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European Stocks Decline as Fed Sees ‘Significant’ Global Economic Risks

By Sandrine Rastello - Sep 24, 2011

The International Monetary Fund’s $384 billion lending chest may not be enough to meet all loan requests if the global economy worsens, Managing Director Christine Lagarde said.

“The fund’s credibility, and hence effectiveness, rests on its perceived capacity to cope with worst-case scenarios,” Lagarde said in an “action plan” distributed to the IMF steering committee today. The current lending capacity “looks comfortable today but pales in comparison with the potential financing needs of vulnerable countries and crisis bystanders.”

Tripling IMF resources was part of the Group of 20 leaders’ response to the global recession in 2009. As the European debt crisis threatens to spread and further damp the global recovery, the IMF was asked by its steering committee today to review whether its resources are sufficient.

“The IMF has a limited financial ability to staunch an escalation of the crisis that envelops major European economies like Spain and Italy,” said Eswar Prasad, a senior fellow at the Brookings Institution in Washington and a professor at Cornell University in Ithaca, New York.

At the same time, “the current economic and political climate in advanced economies makes it highly unlikely that they are in a position to provide additional resources to the IMF,” he said.

BRICS Support

Finance officials from Brazil, Russia, India, China and South Africa -- the so-called BRICS -- said in a Sept. 22 statement they are “open” to contributing to global financial stability through the IMF or other international financial institutions.

It is too early to say what the BRICS can do to help Europe, where nations need to put into place the measures they agreed to in July to enhance their bailout fund, Chinese Central Bank Governor Zhou Xiaochuan said in Washington today.

He earlier said in a speech that IMF available resources “may not be adequate to meet the potential needs of the crisis- hit countries.”

U.S. Treasury Secretary Timothy Geithner today did not mention IMF resources as an issue, saying member countries have “acted decisively to give the Fund the resources and facilities to respond to crises.”

The Washington-based IMF, which is contributing to bailout packages for Greece, Ireland and Portugal along with the European Union, said today it “stands ready to strongly support” efforts of the euro region to solve the debt crisis.

Emergency Lending

The IMF board this week already extended the activation of its emergency lending pool for six months.

“The fund will be here,” Lagarde told reporters at a press conference in Washington today.

She also said the fund will review the types of loans and credit lines members can request.

IMF staff have been working on a potential new credit line to respond to short-term liquidity needs as part of its efforts to support countries before crises develop.

German Finance Minister Wolfgang Schaeuble told the IMF steering committee today said he is open to discussing the idea of a short-term credit line within the IMF precautionary toolkit.

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