

The IMF is back, kinder and gentler

Steve LeVine



Only weeks ago, Christoph B. Rosenberg was just another largely ignored official of what seemed an increasingly irrelevant International Monetary Fund. Now the 46-year-old German, the financial agency's representative in Central Europe and the Baltics, has missed a family vacation to be in Hungary, where he led talks for an emergency loan to that country of \$25.1 billion—the IMF's first rescue of a European Union member. "We were like a fire brigade that had no fire," says Rosenberg. "Now we have a fire, and I think we are rising to the occasion."

The IMF was set up after World War II to help Western governments manage their currencies, then evolved into a lender of last resort to distressed emerging-market regimes. In the 1990s it persuaded most of 15 former Soviet nations to adopt tight budgets, saved Mexico after its peso crisis, and bailed out South Korea and much of Southeast Asia.

Many Indonesians, Koreans, and Mexicans developed a deep loathing of the IMF, which in exchange for loans often forced countries to open their markets, adopt free-floating currencies, and curtail state spending. The fund reached its nadir when Argentina, Brazil, and Russia paid off their IMF loans ahead of schedule rather than retain links with what they regarded as an overbearing agent of the U.S. In 2002 the fund disbursed \$39.4 billion in loans. Last year the figure was \$1.9 billion.

That drastic drop in lending so dramatically curtailed interest income that a year ago IMF Managing Director Dominique Strauss-Kahn faced a projected \$400 million funding shortfall by 2010. He was reduced to selling 400 tons of the fund's gold reserve and cutting the size of his 2,900-person staff by some 20%. Those who remained focused largely on discussions about how to make the institution relevant again.

Now the IMF is extending loans to Iceland (\$2 billion), Ukraine (\$16 billion), and Hungary. Private companies in these countries recklessly borrowed overseas to expand. With emerging-market currencies now crashing worldwide and many of these companies unable to repay the loans, more IMF action is expected. Pakistan, Belarus, Turkey, Serbia, and the Baltic republics are all possible candidates for IMF assistance. "There is going to be a rash of these bailouts unless the credit markets miraculously stabilize," said Kenneth Rogoff, a former IMF chief economist who teaches at Harvard University.

LEGACY OF STRENGTH

For the IMF to enjoy a true revival of its power and prestige, it has to resolve several issues. One is whether it should use the same austerity tactics now that it employed during the bailouts of the 1990s. This time the fund seems to be trying out a new playbook: Strauss-Kahn has announced "emergency procedures" under which the IMF will disburse loans faster and under fewer conditions than those on which it previously insisted. In the fund's Oct. 29 announcement of the loan to Hungary, the IMF refrained from imposing a dozen or more detailed requirements like the ones that accompanied previous bailouts. Instead, Hungary only had to agree to a few terms, including a reduction of its deficit to 2.6% of GDP, down from the 2.9% that the government previously planned, and lower welfare benefits.

The IMF says these loose loan criteria do not reflect a permanent policy shift. Yet the new, friendlier fund needs to be careful not to veer too far from the discipline it typically instilled in its borrowers. Despite the widespread pain inflicted in earlier bailouts, it left a legacy of stronger financial systems in Mexico, Thailand, Korea, and elsewhere. The fund's traditional tough terms also assured investors it was safe to put money back into these countries.

The second issue is one of funding, which comes from deposits placed with the fund by member countries (the U.S. is the biggest depositor). The IMF has \$250 billion at its disposal for emergency loans—ample for now, but quite possibly inadequate if governments from across the emerging-market spectrum come hat in hand. "Given the scale of capital flows, the institution will have to have more capital," said Eswar S. Prasad, the IMF's former country director for China, who now teaches at Cornell University. Emergency funding from Western governments would then be necessary, but the U.S., Britain, and France are neck-deep in their own crises.

SMALL VOICE FOR GIANTS

In that case, the IMF's only recourse may be to appeal to emerging giants, especially China. But these countries may have no incentive to contribute since, despite IMF reforms implemented this year, they have a relatively small voice in fund affairs. IMF votes require an 85% majority vote, giving the U.S.—with a 16.7% voting block—an effective veto. China by comparison has a 3.6% voting quota, while India has 1.9% and South Korea 1.3%. Proposals to significantly increase the voting power of India, China, Mexico, and other emerging-market economies have been fiercely resisted by Britain, France, and Germany, which would lose power as a result.

Such aversion to change only encourages the view among many emerging-market countries that the IMF is "a stooge of the U.S.," says Cornell's Prasad. Yet to get future funding—and retain its clout in the world of finance—the IMF may have to become much less Western and much more global.

LEVINE, Steve. The IMF is back, kinder and gentler. **Business Week**, New York. Disponível em: < http://www.businessweek.com/magazine/content/08_45/b4107030206292.htm > . Acesso em: 2 dez. 2008.