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IMF requests \$500bn for bail-out loans

By Alan Beattie in Washington and Peter Spiegel in Brussels



The International Monetary Fund has asked its member countries for an extra \$500bn in firepower to combat the world's spreading fiscal emergencies, which it estimates will generate demand for bail-out loans totalling \$1tn over the next two years.

The estimate was presented by Christine Lagarde, IMF managing director, to the fund's executive board this week, according to people familiar with the discussions, and would most likely be financed by voluntary ad hoc loans rather than mandatory contributions. The IMF currently has \$387bn in available resources.

Eurozone countries last month pledged about \$200bn to the IMF, which will count towards the new goal. But with the US unwilling to contribute and the UK reluctant, much of the remaining commitments will have to come from large developing countries.

“The IMF cannot substitute for a robust euro area firewall,” the US Treasury said in a statement. “We have told our international partners that we have no intention to seek additional resources for the IMF.”

US and EU officials have also been wary of soliciting funds from China. US and European officials are concerned Beijing will seek geopolitical concessions, such as a lifting of arms embargoes imposed after the 1989 Tiananmen square massacre, in return for aid.

After weeks of European debate over a new fiscal discipline treaty demanded by Germany, the focus is shifting to so-called “firewalls” needed to slow the spread of

financial panic across the eurozone. Mario Monti, the new Italian prime minister, wants to increase the firepower of the eurozone's own €440bn rescue fund – a topic that could be discussed at an emergency EU summit this month.

Osborne set for UK clash over IMF funds

George Osborne, UK finance minister, is braced for a battle with Conservative backbenchers after the IMF asked member countries for an extra \$500bn in firepower.

The bulk of those funds is likely to support indebted eurozone countries, prompting some Tory MPs to warn British money should not be used to prop up what they regard as a failing single currency.

Mr Osborne has refused to say how much Britain might contribute, but eurozone members want the UK to put in around €30bn out of an overall EU package of €200bn.

That exceeds the £10bn of additional British support MPs approved for the IMF last July. Mr Osborne has said he is willing to return to the Commons for permission to make a bigger contribution in the context of a global agreement.

"It is the economics of the Mad Hatter's tea party and it beggars belief that the Treasury would go along with this," said Douglas Carswell, a Tory backbencher. "George Osborne needs to get a grip."

Philip Davies, MP for Shipley, added: "If George Osborne is so convinced it is a good idea, I

Last week Standard & Poor's downgraded the debt of more than half of all eurozone countries, leading to sell-offs in some sovereign bonds, especially Portugal's. Worries that Greece may default on a €14.4bn bond repayment due in March has also sparked market jitters, though a deal to avert a default appeared close last night.

People familiar with discussions on the IMF's 24-member executive board, representing the fund's shareholder countries, said the US was the most sceptical about the request. While some big emerging markets such as Brazil and India were more supportive, they emphasised Europe should take the lead in financing its own rescues. The UK took a moderate position, with the eurozone countries the most enthusiastic.

The IMF, in a staff paper presented to the board, did not specify where the demand for \$1tn in new bail-outs would come from. But eurozone countries are likely to account for most of it – in which case, the IMF paper says, European countries should fund the rest of the \$1tn bailout as well as contributing via the fund.

An extra \$1tn could fund an IMF contribution to reasonably-sized lending programmes for Spain and Italy, if necessary. Because the IMF needs to keep a cash buffer on hand, IMF members would have to contribute \$600bn to increase firepower by \$500bn.

Eswar Prasad, a fellow at the Brookings Institution think-tank and former head of the fund's China division, said: "The IMF is making a concerted attempt to transform itself into a deep-pocketed, credible loanmaster and disciplinarian for economies of any size that find themselves in economic distress."

hope he will invest his family fortune in it.”

The last time MPs voted on what the UK gives to the IMF, more than 30 Tories lined up with Labour to oppose the move and the government won by only 28 votes. Mr Osborne expects Ed Balls, shadow chancellor, to sign up this time, a stance privately confirmed by one Labour frontbencher.

The President Barack Obama’s administration would face Congressional opposition in any attempt to increase its IMF contribution. While the UK has shown more willingness to co-operate, the country’s coalition government has faced resistance from within both the ruling Conservative party and from the Labour opposition to financing eurozone bail-outs.

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