# Statement by the Managing Director on the Independent Evaluation Office's Report on the IMF and the Crises in Greece, Ireland, and Portugal: An Evaluation by the Independent Evaluation Office

**Executive Board Meeting**
**July 19, 2016**

*I welcome the report of the Independent Evaluation Office (IEO) on the Euro Area crisis programs. Their work provides an independent and in-depth account, which I have no doubt will make an important contribution to understanding the Fund's approach to the crisis. As I have emphasized repeatedly, the IEO plays a vital role in enhancing the learning culture within the Fund, strengthening the Fund's external credibility, and supporting the Executive Board's institutional governance and oversight responsibilities.*

*Overall, the conclusion I draw is that the Fund's involvement in the Euro Area crisis programs has been a qualified success. The crisis in the Euro Area was unprecedented. Coming against the backdrop of the global financial crisis, the risks of broader contagion were high. Key challenges included the abrupt loss of market access; the need for orderly adjustments in countries with deep imbalances and no recourse to exchange rate policies; and the absence of Euro Area firewalls. In the face of this unprecedented systemic challenge, Fund-supported programs succeeded in buying time to build firewalls, preventing the crisis from spreading, and restoring growth and market access in three out of four cases (Ireland, Portugal, Cyprus). Greece, however, was unique: while initial economic targets proved overly ambitious, the program was beset by recurrent political crises, pushback from vested interests, and severe implementation problems that led to a much deeper-than-expected output contraction. On the other hand, Greece undertook enormous adjustment with unprecedented assistance from its international partners. This enabled Greece to remain a member of the Euro Area—a key goal for Greece and the Euro Area members.*

*The IEO's report offers many useful suggestions for the way forward. The Fund has also continually evaluated its own performance during the course of the 2010/11 programs and has taken action to incorporate lessons learned. That work will continue, and will benefit from the IEO's evaluation.*

## I. Perspective on the Unprecedented Euro Area Crisis

With the passage of time, it may be too easy to forget what the world looked like in 2010, especially the uncertainty, market volatility, and fear of yet another Lehman-like systemic shock. Integrated financial markets and the lack of a Euro Area-wide crisis management framework and firewall meant that problems in countries in crisis could have spilled over to other vulnerable Euro Area members, posing potentially severe systemic risks. There was a need to build firewalls in a short time, amid great uncertainty and within the Euro Area's consensus-based governance framework which required political agreement among 17 sovereign nations. Designing the adjustment programs was challenging as these Euro Area members faced abrupt loss of market access and deep imbalances—including structurally rooted competitiveness problems in some cases—without recourse to exchange rate flexibility.

Viewed in this context, the Fund-supported programs in the Euro Area were a success, albeit a qualified one. First and foremost, they succeeded in stemming systemic risks by, among other things, buying time to mobilize political support among Euro Area members to build firewalls and a crisis management framework. With the world economy fragile in the wake of the global crisis and financial markets still reeling from the collapse of Lehman only 18 months earlier, systemic concerns inevitably were paramount—and major contagion was avoided. Moreover, three of four programs—in Ireland, Portugal, and Cyprus—were successful in helping restore growth and market access.

Still, recessions in some of these cases were deeper and longer than expected. Fiscal multipliers were initially underestimated (though later adjusted) and, importantly, both the global and European recoveries were weaker than expected.

Greece, however, posed additional and unique challenges. With unparalleled international support, Greece undertook major fiscal adjustment. But Greece was afflicted to a much greater degree than other countries by pushback from vested interests, severe implementation problems, and recurrent political crises. The attendant deep confidence crises—and repeated episodes of fears about Grexit—led to a much deeper-than-expected output contraction. Of course, none of these impediments was foreseen in advance and, with the benefit of hindsight, the initial assumptions about program ownership and growth proved much too optimistic. However, Greece remained a member of the Euro Area—a key objective for both Greece and other Euro Area members.

The IEO's reports echo many of the lessons that we have drawn from our own internal assessments. We undertook rigorous self-assessment in the course of the 2010/11 programs and, as a result, have already made changes to aspects of the Fund's operational and policy work. Early lessons were adopted in the context of the programs' quarterly reviews: for example, fiscal multipliers were adjusted; and greater realism was applied to the likely pace of structural reforms. The Fund's frameworks for debt sustainability analyses and dealing with debt overhangs were strengthened—including reform of the exceptional access policy and elimination of the systemic exemption. Under its program, Greece benefitted from substantial haircuts on private sector claims in 2012, as well as refinancing on highly concessional terms from its official creditors, and the IMF is currently calling for further official debt relief. Given the "troika" experience, work is underway to improve the effectiveness of the Fund's collaboration with regional financing arrangements. Regarding surveillance, we have undertaken major initiatives to reflect the more globalized and interconnected world. These initiatives include revamping the legal framework for surveillance through a new Integrated Surveillance Decision, deepening analysis of risks and spillovers, strengthening macro-financial and financial sector surveillance (including of systemic risk), and upgrading the assessment of external positions.

In summary, the crisis in the Euro Area was extraordinary. It posed unprecedented challenges that, with the global financial crisis providing tinder, could have rapidly spread through Europe and beyond. The Fund, in conjunction with our membership, our partners in Europe, and the wider global community, took steps that averted what could have been a much more severe European and even global crisis. As we reflect upon this extraordinary time and upon our work to restore stability and quell a potentially larger crisis, we will continue to strive to do even better and to further refine our responses as we evolve as an institution. We must constantly aspire to do better in avoiding crises, managing crises, and learning from the past. And, I assure you, we will continue to be a learning institution in our endeavor to foster global monetary cooperation, secure financial stability, and promote sustainable economic growth with high employment and shared prosperity around the world.

## II. Response to IEO Recommendations

The IEO makes five recommendations in this report. Below is my proposed response to each of these.

***Recommendation 1***. *The Executive Board and management should develop procedures to minimize the room for political intervention in the IMF's technical analysis.*

I support the principle that the IMF's technical analysis should remain independent. However, I do not accept the premise of the recommendation, which the IEO failed to establish in its report, and thus do not see the need to develop new procedures.

***Recommendation 2***. *The Executive Board and management should strengthen the existing processes to ensure that agreed policies are followed and that they are not changed without careful deliberation.*

I broadly support this recommendation. I concur that policy changes should be based on careful consideration by the Board. This, indeed, is standard practice. Even though all rules were followed, the process surrounding the creation of the systemic exemption took place under extraordinary circumstances, and I am committed to handling such circumstances better in the event of a future emergency situation of the kind the Fund faced in May 2010. The IEO also suggests that the Board independently "reviews the experience with the implementation of the exceptional access policy during the Euro Area crisis." This kind of review is already being undertaken in the context of the Ex-Post Evaluations of Exceptional Access Arrangements for the crisis countries, including the one currently underway for Portugal, and thus an additional process is not warranted. Finally, I of course support the principle that we follow existing policies. However, I consider that

**Table 1. The Managing Director's Position on IEO Recommendations**

| | Recommendation | Position |
|---|---|---|
| (i) | The Executive Board and management shoud develop procedures to minimizie the room for political intervention in the IMF's technical analysis | Qualified Support |
| (ii) | The Executive Board and management shoud strengthen the existing processes to ensure that agreed policies are followed and that they are not changed without careful deliberation | Support |
| (iii) | The IMF should clarify how guidelines on program design apply to currency union members | Support |
| (iv) | The IMF should establish a policy on cooperation with regional financing arrangements | Support |
| (v) | The Executive Board and management shoud reaffirm their commitment to accountability and transparency and the role of independent evaluation in fostereing good governance. | Support |

existing checks and balances are adequate and commit to ensuring that they are diligently applied.

***Recommendation 3***. *The IMF should clarify how guidelines on program design apply to currency union members.*

I support this recommendation. It would help to establish agreed "rules of the road" with our membership and demonstrate evenhandedness across currency unions, while recognizing the considerable heterogeneity among them (as articulated in the corresponding IEO background paper).

***Recommendation 4***. *The IMF should establish a policy on cooperation with regional financing arrangements.*

I support this recommendation. Moreover, I am pleased to note that a paper on regional financing arrangement (RFA) cooperation is already in the Executive Board's work program (available at: http://www.imf.org/external/pp/longres.aspx?id=5045, see paragraph 16).

***Recommendation 5***. *The Executive Board and management should reaffirm their commitment to accountability and transparency and the role of independent evaluation in fostering good governance.*

I support this recommendation. Indeed, I would like to emphasize that management and staff have been and will continue to be committed to accountability, transparency, and the role of the IEO. I also appreciate the specific suggestions under this recommendation to further strengthen cooperation with the IEO, which will be considered as part of the Management Implementation Plan.