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Emerging markets eye boost for IMF

By Alan Beattie in Washington and Alex Barker in Brussels

Emerging market countries are working on ways to contribute money rapidly to expand the effective firepower of the International Monetary Fund, with the aim of increasing its role in fighting the eurozone sovereign debt crisis.

The talks, which run in parallel to discussions in the eurozone about creating a bigger “bazooka” to intervene in financial markets, are aimed at producing a confidence-boosting announcement by the Group of 20 heads of government summit in early November in Cannes, France.

People familiar with the negotiations said governments were considering either funding an IMF-run special purpose vehicle (SPV) or lending to the IMF by buying special bonds. Although details have not yet been worked out, the increased firepower could be used to finance IMF credit lines to prevent financial contagion from the Greek crisis spreading to Italy and Spain, or to recapitalise European banks.

A European official said: “We’re increasingly coming to the view that the eurozone crisis is too big a problem for Europe to solve on its own. If you want to sort it out properly you need American and Chinese money, which means the IMF.” The IMF declined to comment.

The size of the funding plan is still under discussion but any lending facility making a significant impact on the eurozone crisis will need to run to hundreds of billions of dollars. Such a move would also be likely to give the IMF a stronger say in shaping eurozone rescue plans.

In practice the US may have difficulty contributing on a large scale, but people familiar with the talks said China and Brazil – one of the driving forces behind the plan – had already shown interest. Guido Mantega, the Brazilian finance minister, mooted the general idea of assistance from the Bric (Brazil, Russia, India, China) countries to Europe at last month’s IMF meetings in Washington.

IMF staff have produced options at the behest of emerging market governments, with two which are most likely. One is an SPV which would lend money under the auspices of the fund and be governed by the IMF’s executive board but would take in money separately to the normal government contributions to the IMF. Another option is to repeat a procedure used early in the global financial crisis, when emerging market governments pledged to buy special bonds issued to them by the IMF.

Eswar Prasad, formerly head of the IMF's China division, said the proposals would allow big emerging market countries to help bail out Europe without buying eurozone sovereign bonds directly, which would expose them to loss. The plans could also be wound up after a few years. "The emerging markets have now found ways of donating money to the IMF which are likely to be domestically politically acceptable," Mr Prasad said.

Another person familiar with the talks said the money could be used for public bank recapitalisation. "This solves the ownership problem of China buying big stakes in a European bank," he said. "Instead China gives money to the IMF; the IMF to France; and France to its banks".