

# IMF meeting to spotlight emerging conflicts

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International Monetary Fund and World Bank officials will gather in Washington this week for their spring meetings amid rising tensions between emerging markets such as Brazil and China and advanced economies such as the U.S.

IMF leaders and officials from emerging markets are calling for more collaboration among countries in developing economic policy — a stance that's facing resistance from the largest nations.

"Navigating the choppy waters of financial normalization will require a collaborative approach among all countries," IMF Managing Director Christine Lagarde said in a speech last week in advance of the meetings among finance ministers and central bankers from 188 countries.

Such cooperation was widespread after the 2008 financial crisis, as virtually all countries supported lowering interest rates and raising government spending to stimulate growth, and placing restraints on banks to prevent future upheaval.

Now, countries are recovering from the Great Recession at varying speeds. Emerging-market economies are expanding more slowly than they did pre-recession but far more rapidly than the rest of the world, while the U.S. is growing the fastest among advanced economies.

Last summer, when an improving economy prompted U.S. Federal Reserve officials to discuss their intent to begin tapering a bond-buying stimulus program, interest rates on U.S. Treasury bonds spiked, making overseas investments less attractive. Foreign capital, which had poured into emerging markets such as Brazil, India and Turkey as bond purchases pushed down U.S. rates, suddenly began streaming out. Their currencies plunged, forcing their central banks to raise their own interest rates, a tactic that threatened domestic growth and roiled U.S. stock markets.

"There was a sense (among emerging markets) that the Fed had not communicated its intention properly," says Eswar Prasad, a professor of trade policy at Cornell University and a senior fellow at the Brookings Institution.

Since the Fed began reducing its monthly bond purchases in December, U.S. interest rates have been stable, as have foreign capital flows in emerging markets. Now, however, the European Central Bank and the Bank of Japan are considering launching or stepping up their own bond-buying initiatives to push down their interest rates and combat excessively low inflation, which is crimping growth. The developing markets are worried about further volatility as the prospect of a new wave of foreign investment raises the risk of asset bubbles, Prasad says.

Last week, Lagarde urged "clear communication among all central banks."

But advanced economies have bristled at the suggestion. "Their response is — look, we have a national mandate," Prasad says. "We can't look at the spillover effects of policy."

Instead, he says, the largest nations have argued that currencies should adjust naturally — if their values rise due to a surge of foreign investment, the more expensive price-tags should lead to reduced foreign purchases and currency depreciation.

Another issue likely to be discussed this week is Congress' failure to approve reforms that would give emerging markets and developing nations more voting power in the IMF to reflect their fast-growing economies. Although their voting rights would rise modestly to 44.7% from 42.1%, the move would affirm their growing influence on the global economy.

"Symbolism matters," says Edwin Truman, senior fellow at the Peterson Institute for International Economics and former assistant U.S. Treasury secretary for international affairs.

The Obama Administration for years has championed the changes, persuading the European Union to adopt them, but some Republicans in Congress are resisting. They say such changes would lessen U.S. influence in the IMF and put more U.S. taxpayer dollars at risk by transferring part of the country's contribution to the fund from an emergency account that the U.S. and other nations must renew every six months to a general account that lacks such protection.

The U.S. is the only large country that has not signed on, and is blocking adoption because of its substantial voting authority.

"The exception to this support, unfortunately, is the United States — our leading shareholder and a founding member," Lagarde said in last week's speech.

Truman partly blames the Obama administration for not making a stronger case to Congress. He says the lack of U.S. support for the measure is impeding U.S. efforts to convince emerging markets to back \$15 billion in IMF loans to Ukraine, which faces bankruptcy and the threat of further Russian incursions.

The stalemate is also eroding emerging markets' already tenuous trust in the IMF, making them less likely to seek IMF financial aid before crises escalate, Truman says.

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