W. Eco IMF

IMF reborn

THE G20 leaders' decision to commit $1.1tr to "restore credit, growth and jobs in the world economy" is a decent compromise given the circumstances. The US, UK and Japan went into the summit demanding that the rich countries increase the size of the fiscal stimulus they had already committed to. But countries such as France and Germany were of the opinion that the $5tr stimulus money already committed by major countries until the end of 2010 was enough, and made it clear they would dig in their heels — which could have derailed the summit itself. But committing money is one thing, using it effectively another. Most of the $1.1tr will be disbursed through the IMF. But not the IMF of old, the one which sent shivers down the spines of finance ministers in the developing world for decades. Instead a new IMF that is quicker off the mark, with more resources and more flexible plans, is to help stave off financial crises in the months ahead. At least that's the hope.

Here in Pakistan, the immediate question is whether a beefed up IMF with a renewed sense of urgency could be of further aid to the economy. The answer: it's too early to say. First, much of the IMF's new resources may be eaten up by Eastern European countries that are in crisis and which Western Europe has so far refused to bail out. Second, it remains to be seen if our economic woes will qualify for an IMF booster. In any case, while more money on easier terms may be desirable, Pakistan's economic problems will not be solved were the spigot to be opened some more.

The real benefits of the IMF programme then may be felt elsewhere, and they could be substantial. As noted by *The Economist*: "By some estimates poor countries have $1.4tr of debts to roll over this year alone and western creditors are hoarding their cash. These countries have far less fiscal room for manoeuvre than rich economies." More fiscal space for such countries, the magazine goes on to note, would have a bigger bang for the buck because growth could rebound quicker as households typically have lower levels of debt than in the developed world. Moreover, the G20 has given the IMF instructions to go beyond traditional aims such as debt rollover, balance of payments support and bank recapitalisation and include areas such as stimulus spending, social support, trade finance and infrastructure investment. But there are at least two potential problems for poor countries. One, up to $250bn of the new funds could be directed to boost liquidity in industrialised countries. Two, while the IMF plan is revolutionary and ambitious, will it be enough? Or, as *The Economist* put it, can the IMF save the world?