The Chair's Summing Up
Independent Evaluation Office—IMF Advice on Capital Flows
Executive Board Meeting 20/93
September 18, 2020

Executive Directors welcomed the report of the Independent Evaluation Office (IEO) on IMF Advice on Capital Flows. Directors appreciated the high quality of the report, and its thematic and background country studies. Directors welcomed the finding that the adoption of the Institutional View (IV), along with the development of other frameworks and additional tools, had represented a major advance in the Fund's policy framework to provide systematic advice to member countries on the management of capital flows and capital account liberalization. Directors also noted the conclusion that, in its application, the Fund had generally followed the IV and other policy frameworks to ensure that the advice was consistent, tailored to country circumstances, and evenhanded across countries. Directors welcomed that capital flow management measures (CFMs) have generally not been used to substitute for warranted policy adjustments. Directors also welcomed the finding that most authorities broadly support the IV's sequenced framework to capital account liberalization and appreciated the Fund's specific advice in many cases, especially in the context of technical assistance. More recently, faced with the abrupt capital flow reversals during the COVID-19 crisis, Directors noted that emerging markets and developing economies generally followed a multi-pronged approach broadly consistent with the IV framework and made relatively little use of CFMs.

Notwithstanding these accomplishments, Directors acknowledged that accumulated country experience and recent research had raised issues about the Fund's advice on managing volatile capital flows. These relate, inter alia, to the guidance in the IV that CFMs not be used pre-emptively—an issue which has been raised in the staff's work on the Integrated Policy Framework (IPF)—the distinction between measures classified as macroprudential measures (MPMs) and CFMs/MPMs, the role of foreign exchange intervention (FXI), the approach to dealing with disruptive outflows, and the role of social and political objectives. In a few specific cases, disagreements with country authorities about the labeling of measures crowded out a policy dialogue. There were also concerns raised that Fund advice on capital account liberalization was not paying adequate attention to the collateral benefits in terms of market and institutional development and the robustness of the macroeconomic policy framework, and to its social and distributional effects. Concerns also persist about the traction of multilateral surveillance to address issues related to spillovers and volatility of capital flows.

Against this background, Directors broadly agreed on the need to revisit the IV in the light of recent experience and research (Recommendation 1), with many Directors, however, agreeing that a major overhaul of the IV was not required. In this context, Directors emphasized that the review of the IV now scheduled for 2021 should consider carefully the IEO's recommendations and the ongoing work on the IPF. Directors underlined that the core principles of the IV remained valid, 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. The IV framework should continue to aim to help countries reap the benefits of capital flows while managing risks to ensure stability. Directors emphasized that it would be important to ensure that the Fund's policy framework on capital flows maintained adequate safeguards against possible misuse and that it be applied evenhandedly across countries.

There were different views on the extent of revisions required on specific elements of the IV. Many Directors thought that the IV could be more flexible in allowing preemptive and more long-lasting use of CFMs on inflows in specific circumstances, for example to help address the build-up of financial stability risks from volatile capital flows. Some Directors saw merit in allowing the use of outflow CFMs outside of crisis or near crisis circumstances to deal with disruptive outflows. A number of Directors cautioned or were not in favor of such revisions. On the differences in advice between CFMs, MPMs, and CFMs/MPMs, some Directors were open to a reconsideration, some Directors thought the focus should be on assessing effectiveness rather than classification, and some other Directors were not in support of a dilution of the distinction. In a similar vein, there was a divergence of views on the role and effectiveness of FXI. Finally, a number of Directors thought that CFMs may have a valid role to address social issues such as housing affordability and many agreed that the strategy for capital account liberalization within the IV should consider distributional implications; some Directors had concerns or emphasized the need for further analysis.

Directors supported the building up of monitoring, analysis, and research of capital account issues as part of a sustained Fund-wide medium-term agenda (Recommendation 2) to help maintain the Fund as a thought and policy advice leader on capital flow issues. Directors emphasized the need for a better understanding of the costs and benefits of CFMs and MPMs, and more research on the longer-term implications of the use of different instruments for market development to support the upcoming review of the IV. Some also supported further developing the Fund's own indices of capital account openness based on the AREAER. These efforts should be coordinated with other workstreams to ensure efficiency and coherence with due attention to resource constraints.

Directors agreed with the need to strengthen multilateral cooperation on policy issues affecting capital flows (Recommendation 3). Directors emphasized close collaboration with other multilateral organizations, including the OECD, BIS and FSB—with due regard to their different mandates, purposes, and memberships—to promote a consistent and comprehensive approach to the handling of capital flows. More specifically, Directors emphasized that the Fund could intensify cooperation with other IFIs to increase attention to systemic issues in the regulation of securities markets that could reduce the risks of volatile portfolio flows and to address potential tensions between the IV and the Basel III framework, including in the treatment of reciprocity arrangements and liquidity regulations.

In supporting the recommendations, many Directors underlined the need to remain mindful of the resource implications which should be considered in budget discussions, recognizing that there are competing priorities, including in the context of the response to the COVID-19 pandemic. Many Directors emphasized that the upcoming review of the IV was an important task that needed to be adequately supported with staff analysis and research. A few Directors noted that reprioritizing resources could be needed in developing a work program based on the recommendations, since advice on capital flows is at the core of the Fund's mandate.

In line with established practice, management and staff will carefully consider today's discussion in formulating a follow-up implementation plan, including approaches to monitor progress.