France’s Lagarde Named New Head of I.M.F.

By LIZ ALDERMAN

PARIS — Christine Lagarde on Tuesday became the first woman to be appointed to the helm of the International Monetary Fund, taking on one of the most powerful positions in global finance as a worsening crisis in Greece threatens the euro currency union and rattles financial markets worldwide.

Her victory was sealed when the U.S. Treasury secretary, Timothy F. Geithner, said the United States would endorse her over the Mexican central bank governor Agustín Carstens — her only competitor for the job.

“Minister Lagarde’s exceptional talent and broad experience will provide invaluable leadership for this indispensable institution at a critical time for the global economy,” Mr. Geithner said in a statement.

In a statement, Ms. Lagarde, currently the French finance minister, said she would strive to ensure the I.M.F. remained “relevant, responsive, effective, and legitimate, to achieve stronger and sustainable growth, macroeconomic stability, and a better future for all.”

As a top official of one of Europe’s most powerful economies, Ms. Lagarde has been at the forefront of efforts to contain the European debt crisis, which led Greece, and then Ireland and Portugal, to seek bailouts to help them pay their huge sovereign debts.

A year after Greece secured a rescue package of €110 billion, or about $156 billion at current exchange rates, the country’s debt problems have resurfaced with a vengeance, posing profound challenges to the I.M.F., the European Union and the European Central Bank as they try to
contain the crisis.

That is no easy task. Global markets have been whipsawed in recent weeks as fears mount that Greece could default on its debts, despite aid from the I.M.F. and its European partners. Many worry about a Lehman Brothers-style chain reaction in financial markets that could break up the euro zone and spark a new crisis at banks and insurance companies in Europe that could spread to some American institutions.

Representatives from emerging markets fought to claim the I.M.F. leadership from Europe, which has produced every managing director since the fund’s inception more than 60 years ago. Mr. Carstens argued that Europe needed someone who would bring a fresh pair of eyes to the crisis. But Ms. Lagarde persuaded her backers that the I.M.F. needed a European at the helm to address the Continent’s deepening debt problems.

Ms. Lagarde was initially opposed to getting the I.M.F. involved in Greece’s rescue, seeing it as a problem that Europe’s politicians and policy makers needed to resolve. When the I.M.F. entered the scene last year, Ms. Lagarde took a hard line on Greece, at one point threatening to withdraw financial aid if the country did not respect its engagements to cut spending and raise revenue.

Yet Ms. Lagarde has also come under fire from critics who say she and other senior European policy makers mishandled the situation from the beginning, and are now scrambling to clean up problems of their own making. Mr. Geithner last week chastised Europe for failing to speak with one voice on the Greek crisis.

Simon Tilford, the chief economist of the Center for European Reform in London, said the I.M.F. should never have gotten so deeply involved. “For the I.M.F. to be devoting so much financial and human capital to try to combat a problem in Europe which is largely political in origin and can only be solved by political agreement is controversial,” he said. “It threatens the I.M.F.’s credibility.”

French banks have the largest exposure to Greece — estimated at €65 billion by the Bank for International Settlements — of any financial institutions in Europe. France on Monday outlined a plan for domestic banks to give Athens more time to pay back loans as they come due over the next three years. Ms. Lagarde has been a major force in negotiating the bailout for Greece, and
at the same time, she has opposed a full-blown restructuring of Greece’s debt, pushing instead for a voluntary restructuring by debt holders.

That has raised questions about whether her impartiality on the issue would be clouded as she leads the fund.

“There is a risk that her perceived objectivity will be brought into question because of this,” Mr. Tilford said. On the other hand, “it’s possible she will come to believe debt restructuring could be in France’s interest, and that kicking the can down the road could ultimately cost the French more.”

A person close to Ms. Lagarde said she would aim to lead the I.M.F. even-handedly. “Before, she was representing one country,” said the person, who was not authorized to speak publicly on the matter. “She will now be wearing a different hat, which would free her from certain constraints, and allow her to have a more sound approach.”

Ms. Lagarde will now be overseeing the financial bailouts of three Western European countries, a situation that would have been unthinkable just a few years ago. Historically, the fund has lent to emerging countries with harsh austerity prescriptions that often dealt economies a sharp blow. Egypt last week rejected a $3 billion loan that it had sought from the I.M.F., largely because an angry public did not want to face the fund’s onerous requirements to cut spending.

But three years after a financial crisis on Wall Street sent the global economy into a tailspin, Europe is now at the center of the storm. “The most pressing crisis situation is in Europe right now, so it’s defensible that the I.M.F. should have a lot of its eggs in the European basket,” said Nicolas Véron, a senior fellow at Bruegel, a Brussels-based research institute, and a visiting fellow at the Peterson Institute for International Economics in Washington.

Ms. Lagarde, a former top executive at the Chicago-based law firm Baker & McKenzie, is considered a veteran political negotiator who speaks her mind, even when it has put her at odds with her boss, the French president Nicolas Sarkozy. She has nurtured a close personal relationship with the German chancellor, Angela Merkel, leading the two women to find common ground on several important policy decisions as the euro crisis unfurled.

She also managed to soothe the concerns of emerging markets leaders by mounting an
aggressive charm offensive as she campaigned for the job of I.M.F. chief, visiting Brazil, China, India and Africa in rapid succession in June with pledges to lift those countries’ power within the fund — something they countries have sought for years.

Although emerging markets may be disappointed not to see Mr. Carstens heading the fund, Ms. Lagarde’s victory may end up being a better outcome because she “can twist the arms of European countries that have blocked progress on governance issues,” said Eswar Shanker Prasad, a senior fellow at the Brookings Institution who worked at the I.M.F. for 17 years.

Ms. Lagarde plans to start work in Washington on July 5, a French finance ministry spokesman said, and kick off her tenure with a video message and a town hall meeting with I.M.F. employees who have been rocked by the sudden changes at the institution.

As the new I.M.F. managing director, Ms. Lagarde will be taking over at a delicate time, following the resignation last month of Dominique Strauss-Kahn. As she heads to Washington, there is one more hurdle she must overcome. A French court is to decide July 8 if it will investigate whether she abused her authority in a case that resulted in a lucrative payment to a French businessman, Bernard Tapie, in 2007.

*This article has been revised to reflect the following correction:*

**Correction: June 30, 2011**

An article on Wednesday about the appointment of the French finance minister, Christine Lagarde, as managing director of the International Monetary Fund misstated the value in dollars of Greece’s 110-billion-euro rescue package. It was about $156 billion at Tuesday’s exchange rates, not $140 billion.