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IMF challenges Berlin's crisis response

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By Peter Spiegel and Alex Barker in Luxembourg

The International Monetary Fund on Thursday challenged Berlin's game plan for pulling the eurozone out of its crisis by advocating a series of short-term fixes that the German government has resisted.

Christine Lagarde, the IMF chief, said eurozone leaders needed to prevent the single currency from deteriorating further by considering the resumption of bond buying by the European Central Bank and pumping bailout money directly into teetering banks.

While Germany has resisted such measures, Ms Lagarde said the IMF was concerned about "additional tension and acute stress" in both the European banking sector and peripheral governments. She warned that the long-term measures being considered by EU leaders ahead of a summit next week were not enough.

"The IMF believes that a determined and forceful move towards complete European monetary union should be reaffirmed in order to restore faith in the system because we see at the moment, the viability of the European monetary system is questioned," Ms Lagarde said.

The IMF stance raises the stakes for today's four-way summit between Ms Merkel and her French, Italian and Spanish counterparts in Rome, where many of the issues raised by Ms Lagarde are likely to be discussed.

France's François Hollande, Spain's Mariano Rajoy and Italy's Mario Monti have been increasingly vocal in backing many of the same measures urged by Ms Lagarde, particularly using the eurozone's rescue funds to inject capital directly into struggling banks.

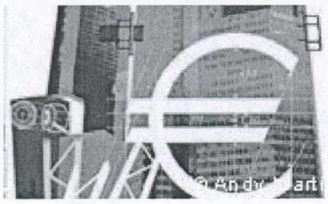
The IMF chief's forceful support for policies rejected by the German government – including a shift away from austerity measures and towards more structural reforms to restart growth in the region – comes amid a growing chorus of international leaders pressuring Angela Merkel, the German chancellor, to act with more urgency.

Berlin has been particularly resistant to using the eurozone's €500bn bailout system to directly recapitalise banks, insisting rescue loans be funnelled through national governments to ensure repayment. But such loans add to sovereign debt levels and an EU bank bailout for Spain –

which could add as much as €100bn in debt to Madrid's books – appears to have spooked sovereign bond markets, with Spanish borrowing costs reaching euro-era highs in the week since the rescue was announced.

In depth

Eurozone in crisis



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Spanish authorities said on Thursday much-awaited private audits of its banking sector found that they would need a maximum of €62bn in new capital. But Jean-Claude Juncker, who chairs the group of eurozone finance ministers meeting in Luxembourg, said it would be the EU, and not Spain, that decided how much to pump into Spanish banks. A figure would be decided by July 9, he said.

In addition to the short-term measures, Ms Lagarde also called on the eurozone to complete a fiscal and banking union in the longer-term, structures that she said should include a eurozone-wide bank deposit guarantee scheme and "gradual but limited" mutualisation of eurozone sovereign debt – both measures also resisted by Berlin.

Ms Lagarde said that while the IMF consulted several EU institutions in its three-week evaluation, it did not run its recommendations by Berlin.

"We did not go into each and every member state's political position," she said. "We certainly hope that wisdom will prevail and that the best solution can be at least looked at, rated against its drawbacks and found net positive."

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