

The IMF's search for funds

Promises, promises

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Politics influences fulfilment of the G20's funding pledges

MUCH has changed for the IMF as a result of the financial crisis. The G20 summit in London in April promised a tripling of its lending capacity. Long known for championing fiscal stringency, the fund has recommended that Tanzania and Mozambique consider countercyclical fiscal expansions. Mexico, Colombia and Poland have been enticed to sign up for its new precautionary lines of credit. Another first is now well on the way, as the IMF prepares to issue its own bonds.

The bonds have aroused a flurry of interest from emerging markets. The fund announced on June 9th that the Chinese authorities had signalled their intention to invest up to \$50 billion in its notes. On June 10th Brazil's finance minister said the country was interested in bonds worth \$10 billion. Russia had previously said that it was eyeing a similar amount. According to the fund, the bonds will give emerging economies access to "a safe investment instrument with reasonable return".

As big an attraction, argues Eswar Prasad, a Cornell University professor who once headed the fund's China desk, is that the bonds would count as foreign reserves, allowing emerging economies to exchange one reserve asset for another with no budgetary impact. IMF notes denominated in Special Drawing Rights, the fund's quasi-currency, would provide their buyers with a new way to diversify the composition of a small part of their reserves away from the American dollar. Russia's central bank confirmed on June 10th that it may shift some of its reserves from Treasuries into IMF bonds.

Reuters



Redefining collateral damage

Politics, inevitably, also plays its part. Contributing to the fund gives countries a louder voice in its decision-making. But by choosing to buy bonds, rather than making a more conventional longer-term loan to the IMF, these countries may also be signalling that they want faster progress on a planned overhaul of emerging economies' voting rights within the institution.

Concerns over governance also complicate the picture in the rich world. In America, voting in the House of Representatives on a bill that appended the country's promised \$108 billion contribution to the IMF to funding for

the country's war efforts in Iraq and Afghanistan has had to be postponed, in spite of strong backing from the White House and the Treasury.

Opposition to the bill comes partly from anti-war Democrats. But Republicans dislike the idea of money being set aside for the IMF to spend on other countries when America has so many economic woes of its own. The idea that IMF funds could end up helping western European banks exposed to eastern Europe is another gripe. The administration is working hard to win over the naysayers on its own side. And bumps in the road are not that surprising. Despite the united front at the G20 bash, multilateralism remains a hard sell when the time comes to stump up.

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