WASHINGTON—Seeking to keep a fragile global recovery on track, the International Monetary Fund on Tuesday called on countries that can afford it—including the U.S. and Britain—to slow the pace of their austerity measures.

The fund warned that "overly strong" belt-tightening in the U.S. will slow growth this year. Across-the-board government spending cuts, known as the sequester, were the "wrong way" to shrink the budget deficit, it said in its semiannual report on economic growth.

Those cuts should be replaced by more targeted reductions that would take effect further down the road—after the economy gains more strength, the report said.

The U.K. government, which in 2010 embarked on a closely watched effort to escape its slump through tax increases and spending cuts, also should consider easing up on its austerity drive amid a weak recovery there, it said.

And it warned euro-area policy makers against focusing too much on hitting tough deficit targets, saying they risked further deepening their downturn.

"Fiscal adjustment needs to proceed gradually, building on measures that limit damage to demand in the short term,“ the IMF said.

The IMF also called on countries like Germany that have traditionally relied on exports for growth to lift spending to stimulate their economies and, hopefully, imports from its struggling neighbors.

"There is a need for higher demand" in countries with big trade surpluses, IMF Managing Director Christine

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Nurses protested against austerity cuts in Lisbon on Tuesday.
Lagarde said in a speech last week. "For countries in Northern Europe, like Germany, it means doing more to boost investment."

The IMF’s message chimes with that of the Obama administration and highlights a continuing gulf between leaders of major economies over how best to recover from the crisis that began five years ago.

Many European governments are cutting government spending, raising taxes and pursuing other measures to shrink budget deficits that ballooned after the financial crisis.

Some, such as Greece and Portugal, have no choice under the terms of international bailouts. Others, such as the U.K. and Germany, say they must control spending if they want to keep their borrowing costs low, and argue that the approach will lead to stronger growth in the long run.

The Obama administration and IMF have warned the efforts could be self-defeating by restraining growth, which could widen deficits and make their debts harder to pay.

The outcome matters to the U.S. because its economy is closely linked to Europe’s and could be hurt if the euro zone’s financial turmoil escalates. The White House is seeking to swap the sequester with more backloaded spending cuts and tax increases at home, while pressing European policy makers to slow the pace of their austerity programs and generate stronger growth.

Germany has so far resisted the pressure. "Nobody in Europe sees this contradiction between fiscal-policy consolidation and growth," the German finance minister, Wolfgang Schäuble, said earlier this month.

The U.K. government has also vowed to stay the course, saying that conditions for growth can only be restored by repairing the country’s finances.

On Tuesday, a U.K. Treasury spokesman pointed out that the IMF forecasts better growth for the U.K. economy this year, at 0.7%, than either France, where the economy is forecast to contract, or Germany, where it is expected to grow just 0.6%.

That debate will continue to play out in Washington this week as global finance ministers arrive for the crisis lender’s annual meetings, amid renewed worries about growth in several key regions.

New figures this week showed that China’s economy had slowed unexpectedly in the first three months of the year, sparking concerns that a recovery that began in the second half of last year could be running out of steam.

U.S. consumers are showing fresh caution by pulling back on spending, new data showed Friday, raising worries that the economy could be headed for yet another spring slowdown.

Meanwhile, growth in the euro area is hovering close to zero and the IMF forecast that the region’s economy would shrink again in 2013. The U.K. is also at risk of falling into a "triple-dip" recession as its austerity drive continues to bite.

The IMF still believes that the U.S., Japan and Europe need to bring their budget deficits under control over the longer-term, saying they are not sustainable.

But it also says countries such as the U.K., with low borrowing costs, should adjust the timing and pace of their efforts to avoid killing growth.

The IMF’s latest World Economic Outlook report shows how much its policy prescriptions have shifted in recent years.

The fund came under heavy criticism during financial crises in Asia and Latin America for emphasizing painful fiscal adjustment programs as the solution to debt problems, which critics said made sick economies even worse. Now, the fund says it underestimated the effect that government spending has on growth, particularly during a crisis.

Underlining the growth worries, the IMF cut its economic forecasts for virtually every major region in 2013. It sees the euro-zone economy contracting by 0.3% in 2013, 0.2 percentage points more than it did in January.

That was due to relatively large markdowns in France as well as in Italy, which has been unable to form a government since elections in February, and where the economy is now forecast to shrink by 1.5%.
The French economy was forecast to shrink by 0.1% in 2013 after a year of no-growth in 2012. The IMF's latest forecast was 0.4 percentage points lower than in January for both countries, a relatively large downgrade in just three months.

More worrying, there are also signs that the slumping economies in countries like Spain—forecast to sink by another 1.6%—are starting to weigh heavily on the larger economies in the region.

"This slump in Europe is worrisome," Oliver Blanchard, the IMF's chief economist, said. "Now the question is how to get the recovery going in Europe."

The IMF was relatively upbeat about the strength of the U.S. recovery, but still sees growth in 2013 slowing to 1.9%, or 0.2 percentage points lower than it did in its last prediction back in January.

The main change since then was that the sequester took effect. Unless it is replaced with less immediate cuts, the sequester would subtract around half a percentage point from this year's growth rate, the IMF predicted.

"There should be both less and better fiscal consolidation now and a commitment to more fiscal consolidation in the future," it said.

One exception to the IMF's glum outlook was Japan, where the new government is using easy money policies and spending increases in a push to climb out of years of anemic growth. The IMF added nearly a half-percentage point of growth to the country's outlook for 2013 from its previous assessment, boosting it to 1.6%.

The program has lifted growth expectations but also cut the value of the yen, leading some to worry that countries seeking to juice their exports could get involved in tit-for-tat devaluations.

On Tuesday, the IMF largely dismissed such concerns.

"Complaints about competitive exchange rate depreciations appear overblown," the fund said, even while it noted that the yen has fallen 20% in real effective terms since mid-2012.

Much of the Japanese currency's decline has occurred this year, under the new government of Prime Minister Shinzo Abe. The IMF's pronouncement is likely to provide a great relief to his administration, following a blunt warning from the U.S. Treasury Department last week that it will continue to press Japan "to refrain from competitive devaluation."

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