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Europe uneasy in IMF spotlight as Tokyo meetings start

Fri, Oct 12 2012

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TOKYO (Reuters) - Greece, Spain and the euro zone's slow progress toward debt reform take centre stage at IMF meetings on Friday despite Europe's best effort to remove itself from the spotlight.

The International Monetary Fund recommended that some of Europe's debt-burdened countries take a bit more time to reduce budget deficits, arguing that moving too fast is counter-productive because it hurts the economy.

But Germany, Europe's largest creditor country and the key to any lasting fiscal reforms, pushed back against that advice and said reversing course on promised deficit reductions would only weaken credibility.

"The euro zone does not lack the financial wherewithal to stem the crisis. What it lacks is the political will," former IMF official Eswar Prasad, a senior fellow at the Brookings Institution in Washington, wrote in the International Herald Tribune.

While the IMF has advocated a slower approach to debt reduction, it urged swifter policy action, both in Europe and the United States, to remove economic uncertainty and help lift anaemic global economic growth.

"We expect action, courageous and cooperative action on the part of our members," IMF Managing Director Christine Lagarde said, spelling out her expectations for the twice-yearly meetings that start on Friday.

In Europe, the IMF wants to see more progress toward promised reforms that would create a tighter fiscal and banking union. In the United States, the IMF has sounded the alarm over the "fiscal cliff" of automatic spending cuts and tax increases that take effect early next year unless Congress acts.

European officials insist they are on track to deliver reforms, and want to see closer scrutiny of the U.S. fiscal issues instead. U.S. Treasury Secretary Timothy Geithner said Washington has a window of opportunity to address the fiscal cliff after the November 6 presidential election.

Both topics will be on the agenda, along with the IMF's own internal reform efforts, which have stalled.

The Fund was supposed to have completed by the Tokyo meetings a set of voting reforms that would give fast-growing emerging markets greater say in the international lender and vault China to the No. 3 spot.

But U.S. presidential politics got in the way. The Obama administration is reluctant to seek congressional approval for additional IMF funding when the budget deficit is such a hot-button election issue. Without U.S. support, the IMF reforms lack sufficient votes to pass.

(Additional reporting by Reuters IMF team; Writing by Emily Kaiser; Editing by Tim Ahmann)



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