I.M.F. Puts Bank Losses From Global Financial Crisis at $4.1 Trillion

By MARK LANDLER

WASHINGTON — As finance ministers gather here this weekend for meetings of the International Monetary Fund and the World Bank, they will focus on two eye-popping numbers: $4.1 trillion, the fund’s latest projected losses from the global economic crisis, and $1.1 trillion to help fix it.

The huge numbers illustrate the depth of the worldwide economic upheaval and the challenge facing those institutions, which are increasingly at the heart of efforts to contain the damage.

In a report released Tuesday, the I.M.F. estimated that banks and other financial institutions faced aggregate losses of $4.05 trillion in the value of their holdings as a result of the crisis.

Of that amount, $2.7 trillion is from loans and assets originating in the United States, the fund said. That estimate is up from $2.2 trillion in the fund’s interim report in January, and $1.4 trillion last October.

The fund said that it spotted the first glimmers of stabilization in the global financial system, but that “continued decisive and effective action” by governments, banks and institutions like the I.M.F. would be needed to prevent the system from going into a downward spiral.

At a meeting of industrial and developing countries in London this month, President Obama and other leaders pledged $1.1 trillion more for the fund and, to a lesser extent, the World Bank.

Now, the I.M.F. must figure out how to turn those pledges into hard cash — no easy task, insiders and outside experts say — and how to marshal the money to steady teetering economies including those of Iceland and Pakistan.

“We’d be deluding ourselves if we think it is going to solve the crisis,” said Desmond Lachman, an expert on the fund at the American Enterprise Institute in Washington. He was speaking at a conference organized by the institute titled “Can the I.M.F. Really Save the World?”

The answer, most participants agreed, was no, but its vastly increased resources have turned the fund into a crucial player.

“Anytime you raise expectations, it’s important that you deliver,” said Robert B. Zoellick, the president of the World Bank. “Part of this week’s meetings will be about how you deliver.”
Analysts said the $1.1 trillion sum assumed huge contributions by the United States, China and other countries, which may or may not come through. It also counts some contributions more than once, and it counts some in the form of a synthetic I.M.F. currency that is not hard cash.

Using funds on hand, the World Bank said it would triple its investments in social safety-net programs to $12 billion over the next two years. The goal, Mr. Zoellick said, is to protect the most vulnerable people in developing countries from facing poverty, hunger or disease because of the crisis. “It’s vital that we make this more than a discussion of high finance,” he told reporters on Tuesday.

The reality is that the Washington meetings will be dominated by talk about the escalating losses weighing on the world’s leading banks, insurance companies and pension funds. The fund’s report said the recession was magnifying the impact of the credit squeeze on them.

“Shrinking economic activity has put further pressure on banks’ balance sheets as asset values continue to degrade, threatening their capital adequacy and further discouraging fresh lending,” the fund said in its report, released twice a year, which has become a barometer of the severity of the crisis.

As banks struggle to cleanse their balance sheets, the fund said, capital flows to emerging-market economies have plummeted, throwing Eastern Europe into crisis. That threatens to spill over to Western Europe, because its banks are major lenders to Hungary, Estonia and other countries.

Among European countries, the fund has already agreed to more than $55 billion in loans to Hungary, Serbia, Romania, Iceland, Ukraine, Belarus and Latvia. More may yet need to be bailed out.

On Tuesday, Colombia became the second Latin American country to seek aid, requesting $10.4 billion. Last Friday, the fund approved a $47 billion line of credit for Mexico, making it the first country to qualify for a loan from a program that extends credit to emerging economies that are considered well managed. Poland also said this week that it would seek a $20.5 billion credit line under that program.

With so many loans flowing out the door, experts said, the fund would run out of money without the infusion.

“They really need to nail down this financing, especially from emerging markets,” said Eswar S. Prasad, a professor of trade policy at Cornell University and a former head of the China division at the I.M.F.

In a twist that leaves some experts shaking their heads, the fund needs money from cash-rich developing countries, like China and India, to help more developed but strapped countries, like those in Eastern Europe.

Western Europe looms as the next front in the crisis, according to the fund’s report. It estimates that financial institutions will have to write down $1.19 trillion in loans and securities originating there. And they have gotten off to a much slower start than their American counterparts.

In the United States banks reported $510 billion in write-downs by the end of 2008, and they face an
additional $550 billion in 2009 and 2010, the fund said. In the countries of the euro zone, banks reported just $154 billion in write-downs by the end of last year and still face $750 billion in projected write-downs, the fund said.

David Jolly contributed reporting from Paris.