

THE CHAIRMAN'S SUMMING UP

INDEPENDENT EVALUATION OFFICE REPORT ON THE ROLE OF THE FUND IN ARGENTINA, 1991–2001

Executive Board Meeting
July 26, 2004

Executive Directors commended the Independent Evaluation Office (IEO) for preparing a balanced and comprehensive report on the Fund's role in Argentina during 1991–2001. They noted that the report raises important questions about the Fund's engagement during that period, and seeks to draw valuable lessons and recommendations in key areas of the Fund's work, including surveillance, program design and review, and the Fund's decision-making process. Directors welcomed the opportunity to reflect on the report's assessment of that engagement, and agreed that it will be important to set up a process through which the relevant lessons and recommendations could be incorporated into the Fund's operational and policy development work.

Directors recalled that the period covered by the IEO report began with the introduction of the convertibility regime that pegged the Argentine peso at par with the U.S. dollar and ended with that regime's collapse accompanied by a default on Argentina's public debt. The 2001 crisis was one of the most severe in any country in recent years, and brought considerable hardship to the Argentinean people.

Directors generally agreed that the crisis stemmed from the prolonged inconsistency of fiscal policy with the convertibility regime. The primary responsibility for the choice of policies and for economic outcomes remains that of the national authorities, who in this case failed to take the necessary measures sufficiently early to address this inconsistency. The Fund, for its part, erred by supporting Argentina's weak and inconsistent policies for too long, even after it became evident that the political ability to deliver the supporting fiscal discipline and structural reforms was lacking. Directors raised a number of questions about the Fund's decision-making process as it continued to provide support to Argentina. In this connection, some Directors pointed to the challenge of taking difficult decisions in the pressured environment of a rapidly developing crisis.

Directors broadly agreed with the thrust of the lessons and recommendations of the report, which address important weaknesses identified by the IEO in surveillance and crisis management. They cautioned, however, that the applicability of some of the lessons to other crisis situations could be limited, since Argentina is a unique case in many respects. Directors noted also that a number of the report's recommendations are in line with policies and reforms which the Fund adopted following the crises in Argentina and other emerging market countries, but they recognized that further additional work is needed, including on how to ensure that the policies adopted are, in fact, implemented.

With regard to crisis management, Directors discussed the report's recommendation that the Fund should have a contingency strategy from the outset of a crisis, including, in particular, "stop-loss rules" that would help determine if the initial strategy is working and signal whether a change in approach is needed. Most Directors viewed contingency planning as useful, and a few saw merit in setting out an exit strategy if there are indications that the program could become unsustainable. However, many Directors noted that in a crisis or precrisis setting, it is not always possible to assess the various contingencies that might occur, and that an element of prompt adaptation to rapidly evolving events is unavoidable. Concern was also expressed that any indication that the Fund was developing contingency strategies could undermine confidence in the program. Clearly further reflection will be needed in this area to establish what can constructively be done in ways that enhance confidence.

As regards "stop-loss" rules, while some Directors supported their consideration, most felt that defining and implementing such rules would be difficult or impractical. These Directors considered that determining whether the crisis resolution strategy is functioning will invariably depend on judgment and discretion, based on the available information at the

time. Other Directors noted that the Fund's conditionality and program reviews provide a mechanism intended to ensure that the Fund continues to provide its financing only so long as the policies envisaged are being implemented and are on track to achieve their objectives.

Directors agreed with the IEO's recommendation that in cases where the sustainability of debt or the exchange rate is threatened, the Fund should clearly indicate that its support is conditional upon a meaningful shift in the country's policy. At the same time, they noted that assessing sustainability in these two complex areas, particularly in a crisis situation, will necessarily entail judgment. It is essential that the Board be provided with up-to-date and comprehensive information and analysis to make such judgments. Directors recognized that steps have been taken since the Argentine crisis to strengthen the basis on which such assessments are made: in particular, the procedures on exceptional access and the debt sustainability template. At the same time, Directors looked forward to an opportunity to assess whether further changes in the Fund's policies and procedures may be needed.

Directors considered that the Argentine experience had important implications for the Fund's surveillance, an area in which there had been marked progress since the crisis in Argentina. They concurred with the IEO's recommendation that medium-term exchange rate and debt sustainability analyses should form the core focus of IMF surveillance. Directors stressed that the choice of exchange rate regime must remain with the member's authorities, but the Fund is obliged to exercise firm surveillance to ensure that other policies and constraints are consistent with this choice. In this light, Directors continued to see a need—which was emphasized again recently in the Board discussion on the biennial review of surveillance—for greater candor in the treatment of exchange rate policy in the context of Article IV discussions, both in meetings with the authorities and in the information presented to the Board. Most Directors stressed, however, that reports on exchange rate assessments and discussions need to strike an appropriate balance between candor and confidentiality to avoid triggering a potentially destabilizing market reaction. In this connection, it was suggested that the scope for establishing procedures for handling sensitive topics during surveillance exercises should be explored by the staff. On exchange rate sustainability, Directors cautioned that finding an appropriate operational measure would be difficult; however, a few suggested that the development of such a measure by the staff should be a priority.

Directors recognized that the Fund has intensified its analytical work on medium-term debt sustainabil-

ity. Recent events have led to a reassessment—not only in the Fund, but in the economics profession more generally—of what level of debt is sustainable for emerging market countries, with the concept of “debt intolerance” playing an important role. Such a reassessment is already reflected in the Fund's work with the development of the debt sustainability framework. Directors asked staff to continue to sharpen its analytical tools in this area, and a few called for examining ways to strengthen the organization and independence of DSA work.

Directors noted the possible risks associated with precautionary Fund arrangements, especially where there are serious political obstacles to needed policies and reforms. In cases such as Argentina, where a member's favorable macroeconomic indicators masked underlying structural and institutional weaknesses, it was particularly important to avoid complacency. Most Directors did not think that precautionary arrangements tended to be weaker than other arrangements, noting that in some cases precautionary arrangements signaled superior performance. Directors agreed that there is a need to ensure that program standards and requirements for precautionary arrangements are the same as those for all other arrangements.

Most Directors did not support the implication in the IEO report that the Fund should not enter into a program relationship with a member country when there is no immediate balance of payments need. In their view, the experience of Argentina does not provide a basis for this conclusion, and they reiterated the value of precautionary arrangements as an important tool for supporting sound policies and promoting crisis prevention more generally.

Directors expressed concern about the IEO report's assessment of the quality of cooperation between the Argentine authorities and the Fund, particularly in the period leading up to the crisis. They viewed some of the authorities' actions during 2001 as documented in the report as not conducive to a satisfactory program relationship—particularly their implementation of some key measures without consulting the staff and their refusal to engage the staff on some key areas of policy, notably the exchange rate regime. Many Directors were also concerned that the Board was not kept adequately informed of such breakdowns of cooperation. In this light, Directors stressed that all cases of the use of Fund resources, particularly cases of exceptional access, should entail a presumption of close cooperation, and some Directors suggested that clear guidelines should govern communications by both the authorities and the Fund on program issues. Directors encouraged management and staff to keep the Board fully informed of the state of policy discussions with country authorities in the context of financial pro-

grams, including with regard to any critical issue or information that the authorities refuse to discuss with or disclose to staff and management. Many Directors agreed with the IEO's suggestion that there should be a requirement of mandatory disclosure to the Board of any critical issues which the authorities refuse to discuss.

Directors were concerned with the report's assessment of the Fund's decision-making procedures during the crisis, especially as it pertains to the role of the Board. In this regard, a number of Directors saw a need for further discussion of approaches to

strengthen the role of the Board. Directors noted that the procedures for exceptional access adopted since the Argentine crisis have generally worked to strengthen the Board's involvement and ensure that decisions to continue program engagement under exceptional access are adequately informed. At the same time, they called for further efforts to enhance decision making by the Board, including through improvements in the provision of full information on all issues relevant to decision making, and open exchanges of views between management and the Board on all topics, including the most sensitive ones.