EUROPE TO FACE G20 HEAT ON EURO CRISIS RESPONSE

* Little chance seen for G20 breakthrough on euro crisis
* U.S., IMF both pressing Europe for bolder action
* EU to press U.S. on deficit, China on domestic demand
* Brazil floats idea of more IMF funds to aid Europe
* Germany to push fiscal consolidation agenda

By David Lawder

WASHINGTON, Sept 20 (Reuters) - Europe will come under heavy pressure this week to stem its deepening debt crisis but talks among the self-proclaimed guardians of global finance are unlikely to yield bold action.

Spreading fears about a Greek debt default and contagion to larger economies in the euro zone have raised alarm in the United States and among emerging market heavyweights about the risk of a potentially major shock to an ailing global economy.

At talks among the Group of 20 major economies and at the International Monetary Fund in Washington, the United States and big emerging economies such as China, Brazil and India are likely to join the IMF and call on Europe to be more decisive.

But with U.S. political leaders divided on how to fix their own economic problems and no sign of consensus among the so-called BRICS emerging economies on how to help, the chances of a new approach to righting the global economy look slim.

"The G20, all it can do is to provide some peer pressure on the Europeans, to sensitize the Europeans to the huge scope for spillover that the euro crisis is already having," said Domenico Lombardi, a former IMF official and a senior fellow at the Brookings Institution in Washington.

"We should not expect any type of international response along the lines we saw at the height of the financial crisis."

EUROPE FOCUSES ON FISCAL CONSOLIDATION

The meeting is the third gathering of finance chiefs in three weeks, after G7 and EU ministers made little headway in tackling the crisis during each of the last two weekends.

Underscoring the gravity of the situation, U.S. Treasury Secretary Timothy Geithner attended both. He was received coolly by EU officials meeting in Poland, when, according to participants, he urged wealthier states -- in particular Germany -- to do more to support growth and suggested leveraging euro-zone bailout funds to give them more clout.

European ministers continue to say that belt-tightening remains their priority. German officials on Tuesday said they will stress the need to cut deficits at this week's talks.

The EU intends to shift the spotlight elsewhere. It will call on China to boost domestic demand and the United States and Japan to tackle their public deficits, according to a document obtained by Reuters. [ID:nLDE78I058]

This would help rebalance global growth, the EU said -- a key agenda item for the G20 since it emerged as the premier economic policy forum during the 2007-2009 financial crisis.

Canadian Finance Minister Jim Flaherty on Tuesday expressed frustration at Europe's slow pace in dealing with the crisis and called on officials to ensure European banks are adequately capitalized.

"There's risk and there's increased risk the longer this matter is delayed. We've been talking about Greece since January 2010 and the euro zone has not yet brought the matter to a conclusion," Flaherty told reporters in Ottawa.

He said Canada had fiscal room to maneuver, but would open its coffers for new stimulus only if hit by an external shock.

Ministers will have little time at the G20 meeting to make their points as the agenda is largely devoted to development issues, with just a dinner on Thursday earmarked for discussion of threats to the global economy.

The only G20 statement is expected to come on Friday after a meeting on climate change, sustainable agriculture and infrastructure financing in developing economies.

"It would be unjust to say that the G20 did not reach agreement on the euro zone crisis at this meeting, because that is not the point," said a source from G20 host France.

Talks about the euro crisis are expected to spill over into the weekend's meetings of the IMF and the World Bank.
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With Italy slapped with a debt downgrade on Monday and the IMF warning that Europe and the United States could slip back into recession, concerns over the immediate outlook for the global economy are likely to take precedence over longer-term goals on reducing trade imbalances.

The IMF on Tuesday warned Europe it needed to move fast.

"There is a wide perception that policymakers are one step behind markets," IMF chief economist Olivier Blanchard told reporters. "Europe must get its act together," he added.

Some investors are anxious to see signs of fresh action by policymakers. "I think it's going to necessitate some sort of action by the G20 this weekend," said Kathy Lien, director of currency research at GFT, shortly after Italy's downgrade.

The talks in Washington offer a forum to emerging markets to weigh in on the debate.

The so called BRICS group -- Brazil, Russia, India, China and South Africa -- will meet separately on Thursday to discuss possible options to limit fallout from the euro-zone crisis.

The United States has long urged China and other emerging nations to boost domestic demand and let their currencies rise to take up some of the slack in the global economy.

Brazil is expected to propose that it and other developing economies make new funds available to the IMF as a way to improve its firepower to ease the euro zone crisis. [ID:nS1E78I203]

But analysts expect little agreement on specifics among the emerging heavyweights.

"The BRICS in particular are likely to make a strong statement about how Europe needs to resolve its crisis soon because they fear the negative effects of more troubles from Europe," said Eswar Prasad, a former IMF official who is a professor at Cornell University.

"I suspect they are unwilling to put up any serious money for this," he said.

The Washington talks come about three weeks ahead of another G20 ministerial meeting in Paris. It will aim to finalize details on a deal to reduce global trade and financial imbalances ahead of a G2O leaders summit in November. (Additional reporting by Randall Palmer and David Ljunggren in Ottawa, Jan Strupczewski in Brussels, Daniel Flynn in Paris and Brian Winter in Sao Paulo, Editing by Chizu Nomiyama and Andrew Hay)