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IMF Finds Chief Didn't Abuse Power

By BOB DAVIS

WASHINGTON -- The International Monetary Fund's governing board cleared IMF chief Dominique Strauss-Kahn of accusations that he had abused his position in pursuing an affair with a staffer, easing the way for the IMF to focus more fully on the global economic downturn.

Although the board found Saturday that Mr. Strauss-Kahn, 59 years old, had committed a "serious error of judgment" by having a sexual relationship with Piroska Nagy, then a senior official in the IMF's Africa department, the board said there was no evidence of "harassment, favoritism or any other abuse of authority" by Mr. Strauss-Kahn.

The IMF chief acknowledged the lapse in judgment and apologized to the board and staff. "I am committed, going forward, to uphold the high standards" expected of an IMF managing director, Mr. Strauss-Kahn said.

Eswar Prasad, a former IMF senior official who now teaches at Cornell University, said the board believed it didn't need to censure Mr. Strauss-Kahn because he had already been sufficiently embarrassed. "The IMF board felt that at this stage he had taken his lumps," Mr. Prasad said, adding that any censure would merely serve to undercut Mr. Strauss-Kahn's leadership. Mr. Prasad left the IMF in 2007 and has ties to IMF officials. The IMF wouldn't comment on its motivation.

While the IMF was wrestling with Mr. Strauss-Kahn's behavior, it was also playing its traditional role of propping up economically troubled countries. Sunday, the IMF said it would make a \$16.5 billion loan to Ukraine to help it weather collapsing steel prices and global financial turmoil. (Please see related article on page A11.) Last week, the IMF announced a \$2.1 billion loan for Iceland. It is discussing similar programs for Hungary, Belarus and Pakistan.

The IMF also is trying to develop a new loan arrangement for countries that are considered to have sound economic policies but may face liquidity crunches, like Brazil, South Korea and Mexico.

Mr. Strauss-Kahn, a former French finance minister who ran unsuccessfully for

the Socialist nomination for French president in 2006, may run again in 2012. His Socialist allies figure Mr. Strauss-Kahn will bounce back from the episode quickly. "His chances are intact, even after this American adventure," said Henri Weber, a member of France's Socialist party.

Mr. Strauss-Kahn took the top IMF job at the end of September 2007 and fairly soon afterward started calling Ms. Nagy about IMF business, according to a report by the Philadelphia-based law firm of Morgan, Lewis & Bockius LLP, which was commissioned by the IMF. After a "two-week-long exchange of consensual and very personal messages," the report said, the two had a short affair in January 2008. Their liaison began at the Davos conference of global business and government leaders. Both are married.

Soon afterward, Ms. Nagy's husband, former Argentine central banker Mario Blejer, who earlier had worked for the IMF, discovered incriminating emails about the affair, according to people familiar with the incident. The Morgan Lewis report said Mr. Blejer advised his wife and Mr. Strauss-Kahn of the "potential for adverse publicity." Mr. Blejer declined to comment, as did Ms. Nagy's lawyer, Robert Litt of Arnold & Porter.

"Concerned about" the fallout the disclosure would have on him and Ms. Nagy, the report continued, Mr. Strauss-Kahn hired a lawyer and "sought advice from friends at a public relations firm." The existence of the affair was known only to a handful of staffers and IMF board members for months. Morgan Lewis was retained to examine the affair at the end of August.

The Morgan Lewis report doesn't mention the names of the parties involved, but their identities are well-known.

Under IMF ethics guidelines, Mr. Strauss-Kahn and Ms. Nagy "should seek confidential ethics advice to prevent actual or apparent conflicts of interest." Mr. Strauss-Kahn didn't follow that rule, the report said. It isn't known if Ms. Nagy did. Still, according to a memo by two IMF lawyers, failure by IMF supervisors to seek such advice "has not been treated as misconduct."

The IMF board ruled that the affair itself didn't constitute abuse and that Mr. Strauss-Kahn didn't either help or punish Ms. Nagy when she left the IMF in August during a period of downsizing. She now works at the European Bank for Reconstruction and Development, a regional development bank in London, where she earlier worked as a senior banker.

"Going forward," the report concluded, the IMF should consider whether its managing director should be held to a "higher standard of conduct" than the staff. The IMF board didn't publicly address that recommendation.

A. Shakour Shaalan, the longest-serving member of the IMF board, who led the day-long Saturday session, said a number of female staffers were especially unhappy with Mr. Strauss-Kahn's behavior. "I personally spoke to him after the meeting," Mr. Shaalan said, "and informed him that this should not happen

again."

—David Gauthiers-Villars in Paris contributed to this article.

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