

# IMF Head Is Counting on Russia

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November 06, 2011

**The  Moscow Times**

Classic literature was the least expected thing for the managing director of the International Monetary Fund, Christine Lagarde, to speak about Monday as she made a three-day trip to Russia to address global economic issues.

And few would think that a quote by writer Anton Chekhov, with which Lagarde chose to start the speech she delivered in front of the international economic and political elite, was the perfect way to illustrate the ties of the world's leading economies facing turmoil amid the euro zone's debt crisis.

"All of life and human relations have become so incomprehensibly complex that, when you think about it, it becomes terrifying and your heart stands still," Lagarde said, citing a piece from Chekhov's short story "The Schoolmistress."

Lagarde, who was speaking in a packed hall at one of Moscow's universities, said the global economic situation "is so sophisticated and complex that your heart, my heart could possibly stand still."

She called for governments to join forces and adopt appropriate policies to resist the crisis, saying Russia is expected to play a leading role in strengthening ties between countries.

"I ... count very much on Russia to continue playing this bridge role between Europe and Asia, between the old and the future," Lagarde said.

Lagarde met with President Dmitry Medvedev on Monday during her first official foreign visit as IMF chief.

"Russia is my first step in what I assume will be a long journey," Lagarde said, adding that the visit illustrates the country's strong relationships with the fund.

She did not disclose details of her meeting with Medvedev, but the Kremlin said in an e-mailed statement Monday that the leaders were supposed to discuss global economic issues, efforts by the international economic community to overcome the crisis as part of agreements made at the Group of 20 summit last week, as well as further steps to reform the world financial system.

"Russia is a big IMF shareholder and is actively participating in the global community's efforts to reform the world financial and economic system to bring it into compliance with modern realities connected first of all with shifting the center of economic activity to emerging countries, primarily BRICS," the statement said.

Russia is pushing for the redistribution of the IMF membership quotas that determine the size of countries' financial contributions and their voting power in the fund, as well as their access to IMF financing — and increasing developing countries' weight in the organization.

The BRICS countries will contribute to rescuing the indebted euro zone through the IMF and hope to increase their voting power in return, Medvedev said last week.

His economic adviser Arkady Dvorkovich said Friday that Russia's contribution could exceed the \$10 billion that it is committed to provide through the IMF, but Russia hopes it will be able to "influence key decisions" in the organization, Bloomberg reported.

Foreign Minister Sergei Lavrov reiterated this position Monday, saying emerging economies are ready to provide financial support to Europe but hope for the implementation of previous agreements on IMF reform.

"Our countries are ready to take part in joint efforts, including the provision of credits, under those rules and channels that exist in the International Monetary Fund," Lavrov told a news conference in Moscow, Reuters reported.

Russia is pushing for "absolute implementation" of the agreements to revise the quotas, which were reached at the G20 summit in Seoul last year, the Kremlin said in the statement.

Implementing the agreements will allow Russia and its BRICS peers to "significantly increase [their] overall weight" in the fund, the statement said.

Russia has been injecting funds into the IMF since 2005, when it paid off its debt to the organization in full.

The country, which is currently represented in the IMF with a 2.5 percent share in the fund's capital, is significantly behind the United States, with a quota of 17.7 percent, and Europe, whose overall quota accounts for more than 30 percent, according to the IMF web site.

Quota reform implemented in 2008 resulted in Russia becoming one of the top 10 IMF members, and the country will strengthen its position in the organization after implementing the 2010 agreements, Lagarde said.

Russia and other BRICS countries "are actually playing a much larger role" in the IMF, Lagarde said. She added, however, that the reform is going through "not without difficulty" because redistributing the quotas means that other countries have to give their quotas up. "And that shift is painful," she said, adding that Russia will be part of the shift.

According to the Kremlin statement, "the IMF has a positive stance on the economic policy being implemented in Russia."

The domestic economy is expected to increase 4.3 percent this year and 4.1 percent in 2012, the IMF said in a report published in September. But Russia, which is vulnerable to growing risks, could benefit from rising oil prices, which will allow it to strengthen its growth in the middle term, the report said.

Lagarde reiterated that Russia remains vulnerable to fluctuations in commodity prices and should increase its reserves while oil prices are high.

"Russia has incredible raw material resources, energy resources and can actually develop significant reserves," she said, adding, however, that the country should reduce its dependence on the oil and gas sector.

Having praised the country's monetary policy, Lagarde said Russia should focus on lowering inflation to ensure the predictability and stability of its economy and develop its financial market.

Finally, she advised the Russian government not to expand budget expenses ahead of upcoming elections, as the government has already increased salaries for public sector employees as well as pensions and scholarships this year.

"I've been in government for nearly seven years and I know exactly what it is like," said Lagarde, a former French finance minister, who was appointed IMF chief in July after Dominique Strauss-Kahn became involved in a sex scandal and left the post.

"There's always a tendency to want to spend more because a government thinks it can do better or that ... it can serve the interest of the population by yet another layer of public spending," Lagarde said.

"As a friend of Russia," Lagarde recommended the government "try to resist those pressures, because public spending is not very healthy ... particularly in times of elections." She said she had confidence in Russia, which has proved its ability to resist various crises and has sufficient strength to face the current challenges.

"Russia went through many crises ... Russia is a survivor in many ways," she said.

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