

**INDEPENDENT EVALUATION OFFICE COMMENTS ON  
MANAGEMENT/STAFF RESPONSE TO THE EVALUATION OF THE  
ROLE OF THE FUND IN ARGENTINA, 1991–2001**

**Executive Board Meeting  
July 26, 2004**

We would like to offer a few points of clarification, in response to the comments made by management and staff on the IEO report, focusing on the most critical issues.

The staff suggests that the evaluation report is inconsistent between its assessment of the IMF's decision in late 2000/early 2001 and the lesson it draws from this assessment (para. 5). An inconsistency arises only if one believes that the outcome depended solely on economic fundamentals. This is not the view we take. We believe that investor expectations played a critical role and that, in addition to serious concerns about the fundamental sustainability of both the exchange rate and the debt, there was a self-fulfilling aspect to the crisis. If there were indeed multiple equilibria, one can then argue that the catalytic approach, supported by strong policy action, could have affected investor confidence so favorably as to reverse capital outflows. Our assessment of the IMF's initial approach—that it was worth trying in light of the very high costs of the alternative—follows from this reasoning. In the event, this strategy failed when the agreed policy correction was not made, from which we draw a lesson that the catalytic approach to affect investor expectations has a low probability of success when there are fundamental sustainability problems and the political ability of the authorities to deliver the needed policy correction is weak. Our assessment is a probabilistic one (based on the information available at the time the decision was made), while the lesson necessarily benefits from hindsight.

Regarding Recommendation 1, the staff notes some obstacles to making stop-loss rules operational (para. 10). We agree with much of this argument, but three points deserve emphasis. First, a stop-loss rule is meaningful only if it is part of an overall crisis management strategy tailored to each case. Second, discretion can be a double-edged sword. Discretion can, for example, make it more difficult for the IMF to refuse a member country's request for exceptional support even when the situation seems irretrievable. Conversely, it may induce the country to keep postponing the needed adjustment, in the hope that the favor would be extended over and over again. Third, a stop-loss rule can help focus attention on sustainability, which goes beyond policy performance or effort. In the case of Argentina, throughout the spring and summer of 2001, the IMF continued to provide support on the basis of what it perceived to be the strength of the authorities' resolve, when by that point nothing short of a different strategy could fundamentally solve Argentina's economic problems.

Finally, the staff suggests that the evaluation report understates the informal channels of communication by which information is made available to the Executive Board (para. 4). It is worth emphasizing that the IEO obtained, from varied sources, a large number of notes and reports prepared on all relevant informal Board meetings. What the IEO lacked was access to the informal exchanges that may have taken place between management and individual or subgroups of Executive Directors. Such exchanges, however, cannot be construed as constituting the information provided to the Board.