

IMF approves new fund for emerging markets

(Advertisement)

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 **REUTERS** Lesley Wroughton

The International Monetary Fund on Wednesday approved a new short-term financing facility for emerging market economies that have a good economic track record but may be having difficulties accessing credit.

"Exceptional times call for an exceptional response," said IMF Managing Director Dominique Strauss-Kahn. "The IMF will respond to this crisis with all the necessary financing," he said in a statement announcing the action.

The package will be available to pre-approved countries that will be eligible for an unusually high level of funding and no conditions once they have been selected.

Countries will be allowed to draw up to five times their IMF quota, which is broadly determined by their economy's size. Under normal lending programs, member countries are allowed to tap up to three times their quota.

"We are prepared to use our own resources and to work with others to generate additional resources to make sure that countries have the money they need to restore confidence and maintain stability," Strauss-Kahn said.

During a news conference, he declined to name any candidates for the new facility and said if a country applied for funding, it would be done confidentially.

He said, however, at a reporter's prodding that a country like Argentina lacked the qualifications for eligibility.

Asked whether Argentina would qualify, Strauss-Kahn said the "conditions include having a very strong track record and strong policies in the past" for at least some period of time.

"I'm afraid the country you mentioned ... will not be eligible for the facility," he added.

IMF First Deputy Managing Director John Lipsky said the IMF fully expects countries to make use of it.

"We won't judge it in the short term by its use, but we would expect in the current context it will be used and we will review it over time," he said.

For many countries, the issue is that they cannot quickly access the capital they need because banks have hoarded money and refused to lend to each other.

"The ongoing turmoil in global capital markets has led to significant liquidity difficulties for some emerging market countries, even those that have maintained sound macroeconomic frameworks," Strauss-Kahn said.

GAP IN IMF TOOLKIT

The new facility provides financing to countries that don't need to adopt the standard IMF lending program, and are suffering from short-term liquidity pressures through no fault of their own.

"This new facility addresses that gap in the Fund's toolkit of financial support," he added.

The U.S. Federal Reserve announced on Wednesday, in a separate action, that it had set up temporary currency swap lines with Brazil, Mexico, South Korea and Singapore to provide them with dollar liquidity of up to \$30 billion each.

Strauss-Kahn acknowledged the IMF may need more resources if it is to be an effective global lender of last resort.

"In the crisis we are living now, we probably will need more resources," Strauss-Kahn said.

He said it was important the IMF was able to support emerging market economies at a time that they are the most important sources of world growth.

"We have a need to support growth in the world and to have some budgetary support to countries that have planned a balanced budget, but are unable to go on because of the slowdown in the world economy," he said, "In this case, the resources of the fund may not be enough."

Eswar Prasad, economics professor at Cornell University and a former IMF official, said the facility would make the IMF more useful to emerging market economies. But he worried whether the fund had enough resources.

"It makes countries a little more willing to approach the IMF," Prasad said, "But if countries do start relying on this liquidity facility, the IMF is going to run short of capital very quickly," he added.

