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Geithner to Press Europe on Crisis Solution Ahead of EU Brussels Summit

By Ian Katz and Sandrine Rastello - Dec 3, 2011

U.S. Treasury Secretary Timothy F. Geithner travels to Europe next week to press political leaders and central bankers to stem the region's worsening debt crisis.

Geithner will continue to push the Europeans for quicker and more decisive action, a Treasury official said yesterday. The U.S. has no plans to make bilateral loans to the International Monetary Fund to help stem the crisis, said the official, who declined to be identified as a condition for holding a briefing with reporters in Washington.

Geithner will meet with French President Nicolas Sarkozy, Italian Prime Minister Mario Monti and European Central Bank President Mario Draghi during his Dec. 6-8 trip, the Treasury Department said in a statement yesterday. He will return to Washington before European leaders hold a Dec. 9 summit in Brussels.

The U.S. has been pressing European leaders to take stronger action in the crisis, which has seen bailouts of Greece, Ireland and Portugal and now threatens to engulf Italy and Spain. Officials from the Treasury and the Federal Reserve have said Europe also poses a risk to the U.S. recovery.

The IMF has ample resources of about $400 billion, the Treasury official said. European finance ministers said this week they would seek a greater role for the IMF alongside their own bailout fund. Several countries including Brazil and Mexico have said they are ready to help boost IMF resources.

Europe, IMF

Though Europe has been looking at providing bilateral loans to the IMF, the main emphasis must be strengthening the so- called firewall in the region, the Treasury official said. If other countries make bilateral contributions it doesn't have any implications for the U.S., the official said.

"My sense is that the U.S. would not block it" if Europe and emerging-market nations decide to increase IMF contributions, said Eswar Prasad, a senior fellow at the Brookings Institution in Washington and a former IMF economist.

Christine Lagarde, the IMF's managing director, has indicated that the funds the IMF currently has available for lending may not suffice should the global outlook worsen.

Geithner will meet Dec. 6 in Frankfurt with Draghi and Bundesbank President Jens Weidmann. Later that day, he will talk with German Finance Minister Wolfgang Schaeuble in Berlin.

The next day, he will meet in Paris with Sarkozy and French Finance Minister Francois Baroin before traveling to Marseille for discussions with Spain's prime minister-elect, Mariano Rajoy, "who will be in France for other meetings," the Treasury said. Geithner will meet with Monti on Dec. 8 in Milan. The Treasury official said President Barack Obama asked Geithner to take the trip to Europe.

'Useful'

"It seems useful for the secretary to continue to press European policy makers to take decisive action, though it's not clear they are ready to listen to his advice," said Phillip Swagel, who was an assistant secretary for economic policy in the George W. Bush administration.

Geithner's objective "is to reinforce the vital need for European policy makers to come through with some substantive policy steps" at the Dec. 9 summit, said Mark Zandi, chief economist of Moody's Analytics Inc. "Financial markets will rebel if policy makers appear to be punting again."

A European proposal to channel central bank loans through the IMF may deliver as much as 200 billion euros ($268 billion), two people familiar with the negotiations said.

At a Nov. 29 meeting attended by Draghi, euro-area finance ministers gave the go-ahead for work on the plan, said the people, who declined to be named because the talks are at an early stage. The need for a new crisis-containment tool emerged as an effort to boost the 440 billion-euro rescue fund to 1 trillion euros fell short.

Recycle Funds

Under the proposal, national central banks would recycle funds through the IMF, potentially to underwrite precautionary lending programs for Italy or Spain, the two countries judged to be the most vulnerable now, the people said.

The euro area's 17 national central banks operate under the ECB's umbrella. Draghi on Dec. 1 hinted at a stepped-up crisis- fighting role as long as governments move toward a "fiscal compact" that ensures healthy public finances.

German Chancellor Angela Merkel laid out elements of that strategy yesterday, calling for European treaty amendments to create automatic, court-enforced sanctions on countries that overstep limits of 3 percent of gross domestic product on deficits and 60 percent of gross domestic product on debt.

"It's Europe's crisis," Geithner said Nov. 15. "Fundamentally, the resolution of this is going to depend on the choices they make going forward. And we hope they make some progress more quickly."

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