



Highlights of [GAO-03-734](#), a report to Chairman, House Committee on Financial Services and Vice Chairman, House Joint Economic Committee

INTERNATIONAL FINANCIAL CRISES

Challenges Remain in IMF's Ability to Anticipate, Prevent, and Resolve Financial Crises

Why GAO Did This Study

Building on reform initiatives instituted after the Mexican financial crisis, the IMF implemented new initiatives in the mid-1990s to better anticipate, prevent, and resolve sovereign financial crises. GAO was asked to assess (1) the IMF's framework for anticipating financial crises, (2) the status of key IMF reform initiatives to prevent financial crises, and (3) new IMF proposals to resolve future financial crises.

What GAO Recommends

GAO recommends that the Secretary of the Treasury instruct the U.S. Executive Director of the Fund to work with other Executive Board members to encourage the Fund to

- improve the timeliness of FSAP and ROSC reports;
- expand the coverage, frequency, and publication of updates of participants' implementation of FSAP and ROSC recommendations;
- improve the FSAP and ROSC reports' readability; and
- increase participation in the FSAP and all standards of the ROSC and consider making participation mandatory.

Treasury, IMF, and the World Bank generally agreed with the report's recommendations. The IMF stated that we gave WEO and EWS forecasts greater importance than is warranted in anticipating crises. However, we focused on the only mature and quantifiable elements of the vulnerability framework.

www.gao.gov/cgi-bin/getrpt?GAO-03-734.

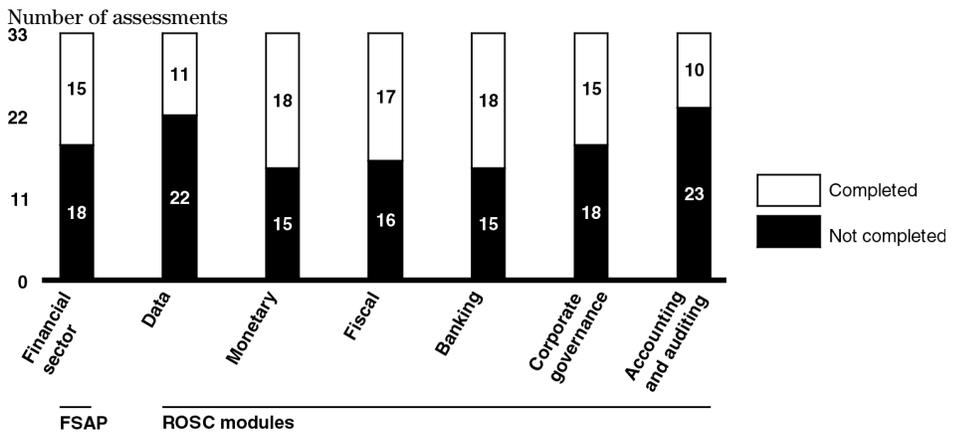
To view the full report, including the scope and methodology, click on the link above. For more information, contact Joseph A. Christoff at (202) 512-8979 or christoffj@gao.gov.

What GAO Found

While the Fund's new vulnerability framework is more comprehensive than its previous efforts, it is too early to assess whether it will improve Fund efforts to anticipate crises. The new framework uses the Fund's major forecasting tools, the World Economic Outlook (WEO) and the Early Warning System (EWS), which have not performed well in anticipating prior crises. The forecasting of crises has been historically difficult for all forecasters.

The Fund, with the World Bank, has made progress in implementing initiatives to prevent crises, but several challenges remain. To obtain better information about country financial sector weaknesses, the Fund and Bank introduced the Financial Sector Assessment Program (FSAP) to report on member countries' financial sectors and the Reports on the Observance of Standards and Codes (ROSC) to assess member countries' adherence to 12 standards. Assessments have not been completed in some major emerging market countries primarily because participation is voluntary, and use of this information has been mixed. For example, some private sector market participants have found the reports untimely, outdated, and dense.

Participation Gaps by 33 Major Emerging Market Countries in Key Assessments, 1999-2003



Sources: GAO analysis of Fund and Bank data (through March 2003).

The Fund is considering two approaches to restructuring unsustainable sovereign debt; however, there are significant challenges to implementing them. One approach involves creating an international legal framework that would allow a specified majority of a country's external creditors to restructure most private sector loans. Under the second approach, the Fund is encouraging members to include renegotiation clauses in individual bonds. Many private sector representatives wish to maintain the existing process in which the Fund assists resolution by providing loans to some eligible members. In response to concerns that its resources may have unintended negative impacts during a crisis, the Fund has clarified and strengthened its criteria for lending to members experiencing crises.