IMF eyes currency reserves as its power expands

IMF loans.

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Brazil offered perhaps the most radical view for a remade IMF. Brazil's finance minister, Guido Mantega, said he envisions the IMF playing a central bank-like role in which it provides liquidity and currency swaps to nations in need.

DISTRUST RUNS DEEP

Even though a consensus appears to have emerged to give the IMF a bigger role in preventing crises, it is far from clear member nations will decide to strengthen its global lender of last resort role. In the past, many have chafed under the painful conditions that have accompanied IMF loans.

And with the Fund still dominated by the United States and European nations, emerging markets have doubts about whether they can trust the lender to be there when a crisis hits.

Behind closed doors, some countries expressed hesitation at pumping the lender to be there when a crisis hits.

“People are worried about the accumulation of reserves and the implications it will have down the road,” said a senior IMF official, who requested anonymity. "It is a prevention issue right now, rather than proactively changing the way people are investing their reserves.”

The initial focus reflects the fact once spendthrift U.S. consumers, whose wealth has evaporated as the value of their homes have plummeted, have already largely shut their wallets.

“The responsibility for powering the global growth engine will fall on other countries, particularly those that relied in export-led growth,” IMF chief Dominique Strauss-Kahn said.

Strauss-Kahn called upon the IMF’s 186-member nations to strengthen the lender’s hand by increasing the amount of capital it can deploy in times of crisis by perhaps $1 trillion or more. He argued this would dissuade countries like China from building big currency war chests because they would know the IMF could come to their aid in times of need.

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