Euro-Area Seeking Crisis-Fighting Cash Faces G-20 Resistance

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(Adds Russian official in third and 17th paragraphs, OECD forecast in eighth and Moody's in 10th. See GMEET for more on the G-20 meeting and EXT4 for more on Europe's debt crisis.)

Oct. 31 (Bloomberg) -- European governments are running into initial resistance as they seek to use this week's Group of 20 summit to turn early praise for their revamped crisis- fighting strategy into financial support.

The G-20 leaders convene Nov. 3-4 in Cannes, France, a week after euro-area authorities pledged to magnify the capacity of their rescue fund to 1 trillion euros ($1.4 trillion) and look beyond their borders for help in doing so as they combat the debt turmoil posing the biggest threat to global growth.

While the help of China and cooperation of the International Monetary Fund were immediately sought, pledges of hard cash are proving hard to come by as G-20 members press for more details of the plan. In an indication Europe may eventually prevail, Brazilian and Russian officials said their governments may be willing to provide assistance.

"Unless European leaders can flesh out some of these details very quickly, it's hard to see the rest of the G-20 coming on board with very great enthusiasm," said Eswar Prasad, a senior fellow at the Brookings Institution in Washington and a former IMF economist.

Crisis Talks

The Cannes talks will cast the G-20 into another round of crisis resolution three years after its leaders first gathered to address fallout from the failure of Lehman Brothers Holdings Inc. The officials -- who represent industrial and emerging markets composing about 80 percent of the world economy -- united again in 2009 to fight the deepest global recession since World War II and have since tried to rewrite the rules of international finance and rebalance global trade.

In a bid to revive that collective spirit, European Commission President Jose Manuel Barroso and European Council President Herman Van Rompuy wrote to G-20 governments Oct. 29 to stress "a continued need for joint action by all G-20 partners in a spirit of common responsibility and common purpose."

What started with Greece overhauling its budget math two years ago has become a headache for leaders worldwide as Europe's struggles to stave off a Greek default and persuade investors that Spain and Italy are creditworthy.

The Paris-based Organization for Economic Cooperation and Development today forecast the G-20 economy to grow 3.8 percent next year with its advanced economies expanding 1.5 percent and its developing nations 6.7 percent. It said the level of gross domestic product in some of its members could fall as much as 5 percent by the first half of 2013 if Europe's policy makers fail to restore confidence and debt restructuring turns disorderly.

Curbing Contagion

Amid intensifying global pressure, euro-area leaders last week persuaded bondholders to write down 50 percent of Greek debt holdings, pledged to boost the capacity of their 440 billion-euro European Financial Stability Facility and looked to bolster the capital of banks.

Question marks linger over how easy it will be to ratchet up the EFSF and whether it's large enough to limit contagion. Moody's Investors Service said today that the plan is "negative" for the region's Aaa-rated nations because they may have to provide more support.

To lure capital for the EFSF, Europe's governments said they would work "even more closely" with the IMF, in a statement released after 10 hours of talks ended Oct. 27. Within hours, French President Nicolas Sarkozy spoke with Chinese counterpart Hu Jintao. EFSF Chief Executive Officer Klaus Regling jetted to Beijing, where he mentioned on Oct. 29 the possibility of issuing bonds denominated in yuan.

'Critical Foundation'

The international response was conditional praise. U.S. President Barack Obama said the plan laid a "critical foundation" for averting a slump and should be followed by "full development and rapid implementation." That stance was echoed by prime ministers Stephen Harper of Canada and the U.K.'s David Cameron.

Chinese Vice Finance Minister Zhu Guangyao said his government also wants to learn the particulars. Australian Treasurer Wayne Swan kept the onus on Europe to put up its own money, saying "in the first instance, any bailout fund in Europe is a responsibility of the Europeans."

"Euro-zone leaders may be too confident they will receive financial assistance from the G-20," said Karen Ward, a former Bank of England economist now at

HSBC Holdings Plc.

The U.S. and U.K. want the European Central Bank to use its balance sheet more against the crisis, while emerging markets can't provide enough of a firewall around larger economies and may seek to reinforce their own defenses against turmoil instead, she said.

'Key Milestone'

While the G-20 summit will be a "key milestone," any commitments "are unlikely to be crystallized" until the EFSF's overhaul is finalized by the end of November, said Jens Larsen, chief European economist at RBC Capital Markets in London.

Japan nevertheless plans to support the increase in the fund and also is awaiting information, a person familiar with the matter said. Brazil is in talks with Russia, India, China and South Africa -- the so-called BRICS -- about possible joint assistance and stands ready to help if its contributions are provided through the IMF or bilateral agreements, the official from its government said. Arkady Dvorkovich, the Kremlin's top economic adviser, said Russia is willing to make as much as $10 billion available through the IMF because "it is important for us for Europe to remain stable."

One idea is to use the Washington-based IMF as a channel for money for the enlarged fund. The EFSF may explore setting up a special purpose vehicle with the lender, Regling said Oct. 28.

New Territory

While IMF resources would not be used, involvement with market intervention would be new territory for the Fund, which in its 65-year history has only made loans or acted as a trustee for funds lending directly to governments. The measure would need approval by a majority of the IMF executive board, which is dominated by G-20 members, with the U.S. holding the most sway.

The IMF has channeled money from selected member countries for specific purposes before. In the 1970s, oil producers contributed to a pool financing loans to economies hurt by the increase in the price of crude. Some members now chip into a trust fund that helps lend cheaply to the poorest nations.

Another way to aid Europe is to increase the IMF's $394 billion war chest, which the lender has already signaled may be insufficient to cope with a worsening world economy. That idea is splitting the G-20 as emerging market nations including Brazil support a boost, the U.K. signals it's open to the idea and the U.S. plays down the chances of it occurring.

China's Price

Whichever option is chosen, tapping China will come at a price that Europe may be unwilling to pay, said Miranda Carr, head of research at broker North Square Blue Oak Ltd. in London.

While China wants to stabilize the euro area as 21 percent of its exports go there and it owns 360 billion euros of the region's bonds, the nation wants debt security and better access to European markets to buy resources and technologies, she said. Sarkozy came under fire from French opposition lawmakers yesterday for lobbying for Chinese help.

"There will be some quid pro quo on this," said Mohsin Khan, a former IMF official now a senior fellow with Peterson Institute for International Economics in Washington. Large emerging markets "would like a bigger role in global financial governance and they will also see it as they are systemically important and they are doing something good for the world."

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