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Accord on IMF board masks lack of progress

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More work to do: Yoon Jeung-hyun, South Korea's finance minister, at the G20 meeting

First, the good news. The meeting of finance ministers and central bank governors made rapid progress on an issue that had threatened to overshadow November's meeting of heads of government: the largely symbolic but politically important issue of **control over the International Monetary Fund**.

As for the rest of the meeting, proposals by the US certainly put new issues in play, but early resistance – plus the fate of earlier, not dissimilar, initiatives – means that observers of the process remain wary of their impact.

The announcement on IMF reform represented a good pay-off for a gamble by the US this year to force the issue by using a procedural manoeuvre to force a November 1 deadline.

The reward was a slightly larger-than-expected shift of more than 6 percentage points towards emerging market countries in the "quotas" that determine voting power in the 24-member executive board, and Europe agreeing to give up two of its board seats. But bowing to European pressure, the deadline to finalise the configuration of the new arrangements was deferred to 2012.

The decision will make almost no formal difference to the governance of the IMF, where most decisions are taken by consensus. The US (and Europe, if acting collectively) in effect wields a veto over important decisions, which require an 85 per cent "super-majority". European governments appear to have failed in their effort to deprive the US of that blocking power.

But for an institution still strongly disliked in much of emerging Asia for the conditions it imposed during the 1997-98 financial crisis, the shift is an important signal. Shin Hyun-song, international economy adviser to South Korea's president, said: "The IMF has been bending over backwards to be friendly to this region and has managed to pull back some of its reputation."

On exchange rates and the current account deficit, the meeting opened up possibilities without achieving concrete decisions. The communiqué language calling for "market-determined" exchange rates was only hardened up slightly from previous statements, while the reference to countries avoiding competitive devaluation repeated a statement at the London G20 summit in April 2009.

The innovation since the previous summit, in Toronto in June, was in the section calling for restrictions on large current account surpluses or deficits, though it left open the question of what the target should be and how they would be reduced. The IMF was given a central role in monitoring the process, but former finance officials warned that similar attempts had failed before.

“The tougher IMF surveillance is a good idea, but all countries signed on to the [similar] multilateral consultation in 2006-07 yet no one bothered to take its conclusions seriously,” said Eswar Prasad, a former IMF senior official now at Cornell University. “The threat of ‘additional surveillance’ by the IMF is not exactly going to make big countries with large imbalances change their policies.”

The part of the statement targeting the US is likely to be particularly hard to implement. The G20 warned advanced countries, including those with reserve currencies – a clear reference to the US – to be “vigilant against excess volatility and disorderly movements in exchange rates” in order to “mitigate the risk of excessive volatility in capital flows facing some emerging countries”.

Many countries have complained that the prospect of **further monetary easing** by the US Federal Reserve is causing destabilising inflows of capital to their economies. But the Fed, whose mandate is employment and price stability in the US, is unlikely to shift policy dramatically because of a G20 statement.

Dan Price, partner at the law firm Sidley Austin and White House G20 representative under George W. Bush, said: “While the language on exchange rates differs little from Toronto, they did usefully bring monetary policy expressly within the purview of the IMF-led mutual assessment process. There is more work to do here but there’s a reason they call them summits – it’s a steep climb.”

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