

**IEO RESPONSE TO THE STATEMENT BY THE MANAGING DIRECTOR  
ON THE IEO REPORT ON THE IMF RESPONSE TO  
THE FINANCIAL AND ECONOMIC CRISIS:  
AN IEO ASSESSMENT**

**Executive Board Meeting  
October 28, 2014**

The IEO welcomes Management's concurrence with several of the evaluation's findings and recommendations. This response addresses the two main issues on which there is some disagreement: the appropriate macroeconomic policy advice to the largest advanced economies during 2010–12, and IEO's recommendation to strengthen the focus of financial sector surveillance on systemic risks.

On macroeconomic policy, Management and the IEO agree that in hindsight, advice to consolidate fiscal policy in the largest advanced economies was premature. The IEO believes that given the conditions that prevailed in 2010–12 it would have been appropriate for the IMF to recommend the continuation of expansionary fiscal policy, along with accommodative monetary policy, until economic recoveries were better established. Indeed, longstanding research indicates that fiscal multipliers would be elevated in the aftermath of a financial crisis, pointing to the potency of fiscal expenditures to spur growth. In fact, this was eventually corroborated by analysis in the *WEO* and Research Department that found fiscal multipliers to be significantly elevated during this crisis. At the same time, the downward trend of interest rates on public debt in the largest advanced countries suggested an insignificant risk of a debt crisis.

In fact, several influential analysts at the time were arguing for continued fiscal expansion to complement monetary expansion. In any case, professional opinions on the nature of the financial crisis and on how to address it have not converged and debates will likely continue on the relative risk of policies.

We are encouraged that Management shares IEO's concern that five years is too long an interval to ensure that financial stability assessments are able to detect emerging risks in time to address or mitigate them. For that reason, IEO recommends to update the financial stability assessment (but not necessarily the review of institutional frameworks and issues) on the five to seven systemically important financial centers on an annual basis. On the other hand, Management raised concerns about the resource implications of conducting such updates. One way to address both these concerns could be to begin the staff-proposed mainstreaming of financial sector analysis in Article IV consultations for economies with the largest financial sectors. Initially, this could be achieved by assigning staff with the requisite financial sector expertise to work continuously on the five to seven economies with systemic financial sectors, and reflecting their work in the annual Article IV consultations.