

# Foreword

Warning member countries about risks to the global economy and the buildup of vulnerabilities in their own economies is arguably the most important purpose of IMF surveillance. This IEO evaluation found that the IMF fell short in delivering on this key objective in the run-up to the financial and economic crisis that began to manifest in mid-2007 and that reached systemic proportions in September 2008. During the period 2004–07, the banner message of IMF surveillance was characterized by overconfidence in the soundness and resiliency of large financial institutions, and endorsement of 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. Governance impediments and an institutional culture that discourages contrarian views also played important roles. To address these factors, the report stresses the need to modify institutional structures and incentives to strengthen accountability and to foster better assessment of risks, candor and clarity in messages, and the ability to “speak truth to power.” More broadly, the IMF must cultivate a culture which is proactive in crisis prevention, continuously scanning for risks and emphasizing vulnerabilities—including in advanced economies. While the IEO report focuses on financial sector issues because of the nature of the recent crisis, most of its 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.

I am encouraged by the broad agreement with the conclusions and recommendations of this report expressed by the Managing Director and the Executive Board. The report has also led to a vigorous debate among IMF staff. This introspection is an important catalyst for change. The IMF has already taken a number of initiatives to address the weaknesses revealed by the crisis. However, the IEO believes that additional changes are needed to reform the IMF’s culture, governance, and practices, so that the IMF is better prepared to confront future challenges.

The international community needs a strong, effective, and well-equipped IMF to face the many economic and financial challenges that lie ahead. Yet the problems uncovered by this evaluation are long-standing and difficult to solve; addressing them will require close collaboration between authorities in member countries and the IMF Management and its Board. I hope this evaluation will contribute to this endeavor.

Moises J. Schwartz  
Director  
Independent Evaluation Office