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Cameron risks ire over extra IMF cash

By George Parker in London and Alan Beattie in Washington

David Cameron has left open the door to Britain giving billions of pounds of new support to the International Monetary Fund – and indirectly to ailing members of the eurozone – in a move likely to infuriate eurosceptic MPs in his own Conservative party.

The prime minister's move would be welcomed by France and Germany but would be subject to a fraught parliamentary vote in the UK; the last time Mr Cameron sought MPs' permission to increase Britain's IMF contributions, 30 MPs from his own party joined forces with Labour to oppose it.

Mr Cameron's team stress that no decision has been taken to increase Britain's contributions beyond the £10bn approved by MPs in that vote last July. Indeed the prime minister told the Commons in November: "What we anticipate doing would be within that headroom."

But government insiders say the situation could change, if Japan and other leading countries such as China and Brazil decided to increase their support for the IMF to help it deal with the eurozone crisis. "Things could come to a head at the G20 finance ministers meeting next month," said one.

Britain is already under pressure from eurozone countries to increase its IMF commitments by about €30bn as part of a European package of new resources.

Eurozone members have already committed to €150bn, but Mr Cameron has so far refused to join in. However, he has left open the possibility of Britain doing more as part of a global package.

New resources for the IMF would supplement a war chest of about $384bn, which is too small for a large-scale rescue package for both Spain and Italy. Any fresh round of financing would almost certainly be agreed on an ad hoc basis; the US has already ruled out taking part.

IMF experts stressed that raising new contributions from outside Europe, particularly tapping the huge foreign exchange reserves of countries such as China and Brazil, would depend on the eurozone committing to sustainable economic strategies for its troubled countries.

“There is a rising concern among the emerging markets that Europe is trying to pull a fast one, getting the IMF to take the risk of lending to eurozone governments on its behalf,” said Eswar Prasad, former head of the IMF’s China division and a fellow at Washington’s Brookings Institution think-tank.

In 2009, the UK and US led the last drive for an international round of financing contributions, which eventually raised a total of over $500bn in ad hoc loans to the IMF under the so-called “new arrangements to borrow” (NAB) mechanism. The loans were intended to be temporary, and would be replaced by more permanent contributions under the IMF’s normal “quota” system – which also determines how many votes each IMF member government has on the fund’s executive board.

But rising opposition in the US Congress to funding bail-outs for the eurozone – even though IMF contributions have no budgetary cost – mean that the temporary NAB mechanism has thus far had to be rolled over rather than replaced with the permanent quota contributions.

Cathy McMorris Rodgers, the Republican congresswoman who has led the campaign in the House of Representatives against US financing for the IMF, told the FT: “There is no reason why countries such as America and Great Britain – which are facing their own fiscal crises – should have to bail out the eurozone.” Ms McMorris Rodgers said that while she had not had direct contact with UK MPs on the issue, “bail-out fatigue” was evidently spreading internationally.

Downing Street and Treasury officials say no new global package is yet in sight. IMF experts say other countries share Britain’s concerns that the eurozone needs to do more to help itself, including speeding up work on building a firewall through a new EU bail-out fund.

Asked whether Britain would go beyond the £10bn approved by parliament, Mr Cameron’s spokesman said: “There isn’t a proposal to do so at the moment, but I’d expect the issue of resources to be discussed in February at the G20 finance ministers' meeting."

Many Tory MPs believe Europe is capable of sorting out its own crisis. Peter Bone, a Conservative eurosceptic MP, said on Sunday that "enough is enough" and that Tory MPs would be more inclined to increase IMF support if it were to help countries such as Greece to adjust to life outside the eurozone.

A higher UK contribution to the IMF would also pose a dilemma for Labour. Ed Balls, shadow chancellor, led his party's opposition last July, saying the eurozone needed to do more to help itself first. Mr Cameron accused Mr Balls of opportunism in siding with Tory eurosceptic MPs; the government won the vote by 274 votes to 246.

Mr Balls wrote to the Financial Times last November he did not oppose higher IMF contributions per se, but "there should be no IMF funding to plug the gap in the eurozone's bail-out fund and do the job the ECB should be doing".