



## **THE IMF AND THE EURO AREA CRISIS**

**Issues Paper for an Evaluation by  
The Independent Evaluation Office (IEO)**

April 28, 2016



## I. INTRODUCTION

1. The IEO is launching an evaluation of the IMF's engagement with the euro area. The evaluation will focus on the IMF's role during the banking and sovereign debt crises of Greece, Ireland, and Portugal, and it will also assess IMF surveillance and technical assistance in other euro area countries and institutions where they are relevant to the IMF's crisis-management role.<sup>1</sup>
2. A voluminous academic literature has emerged in recent years on various aspects of the euro area crisis. The evaluation will review this literature but seeks to add value by focusing on the IMF's analysis and decision-making, its engagement with member countries, and its cooperation with other institutions. A systematic evaluation of the IMF's engagement with the euro area provides a learning opportunity for the IMF as it continues to improve its effectiveness in surveillance, lending, and technical assistance, particularly in regions of the world with existing or emerging cooperative financing arrangements.
3. More than six years have passed since the crisis first surfaced in the euro area. A number of official entities have already issued assessments of specific aspects of the crisis. For instance, the Irish government's Commission of Investigation into the Banking Sector in Ireland published its report on the causes of the systemic banking crisis in April 2011.<sup>2</sup> In February 2014, the European Parliament's Committee on Economic and Monetary Affairs released its report on the "Role and Operations of the Troika with Regard to the Euro Area Programme Countries" (Greece, Ireland, Portugal, and Cyprus), along with an accompanying evaluation by Bruegel. The report called on the IMF to "redefine the scope of any future involvement on its part in EU-related assistance programmes." In addition, in 2015, the European Court of Auditors published a report on the economic adjustment programs for countries including Ireland and Portugal.
4. The IMF has also undertaken assessments of its work on specific aspects of the crisis. As part of the 2011 *Triennial Surveillance Review*, staff commissioned an external evaluation of IMF surveillance of the euro area.<sup>3</sup> The IMF released its own Ex Post Evaluations (EPEs) of the 2010 Stand-By Arrangement (SBA) with Greece in May 2013 and of the 2010 Extended Arrangement with Ireland in December 2014. It is now preparing a similar EPE for the 2011 Extended Arrangement with Portugal. The EPE for Greece characterized the SBA-supported program as "a holding operation," which "gave the euro area time to build a

---

<sup>1</sup> Market sensitivities of the early program years appear to have receded at the present time. Still, the IEO will remain alert to possible changes in circumstances and ensure that it does not interfere with operational activities including current programs.

<sup>2</sup> The Irish government also published two preliminary reports on the banking crisis in May 2010: one by the Governor of the Central Bank (the Honohan report) and the other by external consultants.

<sup>3</sup> IMF staff also commissioned an external evaluation of IMF tax policy advice to European crisis countries for internal reference.

firewall to protect other vulnerable members and averted potentially severe effects on the global economy.” In the IMF Executive Board discussion of the EPE, Directors generally saw scope for tailoring the Fund’s lending policies to the particular circumstances of monetary unions, including appropriate modalities for collaboration with the union-level institutions.

5. The present evaluation will draw on existing assessments and look across the full spectrum of IMF engagement with euro area countries affected by the crisis. In doing so, it will take into account lessons already identified.

## II. AN OUTLINE OF THE EVALUATION

6. **Objectives:** The evaluation seeks to draw lessons for the IMF, with a view to better facilitating the identification of crisis vulnerabilities and management of future crises, particularly in advanced economies and in member countries that are part of currency unions or regional financing arrangements.

7. **Coverage:** The evaluation will cover the IMF’s program engagement in Greece, Ireland, and Portugal, and IMF surveillance and technical assistance in other euro area countries and institutions, to the extent that these are relevant to the IMF’s crisis-management role. The specific issues to be explored would fall under the following three broad categories:

- a) Surveillance of program and non-program euro area countries as well as of the euro area as a whole;
- b) Engagements with euro area program countries and European institutions in the context of lending operations;
- c) Technical assistance in the context of surveillance and lending, as noted above, including monitoring of European assistance for Spain’s bank recapitalization and technical advice provided to European institutions.

8. **Issues related to surveillance** would include the following:

- What were the IMF’s views on euro area policies and institutions prior to the crisis? Was there awareness of potential gaps in the institutional framework that could catalyze a crisis or complicate crisis resolution? If so, to what extent were these potential gaps and proposals for addressing them highlighted?
- What was known and what was done by the IMF about the build-up of vulnerabilities in individual euro area countries?

- How did the IMF's views and assessments of individual countries and euro area policies evolve during the crisis?
9. ***Issues related to lending*** would include the following:
- What was the IMF's diagnosis of the problems in the program countries? Were alternative options considered, and how was consensus reached within the IMF as well as with country authorities and European and other partner institutions?
  - How did the IMF handle the challenges posed by the evolving European crisis-management apparatus? How well did the IMF perform within the Troika?
  - What lessons can be learned for program design and implementation from the divergent outcomes in the program countries?
10. ***Issues related to technical assistance***, which relates mostly to fiscal and financial sector reforms, would include the following:
- How did the IMF collaborate with the European Union and how effective was IMF technical assistance as part of crisis management?
  - What were the views and recommendations of the IMF on Europe's institutional architecture issues?

### **III. WORK PLAN**

11. Evidence will be gathered from: reviews of IMF and external documents; interviews with national authorities, officials from the European Union, European Commission, European Central Bank, and IMF staff; and consultations with outside experts and other stakeholders.

**REFERENCES**

- European Court of Auditors, 2015, “Financial Assistance Provided to Countries in Difficulties,” Special Report No. 18.
- European Parliament, Committee on Economic and Monetary Affairs, 2014a, “Report on the Enquiry on the Role and Operations of the Troika (ECB, Commission and IMF) with Regard to the Euro Area Programme Countries,” A7-0149/2014, February.
- \_\_\_\_\_, 2014b, “Committee Study on the Troika and Financial Assistance in the Euro Area: Successes and Failures,” prepared by A. Sapir, G. B. Wolff, C. de Sousa, and A. Terzi, February.
- Government of Ireland, 2010a, “The Irish Banking Crisis: Regulatory and Financial Stability Policy 2003-2008,” Report to the Minister for Finance by the Governor of the Central Bank, May.
- \_\_\_\_\_, 2010b, “A Preliminary Report on The Sources of Ireland’s Banking Crisis,” prepared by K. Regling and M. Watson, May.
- \_\_\_\_\_, 2011, “Misjudging Risk: Causes of the Systemic Banking Crisis in Ireland,” Report of the Commission of Investigation into the Banking Sector in Ireland, March.
- International Monetary Fund (IMF), 2011, “TSR External Study—An Evaluation of IMF Surveillance of the Euro Area,” prepared by J. Pisani-Ferry, A. Sapir, and G.B. Wolff, August (Washington).
- \_\_\_\_\_, 2013, “Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-By Arrangement,” May (Washington).
- \_\_\_\_\_, 2014, “Ireland: Ex Post Evaluation of Exceptional Access under the 2010 Extended Arrangement,” December (Washington).