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Latin American Reacts to New IMF Head

by LADB Staff
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In May, the International Monetary Fund (IMF) named Spanish economist Rodrigo Rato as its managing director and chairman of the executive board for a five-year term. Latin American officials offered generally positive statements in response to Rato's appointment, expressing optimism that he would understand the problems of their region's economies. But watchdog groups complained about the lack of transparency in the director selection process and developing nations criticized the focus on European and US candidates.

Former Spanish official Rodrigo Rato new IMF chief Rato served as Spain's Minister of Economy and Vice-President for Economic Affairs from 2000 to 2004 in the government of recently departed Prime Minister Jose Maria Aznar. He served as the nation's minister of economy and finance from 1996 to 2000 in that administration. His supporters pointed to a consistent economic growth rate in Spain during his administration, an increase that coincided with a drop in inflation. Many credit him with helping Spain become a major player on the world's economic stage.

Rato replaced former managing director Horst Koehler, who left the post to seek the German presidency. Rato succeeded in winning the post against another European rival, Frenchman Jean Lemierre, who is head of the European Bank for Reconstruction and Development (EBRD) and against Mohammed El-Erian, a US citizen of Egyptian origin.

Rato, the first Spaniard to head the Fund, comes from a powerful, conservative family with strong links to commercial, industrial and financial businesses and more recently with information and media holdings. The family has for generations affiliated itself with powerful names in Spanish business, cultural and military circles and always with conservative connections.

Press reports frequently described his style as Spain's finance minister as orthodox. During his administration the economy grew by more than 4% annually, while unemployment fell from 25% to 11%, and the gaping hole in the public finances was closed.

Optimistic statements from Latin American officials

The Minister of Finance for El Salvador, Juan Jose Daboub, celebrated the naming of Rato. "We believe that Rodrigo Rato has the qualities and the experience and the vision to be able to manage such an important institution," Daboub said. He recalled that, in the Assembly of Governors of the Interamerican Development Bank held in Lima in March, "the finance ministers of Central America offered our signatures to support the candidacy of Rodrigo Rato, and for that reason we are satisfied that he'll be the new managing director at the Fund."

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The Colombian government found voice through Finance Minister Alberto Carrasquilla to praise Rato on Radio Caracol in Bogota. "Rodrigo Rato is the most deeply knowledgeable about our Latin American reality of the names that were being thrown around. It is the first time that we have a native Spanish speaker in the IMF," the Colombian minister said.

Carrasquilla added that the Spanish economist "demonstrated during his eight years as economy minister for his country his enormous capacity for solving problems and understanding the difficulties that the modern international economy is overcoming." Carrasquilla thought that with Rato "there will be more dialogue, there will be an understanding of reality, and an acceptance of the fact that we are fulfilling all of the agreements with the Fund."

Uruguay's Economic Minister Isaac Alfie thinks Rato "will bring a lot" to the IMF. "During his work [for the Spanish government] he has demonstrated that he is well-equipped, because he has applied orthodox and realistic policies while at the same time making the economy of his country grow."
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Brazil's Finance Minister Antonio Palocci, said he valued "the great leadership ability with international finance" Rato exhibits. Palocci's counterpart in Chile, Nicolas Eyzaguirre, said "Rodrigo Rato is a close friend of Chile. Yesterday [May 4], I spoke with him to congratulate him...He is a person who knows the realities of Latin America, who knows the realities of emerging economies."

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Peru's president Alejandro Toledo said the future director of the IMF "will have to listen to the reproaching voices in the streets of Lima, Quito, Buenos Aires and La Paz." Toledo, an economist who graduated from Stanford University, blames international financial institutions for strangling the economies of Latin America. "We have great inequalities [in the region], and therefore we have to be firm in the fulfillment of a social agenda and we have to be creative in looking for innovative financial mechanisms," Toledo said.

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The Argentine Interior Minister, Anibal Fernandez, ratified his country's support for the designation of Rato, saying, "We know Rato and Argentina has bet on this individual, because, even though he is a much more orthodox person than we are on economic concepts, he is a political person." Fernandez said that his status as a politician sets up "a much better advantage" for Argentina in its relations with the IMF in view of the "particular situation" the South American country faces. "The appointment of Rato will be very important," said Fernandez. "I don't know if he'll be more flexible
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Rato: "We have a problem with Argentina." Whether the glowing statements of various officials bear out or if they are merely pro forma congratulations will likely become evident as Rato practices his brand of tough-minded economic policies. Negotiations with Argentina may be the first place that tensions between Latin American officials and the IMF’s new director emerge into public view.

Argentina has been involved in intense negotiations with international creditors, seeking to reduce the amount it will pay bondholders and often threatening to go into default on debt payments (see NotiSur, 2004-03-12 and 2004-01-16). Rato played an important role as an intermediary in the IMF’s most difficult case in the last few years, the default of Argentina in 2001. He helped secure an IMF loan for Argentina after it devalued its currency, which had been linked to the US dollar, and defaulted on US$141 billion of private sector debts - the largest such default in IMF history (see NotiSur, 2001-12-14).

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Rato has urged the IMF to improve its early warning systems so that it gets wind of future crises in good time. "I think the process of anticipation...has to be one of the basic goals of the coming years," Rato said. "We have a problem with Argentina" that the institution would like to resolve so the country can return to international financial markets, he said.

In Washington, D.C., at his first press conference since his appointment, Rato specifically mentioned the restructuring of Argentina's debt, without going into details, but saying the country "must" come to a commitment and reestablish a relationship with its creditors. The government of President Nestor Kirchner, which backed Rato's nomination, has offered 25 cents on the dollar on its private debt of US$90 billion.

Groups protest "back-room" selection process

Funded by 184 member countries, the IMF gives advice and lends money to bring about economic reform. It is an unwritten convention that Europe nominates the head of the IMF while the US appoints the head of the World Bank. The lack of transparency in the selection process angered groups like the 50 Years Is Enough Network, a coalition of over 200 US organizations working to
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Others fear the selection process foreshadows a similar scenario when World Bank President James Wolfensohn finishes his term in 2005. "It's also a pre-run to the succession to Wolfensohn," said Peter Bosshard, policy director of International Rivers Network, a group that lobbies to end World Bank support for major infrastructure projects, especially dams. Heads of emerging market countries also expressed objections that no candidates from outside the US or Europe came into serious contention.

Some analysts, however, pointed to the nomination of Mohammed El-Erian as a step forward for third-world candidates, even though he lives in the US. Joseph Stiglitz, Nobel Prize-winning economist and former World Bank chief economist said, "The US and Europe are blocking very good candidates from other regions of the world. My worry is not just that this is a process conducted behind closed doors, but also that it deals only with finding a suitable European. The US and European governments block very good candidates this way...because they have a majority of the votes on the IMF boards."

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