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Europe crisis shadows meeting of finance officials

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WASHINGTON (AP) — The most perilous time for Europe since its emergence from World War II will form the backdrop this week as finance officials meet to confront a debt crisis that threatens the global economy.

Investors and analysts are skeptical that the talks in Washington will yield any breakthroughs that would restore confidence in Europe's financial system.

For Christine Lagarde, who took over as head of the International Monetary Fund in June, the crisis poses a tough first test. Lagarde has warned that without bold and collective action, the world's major economies risk slipping back into recession.

Those concerns were underscored Tuesday when the IMF downgraded its outlook for the global economy, the United States and Europe for this year and 2012. It said Europe's debt troubles and a persistent slowdown in the United States were mainly to blame for the gloomier forecast.

The IMF's chief economist, Olivier Blanchard, warned that the global economy had entered a "dangerous new phase." Investors have grown more skeptical about the ability of many countries to manage their debt, Blanchard suggested.

Those concerns are centered, in particular, on Greece. That nation could default on its debt next month unless its receives a $10.9 billion installment from a bailout fund managed by the European Central Bank, the European Commission and the IMF.

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Greek officials are trying to convince officials who manage the bailout that it's doing all it can to meet budget targets that require it to shrink government spending.

Since May 2010, Greece has depended on a $150 billion rescue fund set up by other countries in the 17-nation group that uses the euro currency and by the IMF. Without the next installment of that support, Greece has only enough money to last through mid-October.

A default by Greece could destabilize other financially troubled European countries, such as Portugal, Ireland, Spain and Italy. It would also deal a blow to many European banks, which are large holders of Greek government bonds.

Last week, Moody's downgraded the credit ratings of two large French banks. Worries about Europe's debt troubles have fanned volatility in global financial markets in recent weeks.

Treasury Secretary Timothy Geithner has made two trips to Europe this month to discuss solutions to the crisis. His trips included the first by a U.S. Treasury secretary to a meeting of European finance officials.

At that session in Poland last Friday, Geithner discussed programs that the United States used to confront its own financial crisis in 2008 and 2009 and pushed for a stronger commitment by European countries.

"Markets don't respond well if you have the threat of cascading defaults," Geithner said in an interview Monday on PBS's "Nightly Business Report. "The basic thing that governments have to do is remove that catastrophic risk."

Geithner's trip to Poland was an effort to nudge Europe toward a lasting solution to its debt problems, which have endured for nearly two years. But his remarks evoked grumbling, which some critics said amounted to lecturing.

Austria's Finance Minister Maria Fekter criticized some of Geithner's policy prescriptions. She said America's economic performance was in some ways worse than that of the 17 countries in the euro zone.

Europe is expected to face further outside pressure when finance officials of the Group of 20 nations meet for a working dinner Thursday night and talks on development issues Friday. The Group of 20 includes traditional economic powers and emerging economies such as China, Brazil and India.

Those discussions will be a prelude to the annual meetings of the 187-nation IMF and its sister lending institution, the World Bank, on Friday and Saturday.

Some reports have suggested that Europe could be rescued if countries with bulging trade surpluses such as China recycled some of that money into the purchase of European government debt. But World Bank President Robert Zoellick cautioned against thinking that any "silver bullet" would resolve Europe's crisis.

Zoellick said there would be opposition within China, with its still-low per-capita incomes, to rescuing Europe. "I just don't think that is going to happen," he told reporters this week.

Lagarde, a former French finance minister, succeeded Dominique Strauss-Kahn, who stepped down in May to fight charges of attempted rape that were later dismissed. In a speech previewing this week's talks, Lagarde praised Obama's new job-creation plan. Still, she said it should coincide with long-term efforts to control government spending.

Lagarde said European nations with heavy debt burdens must also get control of government spending. And she said European banks need to boost their capital reserves to prepare for potential loan defaults — an issue that the IMF's new economic forecast also raised.

In the end, analysts expect this week's meetings to produce little progress beyond the usual joint statements in which major economies pledge closer cooperation to fight the global slowdown but withhold any major financial commitments.

"Every major economy, including the United States and European countries, are facing a lot of political uncertainty at the moment," said Eswar Prasad, an economist at Cornell University. "That uncertainty is preventing them from making a concerted effort to resolve their financial problems."

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Germany, France reach agreement on Europe's banks

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