Building on IMF Reform Momentum from Istanbul

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Following the World Bank-IMF annual meetings last week in Istanbul, finance ministers and central bank governors embarked on setting the direction to achieve sustainable globฌal recovery together with reforming the International Monetary Fund, as pushed forward by the G20 Summit in September.

At this juncture, there is no doubt that the global economy is already on the path of recovery. That said, doubts have been raised on the sustainability of such a recovery, as banks' balance sheets in advanced economies will remain the key challenge. Among the global policymakers, the US is optimistic that it has adequate room and tools to implement the exit strategy from unconventional measures at an appropriate time.

Though financial market risks have subsided thanks to unprecedented policy actions, especially in advanced economies, challenges remain on the expected write downs of distressed financial institutions - especially in the US and Europe - and the ability of these institutions to raise new capital. Moreover, there will be the need for regulatory and supervisory reforms to prevent a recurrence of the crisis and the revisiting of effective use of micro prudential and macro prudential measures to safeguard against systemic financial risks in the future.

On reforms of the IMF's governance, the shift in quota share from overrepresented to underrepresented members - namely, dynamic emerging market and developing countries - by at least 5 per cent from the promise in the G20 summit last month was brought to the Istanbul meeting. This is only the first baby step and the next important step will be an establishment of transparent and fair criteria to allocate the quota shift among members. Since the quota share is a zero sum game and not everyone is a winner, the question then centers on who would lose, who would gain and who would gain more, thus making the agreed target of January 2011 quite ambitious and only achievable with strong commitments from overrepresented members.

Unsurprisingly, other IMF governance reform initiatives have remained unsettled. For example, the selection of the managing director, previously done as a gentleman's agreement on nationality, was promised to be made subject to a merit based and transparent selection process. We have to wait until the meeting in Washington DC next spring to see how transparent it is going to be and whether the US will retain its veto power after the promised quota realignment in 2011.

It is hoped that the shift of quota share along with other reforms could raise the voices and representation of emerging markets to make the IMF a more truly global financial institution.

While there is a lot to be done, we can at least see the spirit of international community, as stated by the IMF's managing director, that global cooperation has saved the world from the crisis. Going forward, we hope to see closer and deeper cooperation, not only in bad times but also in good times, as only this will be true evidence of the "real spirit of the international community".

(The views expressed are the author's own.)

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