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I.M.F. Seeks $500 Billion More to Lend as It Plans to Cut Growth Forecast

By ANNIE LOWREY

WASHINGTON — The International Monetary Fund announced Wednesday that it was seeking as much as $500 billion more to lend as it prepared to slash its forecasts of global growth.

The fund, based in Washington, estimated that the world would need $1 trillion in the coming years for loans to countries with short-term difficulties paying their bills or because of concerns about prospective trouble in the volatile bond markets.

Given that the fund has unused lending capacity of about $380 billion, it said it would seek to raise as much as $500 billion in new money to lend, plus $100 billion as a cash buffer. The new money includes $200 billion that European Union countries committed in December.

In meetings of the fund's executive board this week, many participants "stressed the necessity and urgency of collective efforts to contain the debt crisis in the euro area and protect economies around the world from spillovers," Christine Lagarde, the fund's managing director, said in a statement Tuesday.

A participant in the discussions said fund officials had also called on Europe to approximately double its firewall to $1 trillion, to ensure that all euro zone countries retain access to the debt markets at sustainable rates.

The temporary and permanent European bailout funds, which can provide loans to countries and intervene in the debt markets to keep interest rates at manageable levels, are capped at 500 billion euros, or $636 billion, in lending capacity. The participant spoke on condition of anonymity to avoid disrupting the negotiations.

The International Monetary Fund made its announcement as it prepared to cut estimates of global growth in 2012 — with economists warning not just about the effects of a possible double-dip recession in Europe, but also about new troubles in the emerging economies, including Brazil, India and Turkey, that have helped drive the global recovery.

David Lipton, the first deputy managing director of the fund, cautioned that the economic situation “remains more dangerous than ever” in a speech Monday in Hong Kong. “The near-term outlook has deteriorated noticeably relative to our September projections,” he said. “And worse, the downside risks that we identified then have started to materialize during the last part of 2011.”

Echoing the fund’s concerns, the World Bank cut its global growth forecasts in a twice-yearly report released Tuesday. “An escalation of the crisis would spare no one,” Andrew Burns, manager of global macroeconomics and lead author of the report, said. “Developed and developing country growth rates could fall by as much or more” than in 2008 and 2009, he said.

The fund faces the prospect of a major European country being shut out of the global debt markets, an event that might ignite a second global recession. It also faces the possibility of developing countries seeking its aid when its resources have been deployed in Europe.

“Circumstances have changed,” said Eswar S. Prasad, a professor of trade policy at Cornell University and a former I.M.F. economist. “It is becoming clear that Europe is in deep trouble. The second and more important aspect is that there continues to be increasing pressure on other countries, especially emerging-market countries. There has been a flight to safety.”

Bond yields have risen for countries like Brazil, Turkey and India, with investors preferring the safety of the dollar or yen. And capital flows have reversed. According to the World Bank, investors poured $309 billion into developing countries in the second half of 2010. By the second half of 2011, that number had shrunk to $170 billion.

“That makes developing economies very vulnerable,” Professor Prasad said, adding that in normal economic times such countries would be “just fine.”

Additional financing might bolster the fund’s ability to aid Europe, though even with $1 trillion in available financing, it would not have the resources to help big countries like Italy or Spain. Therefore, during the executive board meetings, the fund urged Europe to double its own firewall. The participant in the meetings said that the fund identified needs for about $2 trillion in global financing, and said about three-quarters of the need was in Europe. Non-European members insisted that Europeans take the lead in providing money for Europe, the participant said.

But the additional financing would significantly bolster the monetary fund's ability to help smaller countries and the "innocent bystanders" that might be hurt by the euro zone crisis.

The markets cheered the fund's announcement. The euro climbed in value against the dollar, and stocks rose in New York and London.

Still, the fund might face resistance to expanding its lending capacity. The United States, which holds the biggest voting share in the fund and is the only country with an effective veto on major decisions, has insisted it will not pour any more resources into the monetary fund.

"We continue to believe that the I.M.F. can play an important role in Europe, but only as a supplement to Europe's own efforts," Kara Alaimo, a Treasury spokeswoman, said Wednesday in response to the announcement.

"Europe has the capacity to solve its problems," Ms. Alaimo said. "The I.M.F. cannot substitute for a robust euro area firewall. We have told our international partners that we have no intention to seek additional resources for the I.M.F."

Moreover, Ms. Lagarde's announcement indicated that though "many" executive board participants supported supplanting the fund's lending capacity, not all did. She also said any additional funds would be "subject to adequate safeguards."

One question is how additional contributions might change voting power in the fund. Some watchers suggested that voting power would not increase for countries granting additional money — perhaps cash-rich emerging nations like China.