

G7 to seek ways on Fri to prop up global economic growth -source

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By Jan Strupczewski

Sept 5 (Reuters) - Group of Seven financial leaders, worried about risks to global growth, are likely to agree this week to keep monetary policy accommodative, slow fiscal consolidation in countries where that is possible and implement structural reforms, a G7 source said.

Finance ministers and central bank governors of the United States, Canada, Japan, Germany, France, Italy and Britain (G7) meet on Friday in the French port of Marseilles to discuss what action to take to prop up the slowing global economy.

"The main issue will be the slowdown in the global economy and what is the best way to tackle that," a G7 official with knowledge of the preparations for the meeting said.

The source said that there was a sense among G7 countries that the global economy had entered the most difficult period since the collapse of Lehman Brothers and that there was a risk of recession -- either in technical terms, seen as two straight quarters of contraction, or with positive growth but a widening output gap.

This was because temporary factors such as high oil prices were exacerbated by the sovereign debt crisis and the uncertainty created by the U.S. debt limit debate -- all dealing a major blow to confidence, the official said.

"There will be an indication that monetary policy will remain accommodative, and that fiscal consolidation will go on, but in some countries at a slower pace in the short term," the G7 official said.

The accommodative monetary policy stance discussions would include issues such as quantitative easing, the official said.

No official communiqué was planned after the meeting, but there could be a briefing by France, which will chair the talks, the official said.

The official said the slower pace of fiscal consolidation demanded in the short-term in countries that did not face immediate market pressure would be in return for more fiscal consolidation sought in 2013, 2014 and 2015, depending on economic developments in 2012.

Italy is likely to come under pressure to implement structural reforms to boost its economic growth rate and therefore ease concerns in the market about its ability to pay back its public debt of 120 percent of GDP.

The euro zone debt crisis will be discussed at the G7 because it is one of the major reasons for the fall in investor confidence, but it was unlikely that euro zone countries would be pressured to do more than already agreed, the source said.

There was unlikely to be pressure, for instance, for the euro zone to further increase its emergency bailout fund, the EFSF, because more financial commitments to the fund from Germany and France could undermine their AAA credit rating.

"The mood is not for finger-pointing, but what we can do together to address the issues, that have become incredibly more complicated," the official said.

The G7 is also likely to point to the need for a "rotation of growth" -- that when developed countries are slowing down, emerging economies like China and other Asian powerhouses should pick up the slack.

In this context, the G7 is likely to call for economies with large current account surpluses to increase domestic demand and allow their exchange rates to appreciate, the official said.

The G7 is also likely to discuss the IMF's call for further recapitalisation of European banks, the sources said, but the EU is likely to stick to its position that bank stress tests last July were an adequate indication of the sector's capital needs and that work to address them was already under way.

Japan was likely to bring up the issue of the appreciation of the yen, but the recent rise of the U.S. dollar against most major currencies as investors sought a safe haven was likely to make any currency discussion less sharp, the official said.

There was unlikely to be any agreement on any joint intervention on the foreign exchange markets, the official said.

(Reporting by Jan Strupczewski; Editing by Hugh Lawson)

((jan.strupczewski@reuters.com; +32-2-287 6837; Reuters messaging: jan.strupczewski.reuters.com@reuters.net))

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