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IMF seeks $250bn boost to resources

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Published: July 18 2010 22:35 | Last updated: July 18 2010 22:35

The International Monetary Fund is seeking commitments by as early as November to boost its lending resources to $1,000bn from $750bn to build **safety nets** that could prevent financial crises.

Instead of responding solely to crises with conditional loan packages, the IMF wants financing agreed in advance and specially tailored to individual countries, to cool market nerves over any nation facing an imminent liquidity crunch.

“Even when not in a time of crisis, a big fund, likely to intervene massively, is something that can help prevent crises,” Dominique Strauss-Kahn, the IMF managing director told the Financial Times. “Just because the financing role decreases, doesn’t mean we don’t need to have huge firepower ... a $1,000bn fund is a correct forecast.”

South Korea, as this year’s president of the Group of 20 leading economies, is helping craft the plan. Seoul hopes to convince the G20 countries to back the increased IMF funding at **a summit in South Korea in November**. The G20 meeting in London in 2009 tripled IMF resources from $250bn. A US official said Washington was sympathetic to improved safety nets but needed more details on the Korean-IMF plan.

South Korean economists forged the plan because of their own bitter experience of their currency and stock market plunging in 2008. In spite of robust economic fundamentals, Seoul needed to be rescued from a dangerous liquidity shortfall by swaps from the US, Japan and China.

To avoid a repetition of this, markets need to know there are pre-arranged facilities at the IMF backing a country up, said Shin Hyun-song, adviser on international economy to South Korea’s president.

“This is meant to mitigate the type of liquidity spiral that we saw after the Lehman episode of 2008,” Mr Shin said.

He said a “global stabilisation mechanism” being discussed could involve drawing up a risk curve for nations, with the least risky enjoying a status akin to platinum or gold credit card holders. These would be entitled to financing such as the IMF’s flexible credit lines, already used by Mexico, Poland and Colombia. They could be deployed before a crisis struck and would impose practically no conditions.

Countries further down the curve would face tougher conditions. Loans to them would be called “precautionary credit lines”.

Still, Mr Shin added that tighter regulation would be needed to avoid the **moral hazard** of countries taking greater risks because of the safety net. He also said discussions would need to resolve how not to put certain countries in speculators’ sights by revealing that they only had second tier protection.

Eswar Prasad, a former head of the IMF’s China division and a professor at Cornell University, said this new lending scheme could simply shift the problem “from one place to another” and doubted that the plan would encourage many emerging markets to cut back their bumper reserves.

“If you have a country that is on the brink of trouble and the IMF says it does not qualify, then it will undoubtedly come under more pressure,” he said.

Mr Shin stressed the plan should still be complemented by the type of swaps that had proved so valuable to South Korea in the past.