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Fiscal and monetary policy interaction in Russia, 2000–2025

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Abstract

This article examines the interaction between monetary and fiscal policy in Russia, with particular attention to the fiscal and monetary sources of changes in high-powered money (the monetary base). The decomposition of changes in the monetary base allows us to split the 2000–2025 period into subperiods according to macroeconomic conditions and the policy objectives of the monetary and fiscal authorities. The recent period of 2022–2025 is studied in more detail, since the Russian economy was subject to substantial inflationary shocks, fiscal expansion being one of them. We discuss the effectiveness of monetary policy in that period and the role of fiscal policy in narrowing the room for disinflation. The analysis shows that the Bank of Russia retains the ability to control the money supply despite the easing of fiscal policy. The Bank of Russia had the instruments to reduce inflation, and the persistence of elevated inflation in 2023–2025 can be viewed as the result of a policy stance that was not sufficiently tight; a tighter stance, however, would have exposed the financial and real sectors to the risk of destabilization.

Keywords: monetary base, inflation, sovereign wealth funds, monetary policy, fiscal policy, budget rule.
JEL classification: E51, E52, E58, E61, E63, E65, H62.

1. Introduction

Between 2022 and 2025, consumer prices in Russia rose by nearly 40%, corresponding to an average annual growth rate of 8.5%. This is substantially higher than the Bank of Russia's target level of 4% and also exceeds average annual inflation in previous years, which stood at 4.7% from 2016 to 2021. The acceleration

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in inflation was accompanied by a significant increase in government spending and a widening of the budget deficit. Compared with 2021, nominal general government budget expenditures in 2025 increased by 78%, corresponding to an average annual growth rate of 15.5% between 2022 and 2025. Average nominal GDP growth over the same period was 12.2%, meaning that government spending grew faster, which raised general government budget expenditures from 34.9% of GDP in 2021 to 39.3% in 2025. Since budget revenues also rose during these years, the budget deficit, although it increased, remained moderate. At the same time, the government withdrew funds from the National Wealth Fund (NWF) to finance it. A total of 7.7 trillion rubles was withdrawn between 2022 and 2025, while the accumulated general government budget deficit over the same period amounted to 17.5 trillion rubles.

When the government uses NWF funds, they are transferred from government accounts at the Bank of Russia to the accounts of budget recipients, which is accompanied by a simultaneous increase in the monetary base. Such an increase in high-powered money is indistinguishable from monetary base creation carried out by the central bank, and the accumulation of funds in the NWF is analogous to the Bank of Russia's absorption of liquidity. Thus, the operations of the Russian Ministry of Finance have a direct impact on the monetary base. Therefore, the Bank of Russia and the Russian Ministry of Finance must coordinate their actions both to ensure price stability — which falls within the Bank of Russia's purview — and to ensure the financing of government needs, which falls under the Ministry of Finance's purview.

Given the significant increase in federal budget expenditures and the accompanying expansion of high-powered money (the broad monetary base for 2022–2025 increased by 10.3 trillion rubles, corresponding to an average annual growth rate of 10.8%), the question arises as to the extent to which the operations of the Russian Ministry of Finance contributed to the acceleration of inflation observed in 2022–2025. The purpose of this article is to analyze various aspects of the interaction between fiscal and monetary policy. In this paper we focus mainly on the decomposition of changes in the monetary base into components driven by the actions of the fiscal authorities and the central bank. We pay such close attention to the monetary base for the following reasons. First, there is a reasonably close relationship between consumer inflation and the growth rate of the monetary base in Russia. Therefore, a quantitative decomposition of the contribution of monetary and fiscal factors to the creation of high-powered money allows us, to some extent, to assess the effects of the fiscal and monetary authorities' actions on actual inflation outcomes. Second, this approach enables a unified analysis of monetary — fiscal policy interaction across different monetary policy regimes, since regardless of the specific policy pursued by the central bank, its ultimate effect is manifested in some change in high-powered money. This makes the approach particularly suitable for studying the Russian economy, which has experienced substantial qualitative shifts in the Bank of Russia's policy over the past 25 years. Third, the actions of the Ministry of Finance and the Bank of Russia directly affect the creation of the monetary base. Hence, the specific features of their policies and their interaction are reflected in both the magnitude and the structure of changes in the monetary base. Moreover, through the analysis of the determinants of monetary base creation, we can as-

sess the effects of the fiscal rule. The paper extends and develops our previous study (Drobyshevsky et al., 2025) and contributes to the literature devoted to fiscal—monetary interaction and the practical implementation of fiscal rules (Pekarskii et al., 2010; Kudrin, 2013; Kudrin and Deryugin, 2018; Kudrin et al., 2023; Gurvich and Sokolov, 2016; Andryushin, 2024; Ablaev, 2025; Shirov et al., 2026). We acknowledge that our empirical analysis remains largely descriptive. The paper documents the co-movement of budget expenditures, monetary aggregates, and inflation, but it does not establish a causal relationship. The main reason for the absence of formal models is the presence of multiple supply-side and external shocks during a short time period, including sanctions, labor shortages, exchange-rate fluctuations, changes in trade patterns, and elevated inflation expectations. That makes all previously reliable econometric models in 2000–2025 highly unstable. At the same time, this is clearly a limitation of our study and an avenue for future research.

In the second section we discuss the roles that fiscal and monetary authorities have in high-powered money creation in modern economies and the distinction between the spheres of fiscal and monetary policy. The third section examines the sources of changes in the monetary base over the past 25 years and classifies them by period. The fourth section analyzes monetary policy from 2022 onward, evaluates its effectiveness, and discusses the possibilities of preventing inflation through monetary policy measures. Particular attention is devoted to the post-2022 period, as this was the first episode when the Russian economy faced substantial inflationary shocks since the Bank of Russia's transition to inflation targeting in late 2014. We conclude with a critical discussion of whether there were signs of fiscal dominance in the Russian economy in recent years.

2. Fiscal policy and monetary policy: Division of responsibilities and joint impact on the money supply

The central bank creates money when it purchases an asset, while the sale of an asset, conversely, reduces the money supply (McLeay et al., 2014; Borio, 1997). The central bank may expand the money supply by purchasing government bonds or other securities, foreign currency, or by extending credit to banks. The acquisition of assets may be discretionary in nature (e.g., purchases of gold or foreign currency to replenish international reserves) or be subject to the achievement of certain intermediate goals, which may include maintaining the money market rate at a specified level or ensuring exchange rate stability. On the other side of the central bank balance sheet, this results in liabilities in the form of cash in circulation or funds in the correspondent accounts of commercial banks, while the source of additional monetary base volumes is the central bank's asset transactions.

Although the central bank possesses the primary instruments for regulating the monetary base, in certain situations fiscal authorities have some scope to influence it. When economic agents make tax payments or the government borrows funds, the monetary base (and money supply) contracts. The opposite situation arises when the government budget makes expenditures or repays debt. If tax revenue and budget expenditure flows are even and coordinated—that is, if the net effect of reductions and increases in the monetary base via the budget

channel is stable — then the operations of the Russian Ministry of Finance will not have a significant impact on the monetary base.

The Russian Ministry of Finance's ability to influence the monetary base is determined by changes in the amount of budget funds held in accounts at the central bank. Therefore, if the Russian Ministry of Finance holds substantial funds in accounts at the central bank, their expenditure will lead to a noticeable increase in high-powered money. In such a situation, monetary authorities usually have to smooth out fluctuations in the money supply by implementing counter-operations to neutralize the impact of budget operations.

The modern separation of fiscal and monetary policy is based on the principle that the goal of monetary policy is to ensure price and macroeconomic stability, while fiscal policy involves allocating government revenues to priority spending areas, with borrowing conducted on market terms (Goodhart, 1994, 2011; Kirsanova et al., 2009). In other words, in an ideal situation, the central bank maintains the purchasing power of the national currency, while the Ministry of Finance monitors budget sustainability and does not rely on seigniorage revenue.

There are two main reasons for the institutional separation of fiscal and monetary policy. The first reason is that while money creation can influence real economic variables in the short and medium term, in the long run it either has no effect at all on economic growth, employment, and other real indicators, or this effect is unstable (Boschen and Otrok, 1994; Bullard, 1999; Bullard and Keating, 1995; Coe and Nason, 1999, 2003; Haug and Lucas, 1997; Kartaev and Gerelishina, 2025; Olekalns, 1996; Serletis and Krause, 1996; Serletis and Koustas, 1998). At the same time, excessive money supply leads to higher inflation. It follows that money creation is not an effective tool for stimulating economic growth but rather a determining factor in price stability; therefore, it is optimal to entrust the management of base money creation to a separate institution (the central bank) and assign it those objectives that it is capable of achieving with the tools at its disposal. These objectives include ensuring price stability and helping to smooth the economic cycle. Other economic policy objectives related to improving economic efficiency, stimulating investment and technological development, and other similar goals are best assigned to executive authorities. Fiscal instruments can also be used to smooth out cyclical shocks (Blanchard, 2023; Bernanke, 2020). This understanding of the role of monetary authorities took shape by the end of the 20th century, came to be known as the "new monetary consensus," and resulted from a reflection on the experience of conducting monetary policy (Bernanke and Mishkin, 1997; Goodfriend and King, 1997; Arestis and Sawyer, 2004; Goodfriend, 2007; Goryunov et al., 2021).

The second reason is linked to the need to maintain fiscal discipline. If fiscal policy is not separated from monetary policy, there is a risk that the government will face soft budget constraints. The consequences of this are excessive growth of the public sector, crowding out of private investment, as well as destabilization of the monetary system and increased inflation (Sargent and Wallace, 1981; Christiano and Fitzgerald, 2000; Woodford, 2001; Martin, 2020). This problem is difficult to overcome when decisions regarding the amounts of money creation and the level of government spending (as well as their sources

of financing) are made by a single government agency. To avoid conflicts of interest, the Ministry of Finance and the Bank of Russia must operate as independent branches of government, with each having its own defined area of responsibility.

However, regardless of the degree of institutional separation, monetary and fiscal authorities influence one another, as they operate in the same money and capital markets (Sinelnikov-Murylev and Trunin, 2015). The Bank of Russia conducts open market operations, including those involving government bonds, and manages interest rates, on which the cost of borrowing for the state budget depends, while the Ministry of Finance influences high-powered money through its actions. Fiscal policy affects not only the monetary base but also aggregate demand and, consequently, inflation; therefore, monetary authorities must take the Ministry of Finance's actions into account when making policy decisions. Similarly, the Bank of Russia's policy affects not only interest rates and the cost of debt but also economic activity, and thus budget revenues and expenditures.

When the central bank purchases government bonds on the secondary market by expanding the monetary base, it, first, buys government debt from the private sector, and, second, supports government bond prices, thereby lowering their yields and making borrowing conditions more favorable for the budget. A similar situation arises when the central bank lends to banks against government bonds, since as a result of this operation it receives government debt as collateral and expands the monetary base. Thus, the implementation of monetary policy influences the conditions for the implementation of fiscal policy.

This is not a problem in itself as long as the separation of monetary and fiscal policy spheres is maintained and monetary and financial discipline is upheld. For this to be the case, it is sufficient that open market operations with government bonds and lending to banks using them as collateral are initiated by the regulator exclusively within the framework of achieving monetary policy objectives and are not dictated by fiscal considerations.

For the overall outcome of the actions of fiscal and monetary authorities to be favorable for the economy, both government bodies, while remaining autonomous, must engage in constant dialogue. The Bank of Russia and the Ministry of Finance should, as far as possible, take into account each other's actions and objectives, minimizing the risk of situations where the actions of one institution significantly complicate the achievement of the other institution's goals (Banerjee et al., 2023; Bianchi and Melosi, 2019). The separation of monetary policy functions from public finance management functions is necessary to ensure macroeconomic stability and fiscal discipline. A prerequisite for achieving this outcome is the clear assignment of specific tasks and strategic goals to each regulatory agency; only then will joint actions in a shared policy space not lead to coordination problems. In other words, the separation of fiscal and monetary policy is based not so much on the instruments and their scope of application as on the underlying motivation for using these instruments. The issuance of bonds by the government and by the central bank itself will have an identical impact on the liquidity of the banking sector, but these actions will fall under different policies, since the issuance of bonds by the Ministry of Finance aims to finance expenditures, while the issuance of bonds by the central bank aims to sterilize

excess money supply in order to keep interest rates within the target range necessary to achieve the inflation target.

Modern central banks implement their policies by managing the money market rate to achieve the targeted inflation rate. This means that instead of setting a target level of money supply to ensure the desired price dynamics, central banks set the boundaries of the money market interest rate corridor (or just the key rate) and then manage the monetary base so that actual market rates in the money market fall within the established corridor (Keister et al., 2008; Ennis and Keister, 2008; Bindseil et al., 2004; Morgunov, 2014, 2015). Thus, monetary authorities determine the level of rates that will create the financial conditions necessary to achieve the inflation target, and then, through operations to expand or contract the monetary base, bring actual rates to that level (Borio, 1997; Gaspar et al., 2004; Kahn, 2010). It follows from the above that the volume of money supply is dictated by the choice of the key interest rate; i.e., one can speak of a certain endogeneity of the money supply, the volume of which at any given moment will be determined by specific conditions in the money market and the level of the key interest rate (Moore, 1988). Therefore, if monetary authorities fail to curb inflationary pressures and bring inflation to the target level, this implies that the chosen interest rate level was not high enough and, consequently, the growth rate of the money supply was excessive.

At first glance, once the key interest rate has been set and announced, the specific choice of assets through the purchase of which the expansion will be carried out is of no independent significance. This consideration also implies that an expansion of the money supply resulting from open market operations does not necessarily conflict with the monetary authorities' objectives, since these operations can help shape the money supply precisely to the extent necessary to keep money market rates within the target range. However, there may be situations where government spending leads to an excessive increase in the monetary base, and in such cases, the central bank must sterilize the excess monetary base supply using available instruments.

At the same time, an increase in the monetary base by the same amount can in general have different inflationary consequences and affect the dynamics of the money supply in different ways, depending on prevailing macroeconomic conditions and the type of operation that caused the growth in the monetary base. For example, the monetary base creation as part of quantitative easing operations in the United States following the onset of the global financial crisis of 2008–2009 did not lead to an increase in the money supply, since, amid low interest rates and expectations of low economic activity, the increase in commercial banks' reserves did not have a significant stimulating effect on lending; the credit creation process did not take off; aggregate demand remained weak; and inflation remained low. In 2020–2021, the expansion of the monetary base undertaken by the U.S. Federal Reserve led to a significant increase in the money supply, which became one of the key factors behind the ensuing surge in inflation. Such a different economic response to the growth of the monetary base can be explained by the fact that in the first case, there was merely a substitution of one asset (government bonds) for another (commercial bank reserves) with similar characteristics, which had no significant impact on the intensity of bank lending; whereas in the second case, the growth in the monetary base

was the flip side (from the perspective of commercial banks' balance sheets) of the massive distribution of budget transfers among the population, which became a factor in the rapid increase in aggregate demand and price growth following the easing of quarantine restrictions (Goryunov et al., 2021, 2023; Aguilar et al., 2023). The examples cited show that the inflationary consequences of base money creation depend not only on the magnitude of the change in the monetary base but also on the source of the monetary shock. Therefore, when analyzing the relationship between inflation and the growth of high-powered money, one cannot limit oneself to merely comparing quantitative indicators of price growth and money supply growth rates but must also consider the structure of the monetary supply shock.

There are several ways in which the central bank can ensure high real interest rates in the money market. First, the central bank can sell assets (foreign currency or government bonds) on the open market, which will reduce the monetary base and raise the cost of borrowing. Furthermore, if the central bank sells government bonds on the open market, their price will fall, meaning their yield will rise, and consequently, the yields on other debt instruments will rise as well. Second, the central bank may increase the cost of funding for banks, i.e., raise the refinancing rate or the repo rate. High money market rates translate into high rates on loans and deposits and also have an upward effect on the yields of a wide range of debt securities. All of this curbs aggregate demand and inflation (Mishkin, 1996; Ascari and Ropele, 2013).

High deposit rates also encourage savings, while high loan rates discourage investment. In addition, high rates and yields increase the attractiveness of domestic assets, which curbs capital outflows and strengthens the national currency. The strengthening of the national currency is also facilitated by an increased propensity to save, as this reduces demand for imports and, consequently, demand for foreign currency. A stronger currency makes traded goods cheaper and ultimately reduces inflation.

Thus, anti-inflationary policy, implemented through higher interest rates, consists of exerting a cooling effect on aggregate demand by shifting it intertemporally to future periods or, in other words, by encouraging saving behavior. The anti-inflationary effectiveness of a high-interest-rate policy depends to a large extent on how sensitive aggregate demand is to changes in the interest rate. The effectiveness of anti-inflationary policy also depends on the nature of the inflationary shock. It is more difficult to curb elevated inflation if it is caused by rising nominal incomes among population groups that are least inclined to save and are therefore less sensitive to changes in the interest rate. For this reason, in order to maintain price stability, the Bank of Russia should more decisively counteract the growth of the monetary base if it is accompanied by budget expenditures that fall into the category of expenditures having the maximum stimulative effect on aggregate and consumer demand.

An analysis of certain aspects of the Bank of Russia's and the Ministry of Finance's policies from the perspective of the money market situation suggests that the Ministry of Finance, within the framework of implementing fiscal policy, can influence the Bank of Russia's actions. At the same time, the Bank of Russia usually has sufficient tools to achieve the desired combination of interest rates and money supply that is compatible with the established inflation target. Let

us examine the situation that developed in the Russian money market during the period of accelerating inflation in order to try to understand what caused it.

3. Analysis of the sources of changes in the monetary base in Russia

This section provides a retrospective analysis of the interaction between the Russian Ministry of Finance and the Bank of Russia in the monetary sphere by comparing the objectives set by monetary and fiscal authorities and the operations through which money was created. The basis for further analysis is a breakdown of the increase in the monetary base by source. We identify four sources contributing to changes in the monetary base: (1) lending to banks, (2) foreign exchange interventions, (3) purchases and sales of gold, and (4) operations of the Ministry of Finance. The contributions of sources (1)–(3) to changes in the monetary base can be calculated using data provided by the Bank of Russia. The contribution of Ministry of Finance operations to changes in the monetary base is estimated indirectly as the difference between the overall change in the monetary base and the changes attributable to the other three channels.

We use this approach because access to detailed data on budgetary fund flows is limited. Consequently, our estimates of monetary base changes through the fiscal channel include potential measurement errors in the estimated contributions of the other channels.

The method used to calculate the contribution of each channel to the change in the monetary base is described below.

- *Net bank lending:* changes in the monetary base resulting from the Bank of Russia's provision of loans to commercial banks. Calculated as the change in the Bank of Russia's claims on commercial banks.
- *Foreign exchange interventions:* changes in the monetary base resulting from the Bank of Russia's purchase/sale of foreign currency. These were calculated as the increase in the amount of foreign exchange reserves, taking into account currency revaluation for the period 2000–2008, as net purchases of U.S. dollars and euros in 2009–2016, and as the Bank of Russia's operations in the foreign exchange market for later years. It is important to mention that the interventions made by the Bank of Russia on behalf of the Ministry of Finance under the fiscal rule procedure are not included in this category.
- *Net gold purchases:* changes in the monetary base due to the Bank of Russia's purchase of gold for its reserves. Calculated as the change in monetary gold reserves, taking into account the current price of gold in rubles.
- *Operations of the Russian Ministry of Finance:* changes in the monetary base due to the movement of funds by government agencies. Calculated as the difference between the total change in the monetary base and the aggregate changes in the monetary base for the three types of operations listed above.

Fig. 1 presents a decomposition of the monetary base by these factors for the period 2000–2025. Based on this decomposition, we tentatively identify seven periods from 2000 to 2025, each characterized by a specific combination of factors shaping the monetary base, determined by prevailing macroeconomic conditions and the objectives pursued by the Bank of Russia and the Ministry of Finance.

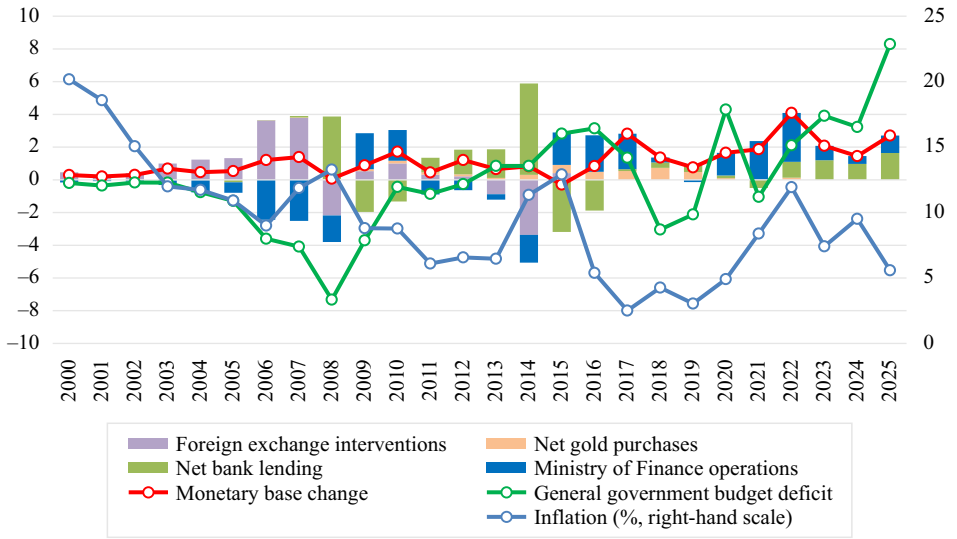

Fig. 1. Factors shaping changes in the monetary base, the general government budget deficit (trillion rubles), and inflation (%) in 2000–2025.

Source: Bank of Russia, Russian Ministry of Finance, authors' calculations.

3.1. Period 1 (2000–2007): Budget surplus and quasi-fixed exchange rate regime

This period is characterized by a combination of a quasi-fixed exchange rate regime and a substantial budget surplus, which the government used to repay public debt and build up reserves in the Stabilization Fund. In the 2000s, favorable conditions in global commodity markets ensured a substantial inflow of foreign currency into the Russian economy, which was further strengthened in 2006–2007 by net capital inflows into Russia. Under a quasi-fixed exchange rate regime, the current account surplus was monetized by the Bank of Russia through foreign exchange interventions until the global financial crisis. For most of the period from 2000 to 2007, the increase in international reserves occurred simultaneously with a comparable growth in the monetary base.

The Bank of Russia purchased foreign exchange proceeds from exporters in exchange for base money, a significant portion of which was then withdrawn from exporters in the form of taxes and duties and transferred to the accounts of the Russian Ministry of Finance at the Bank of Russia.

The total net increase in the monetary base for the period 2000–2007 amounted to 5.1 trillion rubles, resulting from a 12.1 trillion ruble expansion of the monetary base due to foreign exchange interventions by the Bank of Russia and the sterilization of the monetary base in the amount of 6.9 trillion rubles as a result of the policy of the Ministry of Finance of Russia. The rise in oil prices led to a significant increase in budget revenues: by the end of 1999, the general government budget had a deficit of 1.2% of GDP, while in 2007 the budget balance was positive at 6.1% of GDP. The government used the inflow of foreign currency to repay foreign currency loans: from 2000 to 2007, external public debt decreased from $139 billion to $44.7 billion. These operations led to a simultaneous reduction in reserves and a decrease in budget account balances and therefore had no impact on the monetary base.

During this period, the monetary authorities expanded high-powered money by purchasing foreign currency on the foreign exchange market, as the Bank of Russia sought to maintain a stable ruble exchange rate. At the same time, the Russian Ministry of Finance withdrew money from circulation by repaying external debts and, after 2004, accumulating funds in the Stabilization Fund. We note that during the reviewed period the regulator did not engage in significant refinancing of commercial banks, so no expansion of the monetary base occurred through this channel.

3.2. Period 2 (2008–2010): The global financial crisis and post-crisis recovery

In 2008, the acute phase of the global financial crisis began, characterized by a drop in prices on global commodity markets, including oil, and capital outflows from emerging markets, which led to strong downward pressure on their exchange rates. In late 2008 and early 2009, the Bank of Russia carried out large-scale foreign exchange interventions. By selling foreign currency, the Bank of Russia sought to prevent a sharp depreciation of the ruble amid rapidly falling oil prices. As a result, over the course of six months, the volume of Russia's international reserves fell by more than a third, from $598 billion in August 2008 to $380 billion in February 2009. The contribution of currency sales to the reduction of the monetary base in 2008 amounted to 2.2 trillion rubles, while at the beginning of 2008 the broad monetary base stood at 5.5 trillion rubles. Since currency sales led to a decline in the banking sector's reserves and a contraction of the monetary base, the Bank of Russia simultaneously lent large amounts of funds to the banking sector. At the peak of the crisis in early 2009, the total debt of commercial banks to the Bank of Russia amounted to about 3 trillion rubles, whereas before the crisis such debt was practically nonexistent.

The fiscal policy pursued led to a contraction of the monetary base, as in 2008 the general government budget closed with a surplus of about 2 trillion rubles (4.9% of GDP), which led to a reduction in the monetary base of 1.6 trillion rubles. Thus, by the end of 2008, the monetary base remained virtually unchanged, as the Bank of Russia's currency sales and the government's accumulation of funds in accounts reduced the monetary base by 3.8 trillion rubles, but this reduction was offset by the Bank of Russia's expansion of lending to banks.

Over the next two years, these trends reversed: the Bank of Russia's purchase of foreign currency, combined with spending by the Russian Ministry of Finance amid a budget deficit, led to an increase in the monetary base, while commercial banks repaid loans previously taken from the Bank of Russia, which reduced the monetary base. After the global financial crisis, the Bank of Russia continued to conduct its exchange rate policy within the framework of the currency corridor regime. Interventions were carried out when the exchange rate reached the corridor's boundaries, but upon reaching a certain limit on currency sales/purchases, the corridor's boundaries shifted.[1] High oil prices in the post-crisis years and a growing current account surplus ($50 billion in 2009, followed by $70 billion and $100 billion in 2010 and 2011, respectively) became an impor-

[1] In February 2010, the Bank of Russia began expanding the operating range of permissible values for the ruble value of the dual-currency basket and also started reducing the volume of accumulated foreign exchange interventions required to shift the boundaries of that range.

tant factor in the growth of the monetary base and the accumulation of reserves by the central bank.

As a result of falling oil and gas revenues and rising expenditures associated with ant-crisis programs the general government budget surplus declined sharply. In the 2009 the general budget surplus was 3.6 trillion rubles after 7.3 trillion surplus in 2008. The balance deteriorated further in 2010 to just 0.4 trillion rubles. In 2008, the Stabilization Fund was split into two parts: the National Wealth Fund and the Reserve Fund. In 2009–2010, the Russian Ministry of Finance actively spent the funds accumulated in the Reserve Fund, which led to an increase in the monetary base in 2009 and 2010 by 2.2 trillion and 1.9 trillion rubles, respectively. The winding down of anti-crisis policies in 2011 led to a return to a budget surplus.

In total, over the 2008–2010 period, the monetary base grew by 2.7 trillion rubles (an average annual growth rate of 14.1%), and this growth occurred mainly in 2009 and 2010. The main contribution to this growth came from the Russian Ministry of Finance's operations to finance the budget deficit (+2.5 trillion rubles), while foreign exchange operations reduced the monetary base by 0.7 trillion rubles. The change in the monetary base attributable to the refinancing of the banking sector amounted to approximately 0.5 trillion rubles. Thus, in 2008–2010, the monetary base grew primarily because the Russian Ministry of Finance, while spending on anti-crisis programs, returned to the economy funds that had been withdrawn from it in the preceding period when the budget was in surplus. The monetary policy pursued by the Bank of Russia, on the contrary, led to a reduction in the monetary base as foreign currency was sold in 2008. At the same time, bank refinancing operations became a significant channel for the formation of the monetary base for the first time.

3.3. Period 3 (2011–2013): The inter-crisis period

This period stands out, first, because the Bank of Russia increased exchange rate flexibility by establishing a fairly wide corridor for possible fluctuations in the ruble exchange rate and reduced interventions in the foreign exchange market, while expanding bank refinancing operations; and second, because budget indicators normalized following the elevated deficits of the post-crisis years. This led to the expansion of the monetary base occurring primarily through loans provided by the Bank of Russia to commercial banks, while the role of foreign exchange interventions diminished. In other words, the practice of issuing currency through foreign exchange purchases was replaced by the practice of issuing currency against bank liabilities, which resulted from the policy of Russian monetary authorities aimed at modernizing monetary policy in Russia, a part of which involves using the money market rate as a policy instrument and regulating bank reserves through refinancing operations.

Starting on October 1, 2013, the volumes of Bank of Russia operations aimed at smoothing exchange rate volatility were adjusted to account for the volume of foreign exchange operations by the Russian Ministry of Finance. This adjustment helped smooth out sharp exchange rate fluctuations. Nevertheless, the implementation of the budget rule in this form remained non-neutral with respect to the base money supply (a contraction of the monetary base when funds accumulated in the Reserve Fund and money creation when they were spent) and was offset by the regulator's lending operations to the banking sector.

In 2011–2013, the Bank of Russia implemented reforms aimed at preparing the banking system for the transition to an inflation-targeting regime and the use of the short-term interbank lending rate as the main monetary policy instrument. This was accompanied by a narrowing of the interest rate corridor and an increased role for repo operations as a tool for regulating banking sector liquidity. The increase in the volume of these operations was a natural consequence of this process. In 2011, the growth in the monetary base resulting from the expansion of refinancing operations amounted to 0.9 trillion rubles, and in 2012 and 2013, 1.5 trillion rubles and 1.7 trillion rubles, respectively.

The Russian Ministry of Finance had a restraining effect on money supply dynamics in 2011–2013. The general government budget turned to a surplus in 2011 (860 billion rubles, or 1.4% of GDP) and 2012 (260 billion rubles, or 0.4% of GDP), driven by high oil prices, which were at historic highs during those years. Due to the slowdown in GDP growth in 2013, the consolidated government budget turned to a deficit (848 billion rubles, or 1.3% of GDP). In 2013, a situation arose in which, despite a budget deficit, the government saved a portion of revenues in the Reserve Fund and the National Wealth Fund.[2] As a result of actual oil prices in 2013 exceeding the base price set in the budget rule, additional oil and gas revenues were transferred to sovereign funds, which led to a reduction in the monetary base by 0.3 trillion rubles.

The average annual growth rate of the monetary base in 2011–2013 was relatively low at 9.4%, while its total volume increased by 2.3 trillion rubles over the three-year period. The growth in the monetary base was driven by an expansion in banking sector lending (+4.1 trillion rubles), while operations by the Russian Ministry of Finance restrained this growth (-1.9 trillion rubles).

3.4. Period 4 (2014–2017): Transition to inflation targeting and a disinflationary period

The formation of the monetary base in 2014–2017 was similar to the process in 2008–2010. Both crisis episodes were caused by changes in terms of trade and pressure on the exchange rate, the negative effect of which was exacerbated in 2014 by sanctions imposed on Russia. Although exchange rate flexibility in 2014 was higher than in 2008, the Bank of Russia did not switch to a free-floating ruble until the fall of 2014. Until that point, the Bank of Russia had attempted to support the exchange rate through currency sales. The resulting loss of international reserves in 2014 was about $124 billion with the reduction in the monetary base by 3.4 trillion rubles, which monetary authorities offset by increasing lending to the banking sector. In 2014, the banking sector's debt to the Bank of Russia rose from 3.7 to 9.3 trillion rubles. Thus, refinancing operations increased the monetary base by 5.6 trillion rubles. Just as in 2008, the operations of the Russian Ministry of Finance worked in the opposite direction — by the end of 2014, they had reduced the monetary base by 1.7 trillion rubles.

During 2015–2016, banks actively repaid loans taken from the Bank of Russia, which led to a reduction in the monetary base of 5.1 trillion rubles over two years.

[2] In accordance with the budget rule, transfers of additional oil and gas revenues to reserve funds are linked to global oil prices and are not tied to the current budget balance.

From a peak of 9.3 trillion rubles, commercial banks' debt to the Bank of Russia had fallen to less than 500 billion rubles by early 2017. As the general government budget fell into deficit amid the economic downturn, the government turned to the Reserve Fund to finance it. In 2015, the general government budget deficit was 2.8 trillion rubles (3.4% of GDP); in 2016, 3.1 trillion rubles (3.7% of GDP); and in 2017, 1.4 trillion rubles (1.5% of GDP). Due to operations of the Russian Ministry of Finance, the monetary base increased by 2.0 trillion rubles in 2015 and by 2.2 trillion rubles in each of 2016 and 2017. The injection of the monetary base through the budget channel allowed banks to reduce their debt to the Bank of Russia on refinancing operations.

In 2017, a new budget rule was introduced to ensure the neutrality of operations involving budget funds. The Bank of Russia began purchasing (selling) foreign currency on the domestic foreign exchange market at the request of the Russian Ministry of Finance, depending on the ratio of actual to base oil prices.[3] Supplementing the budget rule with foreign exchange operations helped avoid fluctuations in the monetary base caused by the actions of the Russian Ministry of Finance. When buying/selling foreign currency on the domestic market to replenish sovereign funds, the Bank of Russia increases/decreases the supply of high-powered money, which had previously changed during the tax collection phase. The introduction of the described procedure meant that budget transfers to the funds did not lead to changes in the supply of base money.

At the end of 2014, the Bank of Russia switched to a floating exchange rate regime for the ruble and ceased regular purchases of foreign currency aimed at influencing the exchange rate, limiting itself solely to buying and selling currency in accordance with the budget rule. At the same time, the Bank of Russia purchased monetary gold annually in 2015–2017, which increased the monetary base by approximately 0.5 trillion rubles annually.

The average annual growth rate of the monetary base in 2014–2017 was 8.1%. This period is characterized by the significant role of the fiscal channel in expanding the monetary base, as amid the crisis and rising deficits, the government turned to its own sovereign wealth funds and used funds from them to finance the budget deficit. The contribution of bank refinancing to the formation of the monetary base was significant in certain years, but overall during the period, the increase in the monetary base due to refinancing operations was only 0.6 trillion rubles. This is explained by the fact that the growth in lending to banks by the Bank of Russia was driven by increased demand from the banking sector amid high uncertainty, which then returned to previous levels by early 2017 as the situation normalized. In total, over the 2014–2017 period, the sale of foreign currency to counter the weakening of the ruble in 2014 and the subsequent purchases of monetary gold led, on net, to a reduction in the monetary base of 1.1 trillion rubles.

This episode demonstrated the low effectiveness of the managed exchange rate policy during periods of falling oil prices and capital outflows. First, in defending the ruble exchange rate in 2014, the Bank of Russia spent a significant portion of its foreign exchange reserves. Second, the sale of foreign currency led to a reduction in the banking sector's liquid assets, which increased the risks of a liquidity

[3] The base price was set at $40/barrel (Urals crude) in 2017, and starting in 2018, this price was subject to an annual 2% indexation.

crisis, forcing the Bank of Russia to expand its refinancing operations. As a result, the Bank of Russia lost a significant portion of its reserves, allowed inflation to accelerate to double-digit levels, and was ultimately forced to allow the ruble to weaken. A similar scenario unfolded in 2008, when the Bank of Russia pursued a policy of "gradual devaluation" (Bank of Russia, 2024).

3.5. Period 5 (2018–2019): Macroeconomic Stability

Over the two-year period of 2018–2019, the Russian economy did not face any significant shocks, maintaining GDP growth at 2–3% with inflation close to the target level, a relatively stable ruble exchange rate, and a budget surplus.

Over 2018–2019, the monetary base grew by 2.1 trillion rubles at a moderate average growth rate of 7.0%. The main contributors to the growth of the monetary base were gold transactions and bank refinancing operations, which led to an increase in the monetary base of 1.2 trillion rubles and 0.8 trillion rubles, respectively.

In total, 0.3 trillion rubles were added to the monetary base through the budget channel in 2018, while the following year, operations by the Russian Ministry of Finance led to a reduction in the monetary base of 0.1 trillion rubles. In 2018, the Reserve Fund was liquidated through a merger with the National Wealth Fund, after which the NWF remained the sole Russian sovereign wealth fund, to which additional oil and gas revenues were directed. At the same time, by the end of 2018 and 2019, additional oil and gas revenues amounted to 0.9 trillion and 4.1 trillion rubles transferred to the NWF, respectively, while in 2018, 1.1 trillion rubles were withdrawn from the Fund to finance the pension system deficit. These transactions did not have any noticeable impact on the monetary base, which indicates the effective operation of the mechanism whereby the Bank of Russia "mirrors" the transactions of the Russian Ministry of Finance during this period.

3.6. Period 6 (2020–2021): The pandemic

The years 2020 and 2021 were marked by a crisis linked to the pandemic and lockdowns, as well as the subsequent economic recovery. In response to the pandemic, the government significantly increased public spending, directing it toward anti-crisis measures. The expanded government's budget expenditures in 2020 amounted to 39.6% of GDP, compared with 34.1% of GDP in the preceding year, 2019. The decline in revenues led to a significant budget deficit of 4% of GDP in 2020, which was covered mainly through borrowing. The normalization of the economic situation in 2021 led to an increase in budget revenues (including the recovery of oil and gas revenues, which had fallen by 40% in 2020), resulting in a positive general government budget balance of 0.8% of GDP in 2021, given the decline in expenditures as a share of GDP.

Over 2020–2021, the monetary base increased by 3.5 trillion rubles. The NWF withdrawals used to finance the budget deficit did not have a significant impact on the dynamics of the monetary base, as the Bank of Russia mirrored them: over the 2020–2021 period, 0.3 trillion rubles were allocated from the NWF for that purpose.

In accordance with the budget rule for this period, the Bank of Russia's net foreign exchange purchases on behalf of the Russian Ministry of Finance were supposed to amount to 2.3 trillion rubles, while actual purchases amounted to

2.0 trillion rubles. Consequently, due to the deviation of currency sales volumes from the mechanism established by the budget rule, the monetary base contracted by 0.3 trillion rubles. One explanation for this incomplete mirroring is that during the 2020–2021 period, the budget implemented emergency anti-crisis measures, so the government was authorized to make specific, targeted expenditures from the National Wealth Fund that were not in accordance with the budget rule.

In addition to financing the budget deficit, NWF funds were invested in permitted assets. A total of 3.5 trillion rubles was allocated for these purposes during the 2020–2021 period. Under the budget rule mechanism, the Bank of Russia was required to sell foreign currency in this amount, but this did not occur, which led to an increase in the monetary base equal to the investment amount. The net impact of NWF operations on the monetary base in 2020–2021 amounted to 3.0 trillion rubles. In a situation of sustained liquidity surplus, which had formed as early as 2017 as a result of high-powered money creation backed by NWF expenditures, the growth of the monetary base resulting from lending to the banking sector was negative, at –0.3 trillion rubles. In other words, commercial banks, receiving an inflow of funds through the budget channel, preferred to repay existing liabilities. The growth in the monetary base resulting from the purchase of monetary gold amounted to only 0.1 trillion rubles.

Over the two-year period, the main source of monetary base growth was unmirrored operations by the Russian Ministry of Finance, while operations with banks led to a contraction in high-powered money. The key rate was lowered with the onset of the pandemic, and the Bank of Russia did not begin raising it until spring 2021, as inflation, after moderately exceeding the target at 4.9% in 2020, accelerated to 8.4% in 2021. Although aggregate supply constraints caused by lockdown measures served as an additional source of price growth in 2021, there are grounds to argue that the growth in high-powered money associated with the operations described above can be counted among the key factors driving the acceleration of inflation during the economic recovery.

3.7. Period 7 (2022–2025): Special military operation

Starting in 2022, budget expenditures increased significantly, and overall, the role of the budget as a factor in increasing aggregate demand strengthened considerably. During the period under review, the general government budget ran a moderate deficit, with the exception of 2025. In 2022, the deficit was 1.3% of GDP; in 2023, 2.2%; in 2024, 1.6%; and only in 2025 did the deficit increase to 3.9% of GDP. At the same time, not only borrowed funds but also National Wealth Fund resources were used to finance the deficit. Between 2022 and 2025, a total of 7.7 trillion rubles was spent from the National Wealth Fund. Since these withdrawals were not fully mirrored by the Bank of Russia, the budget channel made a significant contribution to the growth of the monetary base.

The lack of mirroring by the Bank of Russia was partly due to the suspension of the budget rule in March 2022, which meant there were no regular foreign exchange sales by the Bank of Russia. In addition to withdrawals from the NWF driven by the budget rule, the government also used NWF funds in certain cases to finance anti-crisis measures. The Bank of Russia did not mirror such one-off withdrawals until 2024, when it returned to fully mirroring all Russian Ministry

of Finance operations with the NWF, including withdrawals and investments of NWF funds in Russian assets. The total increase in the monetary base for 2022–2025 reached 10.3 trillion rubles, including 5.4 trillion rubles through budget operations, 4.8 trillion rubles through the banking sector's borrowing from the Bank of Russia, and 0.1 trillion rubles through gold purchases.

An important distinction between the most recent period and the others discussed above is the unidirectional contribution of increased bank lending and budget operations to the growth of the monetary base. Prior to 2022, the contributions of the Bank of Russia and the Russian Ministry of Finance to the monetary base were in most years opposite in sign. As a rule, this divergence in impact was explained by the Bank of Russia's efforts to offset changes in the monetary base resulting from budget operations. In 2008–2010 and 2014–2017, the banking system went through two cycles of outflows and inflows of funds via the budget channel, accompanied by the accumulation and repayment of banks' debt to the Bank of Russia. However, in 2022–2025, growth in the monetary base resulting from operations with the National Wealth Fund occurred simultaneously with an increase in the Bank of Russia's lending to commercial banks. During the period 2022–2025, banks also increased lending to the real sector and households, which was largely the result of preferential lending programs.

4. Analysis of macroeconomic conditions after 2022 and the policy of the Bank of Russia

Fiscal policy after 2022 is characterized by rising budget expenditures (see Fig. 2). Federal budget expenditures in nominal terms increased by 25.7% in 2022, followed by growth of 4.0% in 2023, 24.2% in 2024, and 6.8% in 2025. Growth rates for nominal general government expenditures were 17.2%, 14.1%, 17.8%, and 13.1% for 2022, 2023, 2024, and 2025, respectively. This is substan-

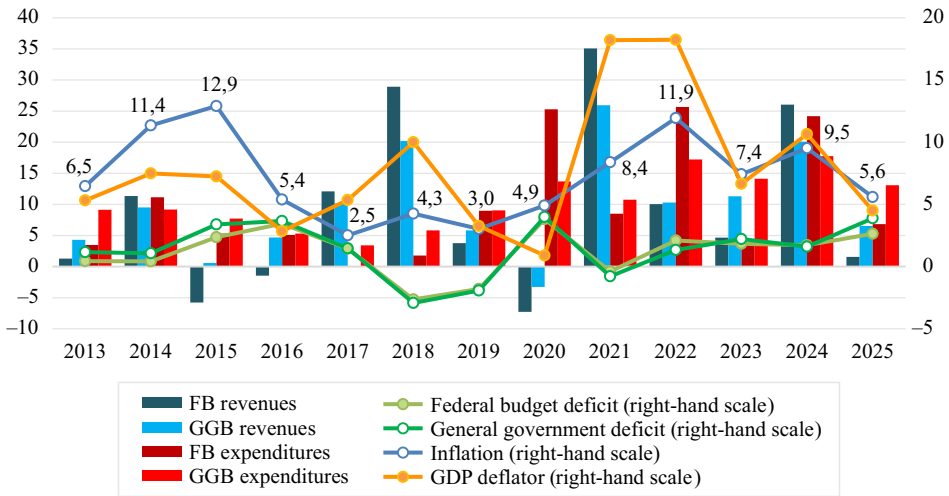

Fig. 2. Growth rates of nominal revenues and expenditures of the federal budget and the general government budget (%), federal budget and general government budget deficits (% of GDP), inflation, and the GDP deflator (%) in 2013–2025.

Note: GGB — general government budget, FB — federal budget.
Source: Authors' calculations based on Russian Ministry of Finance, Rosstat data.

tially higher than in the previous 10 years: on average for 2011–2020, budget expenditures increased by 9% annually. The outpacing of expenditure growth relative to output has raised general government budget expenditures from 34.9% of GDP in 2021 to 39.3% of GDP in 2025.

Starting in 2023, a new feature of fiscal policy emerges: it ceases to be countercyclical, as it was in previous years. An important feature of fiscal policy in Russia prior to 2023 was the co-movement of the budget balance and output growth. During periods when Russia's GDP growth accelerated, the budget balance improved (due to rising revenues and falling expenditures as a share of GDP), whereas during periods of economic slowdown, conversely, the budget deficit grew due to falling budget revenues and rising expenditures to support the economy (see Fig. 3); that is, fiscal policy had a clear countercyclical stance. In this regard, the period beginning in 2023 differs significantly, as Russia experienced relatively high economic growth rates during these years (GDP growth in 2023 and 2024 was 4.1% and 4.9%, respectively) following a 1.4% contraction in 2022, and at the same time, there was a noticeable widening of the general government budget deficit, to 2.2% of GDP in 2023 and 1.6% in 2024, against 1.3% of GDP during the crisis year of 2022. In 2025, amid a slowdown in output growth to 1% driven by tight monetary policy, the general government budget deficit was even higher, reaching 3.9% of GDP.

Such deficits appear moderate compared with those typical of developed countries. However, for Russia, where fiscal policy has been conservative in recent decades, this combination of high economic activity, record-low unemployment, and relatively high budget deficits is unusual. We argue that the fiscal expansion made an important contribution to the growth of aggregate demand and the overheating of the economy in 2023–2024.

Since 2022, the Russian economy has been subjected to various strong proinflationary shocks, including negative supply shocks (rising producer costs due to sanctions, deteriorating terms of trade, rising uncertainty and inflation expectations) and positive demand shocks (fiscal expansion and rising household incomes with a high propensity to consume). In 2022, consumer prices rose by 11.9%; in 2023, by 7.4%; in 2024, by 9.5%; and in 2025, by 5.9%. There is

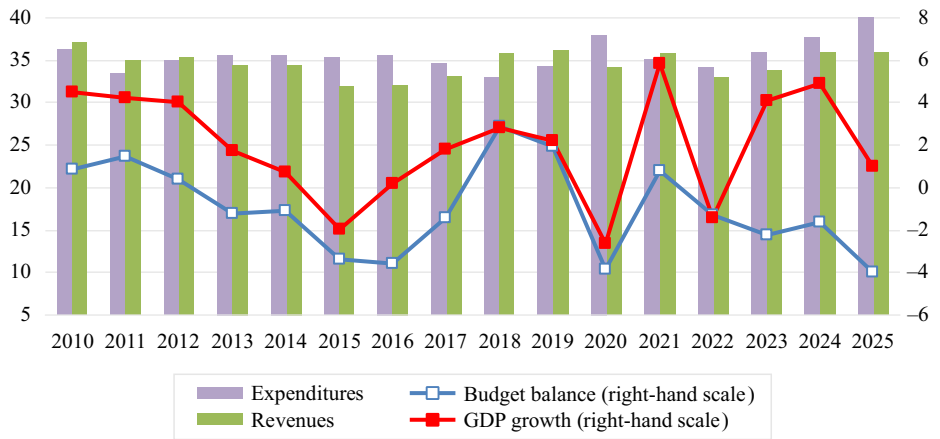

Fig. 3. Revenues, expenditures, and the general government budget balance (as a percentage of potential GDP), and output growth (%) in 2010–2025.

Source: Rosstat, Russian Ministry of Finance, authors' calculations.

considerable evidence supporting the view that fiscal policy played a significant role in accelerating inflation (Andryushin, 2024; Buklemishev, 2024; Kolyadenko and Perevyshin, 2025). Countering these shocks required monetary authorities to tighten monetary policy, i.e., raise the key rate.

Several phases can be identified in the Bank of Russia's policy after 2022, each characterized by a specific priority. During the first phase (late February–May 2022), the Bank of Russia's main objective was to maintain the stability of the banking sector and prevent a financial crisis amid high levels of uncertainty and rising inflation expectations. The key rate was raised on February 28, 2022, from 9.5% to 20%, but by the end of May, when the acute phase of the crisis had passed, it was lowered to 11% (see Fig. 4). In the second phase (June 2022–July 2023), the Bank of Russia kept the rate in the range of 7.5–8.5%, which corresponds to a moderately tight policy.

After an initial acceleration in the spring of 2022, inflation quickly slowed. In the summer of 2022, the seasonally adjusted inflation rate turned negative, while inflation over the previous 12 months remained close to 15%. Given the unexpected strengthening of the ruble and the decline in output, the Bank of Russia opted for a restrained monetary policy. In the third phase (August 2023–May 2025), the Bank of Russia shifted to tightening monetary policy, raising the rate first from 8.5% to 16% in August–December 2023 and then from 16% to 21% in July–October 2024. The shift toward easing policy did not occur until the summer of 2025.

The tightening was driven by an acceleration in inflation that began in the summer of 2023, accompanied by an overheating of the economy, as indicated by a decline in unemployment to record lows, rising capacity utilization, and economic activity growing at rates exceeding potential. The cooling effect of the high-interest-rate policy became fully apparent by early 2025. The Bank of Russia did not begin to ease policy until June 2025, when disinflationary trends became sustainable and economic growth began to slow down.

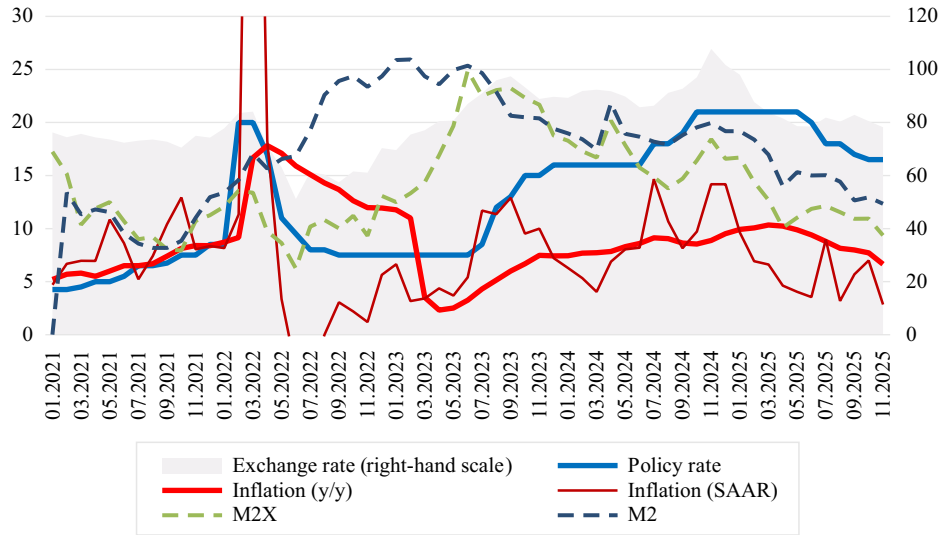

Fig. 4. Policy rate (%), exchange rate (USD/RUB), inflation indicators (%), and money supply growth indicators (%, y/y) in 2021–2025.

Source: Bank of Russia, authors' calculations.

The question arises: could the Bank of Russia have prevented the acceleration of inflation since 2022? Today, based on all currently available information, it appears that this would have been possible had the tightening of monetary policy begun significantly earlier than July 2023. In that case, it would most likely have been possible to prevent the rapid growth in lending that began in the first quarter of 2023. Annual lending growth rates from the end of 2022 to the end of 2023 rose from 12% to 23% and declined to moderate levels only in 2025. Strong demand for refinancing from the banking sector, even with a high policy rate, pointed to intense lending activity. Credit expansion was an important factor in increasing aggregate demand and accelerating inflation. A preemptive rate hike might have prevented both the overheating of the economy and the forced slowdown that followed, which was achieved by raising the key rate to 21%.

In addition to the aforementioned discretionary decision to shift toward tightening monetary policy only starting in the summer of 2023, it is also worth noting a certain deviation from established policy implementation rules. The Bank of Russia's decision not to fully mirror the Russian Ministry of Finance's operations led to the Ministry of Finance's operations becoming the predominant source of the monetary base growth in 2022–2025. The increase in high-powered money via the budget channel during this period amounted to 5.4 trillion rubles with a total increase in the monetary base of 10.3 trillion rubles. If the Bank of Russia had fully sterilized the high-powered money created by fiscal authorities' operations, with the volume of the monetary base expansion through other channels remaining unchanged, the average annual growth rate of the monetary base for the period 2022–2025 would have been 5.6% instead of 10.8%, which would probably have led to lower inflation (Drobyshevsky et al., 2025).

Due to the aforementioned link between the policy rate and base money supply dynamics, ensuring lower growth rates of money supply while fully mirroring the Russian Ministry of Finance's operations would have required the Bank of Russia to keep the policy rate at a higher level. Otherwise, if the Bank of Russia had fully mirrored these operations but maintained the same interest rate level, the volume of monetary base growth would have been close to the actual figure, but it would have had to be driven by other operations, such as the Bank of Russia's lending to banks.

Thus, the volume of the Bank of Russia's operations in the foreign exchange market under the fiscal rule affects not the magnitude of the base money supply growth — which is determined by the key rate set by the Bank of Russia — but the structure of the sources of this growth. However, it is important to note that mirroring constitutes a rule for conducting monetary policy known to economic agents, and its use increases the predictability of monetary policy and economic agents' confidence in the central bank.

It should be noted that not only the magnitude of the money supply growth but also the structure of such growth may in itself exert some influence on macroeconomic processes. In particular, full mirroring of the Russian Ministry of Finance's operations in 2023–2025 would have required large-scale foreign currency sales. Given the low liquidity and insufficient depth of the Russian foreign exchange market during that period, significant currency interventions could have led to a sharp increase in exchange rate volatility. Therefore, the Bank of Russia's decision not to mirror these operations apparently contributed to greater stability in the financial system. At the same time, there is no reason to believe that, under conditions of full mirroring, the inflationary

picture would have been fundamentally different. Thus, the main factor behind the excessive growth of the monetary base was the monetary authorities' interest rate policy. In other words, it is arguable that it was not the abandonment of mirroring per se that led to higher inflation, but rather excessively low interest rates.

A possible explanation for what prevented the Bank of Russia from tightening monetary policy even further and at an earlier stage is that, given the information available at the time and the methods of analysis and forecasting used, a tighter policy might have appeared ineffective. The information available at the beginning of 2023 did not indicate a clear and rapid overheating of the economy. At that time, seasonally adjusted annualized inflation remained near 4%, the ruble had strengthened, and the growth rates of the broad money supply (M2X) and lending were within acceptable limits. By early 2023, the Russian economy had weathered the initial shock, but its outlook remained uncertain. Under these conditions, a shift from a neutral policy to a tighter one at that time did not appear justified.

The alternative policy option — raising the rate to an even higher level in late 2023 and in 2024 — carried the risk of destabilizing the economy. Data on industrial sector output indicate that in the first half of 2024, production levels in sectors unrelated to the defense industry had plateaued or even begun to decline (CMASF, 2024). Raising rates in such a situation — especially given that rate hikes affect inflation with a significant time lag — would likely have led to a more pronounced recession or even a crisis in such sectors, which could have exacerbated imbalances between sectors and posed the threat of a cascade of corporate bankruptcies, disrupting production chains and risking a rapid and uncontrolled slide of the economy into recession. Under these circumstances, the Bank of Russia opted for a soft landing at the cost of a temporary acceleration in consumer inflation.

5. Conclusions

The analysis conducted has allowed us to answer a number of questions regarding the coordination of actions by fiscal and monetary authorities in Russia. First and foremost, the combination of fiscal policy — which includes saving excess oil and gas revenues in the National Wealth Fund — and monetary policy based on an inflation-targeting regime with a floating exchange rate, along with the practice of mirroring, appears to allow for a fairly effective response to external shocks and the maintenance of macroeconomic conditions conducive to economic growth. This combination of monetary and fiscal policies was in effect in 2017–2019, and during this period the Russian economy demonstrated fairly high rates of economic growth with inflation close to the target level.

We emphasize that an important element of fiscal policy must be its countercyclical nature. In 2023–2025, the Russian Ministry of Finance's policy ceased to be countercyclical, and we consider this a key factor in the acceleration of inflation in recent years.[4] Amid a rapid increase in budget expenditures, the monetary authorities' room for maneuver narrowed substantially, and the inflationary effect caused by the growth in government spending was not neutralized. To ensure price stability, it is important that fiscal policy help smooth out aggregate demand shocks

[4] Formal testing of this proposition is beyond the scope of the current paper, yet the subject constitutes a promising and important avenue for future empirical study.

and not itself become a source of shocks and uncertainty. The Russian Ministry of Finance's operations in 2022–2025 contributed significantly to the expansion of the monetary base, which grew at a rapid pace, while the Bank of Russia not only failed to pursue an active sterilization policy during this period but even further expanded the money supply by refinancing commercial banks. At the same time, the Bank of Russia had all the necessary tools to absorb the excess monetary base. In other words, the excessive growth rate of monetary aggregates in 2022–2025 was the result of a policy choice by monetary authorities, not a consequence of losing control over the base money supply due to the actions of fiscal authorities.

To the question of whether the Bank of Russia could have prevented the acceleration of inflation in 2022–2025 and whether the inflation growth observed during those years can be considered the result of a mistake by monetary authorities, the answer is as follows. On the one hand, the Bank of Russia had all the necessary tools to combat inflation. In this sense, the prolonged period of elevated price growth in 2023–2025 can be viewed as the result of the Bank of Russia's policy not being sufficiently tight. On the other hand, one cannot ignore the constraints and level of uncertainty faced by monetary authorities. To reduce inflation, the Bank of Russia could have attempted to implement an even tighter policy, but in that case, it would likely have exposed the Russian economy to the risk of destabilizing the financial and real sectors. Moreover, these risks were particularly significant amid the structural restructuring of the Russian economy after 2022 and high geopolitical uncertainty.

Although fiscal policy has constrained the Bank of Russia in its fight against inflation, we do not regard this as evidence of fiscal dominance. In a classical fiscal dominance regime, monetary policy is subordinated to government objectives, and the central bank must maintain artificially favorable conditions in the credit markets for the sovereign borrower. We do not see any signs of such a configuration in the Russian economy. After the Bank of Russia fully recognized the actual magnitude of inflationary risks, the policy rate was raised sharply, driving real yields on government securities into double digits.

It should also be noted that, given the lagged anti-inflationary effect of the policy rate hike and the relatively high inertia of inflationary processes, achieving a rapid stabilization of price dynamics through a sharp tightening of monetary policy would likely have been impossible. Under such conditions, a more tolerant stance by monetary authorities toward a temporary acceleration of inflation, while maintaining the manageability and relative predictability of macroeconomic conditions, appears reasonable.

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