

## THE CHAIRMAN'S SUMMING UP

### IEO EVALUATION OF IMF PERFORMANCE IN THE RUN-UP TO THE FINANCIAL AND ECONOMIC CRISIS

Executive Board Meeting 11/8  
January 26, 2011

Executive Directors concurred with the general thrust of the IEO evaluation and recommendations. They considered that the report provided a balanced assessment of the failure of Fund surveillance to adequately anticipate and warn about the global crisis, consistent with the Fund's own reports that acknowledged these shortcomings. Directors noted that the reform initiatives undertaken since the onset of the crisis—the early warning exercise, the vulnerability exercise for advanced economies, inputs into the G20 Mutual Assessment Process, integration of WEO-GFSR messages, mandatory financial stability assessments for systemic countries, and cross-country and spillover reports—will help enhance the candor and traction of surveillance. Nevertheless, Directors agreed that further actions should be considered.

#### Key IEO Findings

Directors broadly agreed with the IEO findings on the factors that had contributed to the failure to identify risks and give clear warnings in the run up to the global financial crisis. They stressed, in particular, the need to further enhance capacity to better “connect the dots” between financial and macroeconomic surveillance and between multilateral and bilateral surveillance. Directors also agreed that more should be done to access thoughtful and diverse opinions within the Fund and from outside experts. They noted that, in addition to bolstering analytical capacity, efforts should be made to improve the institutional culture to encourage creative thinking and alternative views. A few Directors stressed that a broader framework that will help enhance the effectiveness of Fund surveillance should be considered and developed.

Many Directors cautioned that a lack of data and information before the crisis was a concern, as it hampered real-time assessments. A number of Directors considered, in particular, that the reluctance of financial supervisors to share relevant data on globally important institutions hindered IMF analysis.

A number of Directors also stressed that some realism is needed in what to expect of Fund surveillance, given that, ultimately, the responsibility for adhering to and implementing stability-oriented policies lies with the respective authorities.

#### IEO Recommendations

Directors broadly endorsed the IEO recommendations, particularly to help strengthen the IMF's institutional environment and analytical capacity. At the same time, they expressed a range of views on the appropriateness and suitability of some specific suggestions on how to implement the recommendations. Some Directors suggested a follow-up report by the Executive Board to the IMFC. Directors underscored that further analysis and discussion were warranted in some areas to make the recommendations actionable within competing work program priorities and budgetary constraints, and many suggested considering other responses which could complement the IEO recommendations, including by directly tackling issues of internal culture and institutional values.

Directors generally agreed that more should be done to seek alternative or dissenting views, and a number of Directors were of the view that direct interactions between the Board and eminent outside analysts could be enhanced. Directors noted that, since the crisis, the Fund has heightened outreach efforts, including engaging stakeholders with different perspectives.

Directors supported the recommendation to broaden the diversity of staff, including their educational background and skill mix. They welcomed ongoing efforts to hire financial sector experts and to manage their career progression once in the Fund. A number of Directors did not support the IEO's recommendation to create a new risk assessment unit, given the overlap with other recent initiatives, but instead encouraged enhanced outreach to disseminate risk assessments under the early warning exercise. Many Directors also noted the value of having more granular summings up of Board discussions to

reflect important minority views, without losing track of the objective of building consensus.

Directors agreed that incentives needed to be strengthened to ensure the Fund “speaks truth to power,” while noting that this was an exceedingly difficult issue for any international agency. Directors looked forward to the upcoming *Triennial Surveillance Review*, which will examine the promotion of effective surveillance. Directors supported the proposal for the IMF to continue to conduct regular self-assessments with input from both authorities and external stakeholders.

Directors welcomed the IEO’s positive appraisal of the recent changes to the FSAP, and felt that it would be useful to have further discussion of possible enhancements. Some Directors also emphasized the need to continue increasing MCM engagement in Article IV consultations for systemic cases.

Directors stressed that, while more could be done to foster cross-departmental collaboration, recent initiatives, such as the new internal review process, should be given time before changes are considered. Directors also considered it crucial that the analyses of the WEO, GFSR and the Fiscal Monitor deliver a consistent message. A number of Directors cautioned that the recommendation to err more often towards emphasizing risks and vulnerabilities could lead to more false alarms and thereby reduce the credibility and traction of surveillance.

To conclude, today’s discussion highlights the need to continue efforts to overcome shortcomings of Fund surveillance. Management and staff will give careful consideration to the views expressed by Directors in formulating the implementation plan.