

Back to the Future as G20 Comes to Russia

By [The Moscow Times](#)

February 13, 2013



The Ritz-Carlton will host the Group of 20 Finance Ministers this weekend. **Mikhail Voskresensky**

Group of 20 policymakers have an ideal chance in Moscow this week to ponder whether monetary policy largesse will blunt their will to carry out the economic reforms needed to put global growth on sustainable footing.

On their drive from the airport to the city center, down highways clogged with luxury cars, it may dawn on finance ministers and central bankers that Russia, this year's G20 host, got there first.

Some will check in to the five-star Ritz-Carlton hotel near the Manezh, the former 19th-century cavalry stable by the walls of the Kremlin, where they meet this weekend. But convenience comes at a price: almost \$17,000 per night for a luxury suite.

The world's largest oil producer has, through much of the Vladimir Putin era, been minting

money as its central bank bought up hundreds of billions of export petrodollars and the government spent its way out of the 2009 slump.

But the side effects — political complacency, declining competitiveness and a misallocation of capital toward conspicuous consumption and prestige projects — increasingly outweigh the benefits to Russia's \$2.1 trillion economy.

Some economists say Russia's story could foretell the outcome of ultra-loose monetary policy in the United States, Britain and Japan. That policy was symbolized by European Central Bank President Mario Draghi's vow in July to do "whatever it takes" to see the euro through its debt crisis.

"Russia has oil; Europe has Draghi," Tim Ash, the London-based head of emerging markets research at Standard Bank, said on a recent trip to Moscow. "Europe is catching up to all the problems that Russia has done nothing about for the past decade."

Others say that may be stretching the point, but there are certainly signs that the zeal for major economic and regulatory reforms in Europe has faded somewhat since Draghi took the sting out of the debt crisis.

Currency Wars

The G20 accounts for 90 percent of the world's economy and two-thirds of its population. Russia has taken the helm this year as the group has split between borrowers seeking to grow out of a debt trap and surplus countries keener on austerity.

Gone is the shared sense of purpose that embodied the G20 summit in London of 2009, which created a huge financial backstop to stem the crisis that resulted from the collapse of Wall Street investment bank Lehman Brothers.

"The G20 has really struggled in the past couple of years after its really great 2008 and 2009," said Jim O'Neill, the outgoing chairman of Goldman Sachs Asset Management and leading emerging markets economist. "It's already desperately searching for an identity."

Russia, holder of the world's fourth-largest gold and foreign exchange reserves, also finds itself on the barricades in a "currency war," which so far has been only rhetorical.

The Central Bank accused Japan's new government of protectionist monetary policy. But G20 sources and economists say officials are likely to tone down their rhetoric.

"I don't see how anybody can complain," O'Neill said. "Washington is keeping quiet because that's what it has done for the past 30 years."

Supply Vs. Demand

For its G20 presidency, Russia has drawn up an agenda focusing on jobs and investment, improved financial regulation and deficit reduction that is enthusiastically backed by the International Monetary Fund and World Bank.

But in a world suffering a dearth of demand, there is likely to be push-back, again led by the

United States, against Russia's push for "binding and realistic" goals to cut borrowing.

A target set at the G20's Toronto summit in 2010 to halve budget deficits expires this year, and one G20 source said there could be heated debate as the eurozone's dominant economy, Germany, calls for new deficit targets to be set.

Here, at least, Russia can show some leadership by pointing to its own balanced budget and its adoption last year of a fiscal rule intended to reduce the dependence of its public finances on oil and gas revenues.

"Russia's agenda reflects their own policy preoccupations. To the extent that it is relevant to a broader global forum, that will be a fluke," said Christopher Granville, managing director of Trusted Sources, an emerging-markets consultancy. "But it's not an agenda that's way off in outer space."

Policymakers will hope to set aside friction between Russia and the West over trade and human rights during the build-up to September's G20 summit in St. Petersburg, given the forum's focus on economic issues.

Russia, a country of more than 140 million, says it is up to the task of leading the G20 thanks to its experience as half of the 'G2,' which dominated global diplomacy during the Cold War.

"It's used to thinking kind of big," said Russia's top financial diplomat, summit sherpa Ksenia Yudayeva.

But things may be trickier next year, part two of a doubleheader, when Russia chairs the G8. Moscow is the odd one out in what Granville calls "a group of like-minded Western countries with Japan as an honorary member."

Putin, elected for a third term as president in March after four years as prime minister, has made international summits and sporting events an important part of his development agenda for Russia.

The country will host the G8 summit in summer 2014 in Sochi, the venue of the next Winter Olympics, and it will host the World Cup football championship in 2018.

Russia expects to spend \$50 billion on preparations for the Sochi Games, a sum that would make it the most expensive Olympics. That is progress at a high price.

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