February 26, 2012

Europeans Agree to Review Size of Firewall Fund

By ELISABETH MALKIN

MEXICO CITY — The finance chiefs of the Group of 20 countries won a commitment from the European Union on Sunday to review the size of its planned rescue fund, as a step toward amassing international resources to guard against global financial turmoil.

European efforts to head off future crises like the ones affecting Greece and several other nations in the euro zone have included setting up a permanent stabilization fund, which is scheduled to be operating by July with 500 billion euros, about $668 billion.

Many of the non-European G-20 countries think the fund needs to be larger and have pressed the Europeans to expand it. The European finance ministers have said they will discuss going up to $1 trillion when they meet in March, but Germany, the dominant country in the effort, has been reluctant to commit to a larger firewall, as the European stabilization fund has been called.

For their part, cash-rich countries like China and Japan have indicated that they would not contribute additional resources to the International Monetary Fund until Europe agreed to do more to buffer its economies.

Christine Lagarde, the managing director of the monetary fund, has said that her organization needs an additional $500 million in lending capacity to help countries withstand shocks in international markets.

“Most members outside the euro zone were very clear,” Ms. Lagarde said at the end of a two-day conference here of G-20 finance ministers and central bank heads. “They all expect that Europe will strengthen, consolidate, reinforce its firewall and make sure that it is both adequate and credible, before they look at increasing the firepower” of the I.M.F.

German officials, though, argue that the measures already taken in the euro zone in recent months have staved off a threatened collapse of confidence, which seemed about to plunge the world back into recession.

Investors have responded positively to a number of recent developments, including the second bailout package for Greece that was approved last week, policy overhauls proposed by the new governments in Spain and Italy, and efforts by the European Central Bank to provide credit for European banks.

German officials argue that a higher firewall might simply make it more difficult for politicians in the most indebted countries to get their parliaments to agree to the painful austerity measures that they say are needed.

Wolfgang Schäuble, the German finance minister, told reporters late on Saturday that it did not make sense to follow proposals that would be "pumping money into rescue funds" or "starting up the E.C.B. printing press," Reuters reported.

Still, the agreement by European countries to study the strength of their firewall in March before discussions in April of concrete commitments for the I.M.F. appeared to give some momentum to plans for stronger global financial protection.

Ms. Lagarde said that she considered the decision here "a step along the way," adding that "raising significantly the firepower of the I.M.F. is not something that you can do by clicking your fingers."

Although the actions in Europe and the signs of improvement in the United States economy appear to give some breathing space, Treasury Secretary Timothy F. Geithner warned that Europe must keep up its efforts to reduce the debt burdens of its most fragile economies.

"It would be a mistake to take much comfort," Mr. Geithner said. "This is going to be a very difficult process over many, many years in Europe. It's going to be extremely politically difficult, and a complicated endeavor."

He added: "Recognizing that fundamental reality, I think Europe has, to their credit, recognized they need a stronger financial firewall to support and underpin those reforms."

Eswar S. Prasad, a professor of trade policy at Cornell University and a former economist for the I.M.F., said that "many countries are rightly cautious about any presumption that additional resources provided to the I.M.F. would be mainly intended to support Europe."

The officials meeting here this weekend were also concerned about oil prices, which have risen about 20 percent in the past few weeks.

A European boycott of Iranian oil over Iran's nuclear program is set to go ahead in July. Mr. Geithner said that other oil-producing countries have promised to make up for reduced exports from Iran.

He said he had also pressed countries that have large trade surpluses to reorient their economies toward encouraging domestic consumer demand. He called the recent appreciation in China's currency "welcome progress," saying it was in China's and the world's interest.

Annie Lowrey contributed reporting from Washington

This article has been revised to reflect the following correction:

Correction: March 1, 2012

An article Monday about a decision by the European Union to review the size of its planned financial stabilization fund misstated the fund's size in dollar terms. The fund's currently planned capital of 500 billion euros is equivalent to about $668 billion, not $668 million. The article also misstated the amount of additional lending capacity that the director of the International Monetary Fund, Christine Lagarde, has said her organization will need to help countries withstand shocks in international markets. It is $500 billion, not $500 million.