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## **IEO Releases Evaluation of IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07**

The Independent Evaluation Office (IEO) of the International Monetary Fund (IMF) released today its evaluation of the IMF Performance in the Run-Up to the Financial and Economic Crisis. This evaluation was discussed by the IMF's Executive Board on January 26, 2011. In releasing the report, IEO Director Moises Schwartz explained that the evaluation's main aim is to improve the effectiveness of IMF surveillance in warning the membership on emerging risks and vulnerabilities to the global economy.

The evaluation focused on the performance of IMF surveillance during the 2004-2007 period. The report found that the IMF provided few clear warnings about the risks and vulnerabilities associated with the impending crisis before its outbreak. During the run-up to the crisis, the banner message of IMF surveillance was characterized by overconfidence in the soundness and resiliency of large financial institutions, and endorsement of the financial practices in the main financial centers. The risks associated with housing booms and financial innovations were downplayed, as was the need for stronger regulation to address these risks.

The IEO found that the IMF's ability to identify the mounting risks was hindered by a number of factors, including a high degree of groupthink; intellectual capture; and a general mindset that a major financial crisis in large advanced economies was unlikely. Weak internal governance and an institutional culture that discourages contrarian views also played an important role.

Mr. Schwartz noted that the IMF has already taken some steps to enhance surveillance. However, additional changes are needed to reform the IMF's culture, governance and practices, so that the IMF is better prepared to confront future challenges. While the IEO report focuses on financial sector issues because of the nature of the recent crisis, most of the recommendations deal with institutional changes that would improve the IMF's capacity to detect other types of risks and vulnerabilities that could be at the center of a future crisis. The IMF must clarify the roles and responsibilities of the Executive Board, Management and senior staff and establish a clear accountability framework as well as cultivate a culture which is proactive in crisis prevention. The IEO also stressed the need to modify institutional structures and incentives to foster better assessment of risks, internal collaboration, candor and clarity in messages, and the ability to "speak truth to power."

Mr. Schwartz concluded by indicating that the crisis highlighted the importance of a strong, effective, and well-equipped IMF. He noted, however, that the problems uncovered by this evaluation are long-standing, and that addressing them will require close collaboration between authorities in member countries, IMF Management, and the Board.

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