The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Syria and BRICS Mark Start of G20 Summit

By Irina Filatova

September 05, 2013

Putin delivering his opening speech to G20 attendees at the first working session of the summit on Thursday. **Sergei Karpukhin**

A military strike in Syria would have a destructive effect on the global economy, sending oil prices up, China warned in a gesture of support to President Vladimir Putin, the host of the Group of 20 summit that began in St. Petersburg on Thursday.

"Military action would have a negative impact on the global economy, especially on the oil price. It will cause a hike in the oil price," China's Vice Finance Minister Zhu Guangyao told journalists ahead of the summit, Reuters reported.

China sided with Russia's position on possible military intervention in Syria, with Putin claiming that a U.S.-supported strike must be based on clear evidence that the Syrian government is responsible for an alleged chemical attack in the country on Aug. 21.

Although not on the official agenda, the Syrian conflict was on everybody's lips, overshadowing the economic agenda at the two-day summit held in Strelna, a suburb of the country's northern capital.

Leaders of the world's 20 major economies gathered in the 18th century Constantine Palace to discuss issues like stimulating global economic growth, ensuring financial stability, fighting against corruption and tax evasion.

Before the summit kicked off, the International Monetary Fund called for the G20 nations to join forces to stimulate growth of the global economy amid a possible rise of financial instability that might be caused by the wind down of the U.S. Federal Reserve's large-scale bond-buying program.

The move could hit emerging countries especially hard, which might see their economies slowing down, the organization warned in a note prepared for the G20 that was cited by Reuters.

The announcement by the Federal Reserve Chairman Ben Bernanke in May that later this year the U.S. could end its program of buying $85 billion worth of bonds every month caused a massive sell off of emerging markets' currencies and securities.

In an effort to withstand a future shake-up of their currency markets, Brazil, Russia, India, China and South Africa — known as the BRICS countries — agreed to create a $100 billion currency pool, with each country contributing to the fund.

At the meeting with other BRICS leaders Thursday, Putin said the establishment of the fund had entered its "final stage." He said that Russia would contribute along with the other BRICS nations but did not elaborate on the sum, according to the Kremlin's website.

Russia, Brazil and India will each channel $18 billion to the fund, while China, which holds the world's largest foreign currency reserves, will give $41 billion, Interfax reported, citing a statement released after the meeting of the BRICS leaders. South Africa will contribute $5 billion.

Meanwhile, uncertainty remains over the other priority issue for the BRICS nations — the reform of the IMF quota system that Russia said had failed to be resolved during its G20 presidency.

"This is the field where we failed to achieve the results that we had expected at the beginning of our presidency," Andrei Bokarev, head of the Finance Ministry's department for international financial relations told a news conference Thursday.

The reason for the delay is that the earlier agreements on the IMF reform, reached at the G20 summit in Seoul back in 2010, have not been fully enforced, Bokarev said, Interfax reported. He added that the issue would remain on the agenda of Russia's G20 presidency, as the quota-revising deadline of Jan. 1 is looming.

As the emerging countries seek to gain greater decision making power in the organization, Putin urged IMF member states "to look for a balanced compromise decision on redistribution of quotas."

Putin also called for a joint approach to returning the global economy to the path of sustainable growth.

"Unfortunately, this goal hasn't been achieved yet, meaning that systemic risks and conditions for a severe crisis relapse remain," Putin said at the first session of the summit.

He outlined a number of measures envisaged in the final plan on ensuring economic growth to be approved by the G20 leaders, saying that one mid- and long-term priority is cutting the size of sovereign debt and reducing budget deficits.

Putin elaborated on his earlier statement that big budget deficits drove countries to increase borrowings. In an interview with The Associated Press and Russian broadcaster Channel One earlier this week, he pushed for moderate government spending in Russia.

He claimed, however, that dramatic budget cuts are unlikely.

Putin's comments were echoed by Finance Minister Anton Siluanov who proposed that budget spending be reduced by 5 percent in 2014-15 — a "maneuver" that would allow Russia to save money and bring priority plans to fruition.

The Finance Ministry is pushing for an across the board 5 percent reduction of expenses in government ministries and agencies over the next two years, Siluanov told state television Rossia 24, Interfax reported Thursday.

The cuts would not affect entitlements like retirement pensions and student scholarships, he said.

Speaking at a news conference ahead of the G20 summit, he also pushed for ending the maternity incentive starting in 2016.

In a move to improve the demographic situation, the government decided to provide financial incentives to families having two or more children during the period 2007-15, with each family getting a one-time payment, which in 2013 is 408,960 rubles.

As the Finance Ministry seeks to trim budget spending, it allied with economic experts last month to draft a proposal allowing for savings of up to 1.1 trillion rubles over the next three years. The proposed measures included reviewing costs in the pension system and the public sector, as well as not extending the maternity incentive program.

The last point, Siluanov said, was a "sensitive topic" and required careful consideration. The possibility of withdrawing the support to large families is already creating a negative reaction by most Russians.

Contact the author at irina.filatova@imedia.ru

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