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EU Loans to IMF May Open Door to Funds From Brazil, China

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By *Sandrine Rastello*

(Updates with comments from South Korea and China starting in third paragraph.)

Dec. 9 (Bloomberg) -- An agreement by European Union leaders to boost the International Monetary Fund's resources may open the door to similar loans by nations from South Korea to Brazil in a global effort to stem the European debt crisis.

European leaders meeting in Brussels agreed to make bilateral loans to the IMF of as much as 200 billion euros (\$267 billion) and bowed to European Central Bank demands for a tightening of anti-deficit rules. The move raises the odds for aid from Group of 20 nations, which held back last month because they said Europe wasn't doing enough to help itself.

"We can contribute if some conditions are met," Sohn Byung Doo, director general of the G-20 bureau at South Korea's finance ministry, said in a telephone interview today. "We're closely watching the final outcome of the European leaders' meeting" and will be looking for a workable plan that can restore market confidence, he said.

Using the IMF as a conduit for aid for developed euro-region nations may help damp any domestic criticism in poorer emerging markets, in particular if the deal involves a greater say for poorer countries in international economic dialogue, analysts said. With Europe's crisis hurting exports from Japan to Thailand, outside regions have an incentive to help stem the damage to global markets.

Scope of Resources

Fresh money from the G-20 would enable the fund to help euro-region nations such as Italy and Spain, while also hold enough in reserve for countries outside the 17-member bloc.

"I appreciate this demonstration of leadership from Europe and I'm hopeful that others will also do their part," Christine Lagarde, the IMF's managing director, said of the EU pledge after 12 hours of talks overnight in Brussels. "These resources will enhance the IMF's capacity to fulfill its systemic responsibilities in support of its global membership," she said.

China, which holds the world's largest foreign-exchange reserves, reiterated its willingness to help, while stopping short of any indication of when it's prepared to announce an IMF contribution.

China has "noted that European countries have put forward important proposals to deal with the debt crisis," Foreign Ministry spokesman Hong Lei told reporters in Beijing today. The EU has the "wisdom and capacity to overcome" the debt crisis, he said. "We are always confident."

Process for Contribution

The constraint for increased Chinese credit to the IMF isn't in Beijing, but in setting a process for countries to make their contributions, said Zhang Zhiwei, chief economist for China at Nomura Holdings Inc. in Hong Kong, who previously worked at the IMF.

"It's more about the procedure" at this point, Zhang said in a telephone interview today. "We need a more visible solution that can make the IMF and member countries feel comfortable that problems can be contained if we follow this path. I'm not quite sure we're there yet."

The EU contribution to the fund will be confirmed within 10 days, Lagarde told reporters today. She has indicated that the \$390 billion the IMF currently has available may not suffice to meet loan demands should the global outlook worsen.

Brazilian Finance Minister Guido Mantega yesterday repeated his country's willingness to lend to the IMF, on the condition that European nations do the same.

Brazil's Take

"We will do something that will be arranged together with China, India and Russia," Mantega told reporters in Brasilia. Mexican central bank Governor Agustin Carstens last week said his country was also willing to help.

The aid may come with a catch: Brazil and other fast-growing developing nations are seeking a greater voice at the Washington based IMF, which was set up at the end of World War II to help ensure stability of the global monetary system. The fund has participated in bailouts of Portugal, Ireland and Greece in the past 19 months.

The G-20 comprises the world's leading industrial and developing economies accounting for about 85 percent of global gross domestic product.

Emerging markets, which are growing twice as fast as their developed counterparts, say that their voting power at the IMF doesn't fully reflect their weight in the global economy. They also want to end the tradition that has always placed a European at the head of the institution.

Draghi on Board

In an accord hailed by ECB President Mario Draghi, the EU Leaders laid out a new "fiscal compact" to prevent future debt run-ups and accelerated the startup of a planned permanent 500 billion-euro rescue fund.

U.S. stock futures briefly rose after European Central Bank President Mario Draghi said leaders have laid out a new "fiscal compact" to fight the debt crisis. Futures on the Standard & Poor's 500 Index rose 0.6 percent before trading little changed.

Support for increasing IMF resources as a way to aid Europe gained momentum during the G-20 summit in Cannes last month, with officials from the U.K., Australia and Russia saying they were ready to participate while making sure the fresh cash would be used to help all IMF members.

Leaders failed to agree on a package as they awaited details on Europe's plan, saying they would ensure the IMF "continues to have the resources" to play a role.

Second Round

Such a move would be similar to a G-20 decision in April 2009 to triple the fund's resources as part of plan to pull the world out of recession. At the time, the U.S. and Japan each contributed \$100 billion, the EU \$178 billion and China \$50 billion.

Any increase this year would likely occur without the U.S., the largest shareholder in the 187-member IMF with about 17 percent of votes, because Congress would not support it, said Eswar Prasad, a senior fellow at the Brookings Institution in Washington and a former IMF economist.

U.S. lawmakers including Senator Jim DeMint, a South Carolina Republican, and Representative Cathy McMorris Rodgers, a Republican of Washington state, have expressed opposition to any U.S. participation in European bailouts.

U.S. officials "may not be wildly enthusiastic at this stage, but I don't think they would oppose a move if Europe and a bunch of emerging markets" decide to increase IMF contributions, Prasad said.

A Treasury Department official, speaking on condition of anonymity last week, said the U.S. has no plans to make bilateral loans to the IMF, saying the fund has ample resources.

--With assistance from Arnaldo Galvao in Brasilia, Shamim Adam in Singapore, Rebecca Christie and James G. Neuger in Brussels. Editors: Christopher Wellisz, Chris Anstey

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