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IMF focus on Europe irks emerging markets

By Claire Jones in Tokyo

Grim view: protesters against the annual meetings of the IMF and World Bank stage a march in central Tokyo

Guido Mantega, Brazil's combative finance minister, is exasperated by the grim predictability of International Monetary Fund and World Bank gatherings. Time and again in recent years the eurozone crisis has dominated proceedings.

"Every meeting that we've had there are the same problems," Mr Mantega told the Financial Times in an interview at the annual meetings of the Bretton Woods financial institutions, which ended in Tokyo on Sunday.

The only difference this time round, he said, was that the rest of the world economy was now suffering the knock-on impact of the crisis.

The IMF's World Economic Outlook, published last week, forecast that Brazil's economy would be among the worst-affected: growth would dip to 1.5 per cent this year, down from a July estimate of 2.5 per cent. The fund also downgraded its forecast for 2013 to 4 per cent, from 4.7 per cent in July. It was a similar story for China and India.

The message in the WEO was that the leading emerging markets already had policies in place to deal with the slowdown, and they did not need to step up their action unless growth was weaker than the fund's current forecasts.

Behind the scenes, however, senior fund officials have criticised the reluctance of some emerging markets – chief among them China – to implement structural reforms. In private, the message was that the slowdown in some emerging markets could not be entirely explained away by the eurozone's failure to get its house in order.

For emerging markets, this has been a disappointing round of meetings. Not only have growth forecasts been downgraded, officials have made scant progress in addressing the perennial problem of these countries' lack of influence over how the IMF is run.

The 2010 quota reforms, which aimed to give the main emerging-market economies more say by handing them a greater proportion of the voting power in the fund's decisions, were due to be ratified at this round of meetings. That failed to happen because some countries, including the US, have yet to implement the reforms.

But Mr Mantegna's gripe is not with the US. He and other emerging-market finance ministers are confident the IMF's largest stakeholder, which also holds the casting vote on most of its big decisions, will eventually sign up.

Instead, Mr Mantega is once again frustrated with European leaders' intransigence – this time over the review of the formula the fund uses to determine quotas.

The IMF's executive must agree on any amendments to the way quotas are calculated before a broader review of governance arrangements in 2014. Emerging markets and the US have long campaigned for a greater weight in the formula to be attached to the size of a country's economy – potentially giving it greater sway in how the fund's affairs are managed. But progress has stalled.

"The agreement was for a change in the formula. Some are now going back on this – especially the Europeans," said Mr Mantega.

Pravin Pravin Gordhan, South Africa's finance minister, voiced concern that the vast majority of emerging and developing countries could lose quota shares, an outcome that he said "will perpetuate the democratic deficit at the IMF board".

Problems persist in Europe, which took centre stage at the Tokyo meetings. But the European Central Bank's programme to buy sovereign bonds – giving it potentially unlimited monetary firepower to bring down short-term borrowing costs – meant there was less sense of impending doom than at previous meetings. Some of the focus has shifted to problems elsewhere, such as the US fiscal cliff, the absence of a plan for dealing with Japan's public debt, set to top 230 per cent of gross domestic product this year, and the slowdown in emerging-market economies.

Mr Mantega supported the IMF's calls for countries in the eurozone and elsewhere to slacken the pace of fiscal consolidation. In line with the fund, he also urged countries not under pressure from markets to use fiscal stimulus to boost their economies.

"Currency wars will continue while the only route for escape being studied is monetary expansion," he said.

But other emerging markets are privately annoyed at what they view as the lax treatment of Europe by the IMF. "Despite their interest in seeing the situation in Europe stabilised, they perceive a double standard at work in the IMF's apparent lenient handling of distressed eurozone economies," said Eswar Prasad, a professor at Cornell University in New York and a former IMF economist.

"Emerging-market policy makers view the exceptional amount of financing provided to eurozone economies like Greece, recent calls to ease up on austerity, and the leniency in dealing with missed programme targets as signs that the IMF remains the handmaiden of advanced economies."