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IMF CRISIS FORECASTS FOUND LACKING BY NEW GAO REPORT

-- IMF Sought Deletion of Section on IMF Lending Safeguards --

WASHINGTON, D.C. - Essential components of the International Monetary Fund (IMF) framework to forecast financial crises "performed poorly" or were inaccurate, according to a new General Accounting Office (GAO) study released today by Vice Chairman Jim Saxton. Saxton and Financial Services Committee Chairman Michael Oxley requested the GAO study, *International Financial Crises: Challenges Remain in IMF's Ability to Anticipate, Prevent, And Resolve Financial Crises*.

The new GAO report finds that the new IMF vulnerability assessment framework faces challenges because it relies on the IMF's World Economic Outlook, which has a "poor track record of forecasting recessions, including those directly associated with a financial crises." The World Economic Outlook (WEO) also does a "poor job in forecasting the current account." The Fund's early warning system models were also found to be unreliable. The GAO reports that "the IMF acknowledges that their forecasts are overly optimistic and validates our finding on the weakness of the WEO component of the vulnerability assessment framework. This raises questions regarding the purpose and credibility of the WEO forecasts." The IMF asked the GAO to remove a section of the report documenting the very high rates of problems with lending safeguards and accounting controls identified by the Fund in recent years.

"This GAO report shows that there are significant weaknesses in the IMF's ability to anticipate financial crises," Saxton said. "The GAO report also corroborates my concerns about the failure of the IMF to have even minimal lending safeguards in place for most of its history. In fact, the IMF introduced safeguards assessments only in 2000 and adopted a permanent safeguards policy only last year. This reflects a longstanding lack of concern about the safety of taxpayer money that is as astonishing as it is disturbing.

"With respect to lending safeguards, the IMF asserts that the poor track record of many IMF members' central banks should not be a concern because there was a high degree of compliance with IMF recommendations subject to a December 31, 2002 deadline. However, there are several problems with this argument.

"First, as the IMF has acknowledged elsewhere, 'many of the safeguards recommendations will take one to three years to be fully implemented.' Accepting an IMF recommendation does not mean the problem identified is immediately resolved. Second, many central banks already using IMF funds as of June 30, 2000 were subject only to incomplete assessments that ignored most safeguard issues. I don't know why IMF members using IMF resources received more lenient treatment, but it does mean that many safeguard issues were not covered by the December 31, 2002 deadline. Third, the results of assessments for 23 central banks have not yet been released, but almost certainly include similar problems.

"The bottom line is that many central banks reviewed did not receive complete safeguards assessments, the results of other assessments are not yet public, and many safeguards issues were not subject to the December 31, 2002 deadline. Even many of the shortcomings identified in those subject to this deadline will take time to remedy. Although some progress has been made, most safeguards issues have not been fully resolved for many central banks subject to assessment. The IMF has chosen to adopt lending safeguards only very recently in its history. The poor track record of many assessed central banks further illustrates the dangers of the IMF's longstanding failure to properly address this issue," Saxton concluded.

For a copy of the GAO study and more information on international economic policy, please visit our website at www.house.gov/jec.

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