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EXECUTIVE BOARD MEETING

SM/19/104
Supplement 3
Correction 1

June 13, 2019

To: Members of the Executive Board

From: The Secretary

Subject: **Independent Evaluation Office—IMF Advice on Unconventional Monetary Policies—IMF Advice on Unconventional Monetary Policies to Selected Asian Economies**

Board Action:	The attached corrections to SM/19/104, Sup. 3 (5/15/19) have been provided by the IEO:
Factual Errors	**Pages iv, v, 2, 4, 7, 13, 15, 20, 22, 23, 25, 27, 33**
Questions:	Mr. Collyns, IEO (ext. 38383) Mr. Loungani, IEO (ext. 37043)

ABBREVIATIONS

AE	advanced economy
ASEAN5	Indonesia, Malaysia, the Philippines, Singapore and Thailand
CFM	capital flow management measure
EM	emerging market
FCL	flexible credit line
Fed	Federal Reserve (United States)
FDI	foreign direct investment
FSAP	Financial Sector Assessment Program
FX	foreign exchange
GDP	gross domestic product
GFC	Global Financial Crisis
IV	Institutional View
LDR	loan-to-deposit ratio
LTV	loan-to-value
MAE	major advanced economy
MPP	macroprudential policies
NEER	nominal effective exchange rate
PBOC	People's Bank of China
QE	quantitative easing
RBI	Reserve Bank of India
SARB	South African Reserve Bank
SARTTAC	South Asia Regional Training and Technical Assistance Center
SDR	Special Drawing Rights
UMP	unconventional monetary policies

EXECUTIVE SUMMARY

This paper assesses IMF advice to Asian economies (China, India, Korea, and the ASEAN5—Indonesia, Malaysia, the Philippines, Singapore, and Thailand) on dealing with the spillovers from unconventional monetary policies in the major advanced economies. It also describes how authorities in the region viewed IMF efforts to promote international policy cooperation.

IMF advice: At the start of the Global Financial Crisis (GFC), the IMF endorsed the monetary and fiscal stimulus provided by these economies and the use in some countries of foreign exchange intervention to offset capital outflows. As these economies recovered quickly, the IMF advocated rolling back the stimulus and turned its focus to advice on managing capital inflows. Staff were generally sympathetic to the use of capital flow management ~~(CFM)~~ measures (CFMs) to deal with capital flow volatility, and particularly so after the 2012 adoption of the Institutional View (IV) on such measures, and also provided advice on the use of macroprudential policies.

Assessment: Authorities in Asia felt that the Fund had provided valuable advice and had acted on many fronts to help Asian emerging markets cope with the effects of the GFC and adoption of UMP by the major advanced economies. The Fund's increased openness to CFMs ~~measures~~ was appreciated by the authorities and seen as a validation of policy frameworks they had put in place before the GFC. Its work to support China's market reforms in the face of a challenging external environment was also greatly valued. The Asian authorities recognized the efforts that went into the spillover reports and the launch of the FCL, even though these countries had not in the end used the FCL option.

Officials and outside observers also noted several ways in which IMF advice could be improved:

- First, to be of greater value added to central banks, Article IV consultations and other engagements with the Fund should bring greater depth in monetary policy issues. They would also benefit from greater discussion and sharing of cross-country experience. High turnover of mission chiefs and staff on country teams was flagged as hampering the development of deep expertise and strong relationships, so that the Fund was not the first port of call when officials sought outside advice.

- Second, officials—particularly in the ASEAN5—felt that the IV did not truly expand the choice set of policies that could be used with the Fund's blessing as the restrictions placed on the use of CFMs were very limiting; officials preferred an approach that recognized the preemptive role that CFMs could play as part of a broad toolkit of measures. Moreover, the labeling by the Fund of certain measures that the authorities view as taken for financial stability considerations or for social objectives as CFMs proved to be an irritant in the Fund's dialogue with these countries.

- Third, it was felt that the IMF's spillover work had not fully succeeded in capturing the challenges for policymakers arising from volatile capital flows and that it needed to delve deeper into the impact on emerging markets through financial channels to be of greater policy relevance.

- Fourth, officials observed that design issues and stigma concerns continued to limit Asian interest in IMF contingent financing instruments.

I. INTRODUCTION

1. This chapter evaluates IMF advice to China and India on how to deal with the consequences of the unconventional monetary policies (UMP) adopted in the major advanced economies (MAEs) over the past decade, especially volatile capital flows. Emerging markets (EMs) were facing large capital flows already prior to the Global Financial Crisis (GFC), amid declining interest rates in AEs, particularly in the United States after the dot-com crash of 2000–02. During the subsequent years up to mid-2008, many EMs, including China and India, took measures to manage these flows, including capital flow management ~~(CFM)~~ measures (CFMs) and significant foreign exchange intervention. Their responses to the GFC involved deploying policies with which they already had some experience. Nevertheless, the developments of the past decade proved more challenging than expected, given that the crisis was much more serious than anticipated and the global economic recovery weaker. As a result, UMP, initially perceived to be temporary, have persisted for many years.

2. In assessing how IMF staff helped China and India navigate these challenges, this chapter evaluates the advice provided on policy options including on CFMs; whether the technical expertise of IMF staff was useful to central banks in these countries; how IMF staff tailored advice to the circumstances of each country; and the extent to which the IMF played the role of a trusted advisor to these countries.

3. The assessment is based on desk review of the annual Article IV reports conducted by IMF staff for China and India between 2008 and 2017 and related documents, such as transcripts of press conferences by IMF mission chiefs; spillover reports; speeches and statements by IMF management; and internal Fund documents. The desk review was complemented by interviews with many IMF staff on the country teams for China and India (including nearly all mission chiefs over the past decade); with current and former officials at the central banks and other agencies; and with experts in academia and at think tanks.

II. CHINA

A. Economic Developments Since the GFC

4. China's macroeconomic performance prior to the GFC was very strong. Its annual growth rate exceeded 10 percent in the five years preceding 2008; its current account surplus increased from less than 3 percent of GDP before 2003 to almost 10 percent by 2007; and its foreign exchange reserves rose from around USD 400 billion in 2003 to more than USD 2 trillion in 2008, when it also had a healthy fiscal balance.

5. The Chinese economy was significantly affected by the GFC (Figure 1). In response, China eased monetary policy through lower interest rates and quantitative measures to increase credit, initiated a large fiscal stimulus to finance infrastructure investment and support individual industries, and introduced some consumption subsidies. The earlier move toward greater

gradual and measured moves to liberalize interest rates, exchange markets were made more open and market determined, and cautious financial sector liberalization continued. By 2015, interest rate liberalization was largely complete, the monetary policy framework was adjusted with an interest rate corridor centered on a seven-day repo rate, and the internationalization of the renminbi led to its inclusion in the IMF's Special Drawing Rights (SDR) basket.

9. Despite the care it exercised to maintain economic stability, China faced a challenge to market confidence in the summer of 2015, when the exchange rate and equity markets took a tumble, sending ripple effects across the global markets. Some observers blamed unclear policy communication about exchange rate policy adjustment and the deflation of a stock market bubble for the unsettled market conditions. There were significant capital outflows in both 2015 and 2016, leading to greater attention being paid to the management of the capital account and the re-imposition of some capital controls as well as the adoption of a "macroprudential framework for managing cross-border flows." Foreign exchange market intervention was also deployed to resist substantial downward pressure on the renminbi.

10. The attempt to rebalance the economy from exports towards domestic consumption has continued in recent years, while credit growth was contained after a period of rapidly rising indebtedness. GDP growth has continued its downward trend since 2011 from double digits to 6.6 percent in 2018, as investment slowed. Notwithstanding overall economic stability, the high level of debt, now more than 250 percent of GDP, and the rapid increase in housing prices since 2015, have caused concerns (Figure 2).

B. Consultations with the IMF

11. This section examines (i) whether and how the pre-GFC thrust of IMF advice changed over the past decade; and (ii) staff analysis of the extent of spillovers to China from UMP and how to deal with them.

12. Prior to the GFC, IMF advice had consistently been for greater exchange rate flexibility; further opening of the capital account; interest rate liberalization; modernization of monetary policy by using price instruments rather than quantity/credit-based instruments; and development of the financial sector, particularly bond markets. The authorities generally agreed with these policies as a medium-run goal, while noting that they had to be careful with regard to the timing and speed of implementation.

13. IMF staff noted that they did not feel that the GFC necessitated significant changes in their advice to China for the medium run. Some departures from the trajectory were deemed justifiable in the short run, such as the deployment of directed credit measures to stimulate aggregate demand and the greater use of CFMs~~ measures~~, but it was felt that these measures would not derail the broad direction of policies. Moreover, in some areas the pressures generated by the crisis moved things in the desired direction. For example, increased capital

monetary policies in advanced economies." In their comments on the U.S. Article IV reports, the authorities viewed the analysis of spillovers from the U.S. crisis as "inadequate."

20. While the authorities were apprehensive about large spillovers, IMF staff concluded that the spillovers from UMP to China would be small, based on its analysis that focused more on direct impact via trade and less on exchange rate or capital flow channels. Staff was not too concerned with the influence of UMP on capital flows because of China's effective capital controls, effective macroprudential measures, and sizable reserves. Former Chinese officials interviewed by the IEO indicated that they were more concerned about the management of capital flows as well as the global economic downturn. At the institutional level, the IMF was seen as somewhat slow in responding to the call for analyzing UMP spillovers, mounting a significant institutional response only in 2011—after Brazilian Finance Minister Mantega spoke of "currency wars."

21. The authorities welcomed the development of an Institutional View (IV) on the use of CFMs ~~measures~~ to contain spillovers.[1] Staff on various country teams for China reported that, even before the adoption of the IV, they were already sympathetic to the use of temporary CFMs ~~measures~~ in the face of the significant volatility in cross-border flows. In 2009–13, when China experienced large capital inflows, the authorities allowed outflow "leakages," while keeping formal restrictions on outflows.[2] After the taper tantrum and probably in the context of the volatile conditions in 2015, concerns pivoted to capital outflows, prompting the Chinese authorities to reinforce existing capital account controls and impose some additional measures. For example, rules concerning overseas spending and cash withdrawal by Chinese citizens were strengthened and banks were subject to a 20 percent unremunerated reserve requirement on forward FX sales. The IMF generally supported these measures, emphasizing the need to deal with underlying sources of uncertainty, including to communicate policy goals and actions early and clearly, and address concerns about excessive indebtedness.

C. Assessment

22. Overall, UMP did not necessitate significant changes in the thrust of the IMF's long-standing policy advice to China. The IMF endorsed the fiscal and monetary policy stimulus by the Chinese authorities in 2008–09 and its continuation into 2010. When the economy began to recover in 2011, staff advised for a gradual withdraw of policy stimulus. IMF has continued to call for exchange rate, financial market, and structural reforms. On the capital account liberalization, staff's post-GFC advice supports a cautious approach based on proper sequence of reforms.

23. The Chinese authorities valued the dialogue with the IMF during the period under review. Article IV missions had substantive and fruitful policy discussions at the highest levels, including

[1] See more discussion in Klein (2019).

[2] China has considerable restrictions on capital flows, especially on outflows. According to the IMF *Annual Report on Exchange Arrangements and Exchange Restrictions,* a majority of the 58 items still have some degree of control.

41. IMF staff were quick to observe India's robust recovery in 2009 and recommended the withdrawal of both monetary and fiscal stimuli by 2010. They were also early in expressing concerns about the potential deterioration of corporate balance sheets due to the domestic impact of the GFC. However, the Indian authorities were slow to tighten the policy stance. The withdrawal of monetary policy accommodation began gradually in mid-2010, while fiscal consolidation was delayed still further (2010 Article IV Report).

42. The Fund and the authorities differed on issues related to exchange rate flexibility and FX intervention. IMF staff advocated for further rupee flexibility as the "most effective way" to address the "impossible trinity" whereas the authorities preferred to consider "all possible options" for maintaining stability, including FX intervention and active capital account management measures (2008 Article IV Report).

43. For example, when capital inflows surged again in 2009, staff stressed that rupee appreciation should be the first response to capital inflows and tightening capital controls should remain a last resort given the need to deepen domestic capital markets. More specifically, the country team recommended that if pressures were to re-emerge, the rupee should be allowed to adjust freely to find a "floor" to provide incentives for capital inflows. It reasoned that the downside risks of such an approach for bank and corporates would likely be limited, because the rupee appeared "broadly in line with its equilibrium level." The authorities were skeptical and argued that in times of financial volatility there could be significant departures from the equilibrium level (2009 Article IV Report). They indicated that they intervened "only to reduce excessive volatility of the exchange rate rather than managing the level of the exchange rate" and noted that the Reserve Bank of India (RBI) would continue to adopt a range of measures to manage capital inflows as needed.

44. The 2010 Article IV report signaled a departure from the previous IMF views. In a way, the Fund became more amenable to the use of foreign exchange intervention and selective CFMs ~~measures~~ to manage capital flow volatility, though as "last resort" tools. It is notable that this acknowledgment of the possible use of CFMs preceded the adoption of the IV.

45. By early 2013, staff and the authorities also appeared to have moved closer on their views regarding exchange rate flexibility. Both agreed that exchange rate flexibility would remain the first line of defense, while reserve accumulation and macroprudential measures could be employed if strong inflows continued. The IMF's pilot external sector report and the updated External Balance Assessment concluded that India's current account and the value of the rupee were broadly consistent with medium-term fundamentals.[3] Staff concluded that rupee flexibility had offset inflation differentials and prevented exchange rate misalignment, and such flexibility would be particularly important in case of renewed global financial stresses. The authorities

[3] According to three different approaches, India's current account norm was estimated to be between -2.3 percent and -3.4 percent of GDP, the former is similar to the RBI's finding that India's sustainably financed current account deficit is around 2.5 percent of GDP.

50. Since 2015, general IMF advice has returned to the pre-GFC policy messages: opening up capital account and financial markets and introducing greater exchange rate flexibility. As consistently advocated by staff, to minimize disruptive movements in the currency divorced from fundamentals, continued exchange rate flexibility could be accompanied by judicious FX intervention, either through spot and forward markets or via liquidity provision through swaps. The IMF has also endorsed the new monetary policy framework encompassing inflation targeting and the formation of a monetary policy committee, which was long-standing IMF advice (2017 Article IV Report), and an IMF technical team helped the RBI with modelling work to develop the new policy framework. Overall, IMF engagement with India is less intense than with China, particularly at senior levels. The final discussion of the annual Article IV exercise in China is carried out by the First Deputy Managing Director, while in the case of India even the director of the Asia and Pacific Department is not involved. In turn, in some years the RBI governor has not held meetings with the annual IMF missions; similarly, the finance minister would not, in general, interact with IMF staff at the conclusion of these missions.

C. Assessment of IMF Advice

51. Indian officials interviewed by the IEO generally expressed satisfaction with the overall engagement with the IMF during the review period. The Article IV consultation was regarded as a useful stock-taking exercise and a good check on the internal consistency of policies through the lens of an integrated macro framework. The monetary policy expertise of IMF staff on the Article IV team was considered adequate although lacking the depth that the RBI itself can bring. It was felt that staff technical expertise in the FSAP teams was better, and the modelling support in developing the new inflation targeting framework was also appreciated. There was some puzzlement that the IMF did not do more to exploit its comparative advantage, its cross-country experience, to enrich the Article IV dialogue; on many issues, open discussion of the cross-country experience would be useful to the authorities.

52. There was satisfaction among the Indian officials that several policy actions taken by the country over the years had subsequently become more accepted by the IMF. These included (i) the use of CFMs~~ measures~~, which were largely endorsed by the IMF's IV; (ii) the use of macroprudential policies as opposed to monetary policy to manage financial stability risks, which became the IMF house view over the past decade; and (iii) the "self-FSAP" carried out by the RBI prior to the crisis, which laid the basis for the 2011 and 2017 IMF FSAP programs.

53. Officials also provided a fair bit of specific criticism of IMF advice provided over the past decade. First, many officials characterized IMF advice as being "formulaic" and not sufficiently responsive to country needs of the moment. The example given most often was that of the IMF's continued call for greater exchange rate flexibility. Some interviewees noted that this advice was given even when the rupee was acknowledged to have moved very significantly in both directions (more than 10 percent real appreciation in 2007 and 23 percent depreciation in 2008) and despite staff's analysis that rupee flexibility was comparable with other currencies such as the Brazilian real or the Canadian dollar in those years. Moreover, the Fund should have also

I. INTRODUCTION

1. This chapter evaluates IMF advice to Korea and five ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand—the ASEAN5) on dealing with the effects of unconventional monetary policies in the major advanced economies (MAEs). Korea and the ASEAN5 are highly open economies, well integrated into the global trade and financial system, and are subject to substantial spillovers from economic and financial developments in the major advanced economies.[1]

2. At the start of the Global Financial Crisis (GFC) these economies experienced a downturn and a sharp reduction in capital flows in 2008–09. However, the economies were quite resilient and experienced a turn to capital inflows the following year as the MAEs turned to unconventional monetary policies (UMP). Since 2010, the main challenge has been to manage inflows, though each country has also experienced threat of outflows, such as during the "taper tantrum" of May–June 2013 and more recently as MAEs exit from UMP.

3. This chapter focuses on IMF advice to these countries to manage capital flow volatility, particularly through macroprudential policies (MPP) and capital flow management ~~(CFM)~~ measures (CFMs). These countries had already been in the forefront on the use of such measures before the GFC.[2] The assessment provides evidence on the extent to which the IMF was able to help the countries adapt these measures to meet the challenges they faced over the past decade. Section II provides background on policy developments in these countries; Section III describes IMF engagement on these issues; and Section IV provides an assessment.

II. ECONOMIC DEVELOPMENTS SINCE THE GFC

4. All six countries had strong macroeconomic performance prior to the GFC. Annual growth was in the 5–8 percent range, generally underpinned by sound fiscal positions, current account surpluses, and significant holdings of international reserves. Their financial systems were considered sound. The GFC resulted in a synchronized downturn and retrenchment in capital flows to these economies (Annex A1).[3] In Korea, there were intense dollar funding pressures following the collapse of Lehman as Korean banks depended on wholesale sources for about half of their funding. In addition, with a significant share of the equity market held by foreigners, the

[1] Although Korea and Singapore are classified as advanced economies, they are sometimes included in the category of emerging markets in this chapter because they faced similar issues related to spillovers created by UMP.

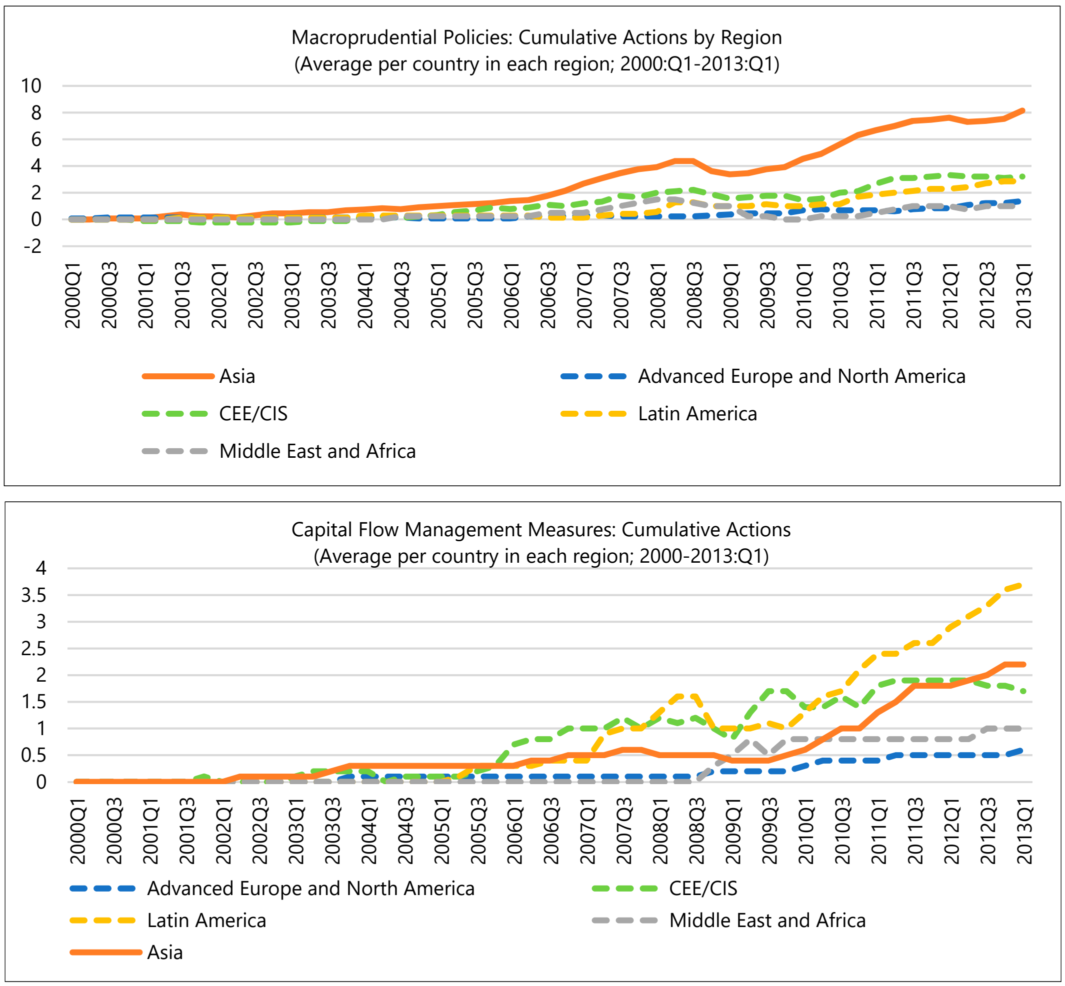
[2] Malaysia for example made extensive use of capital controls in response to the Asian crisis, and Asia as a region recorded a sharp increase in the use of macroprudential measures in the period leading up to the GFC (Figure 2).

[3] Figure A1 in Annex 1 presents the data on capital flows to each of these countries from 2005 to the present.

liberalization of limits on outward capital flows. Countries were reluctant to implement large adjustments in policy interest rates to cool credit growth and overheated housing markets, because of the fear that these would encourage further capital inflows and compound their challenges. In some countries, ~~particularly Korea,~~ the strengthened co-movement of their long-term interest rates with those of advanced economies weakened the ability of the central bank to control domestic financial conditions by changing their policy rates (Kim, 2014; and Miyajima, Mohanty, and Yetman, 2014).

8. A distinctive part of the policy response in Korea and the ASEAN5 over 2010–13 was the extensive use of MPPs and CFMs ~~measures~~, particularly the former. While these policies were implemented elsewhere as well, "Asia stands out" in the use of MPP.[5] As shown in the top panel of Figure 2, MPPs were used more extensively in Asia than in other regions, while CFMs were used more extensively in Latin America than in Asia (Figure 2, bottom panel).

Figure 2. Use of MPP and CFM, by Region



Source: IMF (2014).

[5] Zhang and Zoli (2014).

9. The main MPP and CFM used by Korea and the ASEAN5 over 2009–13 were the following:

(i) Caps on loan-to-value (LTV) for real estate lending ratios were the most actively used tool, as several of these economies faced overheating housing markets. Korea and Singapore were the heaviest users in this set of countries;

(ii) Changes in reserve requirements on local currency deposits (Indonesia, Malaysia, and the Philippines);

(iii) ~~Measures to discourage transactions~~ Levies ~~in~~on foreign currency transactions to prevent excessive build-up of short-term external liabilities, particularly in Korea and the Philippines, where foreign exchange-denominated or indexed loans were more widespread than in other countries. Korea, for example, imposed a levy on bank non-deposit foreign currency liabilities, set a ceiling on bank foreign exchange derivative positions~~, and used reserve requirements on foreign exchange~~.

(iv) Residency-based CFMs ~~measures~~. CFMs were used in Indonesia and Thailand, included minimum holding periods for central bank bills in the former and withholding taxes for nonresident investors in the latter.

10. The “taper tantrum” of mid-2013 served as a reminder that the challenge could turn quickly from being one of managing inflows to one of dealing with outflows. The countries in question were affected to different degrees. Indonesia’s large current account deficit at this juncture stoked investors’ concerns, leading to its inclusion in the “fragile five” group of EM economies that were badly hit by the “taper tantrum.” In general, however, these countries were able to weather the storm fairly well through a combination of exchange rate adjustment, use of international reserves and loosening of MPP. These countries had gained some experience with using MPP as a countercyclical tool during 2008–09, and this provided some basis for making judgments on how to calibrate these policies to deal with outflows during the taper tantrum.

11. Since 2013, the challenge has again been mainly to deal with inflows, though levels have generally receded, and some countries have gone through brief periods of turmoil when there was a threat of outflows in the context of shifts in global risk aversion. The Fed’s turn to exit and the prospects for normalization of monetary policies among other advanced economies have also kept policymakers in these countries attuned to the need to be prepared for future episodes of flow reversals.

III. IMF ENGAGEMENT

12. Prior to the GFC in 2008, the IMF advice to Korea and ASEAN5 was generally to tighten policies in the context of strong economic performance and looming inflationary pressures. However, once the magnitude of the impact of GFC on the global economy was fully appreciated—and particularly after the collapse of Lehman Brothers—IMF advice quickly turned to supporting the easing measures taken in these countries. A good illustration is the case of

success of measures to curb external funding vulnerabilities of banks by limiting their short-term external debt and reducing foreign currency maturity mismatch. The use of debt-to-income and LTV ratios in Korea was also praised as reducing house price volatility, though staff noted that household debt continued to climb.

16. When the threat of capital outflows loomed after the "taper tantrum," the IMF gave differentiated advice to these countries depending on an assessment of their fundamentals and buffers. For instance, in Korea staff noted in 2013—in work done, after the "taper tantrum," for the 2013 Article IV staff report and reflected subsequently in a working paper—that the country was unlikely to be significantly affected by further turmoil from the U.S. monetary policy normalization (Ree and Choi, 2014). Similarly, in Singapore staff indicated that unwinding from UMP was likely to have minimal impact on Singapore, which partly reflected relatively small holdings of external portfolio liabilities. By contrast, risks associated with exit from UMP were emphasized in the staff reports of Indonesia, the Philippines, and Malaysia from 2012–17 and Thailand in 2013.

17. IMF staff supported the use of measures to supplement macroeconomic policy. In the 2011 Article IV report the IMF indicated that the CFMs ~~measures~~ introduced by Indonesia (a one-month holding period on sterilization instruments) helped to alter the composition of inflows, reducing reliance on more volatile short-term funding. In 2013, staff welcomed measures in Malaysia to liberalize outflows, including elimination of requirements on residents to convert export earnings into ringgit. In 2013 staff supported amnesties by the Philippines central bank that allowed for foreign repatriation of investment proceeds, arguing that these should be permanent to facilitate outflows of "trapped" funds, together with making the import payment regime more flexible. The Fund noted that CFM might be warranted in the Philippines if macroprudential tools failed to contain financial stability risks. In 2013, staff suggested that Thailand could use capital flow measures to manage capital flow surges when necessary, indicating that CFM can be considered in the event of exchange rate overshooting, amid strong inflows.

18. Recently, some countries in this group (Indonesia, Malaysia, and Singapore) have expressed strong reservations that the IV is being applied too rigidly and with insufficient appreciation of country circumstances. For instance, in December 2016, Malaysia reintroduced measures for conversion of export proceeds into ringgit and a prudential limit on foreign currency investments by residents with domestic ringgit borrowing. The labeling of these measures as CFM has been challenged by the authorities on the grounds that they were taken for prudential reasons rather than to restrict capital flows. Similarly, in 2017 the Indonesian authorities argued that hedging requirements of short-term net FX liabilities should not be labelled as a CFM because it was aimed at ensuring financial stability by encouraging corporate risk management (Agung and others, 2018).

and subsequent consultations with the Fund had helped in their design of macroprudential policies.

23. The Fund's increased openness on the use of CFMs ~~measures~~ and the development of the IV were welcomed by officials as a departure from doctrinaire views. That said, it was felt that the IV still unduly limited the possibility of use for CFM within the toolkit of EM policymakers in dealing with volatile capital flows. In interviews with the IEO, central bankers from the region expressed the view that countries should be allowed to use CFM "in a pre-emptive manner" or as part of a simultaneously deployed "package of policy tools" rather than only in the face of pressures from flow surges or reversal, and then to be quickly reversed as the situation eased. This view was publicly expressed by the central bank governor of Malaysia, who stated "we should be able to use capital flows measures preemptively to minimize the overshooting effect from inflows" (Yunus, 2018).[8] Similarly a stock-taking of the ASEAN experience in using recent "capital safeguard measures" since the Asia crisis in 1998 raised a series of concerns with the application of the IV (ASEAN, 2018).

24. Recent differences of views over whether certain measures are MPP or CFM and broader questioning of the structure and application of the IV has the potential to erode some of the goodwill the Fund has gained over the past decade.

25. The authorities recognized the attempts by the Fund's staff and management in initiating the development of contingent financing instruments. A recent proposal for a short-term liquidity swap was seen as an example of staff's commitment, even though it did not get Board approval in part because of continuing concerns about design features that limited interest. Indonesia was happy to have actively supported the introduction of the FCL at the Board, although it did not utilize the facility because of residual IMF stigma effects from the Asian crisis. This signals that despite the progress made in rebuilding relations, work remains to be done to foster deeper IMF engagement in Asia.

26. In a majority of the countries, the authorities expressed their concern at the high turnover of mission chiefs (in one case the authorities explicitly highlighted this to Fund management as a problem) and the substantial turnover among country teams. The tenure of mission's chiefs to Asia at 2.1 years was the second lowest after Africa,[9] while over 50 percent of economists working on these countries during this period participated in only one mission. The short tenure of IMF economists inhibits the development of in-depth country knowledge.

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[8] Reprinted in the *Financial Times,* October 16, 2018.

[9] Data based on the sample of countries in this evaluation, calculated by IEO staff.

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