

IMF may run out of cash to fight crisis in six months, Strauss-Khan warns

The International Monetary Fund could run out of cash to firefight the economic crisis in as little as six months, its managing director has warned.

By Edmund Conway, Economics Editor
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Dominique Strauss-Kahn said the Fund needed an urgent cash infusion if it was to continue bailing out troubled economies in the future. Mr Strauss-Kahn also indicated that the world's advanced economies were now tipping from recession into full-blown depression, cementing fears about the scale of the economic slump in rich nations.

The IMF head made the comments in Kuala Lumpur in Malaysia over the weekend, where he is attending a meeting of central bankers from Southeast Asia. The Fund has bailed out a number of countries including Iceland, Latvia and Pakistan but Mr Strauss-Kahn said there would be many others in need of help in the months ahead.

"Today, the IMF's resources are enough to face the situation but because we are facing a global crisis, the needs may be much bigger than previously," he said. "We have to intervene in Asia, Africa and Central Europe, Latin America, and maybe elsewhere. **I can't promise that in six to eight months from now, we will have enough resources.**"

The Fund is seeking pledges from nations with large current account surpluses and foreign exchange reserves to donate it cash to help bolster troubled countries. At the World Economic Forum in Davos late last month deputy head John Lipsky is understood to have spent time meeting with various heads of state and of sovereign wealth funds for precisely this purpose. Japan has already offered to add \$100bn to the Fund's resources, Mr Strauss-Kahn said.

"We need other countries to follow this generous example and provide funds with the means to address the challenges arising from this global crisis," he added.

He warned that the economic crisis would intensify unless the financial system was repaired, saying that although he hoped the world could avoid a repeat of the Great Depression, the "worst cannot be ruled out. There's a lot of downside risk."

The IMF recently slashed its world growth forecast to just 0.5pc - the weakest since the Second World War, and warned that the UK was facing the most severe slowdown of all developed economies. Although Mr Strauss-Kahn said that government spending packages and interest rate cuts would help, the health of the banking system was a far more important factor.

"All this will work if, and only if, the different countries are likely to do what they have to do in terms of restructuring the banking sector," he said. "And today it's not done."

The IMF has so far lent out \$47.9bn to countries affected by the economic crisis - mostly those in Eastern Europe. Mr Strauss-Kahn said that the next victim could be Poland, which has said it does not need assistance now, but

may well do in the future.

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