. 55.

63 Quoted in Fred Hiatt, "Pro-Reform Russian Quits Top Bank Post," *Washington Post*, 17 July 1992, p. A14.

as a result of the huge price rises after liberalization.[64] He later stated that complying with IMF targets could destroy Russia's industrial base and crush the financial system, and saw no alternative to releasing credits to cover interenterprise debts.[65]

Not only did the two CBR chairs disagree with the executive's policy – they had the ability to act on their views. To attempt to deal with the cash shortage, Matiukhin printed money as fast as possible, day and night.[66] He introduced higher denomination notes, increased the capacity of the printing presses, and did away with the lowly kopek. As for interenterprise debt, Matiukhin and Gaidar had tentatively worked out an agreement for mutual debt offsetting under which net debtors and creditors would have been referred to an Agency for the Settlement of State Enterprises' Debts. Net creditors would have received "shares" in this agency instead of new credits. But when Gerashchenko took over the CBR in July 1992, he unilaterally voided this agreement with his July 28 telegram on cancelling debts among state enterprises. The CBR reached the high-water mark of credit release in mid-1992. Supported by the parliament, the CBR used the autonomy it had forged during its struggles with Gosbank to carry out its own preferred monetary policies aimed at supporting production and maintaining the ruble zone.

Shock therapy proved to be impossible to implement in Russia not because of a lack of political will on the part of Russia's leaders, but because it assumed that micro-level economic practices could be changed rapidly by making a few macro-level economic policy adjustments. With the executive and the CBR working at cross-purposes, Russia had no consistent macroeconomic policy throughout this entire period. Its painful results initiated hostilities between the formerly agreeable president and parliament, later culminating in Yeltsin's forcible dissolution of the same Russian Supreme Soviet that he had previously led.

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[64] Aslund, *How Russia Became a Market Economy,* p. 210. Although Aslund argues that Gerashchenko was mistaken in his views, the important point here is that Gerashchenko believed that expansion of the money supply was a rational response to the unintended consequences of price liberalization and took action accordingly.

[65] Michael Dobbs, "Russian Banker Urges Renegotiation of Economic Reform Plan," *Washington Post*, 21 August 1992, p. A16.

[66] In April 1992, Matiukhin stated that "In January and February 26 billion rubles more in cash was put into circulation than in December, the figure for March was 12 billion more than for February, and April will see a further increase of 14 billion." "Russian Congress Opens on Note of Discord," *Rossiskaia gazeta*, 8 April 1992, pp. 4–6, translated in *Current Digest of the Post-Soviet Press*, XLIV, 14 (1992), p. 4. Later in the month Matiukhin argued that "the cash shortage keeps on growing. . . . To make a noticeable improvement in the situation, it would be necessary to issue 80 billion rubles in cash this month, but in view of the capacity of the factories of the Chief Administration for the Production of State Bank Notes, Coins, and Metals, realistically no more than 60 billion rubles will be manufactured. . . . our principle hopes are associated with issuing larger denomination bank notes." Quoted in Ivan Zhagel, "5,000 Ruble Notes Will Be Russian," *Izvestiia*, 21 April 1992, p. 2, translated in *Current Digest of the Post-Soviet Press*, XLIV, 16 (1992), p. 25.

5.2 Razing the Ruble Zone

The breakup of the ruble zone also demonstrates how the CBR's political autonomy and technical incapacity combined to lead to undesirable events for both the executive and the CBR. The CBR preferred to retain the ruble zone because of its traditional view that the union structure provided some economies of scale and because of its desire to recentralize the unionwide banking system under its own control. The Russian government's views were mixed. Although the parliament favored preservation of the ruble zone, as it became clear that the other ruble zone members preferred to move their economic reforms forward at a slower pace the Yeltsin government increasingly began to regard the ruble zone as an economic liability. The executive and the CBR quickly clashed over this issue, undermining each others's policies.

In order to keep the ruble zone together, the CBR maintained its high levels of financial support for the other former republics' economies. So, despite numerous presidential decrees that attempted to limit these former republics' access to Russian financing, the CBR managed to find ways to undercut Yeltsin. Yeltsin would set limits on technical credits to the former republics, and the CBR would regularly exceed them. For example, in late 1992, the CBR gave a great deal of credit (1.5 trillion rubles, *i.e.*, $7 billion) to CIS states, in defiance of the July 1 agreement between the executive and CBR limiting the extent of these credits. The CBR continued to give credits to the CIS states until the Russian government, under pressure from the IMF, shut technical credits down completely in April 1993. In order to soften this blow, in 1993 the CBR delivered 1.5 trillion rubles of cash to the former republics, a move which proved to be extremely unpopular in increasingly nationalistic Russia.[67]

The CBR, though, continued its efforts to increase its own control over fiscal flows within the ruble zone. Because of the dual monetary circuit, other central banks had been able to release credits to their own national enterprises without CBR coordination or approval. Therefore, the CBR announced in mid-1992 that in order to import or export within the ruble zone, an enterprise had to be able to pay or receive payment in the noncash ruble of the region. Noncash rubles lent by the Central Bank of Ukraine, for example, were Ukrainian rubles, with which an enterprise could not buy Russian goods. Naturally, a market in which to trade these ruble credits grew and the differentials among the rates of exchange began to widen. For example, during Ukraine's 1992 credit expansion its noncash ruble was worth only 30% of the Russian ruble.[68] This effort allowed the CBR, which already controlled the printing presses, to gain the same kind of control over the circulation of noncash rubles.

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[67] Andrei Illarionov, "What is the Price of Friendship?" Izvestiia, 16 September 1993, translated in the Current Digest of the Post-Soviet Press, XLV, 37 (1993), p. 23.
[68] "The Rouble Zone: Behind the Facade," *The Economist*, 10 April 1993, p. 51.

Meanwhile, some nervous republics had already started to issue parallel currencies. Cash shortages in other republics after Russian reforms began led some to introduce coupons to circulate in parallel with the ruble – in effect printing their own money. In an attempt to force these states to remain in the ruble zone under complete CBR control, in July 1993 the CBR announced that within one week all pre-1993 ruble notes would become invalid.[69] This action took the Russian Ministry of Finance, the parliament, and President Yeltsin completely by surprise. Rather than negotiating or ceding some authority to the other republics, the CBR played a trump card with which it was very familiar. It was a policy straight out of the Gosbank handbook – administrative, confiscatory, and secretive. Indeed, it explicitly broke the CBR's own agreements with the other former republics that required the CBR to inform them before adopting any currency reforms. The Russian parliament and executive, the former republics, and international organizations all decried the move as illegitimate but were powerless to stop it. All Yeltsin could do was promulgate a decree extending the length of the original three-day exchange period.

Ironically, however, the CBR had misjudged the other republics. It underestimated both the symbolic importance of national currencies to these newly independent governments and their reluctance to accelerate their own economic reform programs to match Russian efforts. Rather than submitting to the will of the CBR, the republics responded by accelerating the introduction of their own currencies. By late 1993 most former Soviet republics had at least begun the process of issuing their own currencies (see Table 3). This solved the technical problem of CBR control over cash and credit emission, but in a messy way that pleased no one. Not only did the CBR's refusal to consider the creation of a higher, coordinating authority precluded the establishment of a federal-reserve type system in the former Soviet Union and the preservation of the ruble zone (a system many economists were advocating), but from 1992 until the currency exchange in mid-1993, Russia lost a great deal of its precious currency due to the CBR's backhanded attempts to keep the ruble zone together. Moreover, this unwanted exercise of political autonomy by the CBR convinced Yeltsin and his economic team that something had to be done in order to bring the uncooperative bank to heel.

6. The Era of Stabilization

From mid-1993 on, the institutional characteristics of the CBR continued to evolve as the level of its political autonomy receded while its technical capacity rose. Its technical capacity increased because of the destruction of the ruble zone and the drive towards boosting its professional expertise with the help of the IMF. From 1993–1997, the CBR introduced credit auctions (cutting off subsidized credits for enterprises and commercial banks), developed a

[69] The CBR justified this move as designed to prevent Russia from being flooded with rubles as other countries introduced coupons, a valid concern as there were only 1.7 trillion rubles worth of old banknotes in Russia itself while 2.2 trillion circulated in other states of the former Soviet Union.

treasury bill market, improved the payments system, enforced stringent reserve requirements on commercial banks, achieved positive real interest rates, and introduced a "ruble corridor" to stabilize the exchange rate. In addition, the IMF's training programs and Yeltsin's influence began the process of socializing the central bank's staff into accepting more monetarist viewpoints. Although the CBR remains technically challenged in a number of ways, these developments helped the CBR to gain greater control over the money supply, control the exchange rate, and reduce monthly inflation to single digits.

At the same time, though, its political autonomy fell due to two primary factors: the increased power of the executive in relation to the parliament and the influence of the IMF. Importantly, because both of these forces preferred the CBR to restrain its level of cash and credit emission, this decline in the CBR's autonomy in fact led it to adopt more conservative monetary policies. In other words, a less "independent" CBR proved to be a better guardian of the currency. As a result, the CBR brought inflation under control but was left vulnerable to political intervention.

Because much of the CBR's political autonomy had rested on the mutual antagonism of the equally powerful president and parliament, it suffered serious blows during 1993 when Yeltsin used a variety of extralegal, undemocratic measures to put down the cantankerous Supreme Soviet. Yeltsin's bid to increase his power began with the 25 April 1993 referendum, in which people were asked whether or not they trusted the president's economic course. Yeltsin's victory gave him additional leverage in his battle with the parliament and the CBR.

In addition, at the same time the IMF offered Russia a $3 billion loan under the new Systemic Transformation Facility, with the condition that the CBR adopt more restrictive monetary policies. Under this pressure from both the IMF and the Ministry of Finance, in May 1993 the CBR agreed to set up a credit policy committee run jointly by the Ministry of Finance and the CBR, leading to the introduction of credit ceilings for the CBR in May and the elimination of subsidized credits to enterprises in September.[70] In May 1993 the CBR and the government also signed agreements to limit the CBR interest rate to no less that 7% below the interbank rate. As Deputy CBR Director Khandruev observed, "[An] example of effective cooperation between the CBR and the IMF … [was] the CBR's gradual increase in the refinancing rate to market levels in mid-1993."[71] Although Gerashchenko would have preferred not to have his autonomy limited in this way, the combination of coinciding pressures from the executive and the IMF forced his hand.

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[70] This commission had been created by a Yeltsin decree of 7 October 1992, but it did not become active until Finance Minister Boris Fedorov took it over. The credit ceilings were subsequently exceeded in the fall of 1993, when as usual the agricultural lobbies pressed for credits for the harvest and the northern regions asked for credits to prepare for the winter.

[71] Aleksandr Khandruev, "Statement of the Central Bank of the Russian Federation," in J.B. Zulu, *et. al*., eds., *Central Banking Technical Assistance to Countries in Transition* (Washington, DC: IMF, 1994), p. 60.

This escalating battle between Yeltsin and the parliament, with Gerashchenko's CBR often in the middle, prompted Yeltsin's fateful decision in September-October 1993 to abolish the Supreme Soviet and indeed the entire network of popularly elected soviets throughout Russia. The subsequent December elections to the new lower house of the Russian parliament, the State Duma, resulted in a triumph for nationalist and communist parties; however, Yeltsin's draft constitution, ratified by referendum at the same time, reserved so much power for the president that the new parliament found it difficult to oppose him effectively. Through the end of the year interest rates continued to rise and inflation fell (see Table 4).

Although the newly ratified constitution guaranteed the CBR's "independence" from both the executive and the parliament, this victory for Yeltsin in fact transferred much control over monetary policy to the executive branch. While the CBR continued to defy the executive and the IMF at times, particularly through 1994, its days of regular, politically autonomous actions had ended. This was perhaps most tellingly illustrated by the November 1994 dismissal of Viktor Gerashchenko as CBR director after the ruble's value fell 40% against the dollar on "Black Tuesday," October 13 (in part due to Gerashchenko's defiant loosening of monetary policy). Although according to Russian law the CBR director's firing was the joint responsibility of the president and parliament, Yeltsin successfully dismissed Gerashchenko without even asking the parliament for its acquiescence. The subsequent appointment of Tatiana Paramonova, who remained only an acting director of the CBR through her year-long tenure due to parliament's refusal to confirm her as director, further eroded the CBR's autonomy.

6.1 The CBR After Gerashchenko

The CBR's loss of autonomy combined with its reining in of inflation after 1994 contributed to three successive and undesirable results: the failure of production and investment to rebound in response, the divergence of the policy preferences of the IMF and the executive, and Yeltsin's pre-election "acquisition" of $1 billion from the CBR to cover his campaign promises. This demonstrates first, that conservative central bank monetary policy is not enough in itself to turn a troubled economy around; and second, that under conditions of a weak economy and a dominant executive the central bank is extremely vulnerable to political interference, regardless of support from a strong external agency like the IMF.

Although by the end of 1996 inflation had fallen to less than 3% per month for six months running, Russia enjoyed no comparable reversal of the dismal economic decline that had begun in Soviet times. Industrial production continued to fall through the end of 1996, dropping 5% when compared with the year before. GDP fell by 6% over the same period and is now expected to fall another two percent in 1997.[72] Domestic investment plummeted 17% in 1996, to only 218 trillion rubles ($40 billion).[73] Concurrently, wage and pension arrears hit a new high

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[72] Janet Guttsman, "New Data Gives Scant Hope For Russian Economy," *Reuters*, 3 June 1997.
[73] Natalia Gurushina, "Economic Decline Continues," OMRI Daily Digest, 21 October 1996.

of 40.2 trillion rubles ($7.4 billion).[74] Tax collection continually lagged well behind expected efforts (meeting only 57% of an already reduced target in the first quarter of 1997), enterprise debts reached 400 trillion rubles ($75 billion) in June 1996, and the government owed the military approximately 30 trillion rubles ($5.5 billion).[75]

Instead of responding to the restrictive monetary environment by restructuring or cutting back spending, enterprises and local governments increased their use of monetary surrogates such as veksels (defined kindly, commercial paper; less kindly, IOUs), barter, and accumulation of interenterprise debt. The federal government tried to meet its own budget targets on the expenditure side in part by not paying wages and pensions and on the revenue side by emitting an ever-increasing number of high-yielding GKOs (treasury bills). These GKOs were so lucrative that commercial banks channelled their financial resources into GKOs rather than into loans to enterprises, further exacerbating the problem. It became clear that, rather than encouraging energetic economic restructuring, the CBR's restrictive monetary policies had simply served to highlight the many other unresolved structural problems in the Russian economy.

Under this pressure, the interests of the IMF and the Yeltsin government began to diverge with respect to CBR financing of the government. Over the course of 1993 the CBR loaned over 10 trillion rubles to the Ministry of Finance, more than it lent to all commercial banks during that same year.[76] Instead of slowing down, this trend of government borrowing increased markedly in 1994 just when centralized credit disbursements to enterprises were decreasing.[77] In 1994 the CBR itself introduced quarterly limits on the amount of credits that it would disburse to the federal government to finance the budget deficit, which only became possible after GKOs became a stable source of government revenue.[78] Then, under IMF pressure, in January 1995, the Ministry of Finance and the CBR agreed to end CBR credits to the government completely.[79] This agreement was codified in April 1995 both in the new Law on the Central Bank of Russia and in the second Stand-By Arrangement with the IMF. But despite a precipitous drop in government spending, tax revenue and GKO sales could not cover the

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[74] Penny Morvant, "Yeltsin Orders Further Action on Wage, Pension Arrears," OMRI Daily Digest, 20 October 1996.
[75] Penny Morvant, "Military Protests Lack of Funding," OMRI Daily Digest, 20 September 1996; Natalia Gurushina, "Company Arrears Increase in the First Half of 1996," OMRI Daily Digest, 10 September 1996; and John Thornhill, "Russia: Economy Gives Rise to Growing Optimism," *Financial Times*, 3 June 1997.
[76] CBR, *Tekushie tendentsii v denezhno-kreditnoi sfere*, 3 (1994), pp. 18–19.
[77] Credits to the Ministry of Finance represented the great majority of the increase in CBR credit dispersals. See *Russian Economic Trends*, 4(1), 1995 for detailed figures. For example, in January 1993 credits to the Ministry of Finance were 2,658 of a total 7,573 billion rubles of CBR credits, while in January 1994 the numbers were 14,258 and 27,678, respectively. By October 1994 this had jumped to 51,662 of 74,380 billion rubles in total credits disbursed by the CBR. In total, in 1994 the CBR gave the government 43.7 trillion rubles, covering 66.9% of the budget deficit.
[78] Gerashchenko, *op. cit.*, p. 1.
[79] *"Zaiavlenie pravitel'stva i Tsentral'nogo banka Rossiskoi Federatsii ob ekonomicheskoi politike na 1995 god,"* 10 March 1995, published in *Bankovskii biulleten*', 12, 64 (March 1995).

difference.[80] In violation of the agreement, then, from January-June 1995 the CBR gave 2.1 trillion rubles (covering 10.9% of the deficit) to the government.[81] Most recently, the Russian government has further weakened the political autonomy of the CBR by passing a law obliging the bank to turn over 50% of its annual profits to the government. This codified a trend of governmental sequestration of CBR funds: whereas the bank contributed only 25% of its 1994 profits to the government, it had been forced to turn over 98% of its 1995 profits.[82] In cases such as this where the government is in desperate need of financing and its borrowing from noninflationary sources has already reached high levels, the central bank's ultimate control over the money supply is naturally in grave political danger.

Finally, the overwhelming power of the executive in Russia as compared to the parliament since the dissolution of the Supreme Soviet has made the legal independence of the CBR from the executive questionable in practice. As the primary example, the Communist-dominated parliament overwhelmingly confirmed commercial banker Sergei Dubinin as the new CBR director in November 1995 in part in the hopes that his noted economic conservatism would prevent him from aiding Boris Yeltsin financially in the upcoming presidential campaign.[83] However, immediately before the June 1996 presidential elections, Yeltsin forced the CBR to transfer $1 billion to the government to cover his campaign promises. Under severe protest, but preferring to aid Yeltsin rather than contribute to a potential Communist election victory, the CBR relented.[84] Ironically, when I had asked Dubinin just two months earlier whether or not he considered the CBR to be independent, he replied that "We are a very, very strong ruling and supervising facility. We operate in the political context of my country, but by the law we have two main items as the basis of our independence … nobody [alone] can fire the chief of the central bank … and no one can ask me or anyone at the central bank to give credit to the government."[85] This move by Yeltsin opened the door for further violations of the CBR's political autonomy in the future, in particular since the CBR backed down on its initial intent of taking the government to court over the matter.

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[80] For example, according to Maksim Boiko, deputy chief of staff in the presidential administration, because of the lower-than-expected returns from tax revenues and GKOs the reduction in inflation in Russia had been achieved by reducing government spending in 1995 to 17% of GDP as opposed to the planned 27% of GDP. Peter Rutland, "Spending Cuts Were Key to Stabilization," OMRI Daily Digest, 5 September 1996. Meanwhile, the federal budget owed one trillion rubles in wage arrears and owed 30 trillion rubles to the Russian military. See Ritsuko Sasaki, "Wage Arrears Continue to Mount," OMRI Daily Digest, 26 September 1996 and Penny Morvant, "Military Protests Lack of Funding," OMRI Daily Digest, 20 September 1996.

[81] *Euromoney*, "Russia Comes in from the Cold," September 1995, p. 319.

[82] Itar-TASS, "Yeltsin Orders Special Tax on Bank of Russia Profits," 28 February 1997; and Financial Department, *"Duma reshila otbirat' u TsB polovinu pribyli," Kommersant-Daily*, 20 February 1997.

[83] Yegor Gaidar, remarks, Southern Economics Association Conference, 25 November 1996.

[84] Deputy CBR director Aleksandr Khandruev called the decision "politically understandable but economically wrong," while Dubinin appealed to the Supreme Court to try to stop the transfer, saying "This is not only our right but our duty." As the IMF noted, "It . . . calls into question the independence of the central bank." See John Thornhill, "Central bank attacks Yeltsin 'violation'," *Financial Times*, 11 June 1996; Reuters, "Yeltsin Move on Central Bank Prompts Concern at IMF," 7 June 1996; Reuters, "Russia Tightens Credit After Pre-Election Binge," 10 June 1996; and Reuters, "Russian Central Bank Faces First-Ever Loss," 25 July 1996.

[85] Sergei Dubinin, interview with author, 23 April 1996, Washington, DC.

7. The Complexity of Change

Although we should be cautious about drawing general conclusions from a single case study, three tentative lessons emerge from this exploration of the CBR's institutional development and its effect on the course of the political and economic transition in Russia. First, even a legally and politically autonomous central bank can not be expected to produce predictable policy preferences and outcomes. Although central bank autonomy can be important in order to encourage inflation-dampening macroeconomic policy making in post-communist states, autonomy in a post-communist central bank can also lead to uncoordinated, contradictory monetary policy. In other words, the creation of a politically powerful, unaccountable central bank does not necessarily ameliorate the contradictions inherent in simultaneous democratization and economic reform. In fact, in this case it exacerbated them.

Second, it confirms that granting a post-communist central bank formal legal autonomy is a necessary but not sufficient condition for insulating the bank from government interference. In fact, the CBR's actual political autonomy declined at the same time that its formal autonomy increased, after the ratification of the constitution. For the central bank to act as an effective "agent of restraint," it needs to have all three aspects of independence in place – formal legal autonomy, political autonomy, and technical capacity.

Third, it paradoxically demonstrates both the importance of structural institutional constraints and of individual central bank directors to central bank policy making and implementation during a transition period. This should lead us to rethink our theories on central bank independence – both how we define independence and what we can and cannot expect of an "independent" central bank. Given the CBR's continuity of personnel, historical objectives, and technical capabilities, even a politically autonomous CBR can not have been expected to internalize and implement new policy goals overnight. The broken economic promises that Yeltsin's reform team made to the Russian public as a result of such expectations bear some responsibility for the pro-Communist, anti-market backlash that swept Russia after 1993. Instead of narrowly focusing on the issue of autonomy, therefore, we need to be thinking about how institutions created to serve the needs of a command economy can develop the desire and ability to operate according to market principles in a changing, politicized environment.

Table 1: Formal Legal Measures of Central Bank Independence

	CBR 1992	**CBR 1995**	**Bundesbank**
CB director's term of office	5 years	4 years	8 years
Who appoints director?	President presents candidate, Parliament must confirm	President presents candidate, Parliament must confirm	Council of CB board, executive, and legislative branches
Number of central bank board members appointed by government?	Zero of 10–12 (number not fixed) – members all drawn from within CBR itself; Parliament confirms director's choices	Zero of 12 (number not fixed) – members all drawn from within CBR itself; Parliament confirms director's choices	10 of 21
Who dismisses director?	Supreme Soviet of the RSFSR	President and parliament must both approve dismissal; permitted only if CEO breaks the law	No provision for dismissal
Can director hold other offices?	No rule against holding other office	Not allowed	No rule against holding other office
Who formulates monetary policy?	Primarily Bank, in consultation with government	Primarily Bank, in consultation with government	Primarily Bank, in consultation with government
Who has the final word in conflict resolution?	No institution for conflict resolution, but CBR has right to appeal to courts if a law violates CB legislation	No institution for conflict resolution, but CBR has right to appeal to courts if a law violates CB legislation	Bank, on issues clearly defined in the law as its objectives
CB role in government budgetary process?	Consulting role	Consulting role	No influence
Limitations on lending to the government?	Yes, can lend to the Ministry of Finance for defined terms up to 6 months but cannot print money at government's request	Yes, forbidden to loan money to the government to fund deficit or to purchase securities directly from government	Yes, but can advance loans to government and engage in securitized lending w/i limits (2.3% of expenditures in 1982)

Sources: Primarily Cukierman, Webb, and Neyapti, "Measuring the Independence of Central Banks and Its Effect on Policy Outcomes," World Bank Economic Review, 6, 3 (1992); John Goodman, Monetary Sovereignty (Ithaca, NY: Cornell University Press, 1992); *zakon "O tsentral'nom banke RSFSR (Banke Rossii),"* 2 December 1990; and *zakon "O vnesenii izmenenii i dopolnenii v Zakon RSFSR 'O tsentral'nom banke RSFSR (Banke Rossii)',"* 12 April 1995.

Table 2: Legal Milestones in the CBR's Struggle for Independence

May 1990	RSFSR Supreme Soviet approves Shatalin Plan providing for independent CBR
July 1990	RSFSR Supreme Soviet resolution taking over spetsbanks in Russia and establishing independent CBR
Aug 1990	Matiukhin appropriates Gosbank's RSFSR branch for CBR headquarters
Dec 1990	RSFSR Law on the Central Bank of Russia signed, CBR "accountable" to parliament and "independent" of executive
Jan 1992	CBR liquidation of Gosbank
July 1993	Introduction of Russian ruble
Sept 1993	Resolution ending subsidized credits to enterprises
Dec 1993	Constitution makes CBR "independent" of president and parliament
Jan 1995	Agreement to eliminate CBR financing of the budget deficit
April 1995	Revised Law on the Central Bank of Russia signed

Table 3: Currency Reforms in the FSU

Country	**Currency**	**Date of Reform**
Estonia	Kroon	20 June 1992
Latvia	Lats	28 June 1993
	Coupon (interim)	20 July 1992
Lithuania	Litas	20 July 1993
	Coupon (interim)	1 October 1992
Ukraine	Hryvna	September 1996
	Karbovanets	13 November 1992
	Coupon (interim)	1 January 1992
Kyrgyzstan	Som	10 May 1993
Russia	Russian ruble	24 July 1993
Belarus	Rubel	June 1992; sole legal tender as of 10 Nov 1992
Georgia	Coupon	5 April 1993; sole legal tender as of 11 June 1993
Turkmenistan	Manat	1 November 1993
Kazakhstan	Tenge	15 November 1993
Uzbekistan	Som	1 July 1994
	Coupon	29 November 1993
Armenia	Dram	22 November 199.3
Moldova	Leu	29 November 1993
Azerbaijan	Manat	1 January 1993; sole legal tender as of 1 Jan 1994
Tajikistan	Tajik ruble	11 May 1995, but status uncertain

Source: Economist Intelligence Unit, *EIU Country Report: Russia*, 2nd quarter 1995, Appendix A

Table 4: Interest Rates and Inflation, 1992–1996 (average percent per month)

	CBR rate	**Interbank rate**	**Real interbank rate**	**Increase in CPI**
1992				
January	1.6%	2.6%	–242%	245%
February	1.6	3.0	–35	38.3
March	1.6	3.3	–27	30
April	4.2	4.0	–18	22
May	4.2	5.8	–6	12
June	6.7	6.8	–12	19
July	6.7	7.7	–3	11
August	6.7	8.3	–1	8.6
September	6.7	8.3	–4	11.5
October	6.7	8.6	–14	22.9
November	6.7	8.9	–17	26.1
December	6.7	9.6	–15	25.4
1993				
January	6.7	9.9	–16	25.8
February	6.7	10.8	–14	24.7
March	6.7	11.0	–9	20.1
April	8.3	11.3	–8	18.8
May	8.3	11.7	–6	18.1
June	11.7	12.1	–8	19.9
July	14.2	15.0	–6.1	22.4
August	14.2	15.3	–8.3	25.8
September	15.0	15.7	–6	23.1
October	17.5	17.3	–1.8	19.5
November	17.5	17.2	0.7	16.4
December	17.5	17.6	4.6	12.5
1994				
January	17.5	17.9	0	17.9
February	17.5	17.8	6.3	10.8
March	17.5	17.5	9.4	7.4
April	17.1	16.7	7.5	8.5
May	16.7	15.0	7.6	6.9
June	12.9	12.6	6.2	6.0
July	12.9	11.3	5.7	5.3
August	10.8	0.0	5.2	4.6
September	10.8	10.0	2.2	7.7
October	14.2	12.4	–2.3	15.0
November	15.0	12.9	–1.9	15.0
December	15.0	13.5	–2.5	16.4

Table 4, continued

	CBR rate	Interbank rate	Real interbank rate	Increase in CPI
1995				
January	16.7	15.9	–1.6	17.8
February	16.7	16.2	4.7	11.0
March	16.7	14.7	5.4	8.9
April	16.7	12.3	3.5	8.5
May	16.4	10.1	2.0	7.9
June	15.6	7.3	0.6	6.7
July	15.0	7.3	1.8	5.4
August	15.0	9.5	4.7	4.6
September	15.0	7.4	3.0	4.4
October	14.2	4.6	0.1	4.7
November	14.2	4.6	0.1	4.5
December	13.3	5.7	2.5	3.2
1996				
January	13.3	5.1	1.0	4.1
February	10.0	4.8	2.0	2.8
March	10.0	5.3	2.5	2.8
April	10.0	5.4	3.2	2.2
May	10.0	4.7	3.1	1.6
June	10.0	6.6	5.4	1.1
July	9.2	6.0	5.3	0.7

Source: Russian Economic Trends