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G-20 to infuse funds into International Monetary Fund

By David J. Lynch, USA TODAY

Leaders of the G-20 agreed Thursday to massively re-arm the International Monetary Fund for its fight against economic contagion, providing significant new financing and a broad mandate for action.

President Obama and other world leaders meeting in London said they would triple the IMF's war chest to \$750 billion. And they will back the IMF, effectively creating an additional \$250 billion by issuing "special drawing rights," the agency's own quasi-currency that borrowing nations can draw upon if needed.

"It's much bigger than the market expected," said Marc Chandler, senior vice president for currency strategy at Brown Bros. Harriman.

But first, Congress must approve plans for the U.S. to contribute \$100 billion in credit. Fund observers say they expect lawmakers' OK, after a tussle. "It will not be an easy sell," says Eswar Prasad, a former fund economist at Cornell University.

If the new IMF money is to prevent further global deterioration, borrowers must use it. Especially in Asia, where memories of the fund's "tough love" role in the 1997 financial crisis are fresh, nations are reluctant to tap IMF aid. One positive sign: Mexico earlier this week said it would seek a \$47 billion credit line from the IMF.

The new initiative, along with an additional \$100 billion for other lending, is expected to ease concerns about a looming financing shortage in developing countries, as global banks and other investors retrench. The World Bank says the shortfall this year will be \$270 billion to \$700 billion.

"If we can't get the emerging markets going, it's going to be harder for us to get out of this," said Morris Goldstein, a former fund economist at the Peterson Institute for International Economics.

Already, countries from Ukraine to Pakistan have turned to the IMF for multibillion-dollar rescues. More are expected to follow as the global recession deepens. Potential candidates include Turkey, Spain, Greece and possibly G-20 summit host the United Kingdom, said Simon Johnson, ex-IMF chief economist.

The G-20 also tasked the IMF with monitoring countries' economic and regulatory moves and opened the door to potentially historic shifts at the top of the fund and World Bank. Since their founding 63 years ago, the institutions' top jobs have been limited to Europeans and Americans. The G-20, however, says future leadership picks should be "merit-based," a signal that the next leaders could come from the developing world.

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