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IMF: Debtors need a break

Germany says back-tracking only hurts confidence

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TOKYO - The IMF on Thursday backed giving debt-burdened Greece and Spain more time to reduce their budget deficits, cautioning that cutting too far, too fast would do more harm than good.

But Germany pushed back and said back-tracking on debt-reduction goals would only hurt confidence, a stance that suggested some disagreement between the International Monetary Fund and Europe's largest creditor country.

"The IMF has time and again said that high public debt poses a problem," German Finance Minister Wolfgang Schaeuble said. "So when there is a certain medium-term goal, it doesn't build confidence when one starts by going in a different direction."

"When you want to climb a big mountain and you start climbing down then the mountain will get even higher."

The IMF released new research this week showing that fiscal consolidation has a much sharper negative effect on growth than previously thought. Since the global financial crisis, these so-called fiscal multipliers have been as much as three times larger than they were before 2009, the IMF research shows.

That means aggressive austerity measures may inflict deep economic wounds that make it harder for an economy to get out from under heavy debt burdens.

"It is sometimes better to have a bit more time," IMF Managing Director Christine Lagarde said. "That is what we advocated for Portugal; this is what we advocated for Spain; and this is what we are advocating for Greece."

But the IMF was less willing to be patient with Europe on following through with its efforts to seek a more cohesive fiscal and banking union. It said that process was critically incomplete, and blamed the plodding pace for contributing to economic uncertainty that was hurting global growth.

Emerging markets expressed frustration that the eurozone troubles were spilling into their economies. The IMF still expects emerging markets to grow four times as fast as advanced economies, but it cut its forecast sharply for two of the biggest players, Brazil and India.

"Europe has to get its act together," said Palaniappan Chidambaram, India's finance minister, speaking on behalf of the Group of 24 developing and emerging economies. "What is happening in Europe is having an impact on developing countries."

CREDITOR COUNTRIES

The IMF has expressed frustration with Europe's piecemeal response to its debt crisis and warned that a recent respite in borrowing costs for debt-laden countries such as Spain may prove short-lived unless eurozone leaders come up with a comprehensive and credible plan.

In its financial stability report on Wednesday, the IMF said that without swift policy action, including the triggering of the European Central Bank's bond-buying program, the premium that investors demand to hold Spanish and Italian debt instead of safer German bonds would nearly double.

Standard & Poor's cut its rating on Spain on Wednesday to a level just above junk territory, and Moody's may soon follow.