

ARKADY DVORKOVICH

Sherpa to President Dmitry Medvedev

Thank you for inviting me here, and for the excellent historical outlook on what we have been doing in macroeconomic governance for decades. Let me turn first to the crisis. We can see certain signs of stabilisation in the international economy, particularly in the commodity and financial markets, and banks are quite happy that they will recover most of their losses with the increase of the financial indices. However, we believe that the only thing that this recovery has been based on is government stimulus, both monetary and fiscal, over the last few months, and no one government knows how to formulate an exit strategy. Some of my colleagues may correct me on this, but I do not think we are in a position where we would know the recipe for sustainable future economic growth where government fiscal and monetary stimulus has to be reduced. This stimulus is not sustainable at its current levels from a medium-term perspective.

Despite the fact that there is no recipe at the moment, we will have to commence an exit strategy next year, and this is a crucial point from the Russian point of view. We will start to reduce budget deficits and the stimulus we are providing to our companies. This was not the first crisis Russia faced in the last 20 years, and compared to most other countries we have considerable experience in crisis management. The first one was in the beginning of the 1990s, when after the collapse of the Soviet Union we faced demand-based stagflation, when demand for goods fell and inflation became hyperinflation. Following the Asian financial crisis at the end of the 1990s, we had triple deficits, budget deficit that turned into a debt crisis, the current account deficit that turned into a currency crisis, and the deficit of banking capital that turned into a banking crisis.

We have not encountered any of these issues in the current crisis. We have sufficient fiscal reserves, sufficient currency reserves, and sufficient banking capital against the banking crisis. Therefore, the current crisis is not like the crisis in 1998, but we again have a demand-based crisis with a sharp decline in demand for Russian goods, commodities in particular. This has created a situation where GDP fell more sharply than in other developed countries. It is insufficient from our perspective to say that financial mismanagement led to the crisis. A combination of structural weaknesses in the economy and macroeconomic mismanagement in many countries were responsible, and there are considerable structural imbalances both in Russia and the world economy. Russia's economy is imbalanced by the domination of commodity exports, and the world economy is imbalanced by the status of the US as a consumer of last resort.

This model is not sustainable. However, I cannot conceive of a model for world economic growth without imbalances. It is impossible to grow rapidly without them, and they create dynamics and growth. Therefore, the important thing is not to avoid imbalances altogether but to have



manageable imbalances that can be sustained and financed, where dangerous developments can be monitored and risks can be tackled before they lead to another crisis. The question is who will manage those imbalances, and there are numerous candidates. The United Nations is the most representative forum, but it is not really an economic one. A large number of countries are involved in the IMF. However, the structure of representation is still inadequate, it does not correspond to current global GDP structure, there are clear deficiencies in its management, and its reputation has been weakened by past mistakes. G20 is not the UN and not all countries are represented, Morocco in particular, so it is not a good forum in which to discuss the most important issues. Moreover, it is not very clear how it is going to work from a technical viewpoint, and how it will coordinate its efforts with other countries. G-8 is an insufficient forum for economic matters, but probably a good place for discussing global security and political issues.

We believe it is crucial to implement the decisions made in London and Pittsburgh by the G20 summits, as otherwise its credibility will be lost. Our decisions should become legally binding international agreements on the part of both the G20 and other countries, including macroeconomic policy benchmarks, mechanisms to govern conflict resolution and permanent coordination between all major economies. Russia is ready to participate in the working-out of such an internationally binding agreement, and we hope it will be a success in order to avoid future crises.