

# Introduction

This evaluation assesses the IMF's response to the global financial and economic crisis, focusing on the period September 2008 through 2013.<sup>1</sup> It is a natural follow-up to the 2011 IEO report on *IMF Performance in the Run-Up to the Financial and Economic Crisis*. It assesses the IMF's actions to help contain the crisis and navigate a global recovery, assist individual economies to cope with the impact of the crisis, and identify and warn about future risks. The evaluation recognizes that there is still an ongoing debate, which is likely to continue for some time, on the appropriate policy response to a financial and economic crisis of this magnitude.

In the aftermath of the Lehman collapse the world entered the most serious financial and economic crisis since the Great Depression. An incipient financial panic led to a sharp global downturn in 2009, giving rise to fears of a protracted recession as in the 1930s. The financial panic was contained as central banks injected massive liquidity into financial markets worldwide and key systemic institutions were rescued. Automatic stabilizers and the adoption of fiscal stimulus also limited the initial loss of output. A global depression was avoided, thanks in part to the concerted response of the international community. But the economic rebound seen in 2010 was followed by slower global growth, and performance since then has been uneven across countries. In many regions and especially in Europe, the economic downturn and loss of employment has been the largest since the 1930s.

The IMF played an important role in the concerted response, even though it was in a relatively weak position when the crisis erupted. IMF resources were at a historic low relative to financial flows and the size of the global economy. The organization was in the midst of a major downsizing and restructuring (see Annex 2), motivated by low demand for its lending and the

widespread belief that the global economy had entered a period of "Great Moderation." The downsizing resulted in the loss of many seasoned staff, distracted others, and complicated the staffing of program and surveillance missions. There were concerns about the IMF's ability to respond effectively to the crisis because it had not warned about the vulnerabilities that had brought it about. Segments of the membership were concerned with the IMF's performance during the crises of the previous decade. Finally, some large emerging market economies (EMEs) questioned the IMF's legitimacy to play a major role because they felt that they did not have enough say in its governance (see IMF, 2009b).

The evaluation is organized around three broad areas of IMF activity: coordination with multilateral entities, surveillance, and financial support to member countries.

## *Coordination and collaboration with multilateral entities*

- The IMF participated in and helped to coordinate global and regional initiatives. For example, it provided analytical support and policy advice that facilitated the efforts led by the Group of Twenty (G20), and it cooperated with the Financial Stability Board (FSB).

## *Multilateral and bilateral surveillance*

- The IMF agreed on a new surveillance framework that aims to better integrate bilateral with multilateral surveillance, and economic with financial surveillance, and it advised member countries on responses to the crisis.
- It analyzed shortcomings in financial sector policy and regulatory frameworks, and proposed corrective actions. It also made the Financial System Stability Assessment (FSSA) component of the Financial Sector Assessment Program (FSAP) a

<sup>1</sup>Annex 1 presents an IMF-centric timeline of the evaluation period. The evaluation does not assess lending programs in the euro area, as they will be the subject of a separate IEO evaluation.

mandatory part of its bilateral surveillance for the world's top systemic financial centers, to take place at a minimum of every five years.

- It revamped its mechanisms to detect vulnerabilities and risks. In partnership with the FSB, it launched a semiannual Early Warning Exercise (EWE) to explore tail risks to the global economy.

*Contributions to strengthening the global financial safety net*

- The IMF quadrupled its credit capacity and made a general allocation of SDRs equivalent to \$250 billion—increasing total SDR holdings tenfold.
- It revamped its lending toolkit, introducing more flexibility in its lending instruments, increased the amounts that members can borrow (i.e., access limits), and streamlined conditionality. It also launched several new instruments, among them the Flexible Credit Line (FCL) to facilitate access to precautionary resources for members with strong fundamentals, policy frameworks, and implementation records.
- It increased nonconcessional lending from almost nil before the crisis to about \$400 billion in 2008–13 and contributed to a coordinated effort to limit the withdrawal of private financing in Central and Eastern Europe.

This evaluation assesses these activities and explores institutional issues that influenced their effectiveness. It asks what went well, whether lessons from previous crises were applied, and what issues need to be addressed going forward. In addition to asking about

past performance, the evaluation asks how well the IMF is prepared for the future: whether it is better equipped to warn of systemic risks, and whether it is better positioned to respond to the next crisis.

The evaluation team gathered information through a variety of methods, including reviewing IMF and other documents and undertaking semi-structured interviews with authorities from more than 30 countries, Board members, and current and former Management and staff. The evaluation team participated in workshops and seminars to elicit the views of counterparts from other international institutions and private sector and civil society organizations. Background information and analysis can be found in background papers (see the IEO website, [www.ieo-imf.org](http://www.ieo-imf.org)).

The remainder of this report is organized as follows. Chapter 2 considers IMF coordination roles in the response to the crisis. Chapter 3 assesses IMF surveillance following the crisis, focusing on the IMF's macroeconomic and financial sector advice and on its work to strengthen its framework to detect risks and vulnerabilities. Chapter 4 examines the IMF's contributions to strengthening the global financial safety net, including its efforts to bolster the resources available to member countries, as well as its lending to countries most affected by the crisis. Chapter 5 provides conclusions and key recommendations. Annex 1 presents an IMF-centric timeline of developments during the evaluation period, Annex 2 provides the background to and a description of the IMF downsizing exercise of 2008–09, Annex 3 presents the abstracts of the background papers prepared for the evaluation, and Annex 4 summarizes conclusions and recommendations from previous relevant IEO evaluations.