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The review "Russian Economy. Trends and Outlooks" has been published by the Gaidar Institute since 1991. This is the 43th issue. This publication provides a detailed analysis of the most significant trends in the Russian economy, global trends in the social and economic development. The work contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: global economic and political challenges and national responses, economic growth and economic crisis; the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The work is based on an extensive array of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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Vladimir Mau

Section 1. Economic policy in a pandemic: the experience gained in 2020—2021[1]

The coronavirus pandemic that the world was first faced with in late 2019 and early 2020 presented a key challenge to socioeconomic and political development across the majority of developed and developing countries. Over the recent decades, and perhaps even the entire postwar period (since 1945), it became the most powerful shock for the global economy. The shrinkage, in 2020, of global GDP by 3.4% was significantly greater than that observed during the acute phase of the 2009 crisis (by 1.3%). Over the entire period after World War II, there were only two episodes when global GDP demonstrated negative dynamics, in 2009 and 2020. Next comes the slowdown in 1982, when that indicator was still on the rise, but it gained just 0.41% (*Fig. 1*).

Although the crisis caused by the pandemic was initially triggered by non-economic factors,[2] its economic consequences were very significant. The pandemic produced some huge macroeconomic and structural shifts. However, for an adequate assessment of these shifts, they should be analyzed in the context of more general trends, including the structural crisis of 2008—2009; in our opinion, that crisis was at the time just checked, but by no means overcome.[3] In fact, the

1 This section was written by *Mau V.A.*, Doctor of Economics Sciences, Professor, Rector of the RANEPA. The author should like to express his gratitude to A. Vedev, S. Drobyshevsky, I. Baidakov for their assistance in preparing this material.

2 In our opinion, the pandemic, in its essential features and specific impact on socio-economic and political processes, is similar to the twentieth century's wars (for more details, see *Mau V.A.* Economics and Politics in 2019–2020: Global Challenges and National Responses // Voprosy Ekonomiki. 2020. No. 3. P. 6–8). In addition to the arguments outlined in that article, the period 2020-2021 demonstrates that the pandemic, by the number of excess deaths, is also comparable to the great wars of the past: according to data released by the WHO, the global excess mortality in the first year of the pandemic (2020) jumped above 3 mn, and the number of coronavirus deaths, 1.8 mn (URL: https://tass.ru/obschestvo/11435741). According to Nature, in January 2022 there were 5.5 mn coronavirus deaths, and The Economist estimates excess mortality over two years to climb above 20 mn. See *David A*. The pandemic's true death toll: millions more than official counts // Nature. 18 January 2022.

3 For more details, see *Mau V.A.* Economics and Politics in 2019–2020: Global Challenges and National Responses // Voprosy Ekonomiki. 2020. No. 3. P. 15–16.

Fig. 1. The global GDP movement pattern, 1961—2020, as % relative to the previous year

Source: World Bank; World Bank Open Data, October 2021.

world was then faced with a structural crisis that was not followed by structural reforms, because the governments of the world's leading countries managed to "pay off" (that is, to mitigate its consequences at the cost of avoiding "creative destruction" (the term suggested by J. Schumpeter[1]).[2] The upshot was a decade of low growth and stunted globalization, unprecedented increases in budget deficits and central bank balance sheets, and exceptionally low inflation. All these phenomena taken together were later described by the terms "new normal" and "long-term stagnation".[3]

A specific economic consequence of the pandemic has been the deeper recession in the developed economies, which are more dependent on globalization processes than the developing ones: according to IMF estimates for 2020, the former then declined by 4.5%, and the latter, by 2.1%.[4] However, in 2021, the recovery across the developed economies was likewise faster (*Table 1*).[5]

Table 1

The global GDP movement pattern in 2019—2021, as % relative to the previous year

Country	2019	2020	2021	2021/2019
Australia	1.9	-2.4	3.5	1.1
Argentina	-2	-9.9	7.5	-3.1
Brazil	1.4	-4.1	5.2	1.0
UK	1.4	-9.8	6.8	-3.7

1 *Schumpeter J*. Capitalism, socialism, and democracy. New York: Harper & Bros, 1942.
2 For a detailed analysis of the contemporary situation, see *Caballero R., Hammour M*. On the timing and efficiency of creative destruction // Quarterly Journal of Economics. 1996. Vol. 111.
3 *Summers L*. Reflections on the 'New Secular Stagnation Hypothesis' // Teulings C., Baldwin R. (eds.) Secular Stagnation: Facts, Causes and Cures. A VoxEU.org eBook. London: CEPR Press, 2014.
4 URL: https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD; URL: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG
5 URL: https://www.imf.org/en/Publications/WEO/weo-database/2021/October.

Country	2019	2020	2021	2021/2019
Germany	1.1	-4.6	3.1	-1.6
India	4.0	-7.3	9.5	1.6
Italy	0.3	-8.9	5.8	-3.6
Canada	1.9	-5.3	5.7	0.1
China	6.0	2.3	8.0	10.5
Malaysia	4.4	-5.6	3.5	-2.3
Mexico	-0.2	-8.3	6.2	-2.6
Poland	4.7	-2.7	5.1	2.3
Russian Federation	2.0	-3.0	4.7	1.6
USA	2.3	-3.4	6.0	2.4
Turkey	0.9	1.8	9.0	10.9
France	1.8	-8.0	6.3	-2.2
Chile	1	-5.8	11	4.5
South Africa	0.1	-6.4	5.0	-1.8
Japan	0.0	-4.6	2.4	-2.3

Source: International Monetary Fund; World Economic Outlook Database, October 2021.

1.1. Global trends and challenges

The key features of the year 2021 were the pandemic, economic dynamics and global inflation, as well as a sudden sharp focus on the climate agenda.

The pandemic continued in the form of several new waves caused by new coronavirus strains, and this occurred against the backdrop of ongoing quite active vaccination campaigns, primarily in the most developed countries. However, the economic characteristics and trends altered significantly, and many of them even reversed.

The economic downturn gave way to a recovery growth followed by a recovery in employment. Many (though not all) of the leading economies that had experienced a recession in 2020 now recovered, or even surpassed their 2019 levels.

And at the same time, inflation began to rapidly gain in strength around the world, moving above the target benchmarks nearly in all the countries that had been implementing inflation targeting policies (*Table 2*).

Table 2

Inflation in several inflation-targeting countries, 2019—2021, %

Country	2019	2020	2021	Target
Brazil	4.3	4.5	10.0	3.5
UK	1.3	0.8	4.8	2.0
Germany	1.5	-0.3	5.3	2.0
India	7.4	4.6	5.6	4.0
Italy	0.5	–0.2	3.9	2.0

Country	2019	2020	2021	Target
Canada	2.3	0.7	4.8	2.0
China	4.4	0.3	1.4	3.0
Mexico	2.8	3.2	7.4	3.0
Poland	3.2	2.3	8.7	2.5
Russian Federation	3.0	4.9	8.4	4.0
USA	2.3	1.4	7.0	2.0
Turkey	11.8	14.6	36.0	5.0
France	1.4	–0.0	2.8	2.0
Chile	3	3.0	7.2	3.0
Japan	0.8	–1.2	0.8	2.0

Source: International Monetary Fund[1]; Rosstat[2]; Bank of India[3]; The State Council of the People's Republic of China[4]; Bank of Japan[5]; Central Bank of Brazil[6]; Banco Central Chili[7]; Central Bank of Turkey; Bank of England[8]; South Africa Reserve Bank[9].

In order to analyze the emerging trends, it makes sense to consider separately (1) the non-economic factors; (2) the economic consequences of the pandemic; and (3) the long-term socio-economic problems reflecting those structural challenges that emerged during the 2008—2009 crisis but have not yet been properly dealt with.

The short-term economic prospects depend to a great degree on the prospects for combating the pandemic. The important factors here are the pace and scale of vaccination, the possible emergence of new coronavirus strains and their specific properties (danger, virulence), and the willingness of various countries to cooperate internationally in their fight against the coronavirus. One particular problem is the current risk of mounting geopolitical tensions. Contrary to hopes, the universal danger posed by the coronavirus failed to translate into an easing international situation, nor did it become a factor that deepened (or at least restored) international cooperation.

The pandemic has brought in focus structural shifts, and partly changed their direction. On the one hand, there has been a noticeable shift in the development of digital technologies and, on their basis, in the modernization of production and services. This substantially transforms the demand for material production facilities, including real estate.

1 URL: https://data.imf.org/regular.aspx?key=61015894
2 URL: https://rosstat.gov.ru/storage/mediabank/239_29-12-2021.
3 URL: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1789391
4 URL: ht tp: //english.w w w.gov.cn/archive/statistics/ 202112/ 09/content _ WS61b173eac6d09c94e48a1fea.html#:~:text=China%20has%20set%20its%20consumer,this%20 year's%20government%20work%20report.
5 URL: https://www.stat.go.jp/english/data/cpi/1581-z.html
6 URL: https://biblioteca.ibge.gov.br/index.php/biblioteca-catalogo?view=detalhes&id=7236
7 URL: https://www.bcentral.cl/en/web/banco-central/areas/monetary-politics
8 URL: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/ consumerpriceinflation/december2021
9 URL: http://www.statssa.gov.za/?p=15080

On the other hand, the containment measures against the coronavirus (restrictions) contributed to changes in the structure of consumer demand, from services towards goods. The demand for durable goods increased: apparently, the switchover to remote work and online education produced an increase in purchases of real estate, home appliances, and electronics. What matters is just how sustainable (or long-term) the emerging trends could become. After all, it is the shift toward the services sector that has been a specific structural feature of recent decades. However, this phenomenon may become short-lived, as a recovery in the services sectors is prevented by the persistent containment measures.

The pandemic accelerated the ongoing long-term structural and institutional shifts. The most important of these shifts include the increasing attention of both governments and individuals to the sectors that have to do with human capital development (especially healthcare and education), and development of digital technologies and virtual (augmented) reality, as well as infrastructure (digital and physical).

The increasing role of the state in organizing and regulating economic and social life is undoubtedly the most important institutional change in our time. "*The return of the state* is a phrase seemingly on almost everyone's lips nowadays. Given the global challenges posed by the COVID-19 pandemic and climate change, the argument goes, it is governments, not markets, that should be responsible for allocating resources. The neoliberal revolution started by Ronald Reagan and Margaret Thatcher has apparently run its course. New Deal-style state intervention is back", notes Luigi Zingales.[1]

However, the sources of this reversal not just differ from, but in many ways are opposite to the sources of growth of the state during the New Deal period.[2] At present, these shifts are associated primarily with a radical rise in technological uncertainty (which requires the state to become some sort of insurer (in particular, to be not only a lender, but also an *investor of last resort*)), as well as with increased public attention to those industries that have traditionally been the domain of state responsibility (health care, education, and transport infrastructure).

The issue of the forms and macroeconomic consequences of new state regulation remains open. First of all, this is the issue that has to do with the future trends in the tax burden. In the previous era, when dirigisme prevailed (the greater part of the twentieth century), there was a qualitative leap (by several tens of percent) in the fiscal burden on the economy, which somewhat eased as the century was drawing to a close (during the triumph of the doctrine of economic liberalism). Strictly speaking, a return to the old dirigisme practices is not absolutely necessary at this time: the strengthening regulatory role of the

1 See *Zingales, Luigi*. Burying the Laissez-Faire Zombie // Project Syndicate. December 15, 2021. However, with a reference to the New Deal, Zingales specifically emphasizes that the case in point is not that the state should become a substitute for the market, but that competition should by no means be restricted, be it by the state or by private monopolies.

2 For an analysis of the processes associated with an increasing role of the state, see *Mau V.A.* The Coronavirus Pandemic and Economic Policy Trends // Voprosy Ekonomiki. 2021. No. 3. P. 8–9; *Caballero D., Lucas A., Bernd Schwaab and Xin Zhang*. Risk endogeneity at the lender/investor-of-last-resort. BIS Working Papers No 766. 2019.

state does not require it, while the investment functions can well be exercised through the mechanism of targeted borrowing.[1] Meanwhile, the implementation of this scenario requires certain macroeconomic preconditions, and first of all, a low public debt and a balanced budget system. However, the macroeconomic situation in the majority of leading countries does not meet these criteria (Russia is an exception in this respect). Public debt in excess of 100% of GDP will force many governments to raise taxes. Yet another factor will be the rising costs associated with servicing public debt in response to rising interest rates rise, which will be practically inevitable in view of the current high inflation. Thus, in the foreseeable future, it is quite possible to expect an increasing tax burden across the majority of leading countries of the world.

The socioeconomic consequences of the pandemic will vary in form, and have different time horizons. In 2021, the debate about the possibility of returning to the habitual way of life after the pandemic was nearly over (or the hopes of such a return have evaporated). If we continue the parallel between the pandemic and war, it can be noticed that in this current situation, just as it happened after the large-scale wars of the twentieth century, the "postwar" life is fundamentally different from the "prewar" life, and "postwar recovery" implies not just GDP recovery, but a substantial structural and institutional renewal. From this point of view, the years 2020—2022 set some new socio-economic trends. However, the question as to the timespan of these trends remains open.

The long-term structural trends (shifts) also include general digitalization and the unprecedented information openness associated with it. A century ago, Aleksei Gastev, while describing the trends of industrial society, wrote that the latest technologies of the time (large-scale machine production) were evolving towards "a stunning open grandiosity that knows nothing intimate or personal."[2] Now something similar is becoming a reality, though not in the form that was expected by theorists of industrial utopia (or dystopia).

There is little doubt that digital transformation will have a profound effect on human capital and government systems. The character and vector of these transformations are beyond the scope of this discussion, and are likely to become one of the key areas of research and practical experimentation in the foreseeable future. But so far, the digitalization processes have been the focus of quite opposite assessments (both positive and negative)[3], while the irreversibility of the changes initiated in this connection has been widely recognized – above all,

1 See, e.g., *Frieden J*. Lessons for the Euro from Early American Monetary and Financial History. Brussels: Bruegel, 2016.

2 *Gastev, A*. On the tendencies of proletarian culture // Proletarian Culture. 2019. No. 9–10.

3 The key negative result of digitalization is what George Orwell called "Big Brother"; or, the disappearance of the "personal and intimate", as Aleksei Gastev wrote. This topic is becoming the focus of both politicians and researchers. A year before the onset of the pandemic, a study with the characteristic title "The Age of Surveillance Capitalism" was published. See *Shoshana Zuboff*, The Age of Surveillance Capitalism: The Fight for a Human Future at the New Frontier of Power. Profile Books, 2019.

because these technologies will ultimately increase productivity, and so become a source of economic growth and prosperity.[1]

Another source of structural shifts will be *changes in global trade*. The pandemic, on the one hand, and geopolitical tensions, on the other, have produced some significant changes in global supply chains. Accelerating inflation (to be discussed later in this section) also contributes to this transformation. And as time passes, there is less and less hope that they will be restored to their previous form.[2]

A *rapid inflation acceleration* was the most important phenomenon of 2021 and, consequently, one of the major themes of ongoing macroeconomic and political discussions. In October 2021, global consumer inflation gained 4.9% relative to the same period of 2020, and this is 1.9 p.p. higher than in January 2020. The causes of inflation acceleration are much more obvious than those of its absence in the 2010s, when the governments and monetary authorities of leading countries were implementing strong expansionary monetary and fiscal policies, and that decade saw unprecedented increases in government borrowing and central bank balance sheets in peacetime history (*Tables 3, 4*).

Table 3

Public debt, global and by country, % of GDP

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Australia	11.8	16.7	20.4	24.1	27.5	30.5	34.0	37.7	40.5	41.1	41.6	46.6	57.3	62.1
Brazil	62.3	65.5	63.0	61.2	62.2	60.2	62.3	72.6	78.3	83.6	85.6	87.7	98.9	90.6
UK	49.3	63.2	74.3	80.0	83.2	84.2	86.1	86.7	86.8	86.3	85.8	85.2	104.5	108.5
Germany	65.7	73.2	82.5	79.9	81.2	78.8	75.7	72.3	69.3	65.0	61.6	59.2	69.1	72.5
Israel	71.6	74.4	70.4	68.6	68.1	66.8	65.6	63.8	62.0	60.2	60.4	59.5	72.0	73.2
India	72.8	71.5	66.4	68.6	68.0	67.7	67.1	69.0	68.9	69.7	70.4	74.1	89.6	90.6
Spain	39.7	53.3	60.5	69.9	86.3	95.8	100.7	99.3	99.2	98.6	97.5	95.5	119.9	120.2
Canada	67.9	79.3	81.2	81.8	85.4	86.1	85.6	91.2	91.7	88.8	88.8	86.8	117.5	109.9
China	27.2	34.6	33.9	33.8	34.4	37.0	40.0	41.5	48.2	51.7	53.8	57.1	66.3	68.9
Malaysia	39.4	50.4	51.2	51.9	53.8	55.7	55.4	57.0	55.8	54.4	55.6	57.1	67.4	70.7
Mexico	42.5	43.7	42.0	42.9	42.7	45.9	48.9	52.8	56.7	54.0	53.6	53.3	61.0	59.8
New Zealand	19.0	24.3	29.7	34.7	35.7	34.6	34.2	34.2	33.4	31.1	28.0	32.0	43.6	52.0
Poland	46.7	49.8	53.5	54.7	54.4	56.5	51.1	51.3	54.2	50.6	48.8	45.6	57.5	55.5
Russian Federation	*7.4*	*9.9*	*10.1*	*10.3*	*11.2*	*12.3*	*15.1*	*15.3*	*14.8*	*14.3*	*13.6*	*13.8*	*19.3*	*17.9*

1 Quite another issue has to do with an adequate measurement of productivity and economic growth in the digital age, because the methods developed in industrial society cannot be applied in the new situation without proper adjustment. This issue has been raised by a number of economists, but so far, no more or less universal standpoint has been elaborated. See, e.g., *Coyle Diane*. GDP: A Brief but Affectionate History. Princeton, NJ: Princeton University Press, 2014; *Sen, Amartya, Jean Paul Fitoussi, and Joseph Stiglitz*. Mismeasuring Our Lives: Why GDP Doesn't Add Up. The New Press, 2010.

2 "Adding to the uncertainty, there have been pandemic-induced shifts in domestic and global supply chains that are not yet well understood and will most likely be difficult to reverse. Indeed, the disruptions coming out of the pandemic are broader and appear to be exerting a stronger drag on the economy than did the recent trade war between the United States and China." *Spence M*. A World of Heat and Headwinds // Project Syndicate. August 24, 2021.

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Singapore	97.9	101.7	98.7	103.1	106.7	98.2	97.8	102.2	106.5	107.8	109.8	129.0	154.9	137.9
USA	73.4	86.6	95.1	99.5	103.0	104.5	104.5	104.9	106.9	106.0	107.1	108.5	133.9	133.3
Turkey	37.8	43.5	39.7	36.2	32.4	31.2	28.5	27.4	28.0	28.0	30.2	32.7	39.8	37.8
France	68.8	83.0	85.3	87.8	90.6	93.4	94.9	95.6	98.0	98.3	98.0	97.6	115.1	115.8
Switzerland	44.6	42.8	41.1	41.5	42.2	41.6	41.6	41.7	40.5	41.2	39.2	39.8	42.4	42.7
South Africa	24.0	27.0	31.2	34.7	37.4	40.4	43.3	45.2	47.1	48.6	51.6	56.3	69.4	68.8
Japan	180.7	198.7	205.7	219.1	226.1	229.6	233.5	228.4	232.5	231.4	232.5	235.4	254.1	256.9
Global public debt	**201**	**215**	**209**	**208**	**210**	**211**	**213**	**220**	**226**	**225**	**225**	**227**	**256**	**258**
Developed economies	71.7	90.9	97.4	101.4	105.5	104	103.6	103.1	105.6	103.2	102.6	103.8	122.7	121.6
G7	88.5	103.4	111.6	116.8	120.7	120.7	118.5	117.4	116.3	119.5	117.4	118	140.2	139
EU	65.4	75.5	80.6	82.9	86.4	88.5	88.8	86.7	85.9	83.3	81.2	79	91.9	93

Source: International Monetary Fund; World Economic Outlook Database, October 2021.

Table 4

The balance sheets of some major central banks (2010 = 100%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
US FRS	100	120.9	120.1	166.6	185.8	185.4	183.9	183.8	168.4	172.0	304.2	361.8
Swiss National Bank	100	128.2	185.0	181.7	207.9	237.1	276.5	312.4	302.7	318.9	370.1	383.3
ECB	100	105.2	143.6	155.7	119.5	116.0	146.1	192.4	234.8	247.1	245.5	366.7
Bank of Japan	100	111.1	123.0	174.2	233.3	297.7	370.2	405.1	428.9	445.2	545.9	562.3
Bank of Russia	100	100.7	121.0	133.8	146.3	213.3	187.9	199.8	255.3	262.7	326.0	352.1
People's Bank of China	100	108.4	113.6	122.4	130.5	122.6	132.6	140.0	143.7	143.1	149.5	151.6

Sources: Bank of Russia[1]; People's Bank of Chine[2]; Bank of Japan[3]; European Central Bank[4]; Swiss National Bank[5]; US Federal Reserve System[6].

Inflation acceleration was, as it usually happens, the upshot of the combined impact of several short-term and long-term (structural) factors. The most significant of these factors are as follows:

— first of all, it is a the protracted, almost decade-long, stimulation of demand in the context of a weak supply response and, consequently, persistently low growth rates;

1 URL: http://www.cbr.ru/statistics/bbs/
2 URL: http://www.pbc.gov.cn/en/3688247/3688975/4280784/4438377/index.html
3 URL: https://www.stat-search.boj.or.jp/ssi/cgi-bin/famecgi2?cgi=$nme_a000_en&lstSelection=BS01
4 URL: https://www.ecb.europa.eu/pub/annual/balance/html/all_balance_sheets.en.html
5 URL: https://data.snb.ch/en/topics/snb#!/cube/snbbipo?fromDate=2008-01&toDate=2021-12&dimSel=D0(T0)
6 URL: https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

— a the supply constraint as a result of the pandemic, which naturally translates into rising prices;[1]
— Huge budget deficits across many major countries significantly increase the socio-economic risks when interest rates are raised, and central banks, in spite of their high independence, cannot ignore this fact;
— the unpreparedness of the US government to undertake sterilization in order to adjust the money supply, and so inflation for the most part becomes a fiscal, and not monetary, phenomenon;[2]
— a rapid recovery growth triggered increased demand for several investment goods (raw materials and metals),[3] as well as foodstuffs, while an adequate response to that demand is hampered by broken value chains;[4]
— and finally, one should not overlook the emergence of the powerful structural factor of energy transition, which is gaining momentum to become a long-term source of inflation. So far, environmental technologies have been making energy more expensive, and investments in the energy sector are also becoming more expensive due to greater uncertainty.

Furthermore, stagflation may sooner or later also become an equally controversial issue.[5] This was a key macroeconomic problem during the structural crisis of the 1970s (*Fig. 2*), and the risks of its reemergence were particularly exacerbated by the pandemic. The pandemic gave rise to an acute supply crisis, both because of the periodic lockdowns introduced in many countries, and because of broken economic linkages (value chains) and a slowdown in international trade. Thus, in the current situation (unlike, for example, that in 2008—2009), the demand crisis is evolving alongside the supply chain crisis. And so, the "traditional" Keynesian recipes are not only ineffective, but dangerous: when it is physically

1 "GDP and employment did not fall because there was a lack of "demand." In a pandemic, you can send people all the money in the world and they still won't go out to dinner or book a flight, especially if those services are suspended by government fiat. To the economy, a pandemic is like a blizzard. If you send people a lot of money when the snow is falling, you do not get activity in the snowdrifts, but you will get inflation once the snow has cleared." *Cochrane J.H.* The Ghost of Christmas Inflation // Project Syndicate. December 23, 2021.

2 "… this US inflation is ultimately fiscal, not monetary. People do not have an excess of money relative to bonds; rather, people have extra savings and extra apparent wealth to spend. Had the government borrowed the entire $5 trillion to write the same checks, we likely would have the same inflation. <…> … unlike in previous crises, the government created money and sent checks directly to businesses and households, rather than borrowing, spending, and waiting for the effect to spread to incomes." *Cochrane J.H.* The Ghost of Christmas Inflation // Project Syndicate. December 23, 2021.

3 According to data released by the World Bank, at the end of October 2021, the price of oil hit its seven-year record high, while the prices of natural gas and coal renewed all-time highs. See World Bank. Russia Economic Report. December 2021, pp. 6–8.

4 "[The] problem is that global supply chains have been more severely disrupted than previously thought. It is now apparent that the resulting shortages – in labor, semiconductors (which are used in countless industries), construction materials, containers, and shipping capacity – are not going away anytime soon. Surveys indicate that the inflationary effects are widespread across sectors and countries, and are likely to act as a persistent headwind to recovery and growth." *Spence M. A.* World of Heat and Headwinds // Project Syndicate. August 24, 2021.

5 See the discussion of stagflation prospects viewed in retrospect: *Roubini N.* The Looming Stagflationary Debt Crisis // Project Syndicate. June 30, 2021; *Roubini N.* The Stagflation Threat Is Real. // Project Syndicate. August 30, 2021; *Roubini N.* Goldilocks Is Dying // Project Syndicate. September 21; *Roach S.S.* The Ghost of Arthur Burns // Project Syndicate. May 25, 2021; *El-Erian M.A.* Taming the Stagflationary Winds // Project Syndicate. September 22, 2021.

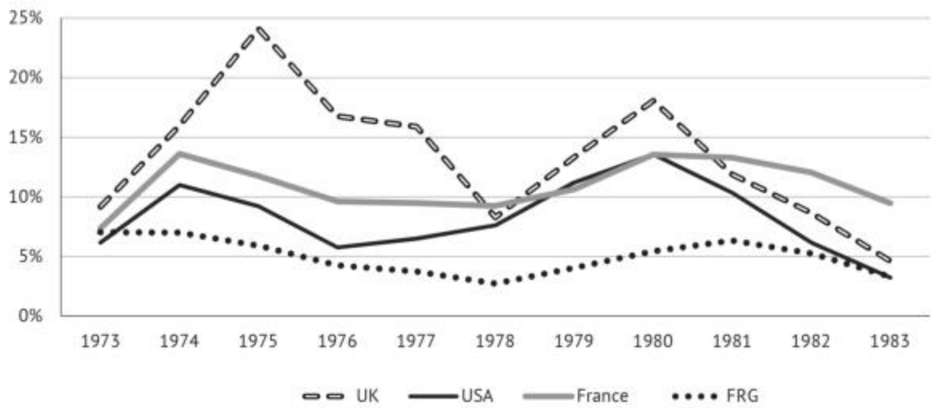

Fig. 2. Inflation in 1973–1983

Source: Eurostat.

impossible to increase supply, demand-side financing pushes up inflation, which in turn undermines production incentives. As a result, there has emerged a phenomenon that is rather rare and uncharacteristic of cyclical crises, when inflation goes hand in hand with a falling output growth and falling employment. In fact, this is exactly what happened in the West during the structural crisis of the 1970s, as well as during the post-communist structural crisis of the 1990s.

Currently, there are no signs of stagflation, but the risks of stagflation are still there. In 2021, this was pointed out by some economists, who emphasized the difficulties of implementing a careful macroeconomic policy in order to avoid repeating the mistakes of fifty years ago.[1]

1 Generally speaking, the issue of how to avoid the mistakes made during the previous crises is most urgent and at the same time complicated. It is all the more complicated because the history of modern economic growth (approximately from the mid-18th century) knows many different crises that required a variety of anti-crisis policies. Therefore, when developing an anti-crisis package, it would be necessary to provide answers to at least two questions. First, how the accumulated experience could be applied to this particular situation. A mistake is fraught with dire consequences, as was the case, for example, in the early 1970s, when in order to control the supply crisis, it was decided to stimulate demand (a policy that had been appropriate, but had not actually been implemented in the 1930s). Secondly, history does not repeat itself, and so each crisis has its own significant nuances that must be taken into account in the context of economic policy.

It is this combination of experiences of the past and the nuances of the present that the current discussion is focused on. Those economists that hold the traditional views of inflation as a predominantly monetary phenomenon are strongly advising against repeating the mistakes of the 1970s. (*Rogoff K.* Back to the Seventies? // Project Syndicate. August 31, 2021; *Roach S. S.* The Ghost of Arthur Burns // Project Syndicate. May 25, 2021; *El-Erian M. A.* Taming the Stagflationary Winds // Project Syndicate. September 22, 2021.) Meanwhile, active proponent of the New Monetary Theory (MMT) James K. Galbraith insists that the advice that "it's the Fed's job to keep [inflation] under control" in response to the recent inflation surge in the USA "comes straight from that era [the 1970s], and [such] prescriptions could reprise the economic and political disasters of those years." In order to avoid doing so, policy-makers should admit that "there is no way that our current inflation rate is 'macroeconomic'." *Galbraith J. K.* Whipping Up America's Inflation Bogeyman // Project Syndicate. November 19, 2021.

Over the course of the past decade, there were many attempts to explain the underlying causes of the absence of inflation, in spite of financial expansion. Such a situation was the underlying cause of the atypical reaction of monetary authorities to the inflation surge of 2021. Raghuram G. Rajan describes it very aptly: "Notwithstanding the growing, but often unspoken, worries at the Fed, central bankers nowadays are reticent to see inflation as a problem. In the past, the current levels of inflation would have prompted them to square their shoulders, look determinedly into the TV cameras, and say, "We hate inflation and we will kill it," or words to that effect. But now they are more likely to make excuses for inflation, assuring the public that it will simply go away. Clearly, the prolonged period of low inflation after the 2008 global financial crisis, when the Fed had great difficulty elevating the inflation rate to its 2% target, has had a lasting impression on central bankers' psyches. The obvious danger now is that they could be fighting the last war. Moreover, even if they do not fall into that trap, structural changes within central banks and in the broader policymaking environment will leave central bankers more reluctant to raise interest rates than they were in the past."[1]

However, the key reason why many economists, let alone politicians, were reluctant to seriously consider the inflation risks was their fear that tightening monetary and fiscal policies might trigger a recession with some unpleasant social and political consequences. Besides, there were still some hopes for a "new reality" where financial expansionism would not produce a macroeconomic crisis.

Now, the situation has changed. Back in 2020, the main macroeconomic policy problem was extremely low inflation with the risk of deflation. Now inflation has spread globally, and the authorities will have to adopt difficult decisions in order to curb it. In this connection, there are some questions that need to be answered, and forks in the road that need to be passed.

First of all, there was the question of just how long the inflation surge would last. Initially, major central banks assumed that it was only a temporary phenomenon, which would disappear quickly enough without requiring any significant revision of the monetary easing policy. By the year-end of 2021, it became clear that this was not the case, and the US Federal Reserve announced that it was accelerating the wind-down of its quantitative easing (QE) program (buying long-term securities to increase the money supply), probably to be followed by an interest rate hike.[2]

1 *Rajan R.G.* Monetary and Inflationary Traps // Project Syndicate. November 23, 2021.

2 This sequence of actions undertaken by the Federal Reserve is by no means obvious and, considering the facts cited in the previous two footnotes, it does not fit well with available accumulated experience. Orthodox economists draw a natural parallel with the 1970s: "In real (inflation-adjusted) terms, the federal funds rate, currently at -6%, is deeper in negative territory than it was at the lows of the mid-1970s (-5% in February 1975), when monetary policy blunders set the stage for the Great Inflation. Today's Fed is woefully behind the curve. My advice to the Federal Open Market Committee: It is time to up the ante on creative thinking. With inflation surging, stop defending a bad forecast, and forget about tinkering with the balance sheet. Get on with the heavy lifting of raising interest rates before it is too late. Independent central bankers can well afford to ignore the predictable political backlash." *Roach S.S.* The Fed Must Think Creatively Again // Project Syndicate. November 22, 2021. See also *Rajan R.G.* Monetary and Inflationary Traps // Project Syndicate. 23 November 2021.

In 2021, some countries already undertook monetary policy tightening. The central banks of the UK, South Korea, the Czech Republic, Hungary, and Poland began to raise their key rates as early as mid-year. Russia, with due regard for its thirty-year long history of inflation (and, consequently, high inflationary expectations) was one of the first to increase the key rate. However, throughout 2021, inflationary expectations across the majority of leading countries of the world where deflation had been the core problem over the past decade were close to the inflation target, and so the interest rates could be kept at a low level.

Thus, given the current inflation and inflationary expectations, monetary policy in many countries is still far from being tightened. This can largely be explained by the high level of debt in state budgets, which means that an increased interest rate will significantly push up the cost of credit and trigger a budget crisis. It is obvious that to overcome inflation, a coordinated fiscal and monetary policy will be required. But it is equally obvious that monetary policy tightening is fraught with serious risks — not only economic, but also social and political ones.[1]

Monetary policy tightening by the reserve currency issuers will create problems not only for their own economies (in the presence of a significant public debt or budget deficit), but also in emerging markets. The latter will be faced with capital outflows followed by a mounting inflationary pressure (through a weakening national currency and the exchange rate pass-through effect), so monetary policy tightening will also become necessary there and result in higher borrowing costs, and may also become a deceleration factor. However, this will depend more on the rate of global economic development, because its upward movement may have a positive impact on emerging markets, thus compensating for growth in the cost of capital.

The climate agenda has gained a new dynamism, its further evolution could produce new major structural shifts.

The influence of the climate agenda on various socioeconomic policy aspects (monetary, fiscal, competitive, structural) and the labor market prospects is becoming increasingly stronger. And this happened in spite of the absence of any breakthroughs in the system of international negotiations on global climate change and the quite controversial year-end results of 2021 (at least from the point of view of formal politics). The USA officially rejoined the Paris climate pact, although its effectiveness had been seriously criticized. The Glasgow Climate Summit was held in November with great hopes that did not quite come true.[2]

1 “If fiscal inflation does erupt, containing it will be difficult. If monetary policymakers try to curtail inflation by raising interest rates, they will run into fiscal headwinds as well as a political buzz saw. First, with the debt-to-GDP ratio above 100 per cent, if the Fed raises interest rates five percentage points, interest costs on the debt will rise by $1 trillion — 5 per cent of GDP. Those interest costs must be paid, or inflation will just get worse. Similarly, if the European Central Bank(ECB) raises interest rates, it increases Italy’s debt costs, threatening a new crisis and imperiling the ECB’s vast portfolio of sovereign bonds. Second, once inflation works its way to higher bond yields, stemming inflation requires higher fiscal surpluses to repay bondholders in more valuable dollars. Otherwise, inflation does not fall.” *Cochrane J.H.* The Ghost of Christmas Inflation // Project Syndicate. December 23, 2021.

2 “As world leaders gather at the United Nations Climate Change Conference (COP26) in Glasgow, there is tremendous ebullience about the potential of green energy sources. But the hard fact is that fossil fuels still account for 80% of global energy, as they did when governments signed the

Still, the year 2021 saw some events what could be regarded as a move towards a qualitatively new level of political debate and policy-making.

First, we are now talking about a comprehensive understanding of the environmental agenda. It is no longer reduced just to climate change (or global warming), but addresses various aspects of life globally and on a national level. ESG (ecology-social-governance) is becoming one of the key concepts not only of the socioeconomic, but also of the political agenda. These issues have been gradually evolving and discussed over the past 10—15 years, but in the last year or two they were literally all over the debate on social development prospects. Similarly to digitalization, the pandemic became a catalyst for the changes (technological and intellectual) that had been building up for some time.

Second, a kind of new philosophy of economic life is emerging on the basis of ESG. The economic mainstream is moving away from the philosophy of economic liberalism that prevailed over the previous five decades.[1] The notion that profit is not the goal of business activity is becoming increasingly widespread. In other words, the goals of entrepreneurs and managers cannot be reduced to the profit maximization indicator (or market capitalization). In fact, the concept of ESG by itself is an indicator of the transition towards a comprehensive system of assessing the economic activity results.

Of course, there will be more debates on the various practical aspects of ESG. The unity of these three components does not eliminate their inherent contradictions, especially in the short term. Thus, decisions in favor of environmental protection (E) run contrary to employment goals (S). Corporate governance goals (G) may get in conflict with environmental goals (E) because of the different performance criteria. And the conflict between entrepreneurial (G) and social (S) goals have been well known since the mid-19th century.

However, there also exists the risk of a too radical revision of the economic model, with the rejection of the basic incentives of the market (capitalist) economy and introduction of strict government regulation designed to ensure an absolute priority of the environmental agenda. Some radical approaches have been suggested that will require a full-scale revolution in the public administration system, a switchover to the Green New Deal (by analogy with the New Deal implemented during the Great Depression), the creation of a Big Green State,[2] as

Paris climate agreement to much fanfare at COP21 six years ago. And even though many economies have not yet returned to their pre-pandemic gross domestic product (GDP) level, the world is on track in 2021 to post its second-largest annual increase in carbon dioxide (CO_2) emissions on record." *Rogoff K*. Will the COP Be Different? // Project Syndicate. November 1, 2021.

1 This statement contains an argument against the well-known thesis by Milton Friedman, a key ideologists of modern economic liberalism, that the social responsibility of business is to increase its profits (Friedman, M. Capitalism and Freedom. Chicago: University of Chicago Press, 1962. Ch. VIII.) As always in economic life, no thesis should be treated as an ultimate truth. Friedman introduced his theory to oppose the excessive regulation policy that was broadly accepted in the mid-twentieth century and to promote the idea of increasing the economic incentives for free enterprise. Over several recent years, this concept has become a target of sharp criticism by both left-liberal politicians and economists, and some representatives of the business community.

2 *Gabor D*. Private finance won't decarbonize our economies – but the in 2021big green state' can // The Guardian. 4 June 2021. URL: https://www.theguardian.com/commentisfree/2021/jun/04/private-finance-decarbonise-economies-green-state

well as some War-Communism-style measures as the necessary condition for the survival of the human race.[1]

Third, the EU's proposed carbon border adjustment regulation (tax)[2] will have some important consequences. And while neither the forms and timeline of the new tax regulation, nor its fiscal implications, are not yet fully clear, the announcement of that decision per se became a factor responsible for rethinking the medium- and long-term macroeconomic, structural and institutional policies. It was over the course of the past year that the majority of the world's leading countries set their temporary carbon neutrality targets and began to elaborate the mechanisms to achieve that goal.

By way of summing up, we should discuss the general trend that in recent years has been characteristic of the policies of many developed countries, and will be shaping their economic development in the foreseeable future. It is the trend of economic populism, and the experience of the past few years shows that this phenomenon is typical of both right-wing and left-wing governments. This has been probably most evident in the USA. The governments of Bill Clinton, George Bush and Barack Obama based their economic policies on the principles of economic liberalism, fiscal balance and responsible monetary policy (including the independence of the Federal Reserve), freedom of enterprise and deregulation of the production of goods and services. Then some significant changes took place under Donald Trump, and in spite of the denial of his predecessor's policies, this approach has been continued by Joe Biden. In includes expansionary fiscal policy and the idea that the US FRS must properly implement it, including debt monetization, protectionism, and trade wars. Actually, this is a shift from neoliberalism to neopopulism. However, this shift is quite natural and reflects the general trend that we have discussed earlier, that of building up the economic activity of the state. The only important thing is that populism should by no means become excessive and trigger a global macroeconomic crisis.

1.2. The trends and specific features of Russia's economic policy

The Russian economy demonstrated a high recovery rate, surpassing the pre-crisis level as early as Q2 2021. At year-end 2021, the economic growth index stood at 4.7% (*Table 5*).

This was the result of an effective anti-crisis policy that combined targeted support for individuals and businesses with general macroeconomic restraint and avoidance of populist solutions. Recovery growth was primarily based on consumption revival as a result of lifted containment measures. An important factor in ensuring higher growth rates than those achieved over the previous decade after they had reached their pre-crisis levels was the expansion of the

1 *Malm F*. Corona, Climate, Chronic Emergency: War Communism in the Twenty-First Century. L.: Penguin Random House, 2020.

2 Apparently, the decision concerning the carbon border adjustment tax was an upshot of the lack of any significant progress in decarbonization. By that time, several eminent economists had developed recommendations on the system of incentives for practical implementation of decarbonization. See *Nordhaus W*. Climate Clubs: Overcoming Free-riding in International Climate Policy // American Economic Review. 2015. Vol. 105 (4).

building construction sector (through supporting the demand for housing mortgages), intensification of hydrocarbon production after OPEC+ had eased the restrictions on output, and one-time social payments to certain categories of citizens (military personnel, children, and pensioners).

Table 5

The macroeconomic parameters of Russia's development, 2019-2021

	2019	**2020**	**2021**
Macro indicators			
GDP, increase on previous year, %	2.2	-2.7	4.7
Inflation, %	3.0	4.9	8.4
Fixed capital investment, increase on previous year, %	2.1	-0.5	7.6
Foreign direct investment, billion	32	9.5	39.8
Total unemployment rate, %	4.6	5.8	4.3
Real personal income, increase on previous year, %	1.0	-2.0	3.1
Real wages and salaries, increase on previous year, %	4.8	3.8	2.9
Number of vacancies per job seeker in December (hh. index)	6.8	5.7	3.8
Budget parameters			
Federal budget surplus (+) / deficit (-), billions of rubles	1,974.3	-4,102.5	524.4
Federal budget surplus (+) / deficit (-), % of GDP	1.8	-3.8	0.4
External debt, % of GDP	3.1	3.9	3.3
External debt, millions of US dollars	54,848	56,703	59,702
Internal debt, % of GDP	9.3	13.8	12.5
Internal debt, billions of rubles	10,172	14,751	16,486
Gold and foreign exchange reserves (at year-end), billion	549.8	592.4	630.6
Balance of payments, billions of US dollars			
Current account	64.8	36	120.3
Trade balance	165.3	93.7	185.9
— exports	419.9	333.4	489.8
— imports	254.6	239.6	303.9

Sources: Rosstat;[1] Bank of Russia;[2] RF Ministry of Finance;[3] hh.ru[4].

The labor market recovered, and unemployment declined steadily. The unemployment rate at the year-end of 2021 was close to 4.3%, and the labor force increased by 1.7 mn. Job postings from employers also jumped up (by approximately 25% year-on-year), and the ratio of unemployed people to job posts declined to 1.7, well below comparable estimates of 2.9 and 1.9 observed in ~~2020 and 2019, r~~espectively.[5] Real disposable income resumed growth.

1 URL: https://rosstat.gov.ru/storage/mediabank/ind_potreb_cen_12.html
2 URL: https://www.cbr.ru/hd_base/mrrf/mrrf_7d/?UniDbQuery.Posted=True&UniDbQuery.From=01.2019&UniDbQuery.To=01.2022
3 URL: https://minfin.gov.ru/ru/perfomance/budget/federal_budget/budgeti/2021/.
4 URL: https://stats.hh.ru/#hhindex%5Bactive%5D=true
5 The World Bank. Russia Economic Report. December 2021. P. XIII.

The implementation of government policy ensured the recovery of investment activity. In 2021, investment in real terms moved above the level of 2019.

The favorable prices for Russian exports translated into exceptionally successful results of foreign trade. While imports gained 27%, exports increased 1.5 times, thus doubling the trade balance, to $186 bn (10.3% of GDP).

The rapid growth of exports produced a record-high current account balance of more than $120.3 bn (6.7% of GDP). However, the downside of that record was a high capital outflow in excess of $72bn (approximately 4% of GDP), because the economy could not fully absorb the inflow of export revenues in the form of investment. The latter was associated with the rather low parameters of potential growth, and first of all the insufficient economic efficiency (productivity) of production factors.

There were some positive shifts in regional development. The government was able to significantly reduce the regional budget burden: budget loans were restructured to the value of approximately Rb220 bn, and approximately Rb335 bn was allocated for long-term loans, to replace the commercial debt of regions and municipalities. In this connection, "unplanned" inflation also played a positive role, because regional budget revenue increased in nominal terms.

The key issues (or forks in the road) that the Russian economy (and, consequently, government economic policy) is going to deal with in the near future are quite understandable, and they are similar to the issues that almost all developed countries are currently faced with. It is quite another matter that the solutions are by no means simple or the same for every country.

First of all, *the prospects for economic growth*. Will it be possible to secure a sufficiently high GDP growth rate, approximately at the level of 2021? Or was that just a recovery growth, and when it is over, the situation will return to the same parameters that had been in the 2010s? In the case of the other developed economies, it is the question of whether the secular stagnation hypothesis will become relevant once again in relation to the post-pandemic years. An even more dramatic option is the stagflation scenario, that is, extremely low growth rates alongside high inflation rates.

From the point of view of growth prospects, the coronavirus factor will remain a key source of uncertainty (a war against the pandemic, like a war against any external enemy, always carries the risks of unpredictable developments); the other factor will be the ability of authorities and businesses to implement adequate measures designed to protect social and economic life or, to be more precise, the measures to consolidate economic growth. The possibility of new lockdowns cannot be ruled out until the virus is defeated.

If that factor could disappear, one might have expected the trends of 2021 to persist in the short term. However, in the current environment it is not economic growth per se that matters, but its quality, that is, its ability to improve well-being and modernize the country.[1]

1 For more details, see *Mau V.A.* The lessons of stabilization and prospects of growth: Russia's economic policy in 2016 // Voprosy Ekonomiki. 2017. No. 2.

Hence the second fork in the road, namely *the inflation prospects*. In late 2021 and early 2022, the monetary authorities and governments of the leading countries were still hoping for short-term inflationary effects, which would not require any significant changes in monetary policy, especially because many developed countries had accumulated very significant public debt, and so were particularly sensitive to a tightening monetary policy.

The Russian authorities, taking into account the quarter-century-long inflation history and, consequently, the persistently high inflationary expectations in this country, and also the fact that there was no serious debt burden, chose to tighten their monetary policy at an early stage.[1] Over the course of the year 2021, the RF Central Bank's key rate doubled, jumping from 4.25% to 8.5%. Although these measures could not halt the climbing prices, they somewhat helped in slowing down the inflation rate: according to the estimates of Chairman of the Bank of Russia Elvira Nabiullina, inflation would have been 4 p.p. higher if the key rate had not been raised.[2] Against this background, the discussion of the cause-and-effect links between the RF Central Bank's key rate, inflation and economic growth once again became very intense.

The tremendous importance of monetary policy notwithstanding, its role in Russia's economic growth cannot be assessed in a straightforward way, that is, in the form of simple cause-effect relationships. It is important to distinguish between the measures designed to boost growth and those to prevent a macroeconomic crisis, because the latter makes GDP growth virtually impossible.

With due regard for Russia's specificities and the post-Soviet experience, its macroeconomic policy should be extremely cautious and conservative, and this is particularly true with regard to monetary policy. Any stimulation of economic growth by macroeconomic policy measures can be possible on a very limited scale only, and mainly at the expense of the budget system, which is highly balanced with a low debt level, and denominated almost entirely in the national currency (*Table 5*).

The principal problem is that it is not macroeconomic factors that play the key role in Russia's GDP slowdown. The low level of potential growth (approximately

1 S. Drobyshevsky offers a fairly accurate description of the specificity of inflationary expectations in Russia: "Inflationary expectations have remained predominantly adaptive, and they are adaptive based on the previous inflationary expectations, and not on the previous actual level of inflation. Inflationary expectations have moved persistently 4–5 p.p. above actual inflation (in particular, in the autumn of 2021, their index rose to 12.5%–13.5%). This means that so far, there is little confidence in the Bank of Russia's policy, inflationary expectations are un-anchored, and their previous values have a much greater weight in shaping the expectations for future periods than actual inflation or information on the Bank of Russia's policy decisions. It should be noted that the gap between inflationary expectations and actual inflation that so far has existed for 7—8 years after the launch of the inflation targeting regime is a unique phenomenon, because in the majority of countries, either there was a convergence of the expectations and the target within 4—5 years, or the relevant countries abandoned inflation targeting altogether." See *Drobyshevsky, S.M.* Coordination of fiscal and monetary policies in 2021–2022. M., 2021.

2 In fact, RF Minister of Finance Anton Siluanov agreed with the RF Central Bank's standpoint: "In the final analysis, inflation is caused by monetary factors. It is both possible and necessary to control it by managing supply, but this will be a rather long-term trend. And short-term measures should include, of course, efforts to reduce monetary pressure on inflation." URL: https://gaidarforum.ru/ru/programme-2022/2503/

1.5%-1.8%)[1] has to do with the structural and institutional constraints built into the economy. These include the shrinkage in economically active population, the low investment activity of the private sector, lack of any meaningful growth of total factor productivity (including insufficient investment in human capital), lack of a developed innovation infrastructure, a low inflow of direct foreign investment, and a decline in direct competition with foreign manufacturers. And of course, the entrepreneurial climate is also important, namely trust in business, property rights guarantees, and efficient (but not excessive) government control and supervision.[2]

Thus, macroeconomic policy measures can prevent an unfolding crisis and mitigate its consequences. However, these measures, when implemented in Russia's specific conditions, cannot by themselves have a significant impact on economic growth, neither halting it when interest rates are climbing, nor boosting it when they begin to decline. However, they can become a source of destabilization by blocking growth, if inflation is handled irresponsibly; in this connection, one should simply recall the well-known experiences of hyperinflation in the 1990s. It is quite another thing that such measures are short-lived, while structural and institutional solutions evolve slowly and require considerable organizational work and political will.

Suppressing inflation and avoiding stagflation has become the most important short-term economic policy goal. This is a difficult task, because in contrast to the previous thirty years, the current problem is predominantly of an external origin. Global inflationary processes are naturally impacting Russia, and counteracting them cannot be solely the task of monetary authorities. The RF Central Bank must launch a credible disinflation package, and the experiences of 2014—2020 have demonstrated that the regulator knows how to effectively deal with that problem. However, in the context of imported inflation, the RF Central Bank can only create the necessary prerequisites for disinflation, but these will by no means be sufficient.[3]

1 See *Sinelnikov-Murylev S*., *Drobyshevsky S.*, *Kazakova M*. Decomposition of GDP growth rates in Russia in 1999–2014. // Economic Policy, 2014. No. 5; *Drobyshevsky S.*, *Kazakova M*. Decomposition of GDP growth rates in 2016–2019. // Russian Economic Development. 2016. No. 6; World Bank. Russia Economic Report. December 2021. P. XVI, 73.

2 As shown by available estimates, the potential growth rate of approximately 1.8% is still rather low, pointing to the necessity of implementing a comprehensive reform package in order to remove the structural constraints preventing a more dynamic and sustainable growth necessary for improving living standards. The most important components of the package will be strengthening the productivity growth factors and improving the conditions for private investment and boosting competition, especially in high value-added and non-energy-intensive sectors. These are quite common ideas that were also set forth in the World Bank's Russia Economic Report released in December 2021. See World Bank. Russia Economic Report. December 2021. P. XVI.

3 The issue of the constraints that the national monetary regulator has to deal with while attempting to control global (and so, for the most part, imported) inflation deserves a special discussion. In principle, this is a rather rare phenomenon, because in the past, the periods of high inflation (and hyperinflation) used to be a national problem, that is, the result of specific national policies implemented by countries. One exception was the global crisis of the 1970s, which engulfed the majority of developed countries. Based on that experience, it can be concluded that a national regulator in an open economy cannot fully control inflationary processes; nevertheless, their level varies significantly depending on the policy of the monetary authorities in a given country. The most striking example is that of the USA and Germany at that time. The USA, profoundly believing

In this connection, the government's efforts are important, and they should be undertaken on different fronts. In 2021, price controls on some market goods, as well as export restrictions (including export duties) were imposed. These are understandable but rough measures that may produce some unpleasant side effects in the form of loss of sales on export markets, deterioration of the structure of exports (increased share of raw materials), and reduced competitiveness of domestic commodity producers.

In order to suppress inflation, institutional measures are required that should boost competition, support non-commodity exports, and promote deregulation. Another important price stability factor should certainly be the independence of the RF Central Bank; this is the principle that, thanks to President Vladimir Putin's commitment to it, ensured the success of monetary policy over the course of the past decade.

Fiscal policy in this situation should also be extremely careful. The key task here, naturally, would be to stimulate economic growth and promote structural modernization. However, a particular challenge in the context of rising inflation would be to find a proper balance between stimulatory measures and avoidance of macroeconomic destabilization (the latter, as Russia's experience has demonstrated, is an independent factor of economic slowdown). The budget deficit and debt growth that happened in 2020, in 2021 gave way to a trend towards budget balance. Moreover, at the initiative of President Vladimir Putin, it was decided to increase the National Welfare Fund's liquidity level (the threshold above which available resources can be allocated for investment) from 7% to 10% of GDP. Such a policy, quite understandably, has been a target for criticism, because in crisis conditions the budget should become a more active source of support for growth. However, given the macroeconomic risks discussed earlier, fiscal conservatism seems to be justified.

In early 2022, specifying the fiscal policy prospects, Mikhail Mishustin said as follows: "As early as this year, we plan to return to the regular fiscal rule parameters, which will bring down inflation and promote a balanced economic development on the basis of private investment."[1]

The issue of efficiency of budget expenditures, especially the choice of projects for government investment, remains important. This is all the more relevant in the situation of high uncertainty (technological and epidemiological), which contributes to the transformation of the state into an investor of last resort. Generally speaking, it is clear that budget expenditures should be primarily concentrated in those areas that boost total factor productivity, and first of all

in the universality of the Keynesian doctrine, actively stimulated demand, so as a result, at its peak, inflation reached 11% in 1974. Germany, after its two hyperinflation periods experienced in the 20th century, chose an extremely conservative monetary policy, and so the inflation peak stood just a little above 7%. It was this example that the Bank of Russia's Chairman Elvira Nabiullina referred to in January 2022, insisting that a lot depended on the national regulator even in the context of imported inflation. URL: https://gaidarforum.ru/ru/programme-2022/2503/.

1 *Mishustin, M.V.* Video greeting to the participants of the "Russia and the World: Priorities" Expert Forum (13th Gaidar Forum), 2022. URL: http://www.government.ru/news/44317/

human capital and infrastructure (transport infrastructure, and now also digital infrastructure).[1] However, the problem is not just the investment directions, but the availability of well-designed projects.

On this basis, it becomes possible to discuss the structural priorities for investment. At present, these include investments in information technology, telecommunications equipment, microelectronics, and genetics, as can be seen from the growing amount of investment in these sectors.

Throughout the year 2021, the RF Government was working on a package of structural and institutional measures designed to become the basis for long-term sustainable economic growth, improved well-being, and modernization of the economy. The Unified Plan for Achieving the National Development Goals until 2024 and the Planning Period until 2030 was adopted on October 1, 2021. The government proposed 42 initiatives for Russia's socioeconomic development that were divided into six key sections: (1) the social sphere, (2) construction, (3) environmental protection, (4) digital transformation, (5) technology breakthroughs, and (6) a state for the people (customer centricity).[2]

The initiatives are aimed at achieving the national goals through to 2030 formulated by President Vladimir Putin in 2018. These are, in the main, structural measures aimed at overcoming poverty (addressing social problems) and increasing the total factor productivity across the economy in order to boost the potential growth rate.

For the first time, a government document of this type contains a section that specifically addresses the function of the state as a customer-centric system. In fact, this is the first occasion in Russian history when the state begins to view itself as a service, i.e., it focuses its activities on the goal of identifying and satisfying the needs of individuals as customers, in a manner that would be convenient for them. The notion of customer centricity as such has raised objections because it has a somewhat technocratic flavor. However, we believe that this approach is extremely important because it lays the groundwork for an essential modernization of the philosophy of public administration. After all, customer centricity essentially based on the principle

1 The understanding that these sectors are the areas of special government responsibility is by no means a feature of the modern era. Minister of Finance of Russia Alexander Abaza, in his speech before the State Council on December 31, 1880, outlined his priorities as follows. In his opinion, a sound financial policy was unattainable, "unless quite decisive measures are implemented to reduce public spending. First and foremost, it is the reduction of expenditures in the military department... Then, saving is also needed in the other parts of the administration, except for those where money should not be spared because, in fact, such expenditures would result in an increase in the people's well-being." Among the latter, Abaza pointed out the upkeep of general-education and technical schools, the judicial system, and transport routes. He went on arguing that, while observing strict economy in public spending, it was necessary to encourage, in every possible way, industrious and frugal private individuals, who were the main sources of national wealth. *Peretz, E.A.* Diary (1880–1883). Moscow, Delo Publishers, RANEPA, 2018. P. 122. (In Russian)

2 Government of the Russian Federation. Unified Plan for Achieving the National Development Goals until 2024 and the Planning Period until 2030. RF Government Edict No. 2765-r. dated October 1, 2021. URL: Plan_po_dostizheniyu_nacionalnyh_celey_razvitiya_do_2024g.pdf (economy.gov.ru); Government of the Russian Federation. List of Initiatives of the Russian Federation's Socioeconomic Development through to 2030. RF Government Edict No. 2816-r dated October 6, 2021. URL: jwsYsyJKWGQQAaCSMGrd7q82RQ5xECo3.pdf (government.ru)

of "taxpayer democracy", i.e., the recognition of individuals and firms as the primary source of society's well-being. From this it follows that the state must enter in a dialogue with society (individuals and firms), finding out and identifying its needs.

In 2021, the authorities significantly increased their focus on the issues included in what has been known as the climate agenda, or the transition to a low-carbon world. These issues have evolved from being part of a ritual towards practical actions. The trigger that intensified the international discussion was the intention of the EU, which remains Russia's major partner in trade, to introduce the carbon border adjustment tax. But the problem actually had been brewing for a number of years, and it goes beyond those issues.

In this connection, the most important development was President Vladimir Putin's decision that Russia would go carbon neutral no later than 2060.[1] The relevant government programs were adopted that envisaged, by 2050, a reduction in net greenhouse gas emissions by 70%, and the achievement of net carbon neutrality ten years later.[2] A thesis was put forth of the green economy (carbon neutrality) with an economic growth of at least 3%. This goal should become the basis for elaborating a complex program of action, to encompass all sectors, which will require rethinking the macroeconomic, structural and socioeconomic policies. It will also require serious resources to be invested by the state and businesses.[3]

To this end, ten task forces were set up under the government, to analyze the situation and develop appropriate programs and regulatory documents.

Naturally, there was a collision of different (if not opposing) ideas about the pace and nature of the expected changes. It is still difficult to say just how fast the world (and Russia) will be moving toward the goal thus outlined. And, most importantly, it cannot be said with certainty that the goal will not be significantly adjusted at a later date due to the unpredictability of the technological challenges and shifts that may occur on the time horizon of 30—40 years. But it can be argued that this agenda will become the core of economic and political discussions in the foreseeable future.

1 URL: http://kremlin.ru/acts/bank/45990

2 Government of the Russian Federation. Goals and Main Directions of Sustainable Development (Including Green Development) of the Russian Federation. RF Government Edict No. 1912-r dated June 12, 2021. URL: sMdcuCaAX4O5j3Vy3b1GQwCKfa9lszW6.pdf (government.ru); Government of the Russian Federation. 2050 Strategy of Social and Economic Development with Low Greenhouse Gas Emission. RF Government Edict No. 3052-r dated October 29, 2021. URL: ADKkCzp3fWO32e2yA0BhtIpyzWfHaiUa.pdf (government.ru)

3 According to the Prime Minister of Russia, "annually, the cost of comprehensive measures designed to reduce the carbon footprint, according to preliminary estimates, can amount to 1-2% of GDP on the time horizon until 2050. ... A special program to support enterprises was developed as part of the environmental agenda. It involves subsidizing the interest rate or coupon income. The first selection took place last summer. Over the next three years, annual funding in the amount of about Rb4 bn is envisaged." *Mishustin, M.V*. Video greeting to the participants of the "Russia and the World: Priorities" Expert Forum (13th Gaidar Forum), 2020. URL: http://www.government.ru/news/44317/

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In conclusion, we are going to point out the risks that the global and Russian economy may come to grips with in the near future, including but not limited to the following ones:

- uncertain epidemiological situation: the persisting coronavirus infection, the emergence of new mutations. Like in any war, both the developments and their effects on socio-economic processes (first of all, on employment and supply chains) are poorly predictable;
- the return to the growth rate of the 2010s (that is, structural growth matching actual growth) is another serious risk for the Russian economy. After all, even the GDP growth of 4.7% in 2021 means that the average growth rate over the period 2020—2021 hovered around 1%. Obviously, a lot will depend on successfully overcoming the pandemic, but an efficient growth-oriented policy will also play an important role;
- inflation sustainability and stagflation risks. In this connection, an important indicator should be the achievement, by the year-end of 2022, of the inflation target of 4%—4.5%;
- growth of real personal income has remained a difficult task, which will depend on the prospects for economic growth. However, there is a two-way relationship: growth in real personal income (alongside poverty decline) is an important factor of economic growth;
- corporate sector risks have to do with the uneven recovery of firms and sectors. Here, the source of danger is the excessive reliance on financial support from the government, especially in the presence of long-term solvency problems. Solvency risks will persist throughout 2022 across those sectors that have been most affected by the pandemic (such as transportation and services), as well as in small companies;[1]
- the risk of a significant capital outflow and toughening financial conditions. The underlying causes are the deteriorating geopolitical situation and a faster pace of monetary policy tightening by the US Federal Reserve System, which means rising interest rates in real terms;
- and, of course, the geopolitical situation itself has become a strong risk and factor of uncertainty, especially as it began to exacerbate in late 2021 and early 2022.

1 *Vedev, A.L.* Forecast of the development of the Russian and world economy. Analytical note, 2021.