

IMF's Lagarde Looks Assured of a Second Term, Deferring a Future Emerging-Market Candidate

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Former French finance minister, credited for calm leadership of fund since 2011 amid market volatility and Greek debt crisis, is backed by Europe, U.S., and probably China

The ground may have been laid for the International Monetary Fund to bolster the representation of emerging markets on its governing council, but at present it appears to be all but assured that Europe will retain the top post in the institution for another five years.

Christine Lagarde, the former French finance minister, has been managing director since 2011 and all indications suggest she will secure another five-year term starting in July, with apparent support from Europe, Washington and most likely Beijing, a number of officials and observers told *Euro Insight*.

The selection process ends in March, and so far no other candidate has emerged, they said. Even if one does, he or she is highly unlikely to unseat Lagarde despite the fact that she faces legal problems Paris related to her tenure as former president Nicholas Sarkozy's finance chief.

"Once you have America and China on board, why would anyone mount a challenge?" asked a European official with knowledge of the IMF's voting procedures.

Widely credited for keeping a steady hand in recent years amid volatility in the world economy and financial markets, and demonstrating a calming role during high-stakes talks last summer that took Greece to the brink of leaving the Eurozone, Lagarde announced during last week's meetings in Davos, Switzerland, that she would be running for a second term as head of the IMF.

Another EU official said that Lagarde's appoint looks "sure ... from what you hear from Davos."

Almost immediately, Lagarde attracted a positive reaction from Britain, France, Germany, Italy and the U.S., which holds a blocking minority of votes on the fund's board.

Unlike periods when a sitting managing director leaves his or her position, a vote on the reappointment of a sitting head of the fund is considered as a referendum on the person in question rather than a two-way race with another candidate. In addition,

there has never been a case of a sitting IMF chief who sought re-election failing to secure the post.

In the past, all IMF chiefs have come from Europe as part of an unwritten agreement between with the U.S. But observers said Lagarde's reappointment would not diminish the claims of an emerging-market candidate to take the position in future, perhaps after her second term.

Developing countries were given a lift in December when a U.S. spending bill included approval for the administration of President Barack Obama to finally vote for stalled 2010 IMF reforms, which called for a doubling of the fund's quotas and a reallocation to give countries like China a greater say.

Miranda Xafa, a former IMF executive board member and senior fellow at the Center for International Governance Innovation, said that in the past, emerging market countries were divided over the post of managing director, with those on the left preferring a French socialist like Dominic Strauss-Kahn to a perceived "neoliberal" Latin American candidate.

Indeed, the Mexican central bank chief Agustin Carstens, whom Lagarde was up against before her first term, will not be running this time around, despite having gained support from Australia and Canada in the past.

"These divisions may be fading away as political power shifts away from the left, notably in Argentina and Venezuela, and as emerging markets gain a bigger voice at the IMF after the approval by the U.S. Congress of the long-standing quota realignment," Xafa said. "I therefore believe emerging markets have a good chance to nominate the next managing director after Ms. Lagarde's second term ends."

For now, Lagarde is understood to have attracted early support from emerging nations, and particularly China, thanks to her focus on issues such as including the yuan on the fund's official list of reserve currencies and pushing the issue of voting powers for emerging nations within the fund.

Her reappointment would come despite her legal troubles in France, where she stands accused of negligence for her role in a long-running case centred around damages awarded to the businessman Bernard Tapie, a supporter of her former boss, Nicholas Sarkozy.

Though Lagarde is expected be summoned to appear in court, few expect her obligations and work inside the IMF to be inhibited as a result.

Observers note that the French judicial system has a record of hauling politicians or former policymakers before the courts but rarely imposing punitive penalties on them, if convicted.

"Lagarde is appreciated by the shareholders and the board and it looks like she'll be given a new term," said Flemming Larsen, former deputy director of the research department at the fund, "but that doesn't diminish the claim that emerging markets have on filling the position in future."