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BRICS eye forex reserves pool of up to $240 billion - document

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WASHINGTON/BRASILIA, Nov 9 (Reuters) - Leading emerging market countries are discussing pooling up to $240 billion in foreign exchange reserves to protect themselves from short-term liquidity pressures, according to documents outlining plans by the five BRICS nations.

BRICS countries China, Russia, India, Brazil and South Africa announced a working group in June to look into jointly pooling reserves and creating a new development bank to fund infrastructure projects in the developing world.

According to the documents, obtained by Reuters, the pool of central bank money would be available to BRICS facing balance of payments difficulties. Some, however, are also pushing for a precautionary credit line, similar to the IMF's that provides countries with insurance against outside economic shocks.

The move is part of growing frustration among the BRICS and other developing countries with the continued dominance by the United States and European countries of global institutions like the International Monetary Fund and World Bank.

BRICS officials meeting on the sidelines of a recent G20 summit of finance ministers from developed and developed nations sought to advance their plans ahead of a BRICS leaders' summit in South Africa in March.

Planned currency swap arrangements would also give BRICS the ability to lend to each other to keep markets liquid.

Officials at the G20 BRICS meeting, who spoke on condition of anonymity, said China had emphasized that the size of the reserve pool needed to be sufficiently big to be taken seriously by markets.

SERIOUS CHALLENGE

Officials believe that the BRICS reserve pool should be similar in size to the Chiang Mai Initiative of southeast Asian countries, which was doubled to $240 billion in May to boost their protection against external shocks.

The Chiang Mai program, first agreed in 2000, has never been put to use because it would require the country to request a program from the IMF, which was blamed for insufficient bailouts during the Asian currency crisis of 1998.

Eswar Prasad, a Cornell University economics professor and senior fellow at the Brookings Institution in Washington, said the proposed plan for pooling resources posed a "strong and serious challenge to existing global monetary arrangements."

"Irrespective of the logic and possible complications of these schemes to pool their funds, these proposals from the BRICS may have the salutary effect of prodding global monetary reforms along at a faster pace," Prasad said.

Countries like China are keen to see its currency, the yuan, added to the IMF basket of currencies, currently including the pound, yen, euro and dollar, that make up the IMF unit of account, the Special Drawing Right.

While a number of the BRICS believe disbursements from the reserve pool should be made in U.S. dollars, others preferred to use the SDR.

"In terms of disbursement, the preference would be to use the US dollar or other reserve currencies, but the view was also expressed that part of the disbursements could be made available in BRICS national currencies," according to the documents.

Discussions are also looking at what conditions should be attached to the reserve pool. One question is whether the scheme should be linked to an IMF program, which could be a bitter pill to swallow for any of the BRICS. Some BRICS are arguing for a partial link to the IMF, with an initial quick disbursement subject to rules of the pooling.

RESPONDING TO NEEDS

The BRICS are also considering creating a new development bank to support financing of long-term infrastructure projects for emerging and developing economies, to meet the pressing need for roads, railways, ports and electricity.

The BRICS bank would be in competition with the World Bank and other multilateral development banks, which also provide loans for infrastructure projects. However, countries like India are already facing limits on its borrowing from the World Bank.

The BRICS documents noted that existing multilateral development banks are under capitalized compared to the growing needs of emerging economies and developing countries.

The new bank would initially issue non-concessionary project-linked finance to members, meaning that the financing would be at a higher cost. A small window of low-cost loans could be considered as the bank expanded, the documents said.

The World Bank and other institutions have long insisted that lending to poor countries should involve low-interest loans to avoid pushing up their debts to unsustainable levels.