Lagarde Pushes U.S. Lawmakers to Pass IMF Reforms

BY JAMILA TRINDLE

Congress should pass a package of reforms and funding increases for the International Monetary Fund that have been languishing for four years, IMF Chief Christine Lagarde said Wednesday as she warned that a continued impasse threatens her organization's ability to be the world's first responder in economic crises.

"I would like to add my voice to that of virtually the entire world and certainly the entire IMF membership in calling upon the U.S. Congress to approve the 2010 quota and governance," Lagarde said Wednesday at an event hosted by Foreign Policy magazine, which honored her as its 2014 Diplomat of the Year. The event also featured remarks by Commerce Secretary Penny Pritzker and Fred Hochberg, the president of the Export-Import Bank, whose future is also threatened by Congressional inaction.

Since taking charge of the IMF in July 2011, Lagarde, a former French lawyer and finance minister, has focused on steering the fund through the tumultuous years after the financial crisis. In 2010, the IMF approved a set of reforms that would shift some of the control of the fund's board away from developed countries and give galloping new economies like China more say in the management of the institution. The package of changes would also double the fund's reserves to $755 billion for helping national economies that are on the ropes.

"By design, we are expected to go into the most difficult situation; we are expected to be the first responders," Lagarde said.
The Obama administration pushed for those changes in 2010, but legislation to ratify those changes has been stuck in Congress ever since. The IMF needs the U.S. to pass the legislation to move forward with the reforms, but Republicans worry that the changes would reduce Washington's influence over the IMF while handing more power to China and other powers.

An effort to tie the legislation to an emergency rescue package for Ukraine last spring was jettisoned in the face of strong Republican opposition. House Speaker John Boehner said the IMF didn't need more money to bailout Ukraine's sinking economy, while Texas Republican Senator Ted Cruz said at the time that the reforms "would decrease America's influence at the IMF and perversely would increase Russia's influence in the IMF."

The U.S. is by far the largest stakeholder in the fund, providing nearly 18 percent of the funding and 17 percent of the votes needed to approve the reform.

But Lagarde and other advocates of a strong IMF are worried that the fund - and Western economies that have struggled since the 2008 financial crisis -- will lose its ability to be the first line of defense when countries are headed for economic crisis.

"The failure of the U.S. to stand up and abide by its obligations puts the institution at risk of challenge from other countries," said Douglas Rediker, a former IMF board member and a fellow at the Peterson Institute for International Economics.

Take China. While Congress has sat on IMF reform, Beijing has spearheaded an expansion of multilateral banks controlled by emerging market countries, including a promise of $50 billion for a new Asia Infrastructure Investment Bank. The so-called BRICS bank, officially the New Development Bank, is intended to be a counterpoint to the Western-led IMF and World Bank started by the five large emerging market

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economies, Brazil, Russia, India, China and South Africa. The BRICS bank will like start by ignoring the environmental strictures that the World Bank usually puts on its development projects.

"We're in a very weak place in terms of the projection of U.S. influence around the rest of the world...and I think that's true in the economic sphere as well," said Robert Kahn, a senior fellow for international economics at the Council on Foreign Relations. "It's hard for us to show leadership if we don't deliver on our side of the bargain."

For Lagarde the stakes are very high. And a new set of faces after the midterm election could give her a whole new group of lawmakers to try to convince, even if it doesn't give her any better odds of success.

In a recent interview with the Financial Times she made clear she's willing to do whatever it takes to persuade Congress to finally pass the reform package.

"I spent a lot of time with members of Congress last year trying to show them how ridiculous it is to stand in the way of change. I will keep pushing and pushing on this - I will belly-dance if I have to, to get there."

Chris Maddaloni

**Royals Flush?**

Why Egypt, of all places, is keeping a wary eye on falling oil prices.

BY KEITH JOHNSON

The bears that barged into the oil market and knocked crude prices down one-quarter from their summertime highs appear to be hunkering down for a lengthy stay. Big investment banks, including Goldman Sachs and Barclays, have
just slashed their forecasts for next year's oil price. Energy analysts Wood MacKenzie said Tuesday that a sluggish economy could keep oil benchmark prices around $80 a barrel unless OPEC makes production cuts. That means the oil-price slump of the last four months may not be a bug, but a feature of frothy, oversupplied markets.

That's clearly not good news for some spendthrift oil producers, especially Iraq, Iran, Russia, and Venezuela, whose distorted economies require ever-higher oil prices to balance the budget. But a looming question is how a prolonged drop in oil prices will affect their better-off brethren, especially the rich petrostates of the Persian Gulf.

There are two things to keep an eye on. First, these countries have enormous and costly domestic obligations, like generous energy subsidies and social spending meant to forestall the kind of public discontent that simmered in nearby countries for years and which boiled over in the Arab Spring.

If oil prices keep falling, the Gulf states may also be unable to keep splashing massive amounts of foreign aid to teetering states in the Middle East and North Africa that aren't blessed with bottomless reserves of oil and gas, like Egypt and Morocco. For decades, in some cases, rich Gulf states have propped up distant neighbors, both to parry excessive European influence and to ensure political stability in a region historically lacking it.

That makes the fiscal health of the Gulf states a prime concern for Cairo, Rabat, and Amman -- especially since the economy of the Middle East was wheezing even before oil prices went on a walkabout. The one consolation for Egypt and others is that the core Gulf states are still rolling in cash, which should be just
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The International Monetary Fund said on Monday that the Middle East and North Africa is poised for another year of disappointing growth; Masood Ahmed, the IMF’s Middle East director, warned that even flusher countries like Saudi Arabia could slip into deficits as soon as next year if oil prices stay low. For Gulf countries as a whole, the IMF said, lower oil prices could wipe $175 billion off their projected fiscal surpluses.

That would put additional pressure on those countries to overhaul their unsustainable budgets, which use energy subsidies that encourage waste and which cost governments billions of dollars each year. In Kuwait, fuel at the pump cost just $0.19 a liter before recent reforms; Saudis notoriously leave their cheap but oil-fueled air conditioning running while on vacation.

Indeed, the worse-off countries in the region have already had to go that route. Egypt, Morocco, Jordan, and Tunisia have all recently announced plans to cut energy subsidies to save money. Now, even oil-rich states are mulling similar steps.

Kuwait's finance minister called spending cuts "inevitable" over the weekend, while Oman's finance minister echoed the sentiment, calling subsidies "wasteful" and saying that spending reforms were necessary at a time of falling oil prices. Tiny Bahrain has spent all year trying to roll back subsidies, but faces a great deal of political opposition.
But there is another big potential risk to the region: The budget impacts of falling oil prices could percolate down to countries that don't even export the stuff. Belt-tightening in petrostates, in other words, could curtail the generous foreign assistance that Saudi Arabia, the United Arab Emirates, and others have showered on Egypt, Jordan, and Morocco to keep their economies afloat and stave off the specter of unfriendly governments steeped in Islamist ideology.

For years, Riyadh and other flush capitals in the Gulf have poured billions of dollars into countries across the region. Since the fall of Saddam Hussein in 2003, Jordan has become increasingly reliant on Saudi aid, though the erratic nature of that aid unnerves plenty of folks in the Hashemite kingdom. Jordan and Morocco each got a $2.5 billion pledge last year to help develop their economies and tackle endemic unemployment that could undermine their ruling monarchies. The Gulf states are particularly generous with Jordan because they are trying to help the country deal with the costs of absorbing hundreds of thousands of refugees fleeing the Islamic State's advances in Syria and Iraq.

The Gulf states, Jordan, and Morocco have also discussed trading financial aid for closer military ties. A prolonged slump in oil could force Gulf States to rein in their foreign assistance budgets, some observers fear, with nasty consequences for their neighbors.

"Most of my conversations seem to indicate that it would be the 'far periphery' that gets cut first, likely very soon -- that is, the promised Saudi funding to Jordan and Morocco for their urgent infrastructure and job creation projects," said Christopher Davidson, a specialist on Middle Eastern politics at Durham University and author of *After the Sheikhs.*
He said there are indications that the Saudis have supplied more foreign funding than what appears on official budgets. That means that the "break-even" price for oil could be even higher for Saudi Arabia than public figures suggest, he said. The Saudi Embassy in Washington did not respond to requests for comment.

Perhaps more important is the aid that Saudi Arabia and the UAE have thrown at Egypt to prop up strongman Abdel Fattah al-Sisi since he ousted Egypt's former leader, the Islamist Mohamed Morsi. Together, the Saudis and Emiratis have pledged $20 billion to keep Egypt's economy from flatlining, and have so far delivered almost $17 billion, including cash and oil products.

Moody's Investors Service, a debt-ratings agency, recently revised its outlook for Egypt upwards from negative to stable and said that external aid from the big Gulf states was one of the main drivers of the improvement. The aid initially helped compensate for Qatar's withdrawal of financial support for Egypt (it had backed Morsi) and later helped forestall a massive energy crunch.

"Taken together, they've played an important role in shoring up confidence and giving the government some breathing space to start enacting reforms," Steffen Dyck, Moody's lead Egypt analyst, told Foreign Policy. Egypt slashed fuel subsidies in the summer, and just laid out ambitious plans to overhaul tax collection and other areas of its struggling economy.

U.S. Treasury Secretary Jack Lew, in Cairo Monday, praised those reforms, but stressed that external assistance, including aid from the United States and multilateral financial institutions, is still key to helping Egypt get back on its feet and attract more private investment.
For Sisi, overflowing Gulf coffers after a decade of relatively high oil prices are welcome news. The six states of the Gulf Cooperation Council -- Bahrain, Kuwait, Oman, Saudi Arabia, Qatar, and the Emirates -- together have about $2.5 trillion stashed away. Saudi Arabia alone has more than $740 billion, while Kuwait more than half a trillion dollars in reserve. People close to the UAE stress that the Emirates is not in danger of a cash crunch anytime soon: It has massive oil reserves, low oil-extraction costs, and the world's biggest sovereign wealth fund.

That, plus the existential risk that an imploding Egypt would pose should keep Gulf checkbooks from slamming shut anytime soon.

"They know Egypt is too big to let it fail, and that's why there's a commitment to support it," Dyck said. "I don't think the three countries that are the main supporters are facing any critical pressure yet from falling oil prices."

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