

**Statement by the Managing Director on the Independent Evaluation Office  
Report on IMF Advice on Capital Flows  
Executive Board Meeting  
September 18, 2020**

*I welcome the report of the Independent Evaluation Office (IEO) on IMF Advice on Capital Flows, and I generally support its broader messages. The report offers valuable analysis and recommendations, which will inform the forthcoming review of the Fund's Institutional View (IV) on the Liberalization and Management of Capital Flows. The review of the IV is currently scheduled for next year, and we will proceed on this timetable. I also broadly support the recommendations to build up monitoring, analysis and research and strengthen multilateral cooperation on policy issues affecting capital flows, which will be undertaken as soon as more critical work subsides and budget resources make it possible.*

I welcome this timely and useful evaluation. I appreciate the detailed analysis presented in the main report and the background papers, which together with the parallel work on the Integrated Policy Framework (IPF) will serve as input for the review of the IV, scheduled for 2021.

As noted in the report, the adoption of the IV represented a major advance in the IMF's policy framework to provide advice on capital account liberalization and the management of capital flows. Before the adoption of the IV, there was no consistent framework to guide policy advice on these areas. The IV was a major step towards filling the gap existing at the time. It welcomed the economic benefits of capital flows while recognizing the risks associated with capital flow volatility, developed a playbook for safe capital account liberalization, and incorporated capital flow management measures (CFMs) into the policy toolkit. It also noted the importance of international cooperation on capital flow policies in allowing countries to harness the benefits of capital flows safely, while minimizing negative spillovers. It was a demonstration of the institution's flexibility and willingness to embrace theoretical advances and lessons from experience.

I am pleased with the report's finding that IMF policy advice to countries has been broadly consistent with the IV, and that member countries perceive that its application has generally been evenhanded. This consistent policy advice is achieved through an internal review process carried out by an interdepartmental group. In addition, in recent years, the Fund has stepped up efforts to explain to the membership the application of the IV in practice, including through notes for the G20, engagements with the membership during the Spring and Annual Meetings, the publication of the IMF Taxonomy of CFMs, and by cooperating with other international organizations such as the OECD.

It is also encouraging that countries' policy choices during periods of capital inflow surges and reversals seem to have been broadly in line with the IV's overall framework. Countries have generally relied on a mix of macroeconomic policies, including exchange rate flexibility, foreign exchange intervention, and monetary and macroprudential policies when faced with such circumstances, and CFMs have generally not been used to substitute for warranted policy adjustments. This seems to have also been the experience thus far in response to the crisis triggered by the COVID-19 pandemic.

I take note of the theoretical advances, empirical work, and lessons from experience described in the evaluation. At the time of its adoption in 2012, the Executive Board made clear that the IV did not mean to lay down a doctrine or set in place a view once and for all. On the contrary, it was expected that the IV would continue to evolve and be reviewed in the light of new experience, analytical research, and feedback from country authorities and others. All these will be given due consideration in the forthcoming review of the IV.

In sum, I generally support the broader messages of the IEO evaluation, with some qualifications. We will revisit the IV and consider some of the specific recommendations of the evaluation as inputs in its forthcoming review. We will also build up the monitoring, analysis and research of capital account issues and strengthen multilateral cooperation on policy issues affecting capital flows. The resource implications of these latter recommendations will be considered in budget discussions, recognizing that there are competing priorities, including in the context of the response to the COVID-19 pandemic. Given their importance, we will undertake these two latter recommendations as soon as critical crisis work abates and resources permit.

Below is my response to each of the three recommendations of the report.

#### **RESPONSE TO IEO RECOMMENDATIONS**

##### ***Recommendation 1. Revisit the Institutional View in the light of recent experience and research.***

**I generally support revisiting the IV but defer to the upcoming review to consider the specific elements of the recommendation.**

I agree with the goal of maintaining the Fund's framework for advice on capital flows up to date with theoretical advances, empirical evidence, and lessons from experience, as envisaged when the IV was adopted. The Fund's capacity to provide cutting-edge convincing advice on capital flows depends on being prepared to continually learn and adapt. Therefore, I support the recommendation to revisit the IV in the context of the upcoming review, planned for 2021.

I agree that such a revisit need not involve a wholesale overhaul of the IV. The core principles underpinning the IV—including the overall presumption that capital flows can bring substantial benefits for countries and that CFMs, while useful in certain circumstances, should not substitute for warranted macroeconomic adjustment—remain valid. The IV should continue to aim to help countries reap the benefits of capital flows, while managing the associated risks in a way that ensures macroeconomic and financial stability.

I have reservations about some of the proposed changes, including those to give less attention to labeling of measures, change the definition of CFMs, and use CFMs to address social issues. On pre-emptive and long-lasting use of inflow CFMs, such use would be a departure from the current framework and would require further consideration of specific circumstances when it could be considered appropriate and safeguards to operationalize it. On the use of outflow CFMs to deal with disruptive outflows outside crisis or near-crisis

circumstances, such use would also be a departure from the current framework and would require further scrutiny.

The key will be to consider any potential adaptations to the IV that incorporate the lessons from recent experience and analytical research (including the work on the IPF) while, putting in place adequate safeguards to prevent an “anything goes” environment, preserving the core principles of the framework, and maintaining the consistency of the IMF’s advice on capital flow policies, which was a key motivation that led to the adoption of the IV. Such will be the undertaking of the forthcoming review of the IV, which will follow the due consultations required for such review.

***Recommendation 2. Build up the monitoring, analysis, and research of capital account issues as part of a sustained Fund-wide medium-term agenda.***

**I broadly support the recommendation, with one qualification.**

I agree that the Fund should remain at the cutting edge of work on capital flow issues. As noted in the report, the current research agenda, both conceptual and empirical, already envisages work on many of the issues raised in the evaluation.

I welcome the acknowledgment of the important public good nature of the Fund’s data bases on CFMs. I am also pleased that the report recognizes the important step undertaken by the Fund in developing an IPF to advance the understanding of the policy options available to policy makers to deal with shocks and the associated tradeoffs.

Building strong monitoring platforms and sustaining a coherent and well-coordinated research agenda will be key to ensure sustained coverage of key capital account issues. I broadly support conducting more research on the costs and benefits of capital account and macroprudential measures, ramping up resources committed to the Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER), and increasing research related to other capital account issues. These efforts will be coordinated with other workstreams to ensure efficiency, coherence, and attention to resource constraints. Management will carefully consider how to best take this forward in the context of the Fund’s budget with a view to implement them as soon as possible.

***Recommendation 3. Strengthen multilateral cooperation on policy issues affecting capital flows.***

**I broadly support the recommendation, with one qualification.**

The Fund will continue to collaborate intensively with other multilateral organizations, with due regard of their different mandates, purposes, and memberships. I agree that we should sustain efforts to collaborate with the OECD on capital account issues. I also support undertaking work to strengthen the coordination of macroprudential and capital account policies together with the FSB and the BIS, and to address possible tensions between the IV and the Basel III framework. We should study in collaboration with other institutions how best to address systemic concerns from securities markets.

Continuing ongoing work on capital account provisions in trade and investment agreements will also be important to provide a basis to promote a consistent approach on how to handle capital flows.

In this area, too, Management will consider how to take this agenda forward in the context of the Fund's budget. We will implement the recommendations as soon as resources and competing priorities allow.

**Table 1. The Managing Director's Position on IEO Recommendations**

<b>Recommendation</b>	<b>Position</b>
Revisit the Institutional View in the light of recent experience and research	Qualified support
Build up the monitoring, analysis, and research of capital account issues as part of a sustained Fund-wide medium-term agenda	Qualified Support
Strengthen multilateral cooperation on policy issues affecting capital flows	Qualified Support