

## IEO Evaluates IMF Response to Financial and Economic Crisis

In October 2014, the IEO completed an evaluation of the IMF's role in responding to the global economic and financial crisis that followed the collapse of Lehman Brothers in September 2008. (This evaluation does not cover the programs in Greece, Ireland, and Portugal, which are the subject of a separate ongoing evaluation.)

The evaluation found that the IMF was proactive and prompt in responding, despite being in a weak position when the crisis erupted. It reformed its lending toolkit and ramped up lending, from almost nil to about \$400 billion in 2008-13, to help member countries cope with the crisis. The IMF also provided timely and influential advice on the need for a coordinated fiscal expansion, although its subsequent advice in 2010-11 to initiate fiscal consolidation in some of the largest economies was premature.

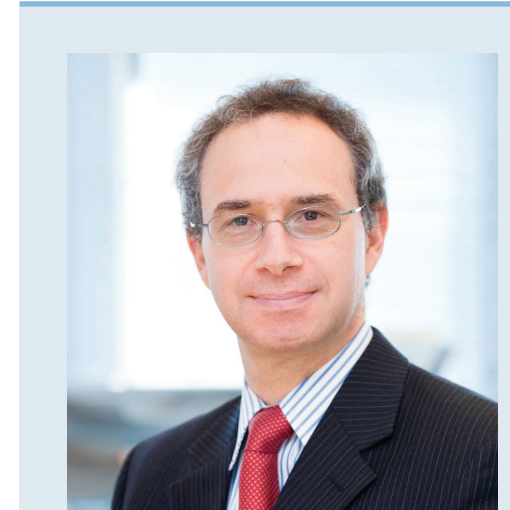
The evaluation concluded that the IMF played an important role within the global response to the crisis. However, more work is needed to better equip the IMF to anticipate and respond to future crises.

The IMF has considerably expanded its exercises, tools, and analytical work to be more alert and effective in warning about potential risks and vulnerabilities. However, concerns persist about the proliferation of exercises and tools, whether these exercises have been effective in providing early and clear warning about impending risks, and whether IMF surveillance is well placed to detect emerging vulnerabilities in systemic financial centers. The IMF now needs to prioritize and consolidate these

efforts to ensure that key messages reach policymakers in a timely manner and that financial surveillance is organized in a way that emphasizes systemic risk, focusing in particular on truly systemic financial centers. Moreover, the IMF should strive to remain a focal point for debate on macroeconomic and financial risks, and should continue to encourage an environment that remains genuinely open to alternative perspectives.

The large increase in financial support to member countries in response to the crisis was made possible by a resource mobilization effort that quadrupled the IMF's resources to about \$1 trillion by 2013. However, the doubling of quotas agreed in 2010 has not become effective, leaving the IMF dependent on borrowing arrangements for more than two-thirds of its total credit capacity. Implementing the agreed quota increase and realignment of shares is vital to the governance and legitimacy of the institution. It is also important to providing greater certainty that resources will be available when needed.

In responding to the crisis, the IMF collaborated with other organizations including the G20 (particularly on the Mutual Assessment Process) and the Financial Stability Board. These collaborations were largely effective in addressing aspects of the crisis and also enhanced the traction of IMF advice. However, to safeguard its independence and help ensure uniform treatment of all member countries, the IMF also needs to define broadly applicable principles of engagement and cooperation



Moises Schwartz, IEO Director

### About the IEO

The Independent Evaluation Office (IEO) was established in 2001 to conduct independent and objective evaluations of IMF policies and activities. Under its Terms of Reference, the IEO is fully independent from the Management of the IMF and operates at arm's length from the Board of Executive Directors. The IEO's mission is to enhance the learning culture within the Fund, strengthen the IMF's external credibility, and support institutional governance and oversight.

with other organizations, while remaining pragmatic and generally flexible, and allowing for adaptation to specific circumstances.

The evaluation report, *IMF Response to the Financial and Economic Crisis*, was discussed by the Executive Board on October 28, 2014, and published along with the Statement by the Managing Director and the Summing Up of the Board Discussion on November 4, 2014.

## Capital Account Liberalization

The IEO issued an update of the findings and conclusions of the 2005 evaluation of *The IMF's Approach to Capital Account Liberalization*.

The IMF has made considerable progress since 2005 in clarifying its approach to the liberalization and management of capital account flows. IMF staff has produced and synthesized a substantial amount of academic and operational research on capital account liberalization and capital controls and developed new multilateral surveillance products (e.g., spillover reports) that allow for greater attention to push factors affecting international capital flows.

In 2012, the IMF issued the Integrated Surveillance Decision that elucidated the place of capital account issues in bilateral and multilateral surveillance. Also in 2012, the IMF arrived at an “institutional view” on which to base Fund advice on the liberalization and management of capital flows.

The institutional view recognizes that full capital account liberalization may not be an appropriate goal for all countries at all times, and

that under certain circumstances capital flow management measures can have a place in the macroeconomic policy toolkit. This has done much to change the public image of the Fund as a doctrinaire proponent of free capital mobility. But the consensus around this institutional view remains fragile, given the differing perspectives on how to manage capital flows within the IMF, as well as in the academic and policymaking communities. Continued efforts are needed to ensure consistent advice across the membership on capital flow management issues and to support multilateral cooperation on policies affecting international capital flows, against a backdrop of a patchwork of bilateral, regional, and international agreements regulating cross-border capital flows among different groups of countries.

The IEO update was published, along with the Statement of the Managing Director, on March 17, 2015. It is available on the IEO website, along with the previous updates in this series on prolonged use of IMF resources; fiscal adjustment; technical assistance; and PRSPs, the PRGF, and aid to Sub-Saharan Africa.

## Ongoing work

In early 2015, the IEO launched a new evaluation on “The IMF and the Euro Area Crisis.” This evaluation will assess the IMF’s engagement in the euro area, including its programs in Greece, Ireland, and Portugal.

The IEO is also working to conclude “An Assessment of IMF Self-Evaluation Systems” and an evaluation of “Statistics for Global Economic and Financial Stability: The Role of the IMF.” The IEO has also consulted with Executive Directors and other stakeholders on potential future evaluation topics, based on a January 2015 note on “Possible Topics for Evaluation over the Medium Term,” available on the IEO website.



From left to right: Teresa Ter-Minassian, former Director of the Fiscal Affairs Department, and Meg Lundsager, former U.S. Executive Director, participate in an IEO workshop in December 2014.

## Follow up on IEO evaluations

Management Implementation Plans to communicate the planned follow-up on IEO evaluations are pending for three evaluations of *IMF Forecasts—Process, Quality, and Country Perspectives* (discussed

by the Executive Board in February 2014), *Recurring Issues from a Decade of Evaluation—Lessons for the IMF* (discussed in June 2014), and the *IMF Response to the Financial and Economic Crisis*.

## Periscope

### December 2014

The IEO presented the findings of its evaluation of *IMF Response to the Financial and Economic Crisis* at the European Investment Bank and at the European Court of Auditors in Luxembourg.

The IEO gave a presentation on its evaluation of *IMF Response to the Financial and Economic Crisis* at the European Central Bank and the Bundesbank in Frankfurt, Germany.

### January 2015

The IEO Director conducted an introductory seminar at the IMF Executive Board entitled “The Role of Evaluation in Enhancing Learning and Accountability at the IMF” to help new Board members get acquainted with the IEO.

### February 2015

The IEO presented the conclusions of the *IMF Response to the Financial and Economic Crisis* at the Centre for International Governance Innovation in Waterloo, Canada.

The IEO Director led a joint workshop with Bruegel as part of the ongoing evaluation of “The IMF and the Euro Area Crisis” in Brussels, Belgium.

### March 2015

The IEO presented the findings of the evaluation of *IMF Response to the Financial and Economic Crisis* to authorities in Buenos Aires, Argentina.

IEO gave a presentation on its evaluation of *IMF Response to the Financial and Economic Crisis* at the meetings of the United Nations Economic Commission for Latin America and the Caribbean, and at the Central Bank of Chile, in Santiago, Chile.