

New IMF Term for Lagarde No Longer **Fait Accompli**

By Andrew Mayeda
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Christine Lagarde, managing director of the IMF. Photographer: Luke MacGregor/Bloomberg

Christine Lagarde's smooth ride to a second term as head of the International Monetary Fund just got a little bumpy.

Lagarde, 59, will be tried for negligence in relation to a settlement France reached with businessman Bernard Tapie during her time as the nation's finance minister, a French court said Thursday, even after prosecutors recommended dropping the case. She has repeatedly denied wrongdoing, and her lawyer said she will appeal the decision to put her on trial.

Previously, Lagarde was seen as all but a lock to be reappointed as managing director when her term ends next July. At the fund's annual meeting in Lima in October, Lagarde said she'd be open to serving another term. While she's still the front-runner and analysts said the case is unlikely to derail her reappointment, the prospect of a politically charged trial in her home country may still complicate her future at the Washington-based IMF.

The fund's 188 member countries will be keen to avoid adding to the negative publicity generated by the legal troubles of former IMF heads Dominique

Strauss-Kahn and Rodrigo Rato, said Andrea Montanino, who served as an executive director at the fund until last year.

“If the trial goes ahead, it could be difficult to seek a second mandate,” said Montanino, now director of the global business and economics program at the Atlantic Council in Washington.

Strauss-Kahn Cases

Lagarde took over as head of the IMF in 2011 when Strauss-Kahn resigned after a hotel maid accused him of sexual assault. Prosecutors dropped a criminal case amid inconsistencies in her testimony; Strauss-Kahn reached an undisclosed civil settlement with the woman. He was acquitted in June of charges of aggravated pimping stemming from sex parties he attended five years ago.

Rato is being investigated for money laundering after he took advantage of a 2012 tax amnesty to repatriate previously undeclared offshore funds, an accusation he has denied.

A trial would focus on Lagarde’s 2008 decision to allow an arbitration process to end a dispute between Tapie, a supporter of then-French President Nicolas Sarkozy, and former state-owned bank Credit Lyonnais.

Lagarde is the first woman to lead the IMF, which was conceived during World War II to coordinate international monetary policy and has evolved into a lender of last resort for countries facing capital shortfalls. The managing director is selected by the executive directors, who answer to the fund’s member nations. When the allegations against Lagarde surfaced, IMF staff members told the fund’s executive board they wouldn’t recommend her removal unless the case prevented her from doing her job, Montanino said.

Having to spend long periods of time in court in Paris could impede her ability to carry out her duties, as would travel restrictions, Montanino said, adding that he doesn’t expect the IMF’s 24 executive directors will push her to resign.

No ‘Impropriety’

Lagarde’s terms of appointment from 2011 say she must avoid “even the appearance of impropriety.” The executive board can dismiss her at any time. The IMF board said Thursday that it still sees Lagarde as able to do her job. “The executive board continues to express its confidence in the managing director’s ability to effectively carry out her duties,” IMF spokesman Gerry Rice said in an e-mailed statement.

Michel Sapin, the current French finance minister, told reporters in New York on Thursday that Lagarde is “innocent until proven guilty, so I don’t see how this should prevent her from carrying out her current duties.”

Even with her legal issues, Lagarde is a good bet to be reappointed, said Edwin Truman, a former Federal Reserve and U.S. Treasury official.

Few Enemies

“She hasn’t made many enemies,” said Truman, a senior fellow at the Peterson Institute for International Economics in Washington. “She’s curried a lot of favor.”

The case may proceed quickly, “if only to remove the cloud of suspicion over her,” said Christopher Mesnooh, a Paris-based lawyer at Fieldfisher LLP, who isn’t involved in the Lagarde case. “Everyone knows the importance of Christine Lagarde to the world economy. They won’t want to leave this unresolved.” The court that would try Lagarde is a specialized one that deals with ministers accused of crimes related to their positions, and there aren’t a lot of precedents, Mesnooh said. The charge of negligence in the use of public funds carries a maximum penalty of one year in prison and a fine of 15,000 euros (\$16,000). The IMF has been headed by a European since its inception, an arrangement the U.S. has tacitly accepted in exchange for European support for American chiefs of the World Bank. A strong candidate backed by emerging markets such as China and India might break the streak.

“Are the Europeans likely to try to dissuade her and seek another candidate?” said former IMF official Alessandro Leipold, now chief economist at the Lisbon Council, a Brussels-based researcher. “I doubt it very much: It would almost certainly mean losing Europe’s hold on the post.”