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**ON THE MACROECONOMIC DIMENSION OF
MODERNIZATION POLICY AMID THE CRISIS OF THE GLOBAL
ECONOMIC ORDER**

The world community has entered the process of transiting from the unipolar system to the multipolar one, which leaves a deep imprint on the established system of relations and interrelations in the global economy. Due to a range of circumstances, the Russian Federation has found itself at the very centre of the changes that demand the advanced modernization and the restructuring of the entire national production complex.

Two key factors play a decisive role in this process.

In the short term, the unprecedented challenge has emerged in the form of sanctions imposed on (and continuously expanded against) our country by the states of the so-called “Collective West”. Striving for sharply limiting both the global market access for traditional Russian exports (primarily energy and raw materials) and the import of advanced machinery and technology by Russian companies, they have forced Russia to pursue import substitution and refocusing its foreign economic relations. The adjustments being made to the Russian production system are largely passive, or “reactive”, in their nature. Indeed, if the response had been limited to the primitive “plugging holes”, it would have been impossible to avoid serious economic and technological losses. Fortunately, it turned out that the Russian economy has significant reserves, not to have been used before because of peculiarities of its economic policy, first of all, the scientific and technological capacity that has been preserved (although it was pretty battered during the liberal reforms). It is thanks to this that Russia has not only managed to “stay afloat” but has also achieved impressive levels in key economic indicators: near-full employment, positive real income dynamics, high

investment activity, restoration of manufacturing capacity, and, consequently, respectable economic growth rates. Today this has been recognized not only in Russia; the article by the famous American economist James K. Galbraith (Galbraith, 2024) is notable in this regard.

Even more important, however, has been the fundamental rethinking of the very strategy of economic development, which began during the pandemic and accelerated due to the geopolitical confrontation on the world stage. The inconsistency of the politics that adapted to the idea of liberal globalization and was based on the belief that the liberal play of market forces would ensure Russia the best place in the system of the international division of labour became apparent. As the result, earlier calls for modernization began to find real expression in the practice of managing the Russian economy. The need for radically restructuring production, aimed at elevating the economy to the most advanced technological level while ensuring immunity to external geopolitical shocks, has established itself as an unequivocal long-term imperative.

In these circumstances, issues related to the specific features of the economic policy that can ensure the effective implementation of new strategic objectives come to the fore. The answers to some of them are obvious, and we can clearly see that they have already been given by the practice of managing the Russian economy. Long-term national projects are a good example of how industrial policy, which was seen as a kind of throwback to socialism at the dawn of liberal reforms, has become a real instrument of the economic policy. Of course, there are still many questions regarding both the methods of goal-setting and the optimal forms of implementing long-term economic development guidelines that have already been shaped. However, these questions are purely “technological” rather than ideological in nature.

This does not mean that all theoretical barriers to implementing the chosen course of development have been removed: the gravity center of scientific discussions has shifted to the macroeconomic sphere. Perhaps the key question is,

which monetary and fiscal policies are most appropriate for implementing the course of economic modernization? It is this question that is most acutely disputable today both in the scientific community and between representatives of the real sector of the economy, on the one hand, and monetary and financial authorities on the other hand.

Two main approaches have taken shape. The first one is promoted by the financial block of the “expanded government” (the Ministry of Finance and the Central Bank) and, in general, is supported by the financial sector, particularly banking. The second approach is mainly supported by academic economists and representatives of businesses operating in the real sector of the economy.

The essence of the first approach is that the Russian economy has entered the stage of “classical overheating”, when, due to the lack of available resources (primarily, workforce), any attempts to maintain more or less high growth rates are fraught with financial destabilization. The latter, they emphasize, in the medium and long terms is fraught with plunging the country’s economy into stagflation, i.e. in an extremely unfavorable combination of high inflation and recession. Based on this, representatives of the financial bloc consider it imperative to take measures for “cooling the economy”, consisting in limiting aggregate demand, and on this basis, reducing the rate of price growth. In the financial and budgetary sphere, the solution to this problem is associated with the maximum possible restriction of the deficit of the expanded (but primarily federal) budget, in the monetary sphere – with maintaining a high key-interest rate, which has a depressing effect on investment demand. Proponents of this policy do not dispute that this combination of financial and monetary policies will lead to decreasing the economic growth and blocking the positive dynamics of the population’s real incomes. However, they argue these sacrifices are temporary and will ultimately create “healthy macroeconomic conditions” for growth and modernization of Russian economy. The symbolic benchmark here is the oft-cited 4 % inflation target.

This approach raises several immediate, albeit not deeply theoretical, questions. It cannot but seem strange that, in fact, the economy's reaching the level of potential output is equated with its overheating. For once, due to the intensification of investment activity, accompanied by positive structural changes (in particular, the accelerated development of the manufacturing industry) and an increase in the standard of living of the population, the Russian economy has entered the growth mode, and urgent "cooling" measures are needed. Moreover, no arguments indicating that the results obtained were based on the unhealthy macroeconomic policy, that is, they were obtained through unrestrained pumping of liquidity and irresponsible fiscal policy, were given. But then it is unclear what kind of macroeconomic policy "the supporters of macroeconomic stability" plan to pursue after achieving it?

Similarly, doubts arise about the efficacy of the prescribed measures. According to the Central Bank itself, the effects of raising the key rate on price dynamics only materialize after three to six quarters¹. In other words, even in the opinion of the authors of the police, the supposed short-term sacrifices may not be so short-lived as initially thought. There has ever been no clear explanation for the unusual dynamics of the nominal exchange rate of the ruble: at first, with the key rate already raised, it literally collapsed, and then, just as unexpectedly (seemingly, for the monetary regulator as well), it increased significantly. The Central Bank also remains silent on thriving the banking sector itself under sky-high interest rates. And everyone is interested in the answer to the question: who takes loans from commercial banks at such usurious – in the full sense of the word – interest rates? I would venture to suggest that this is caused not by the ignorance of the answer to this question, but rather by the desire not to draw attention to their own role in generously paying for the banking sector's

¹"...monetary policy does not affect inflation immediately, but within a period of 3 to 6 quarters..." (CBR (2025, I)).

services for removing “excess liquidity” from the economy (this is supported, in particular, by the very rapidly increasing, though sometimes volatile, amount of the commercial bank deposits in the Central Bank)².

In general, the alternative approach to macroeconomic policy rejects the idea that there is a real need for sacrificing the pace of the Russian economy’s modernization for maintaining “macroeconomic stability”, interpreted in the sense outlined above. Proponents of this approach proceed from the fact that the objective is not complying with a priori established rules (such as the indispensable achievement of the 4 % inflation rate), but ensuring the long-term stability of economic agents’ financial situation in the conditions of the intensive restructuring of production, the implementation period of which clearly exceeds one decade. Moreover, as noted by A. Klepach (ACRA, 2025), it is unprecedented for the government financial block of a country effectively at war with the “Collective West” to put the inflation indicator at the forefront of the policy.

The alternative approach, with some nuances in individual proponents’ views, defends the position that in the Russian economy inflation is caused by supply-side rather than demand-side factors. Herewith, it is not about isolated supply shocks but long-term structural shifts. And since this is the case, it calls into question not only the diagnosis of “overheating” the Russian economy, but also the attitude towards the need for reducing inflation to 4 % at any cost. Moreover, this policy is viewed as counterproductive, contradicting the country’s strategic development goals.

² As of August 1, 2022, commercial bank deposits in the Central Bank amounted to 4.99 trillion rubles (including required reserves of 0.15 trillion rubles), whereas by October 1, 2024, they had risen to 10.65 trillion rubles (including required reserves of 0.50 trillion rubles) (CBR (2025, II)).

Of course, the thesis that Russia is experiencing the cost-push inflation rather than the demand-pull one needs to be substantiated. My understanding of this issue boils down to the following. Like any intensive transformation of the production structure, the restructuring of the Russian economy, which began under the influence of the sanctions, is inevitably associated with changes in relative prices. In an ideal market economy, the new price proportions would lead to the almost unhindered redistribution of material and workforce resources in favor of more attractive activities; it can be assumed that if the money supply were maintained, the overall price level would not change.

However, any real economy (not only the Russian one) is very far from this ideal. The process of transferring resources between industries inevitably encounters a kind of “friction”, and a very significant one. It is caused by the fact that the factors of production used in some types of activities largely cannot be freely applied in other industries. It is also well established that due to expectations and behavioral patterns of economic agents, prices are “sticky downward”. This means that manufacturers readily raise prices when demand increases, but try to keep them for some time at the same level when it decreases. In the latter case, it is inevitable that warehouses of finished products, for which demand has reduced, first will be overstocked, and then the production will decrease. That’s why, in practice, the overall price level in this situation grows due to an increase in prices for products, for which demand has raised. Herewith, it should be borne in mind that under deep social division of labour, setting new equilibrium prices is the result of numerous waves that alternately roll from costs to prices and from prices to costs. It is this circumstance that makes it possible to characterize the price increase caused by the large-scale reallocation of resources as the cost-push inflation.

In such situations, monetary authorities face the following dilemma. Efforts to curb inflation (e.g., to reach 4 % in our case) through the tight monetary policy may severely hinder economic growth in general and its structural transformation

in particular. The risk of sliding into stagflation – the situation when the monetary policy rigidity turns out to be insufficient to completely suppress inflation, but more than sufficient to initiate recession, – becomes highly likely. In this case, the result is evident to be the same as in the classic supply-side shock – a situation when, for one reason or another, the country has fewer resources at its disposal than before. The alternative is pursuing a more lenient monetary policy, for the purpose of preserving the conditions for dynamic growth and the unceasing continuation of the production-restructuring process. In this case, the increased inflation serves as a kind of “lubricant” facilitating the economy’s adaptation to the conditions changing during the restructuring of the production.

Monetary policy is not the regulator’s only tool, but ideally it should align with other types of economic policy. Today, unfortunately, such harmony is clearly absent. While the Central Bank diligently focuses on suppressing inflation, the executive branch strives, within the limits set by this policy, for resolving both current and long-term problems related to the restructuring of production and foreign economic relations. This creates a “push-pull” effect, with the executive branch trying to neutralize the negative impact of the monetary policy on capabilities to achieve the tasks facing the country. For now, in this confrontation, the monetary authorities appear to be “winning”, since the economic growth is slowing down, the restructuring of production is lagging, and the inflation is showing a very slow downward trend. This raises the pressing question: what will happen when inflation finally reaches 4 %? The fact is that the restructuring of production is not a one-time shock, but a long-lasting process. Therefore, it is more than likely that maintaining the rate of price growth at the level so desired by the Central Bank will be possible only by further curbing the pace of modernization of the Russian economy.

The conclusion we come to is as follows. Continuing the policy of intensive modernization is inevitably related to the fact that our economy will have to operate in conditions of increased inflation for a long period of time. The

alternative is continuing to balance between solving two poorly compatible objectives – achieving low inflation and modernizing the Russian economy.

A number of researchers and many business representatives believe that advantages of the former option are obvious. Besides the fact that most intensively implementing the course of economic modernization best meets the interests of Russia in the current geopolitical situation, they argue that the risks of inflation are exaggerated. Their argument supporting this position boils down, basically, to the fact that the allocation of credit resources by the Central Bank for implementing large production projects almost automatically leads to the increase in production, which balances the growth in demand associated with the increased amount of money in circulation (see Aganbegyan (2018), Glazyev (2018), Ershov (2017), Maevsky et al. (2021), Mirkin (2018)).

I have believed and continue believing that such reasoning is not entirely correct (see Nekipelov (2024)). Strictly speaking, the above considerations suggest that during the restructuring of production, an increased inflation level is inevitable, and therefore a two-pronged task has to be solved in the course of decision-making. The first of them is exploring the possibilities of eliminating the adverse effects of inflation. The second one, closely related to the first task, is determining the optimal, from a long-term viewpoint, combination of price growth paces on one hand, and the speed of the production restructuring on the other hand.

It is widely recognized that greatest costs accompany inflation, which is unexpected by economic agents. Predictable inflation, given sufficient adaptation tools, is no major obstacle to economic growth or modernization of the economy. So-called “shoe-wear” and “menu-reprinting” costs persist, but remain negligible until a tipping point. These conclusions are confirmed by the experience of adapting to inflation, gained by Western countries following the massive supply-side shock in the 1970s and 80s, which resulted from the price revolution in the global oil market (see Begg, Fischer, Dornbusch (1991)). During that

period, the following tools for neutralizing negative effects of high price-growth rates (up to 30 % per year) were developed:

- inflation-adjusted tax and accounting systems;
- the mechanism of indexing fixed-term contracts.

Using these institutions has made it possible to significantly reduce the costs of adapting to supply-side shocks and ensure continued economic growth, despite the high inflation rate for a long time. As for the problems, this experience was particularly successful in Israel.

Such proven mechanisms can be very useful for Russia as well. Herewith, we have to account for both the limitations of past experiences and the specifics of the current Russian situation. As for the challenges, in a certain sense, they have become the flip side of the successes achieved. The high degree of adaptation by economic agents to price increases – facilitated by the aforementioned mechanisms, particularly the indexation of long-term contracts – has led to a diminished sensitivity to the inflation rate itself. Eventually, what had originally been minor costs – such as “shoe-wear” and “menu-reprinting” costs – began to accumulate and reach a noticeable level. This, along with the exhaustion of the growth effect from rising global oil prices, led to a policy shift in the 1990s – from adapting to inflation to suppressing it. As for the specific characteristics of the Russian situation, the country is not confronting a one-time, albeit powerful, supply shock. Instead, it is undergoing a prolonged process in which the restructuring of the production system continuously impacts the monetary sphere.

Given these conditions, an important additional instrument for helping economic agents adapt to inflation could be a monetary reform aimed at restoring the effectiveness of money as a store of value in an environment of dynamic price changes (Nekipelov (2024)). The general idea behind such a reform is to institutionalize the dual nature of money: on one hand, as a medium of exchange (a transaction tool), and on the other, as a means of saving. A distant historical precedent for this division of monetary functions can be found in the monetary

system of Tsarist Russia, in which both state-issued assignations and gold rubles circulated concurrently, with assignations exchangeable for gold rubles at a prevailing rate.

The proposed reform would involve the following measures:

- definition of a basket of exchange-traded goods, whose price dynamics closely track the inflation rate³;
- establishment by the Central Bank of a special financial instrument – referred to as the “active ruble” – which value is rigidly tied to the price of this basket in conventional rubles;
- introduction of regular (ideally daily) quotations of the active ruble by the Bank of Russia, based on the market prices of the basket's constituent goods;
- provision of a guarantee by the Central Bank to all economic agents, including foreign ones, for the unrestricted purchase of “active rubles” with regular rubles at current quotations, as well as the exchange of active rubles back into conventional rubles (“payment rubles”).

This virtually risk-free financial instrument would allow economic agents to:

- mitigate risks associated with unanticipated price changes;
- conduct long-term and forward-looking transactions in real rather than nominal terms (e.g., denominate interest rates – including the Central Bank’s key rate – in real terms; determine wages and rent payments using contracts concluded in active rubles, etc.);
- actively use the ruble as a means of international settlement.

It is important to emphasize that the need for an active ruble does not disappear with the existence of other financial instruments – whether public or

³ The methodology for such calculations was developed and successfully implemented by a team led by Ryabukhin S. N. (see Ryabukhin (2023))

private – whose returns are indexed to inflation. The active ruble is intended to serve as a substitute for foreign currencies, in which Russian economic agents have often preferred to store their wealth. Unlike conventional financial instruments, the “active ruble” – being a form of money – is not affected by changes in the interest rate. The exchange rate of the “active ruble” against the rate of the “payment ruble” is determined solely by the prices of the goods included in the corresponding “basket”. Finally, it should be noted that in the proposed model, the active ruble does not require commodity backing, which substantially reduces the costs associated with operating such a mechanism.

As a general conclusion, I would like to emphasize the following. The ongoing transition from a unipolar to a multipolar world order clearly demonstrates that Russia has no viable alternative to modernizing its economy and shaping a productive structure that ensures a high degree of national security while integrating into the global economic system. This, in turn, means that we must come to terms with the fact that, for an extended period, we will have to operate under conditions of elevated inflation. The desirable balance between the pace of economic restructuring and the inflation rate will likely be determined in practice through a process of successive approximations. Nevertheless, one thing is certain: all branches of economic policy must be aligned in pursuit of a unified strategic goal, and a supportive institutional environment must be created to facilitate its implementation by economic agents.

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