Special Breakfast Meeting with Masood Ahmed (IMF)

"Reflections on the IMF's 2006 Annual Meeting in Singapore"

On October 17, 2006 Bruegel welcomed Mr. Masood Ahmed, Director of the External Relations Department at the International Monetary Fund (IMF). Mr Ahmed discussed the main conclusions and challenges arising from the Fund's recent Annual Meeting held in Singapore on September 19-20, 2006.

One year ago, the IMF published its Medium-Term Strategy, which analysed the future direction of the Fund. Three issues, as highlighted by Ahmed, are fundamental to this strategy: 1) the appropriateness of the IMF's current toolkit for carrying out its different functions; 2) IMF Governance; and 3) the IMF as an organisation – including financing and recruiting.

The meeting in Singapore, however, concentrated on a subset of issues, mainly: 1) IMF quota and voice reform; 2) surveillance; and 3) financing. The first two subjects were the focus of the discussion with Ahmed at Bruegel.

Ahmed began with IMF quotas, pointing out that this reform is a two-year programme with two objectives, namely realigning voting shares with countries' positions in the global economy and increasing the participation and voice of low-income countries at the Fund.

The first step in the process of realignment was agreed upon in Singapore, where members decided to raise the quota for a small group of countries – China, Korea, Mexico and Turkey. In the future, Ahmed stressed, there will be a second round of quota increases. Before further changes in the voting shares, however, there will need to be agreement on a new quota formula. The new formula is expected to appropriately capture the relative position of the different countries in the world economy, but substantial work is needed to achieve an acceptable balance among different economic indicators, particularly GDP and openness. Ahmed cited the intention of the IMF to come up with the basic elements of the new formula in the next twelve months.

Ahmed noticed that, as the Fund proceeds with the realignment of quotas, poor economies could see their share of voting decrease, since they represent a very small proportion of the world economy. Together with the realignment, therefore, Ahmed stressed the importance of the second objective of the reform: protecting the existing shares of poor countries. This is to be accomplished by increasing basic votes and by strengthening the political representation of these countries. These changes, however, require an amendment of the Articles of the IMF Agreement.

The second topic of the Singapore meeting was related to what the IMF does, in particular its surveillance business and its relationship with emerging economies. It was stressed that the Fund needs to exercise stronger surveillance over financial and capital markets in the face of the existing global imbalances and the emergence of new global payers. Ahmed highlighted the role that the IMF can play as a facilitator in discussions among groups of countries, and cited the recent discussions on global imbalances and growth among China, Japan, the EU, the US and Saudi Arabia as an example of the IMF playing such a broker role.

Ahmed also mentioned the call by emerging economies, especially in Latin America, for the IMF to look more closely at its role in crises prevention. These countries, as explained by Ahmed, propose a funding mechanism that makes the flow of resources more predictable for countries that get into financial trouble but that implemented "good" policies. Ahmed reflected, however, on the IMF's experience with contingent credit lines that were never used.

To finish his opening remarks, Ahmed touched upon the third topic of the Singapore meeting and posed a question to the audience: how can the IMF be funded with resources that come from situations in which crises arise, when a primary role of the Fund is precisely crisis prevention?

Before starting the discussion, Pisani-Ferry (Bruegel) asked Ahmed about the implications of an increased focus of the Fund on surveillance on its governance. Ahmed recognised this to be an important issue, but noted that it has not been explicitly discussed by the Fund yet.

A participant referred back to the relationship between emerging economies and the IMF, and asked whether the changes made to the quota system had satisfied Asian countries. Ahmed, in his answer, focused in South East Asia and recognised that, while they see recent changes as positive, they don't see it as enough to make the IMF more responsive to their needs. However, he noted that India and the Latin American countries are the ones with more tension over the current reforms. The concern in Latin America, he pointed out, is that if you apply a new formula, the share of votes of developing countries will decrease. For Ahmed, however, the fact that the US has publicly announced that it would renounce any increase in its shares of votes is a good indicator that the Latin American worry may not materialise. On the other hand, Ahmed described the Indian concern to be about increasing the quotas in two stages, since there may now be less pressure to move on with the rest of the changes after having already changed the quotas for a few countries. Ahmed's counter-argument was that the first stage was needed to create momentum for further changes in the quota system.

Another participant noted that developing countries also complained about the fact that they were the ones largely financing the IMF through interest payments. Ahmed commented that, at the minimum, the share of developing countries will be maintained with the new reforms. About their financing the IMF, Ahmed noted that there are very few programmes with less developed countries – around 31 – and that they are very small. However, he recognised that other programmes, mainly related to crisis resolution, concern emerging economies and, therefore, financing is more an issue for these latter countries.

A further participant asked Ahmed about how Europe will deal politically with the changes in quotas, citing that European countries, overall, are considered to be over-represented at the IMF. Ahmed responded that it is not true that all European countries are over-represented and he listed Ireland and Spain as counter-examples.

The presenter furthered questioned whether Europe, in terms of its overall share of GDP, was hugely out of line.

Pisani-Ferry (Bruegel) followed the discussion by asking Ahmed how much voice the IMF needs to give Asian countries in order to change their attitude towards the Fund. Ahmed responded that only 1.8% of the votes have been shifted, and noted that this was not enough. He also highlighted the need to include a mechanism in the new formula that allows for the regular updating of the shares. Von Weizsäcker (Bruegel), as a follow up, reflected that if the problem with Asian countries is trust, then there needs to be a way of finding out when that trust has increased. Ahmed answered that he did not accept that the objective of the IMF exercise is to increase the trust of Asian countries but to deal with the general anomalies in quotas. He also cited that the fact that China is sitting together with richer countries to discuss global issues is an initial success of trust and that the challenge for the IMF is to see how it can help.

Pisani-Ferry (Bruegel) inquired about the views of the IMF on regional arrangements. Ahmed noted that the IMF has a quite neutral position towards regional agreements – it is willing to support them and, as long as they exist, he considered that regional agreements need to be coordinated. However, Ahmed stated that what the IMF is less sure about is whether, in the future, the world should be organised into regional blocs.

To finalise the discussion, Ahmed posed another question to the audience: How can the IMF better communicate with policy makers now that its business model is changing? While a participant noted that in Africa these dialogues have not worked well, von Weizsäcker (Bruegel) added that since Article 4 consultations are far removed from policy debates, it is not clear what the value added is of such initiatives.