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Developing Markets Get More Say at IMF

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GYEONGJU, South Korea — Emerging economies will get more clout at the International Monetary Fund under a landmark agreement clinched on Saturday at the meeting of finance ministers of the Group of 20 leading economies.

It reflects a shift in global power from industrial countries, but at the same time no firm agreement on currency appreciation emerged.

"Today all countries came to a common agreement about [IMF] quotas. More than 6 percent [of voting shares] will be redistributed to fast-growing countries," said Finance Minister Alexei Kudrin.

China will become the third-biggest member of the 187-strong Washington-based lender. India will be in the 8th spot, Russia in the 9th and Brazil in the 10th, according to the Finance Ministry. Together, the four — known by the acronym BRIC — will have 14.18 percent of IMF quotas.

Europe will give up two of the eight or nine seats it controls at any given time on the IMF's Executive Board, which will continue to have 24 members, according to a statement issued

after the G20 meeting.

As part of a wide-ranging package, the G20 also agreed to double the IMF's quotas, which determine how much each country contributes to the IMF and how much those countries may borrow from it.

The quotas currently total about $340 billion. The IMF staff had argued for a doubling, which it said would put the Fund "in a strong position to forestall or cope with potential crises in the coming years." The G20 said the reforms would make the Washington-based lender "more effective, credible and legitimate."

The governance reforms amount to an overhaul of the global economic order established when the Fund was set up after World War II, prompting IMF Managing Director Dominique Strauss-Kahn to describe the agreement as historic. "This makes for the biggest reform ever in the governance of the institution," he told reporters.

The reduction in Europe's representation is less than the United States was seeking. However, Washington, which has a 17.67 percent share of IMF quotas, will retain its veto on the Fund's most important decisions. These will continue to require a super-majority vote of 85 percent, according to IMF officials.

The G20 agreed a year ago to transfer at least 5 percent of voting rights to developing countries such as India and Brazil, whose clout within the Fund has not kept pace with their emergence as major engines of global growth.

"It was a long-expected reform that is really shifting the balance of power and making space for all economies, including emerging markets," said French Finance Minister Christine Lagarde.

China will leapfrog Germany, France and Britain in the Fund's power rankings, with its quota share rising to 6.19 percent from 3.65 percent. Emerging markets as a whole will have a 42.29 percent share, which the G20 said was likely to rise further following a comprehensive review of the quota formula due by January 2013.

"This does not complete the reform process," Kudrin said. "The position of the emerging market countries is that this work should be continued."

The G20, however, was unable to come together on the question of currency appreciation. Its unity has been tested by low growth in rich countries and attempts by some emerging market economies to help exporters by holding down their exchange rates.

Saudi Arabia, Germany and Russia have the biggest current account surpluses, but China is the chief culprit in Washington's eyes, because of massive currency market intervention to keep a lid on the yuan.

Beijing has amassed $2.65 trillion in official currency reserves as a consequence, prompting the U.S. House of Representatives to pass a bill threatening retaliation unless China lets its currency off the leash to reduce its huge trade surplus with the United States.

Attempts to firm up rhetoric in the final communique to push emerging market countries to

accept meaningful near-term appreciation of their currencies failed, and countries would only commit to refrain from "competitive devaluation."

On the question of IMF board seats, deciding which smaller European countries will give up their board seats is likely to take a year or more. The G20 set a final deadline of October 2012. Belgium, Denmark, the Netherlands and Switzerland are among the possible losers.

The Fund's current five biggest members — the United States, Japan, Germany, France and Britain — have their own seats on the IMF board and are allowed to appoint their executive directors. Under Saturday's deal, these directors will now have to be elected by the full board. China, Russia and Saudi Arabia also have their own seats. The rest of the membership is divided into constituencies, which elect an executive director to vote for the group as a whole.

Officials said the Gyeongju Accord could lead to more multi-member constituencies, as well as a shakeup of existing ones, depending on how Europe reduces its representation.

"What that essentially means is that all of these multi-country seats will have to be reshuffled, so there will be jockeying and coalition-forming," said Hyun Song Shin, the top G20 adviser to South Korea's president.

There are no set rules governing how countries group together. Individual countries can switch constituencies in search of more influence within a group or to form a more coherent regional alliance.

(Reuters, Interfax)

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