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G20 Plans for Growth as Emerging Markets Worry

By The Moscow Times

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SYDNEY — The world's top economies have embraced a goal of generating more than $2 trillion in additional output over five years while creating tens of million of new jobs, signaling optimism that the worst of crisis-era austerity was behind them.

The final communique from the two-day meeting of the Group of 20 in Sydney said they would take concrete action to increase investment and employment, among other reforms.

The growth plan borrows wholesale from an International Monetary Fund paper prepared for the Sydney meeting, which estimated that structural reforms would raise world economic output by about 0.5 percent per year over the next five years, boosting global output by $2.25 trillion.

While there is as of yet no road map on how nations intend to get there or repercussions if they never arrive, agreeing on any goal is a step forward for the group that has failed in the past to agree on fiscal and current account targets. And it was a sea change from recent meetings where the debate was still on where their focus should lie: on growth or budget austerity.

Financial markets had been wary of the possibility of friction between advanced and emerging economies, but nothing suggested the meeting would cause ripples on Monday.

A top Russian Central Banker had previously said that the G20 meeting needed to discuss the impact on emerging markets of the U.S. Federal Reserve's winding back of stimulus.

Ksenia Yudayeva, first deputy governor of the Bank of Russia, told a conference in Sydney ahead of the weekend G20 meeting that more cooperation was needed between global Central Banks to help stabilize markets.

"One of the agendas that are clear to me that finance ministers and Central Bankers need to discuss even at today's meeting and tomorrow's meeting and throughout this year, is the situation in emerging markets, the reaction of markets to the Fed's tapering," said Yudayeva Friday.

On Sunday there was a nod in the G20's statement to concerns by emerging nations that the U.S. Federal Reserve consider the impact of its policy tapering, which has led to bouts of capital flight from some of the more vulnerable markets.

"All our Central Banks maintain their commitment that monetary policy settings will continue to be carefully calibrated and clearly communicated, in the context of ongoing exchange of information and being mindful of impacts on the global economy," the communique read.

Earlier this week, Russia's Central Bank warned that investors were likely to steer clear of emerging markets as the Fed winds down its monetary stimulus. That will dry up a stream of money that had been flowing into the developing world.

"Clearly it's a worry for Russia because particularly in the past two months Russia was one of the countries which experienced significant outflow and significant depreciation of its currency," Yudayeva said at the sidelines of the G20 event. "We are thinking about our strategy and how to react."

The Central Bank lowered its mid-term economic growth forecasts to below 2 percent until 2016, in an acknowledgement that Russia's economy will be sickly for some time.

"We are worried about the general economic situation, mainly the fact that the growth rate has declined quite substantially," she said.

Yet the Central Bank was also concerned that inflation was proving too "sticky," in part because of the depreciation of the ruble.

"This year we set a goal to reduce inflation substantially and we will do as much as we can to reach our goal, both this year and the years to come, because this is a medium-term strategy," said Yudayeva.