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Eurozone officials push €150bn IMF loan deal

By Alan Beattie in Washington, Peter Spiegel in Brussels and Ralph Atkins in Frankfurt

Eurozone authorities are pushing for a deal to lend about €150bn to the International Monetary Fund, a boost which would give it more firepower to help with the eurozone debt crisis.

At a meeting of senior officials on Wednesday night, eurozone governments signalled proposals for €150bn in bilateral loans, expected to come through their central banks, which they said could be augmented by another €50bn from outside the eurozone. Denmark, a non-euro country, said on Thursday it would contribute €5.4bn through its central bank.

But the German government has not yet given its final approval for the move. A senior German official said Berlin wants to ensure that a leveraged €440bn eurozone rescue fund is up and running before considering new IMF resources, adding that even if new IMF funding is needed, Berlin is not prepared to finalise any package by the end of the summit on Friday. The official said the German government must also consult the Bundestag first.

According to a draft of the summit’s conclusions distributed to European Union leaders at the start of the gathering and obtained by the Financial Times, the eurozone would allow the existing €440bn rescue fund to continue operating when a new €500bn fund comes into existence next year – increasing the bloc’s own resources significantly. However, Berlin remains opposed.

The European Central Bank and the Bundesbank have opposed the principle of eurozone central banks lending to the eurozone via the IMF, which they say violates ECB prohibitions on directly financing governments. But Mario Draghi, ECB president, and Bundesbank officials on Thursday signalled that they might accept central banks lending to the IMF, as long as the money went to the IMF’s “general resources account”, which can make crisis loans to any member government, rather than earmarking it for the eurozone in a special IMF-run trust fund.

“The money must go to the general IMF account,” a Bundesbank official said. “A special account for eurozone countries would equate to a financing of member states.”

Such a distinction would make little difference in practice, as money is fungible and the eurozone has by far the highest funding needs of the IMF’s members but it could provide the ECB and eurozone national central banks with a legal figleaf. Lending via the IMF would transfer the credit risk of lending to European governments from the central banks to the fund.

New IMF funds would strengthen the eurozone’s long-sought “bazooka” alongside the bloc’s own rescue funds, since it would probably be used for potential aid to struggling eurozone countries, such as Spain and Italy. The IMF has about €290bn in financial firepower, which would make only a modest contribution to a large-scale bail-out for Italy and Spain. The fund declined to comment on the financing proposals on Thursday and reiterated that it has not been in discussions with Italy or Spain about a crisis lending package.

The US has consistently said the IMF has ample resources for the moment and has no plans to put any fresh money into the fund. But IMF experts said Washington was unlikely to stand in the way if the eurozone authorities wanted to boost the fund’s spending powers. Emerging market countries such as Brazil and China have also said they would assist the eurozone by lending more to the IMF. Guido Mantega, Brazil’s finance minister, repeated that promise on Thursday. “We will do something that will be arranged together with China, India and Russia,” Mr Mantega said. “It will be through the IMF.”

IMF finances were boosted by bilateral loans from some member governments in 2009. IMF member governments agreed an increase last year in their regular so-called “quota” contributions to the fund, which have yet to materialise. The US administration – whose contribution is necessary for the general increase in resources to go ahead – has yet to submit its funding request to the US Congress, having faced sharp criticism on Capitol Hill for financing European bail-outs.

IMF experts said Japan and emerging markets could match money pledged to the IMF by European central banks. Talks have focused on a total contribution from Europe of up to €150bn, and an increase in total IMF firepower, once boosted by other countries, of about €400bn. The hope is that such an addition to IMF resources might convince the markets that the firepower of the IMF would augment that of the European authorities into a credible backstop in the short term.

Professor Eswar Prasad of the Brookings Institution think-tank said the advantage of IMF involvement both in financing and in setting conditions for Italy to follow would be to boost the acceptability of the difficult decisions on austerity and reform.

"If the IMF is in charge, there would be a more credible programme," he said.

Additional reporting by Quentin Peel and Chris Giles