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Q&A: The IMF and a European bail-out

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What have the Europeans agreed to give the IMF?

One of the few almost-concrete decisions out of last week's summit was for European Union countries to contribute about €200bn to the International Monetary Fund, with the money likely to come from bilateral loans from their central banks. On Sunday, the German Bundesbank was the first to get down to specifics, telling the German news agency DPA that it would be contributing €45bn. The UK, however, says it will not join in – another blow for European solidarity. The rest of the money is likely to take a week or two to finalise, with the €200bn total apparently somewhat arbitrary. The figure seems to have been suggested to the eurozone finance ministers by Christine Lagarde, IMF managing director, rather than them coming up with it themselves.

Where will the money come from and, if it is lent to Spain and Italy, isn't that just circular?

National central banks are allowed to create euros and lend them to the IMF if the European Central Bank permits it. The advantage of routing the money via the IMF rather than, say, the Bundesbank just printing money and giving it to Italy is that the fund takes on the credit risk. It seems likely that the money will go into the IMF's general resources account, where in theory it can be lent to any of the fund's 187 member countries but in practice it is western Europe that has the most overwhelming need for it.

Will it allow the IMF to bail out Spain and Italy?

Even with the extra money and a possible matching €200bn from non-European countries, the IMF could not finance a substantial bail-out for Spain and Italy on its own. The gross financing needs (new debt and rolling over existing debt) of the two countries over the next two years equal at least €600bn, so a rescue that would entirely take them out of the capital markets until the end of 2013 is out of the fund's reach. Two other options present themselves. One, a giant bail-out largely financed by the eurozone itself through its own rescue funds, with the IMF playing a supporting role. Two, favoured by some involved in negotiations, is a smaller programme designed to ease short-term pressures on Spain and Italy but keep them borrowing in private capital markets, using a recently extended IMF liquidity facility. Under that facility, Italy and Spain together could only borrow about €140bn over the next year.

What do the IMF's other member countries think?

The US and some other rich countries, including Canada and Australia, have been cool to the idea of a big IMF bail-out for western Europe. The US is in any case in a difficult position, having to rule out giving any fresh money to the IMF because of concern about bail-outs in the US Congress. Having claimed for a while that the IMF has ample resources, US officials now say that more money could be useful. But they underline that the eurozone must take the leading responsibility for taking on the credit risk of financing the rescue, with the IMF playing primarily a gatekeeper role, designing and monitoring conditions on lending. It is worth noting that the IMF has preferred creditor status in case of a default and has never taken a capital loss. Countries typically count the budgetary cost of contributing to the IMF as nil, since it means moving money in their foreign exchange reserves from one account to another rather than spending it.

And the emerging markets?

The Brics countries have said they will contribute to the eurozone's rescue, but have insisted it be through the IMF. Some observers think that the Brics countries and Japan together could match the eurozone's €200bn. When the IMF last did a round of emergency financing in 2009, China contributed about €40bn and Brazil €11bn. But they too will be wary of ploughing a huge amount of IMF lending into an uncertain situation in the eurozone.

Does that give the emerging markets more power in the IMF?

Not immediately, but possibly in the future. The voting weights on the fund's executive board are determined by how much money each member government puts in under the regular so-called "quota" contributions, which are tortuously negotiated every few years, rather than ad hoc loans such as those being proposed. Still, in the past, making big ad hoc contributions has presaged countries being given a bigger weight in the next quota negotiations.