

The contents of this document are preliminary and subject to change.

GRAY/20/2887

September 15, 2020

**Statement by Mr. Kaya, Mr. Benk, Mr. Just, and Mr. Harvan on Independent
Evaluation Office – IMF Advice on Capital Flows
(Preliminary)
Executive Board Meeting
September 18, 2020**

We welcome the IEO report “IMF Advice on Capital Flows,” accompanied by the helpful case studies on 29 economies and other background papers. Our Chair has long been a strong proponent of open capital markets and the free movement of capital, and we positively note gradual progress on capital account liberalization and limited resort to capital account measures in responding to the COVID-19 crisis. While the overarching long-term goal of capital account liberalization remains valid, the IEO Report identifies various concerns where Fund advice and the treatment of capital account measures can be updated taking into account policy considerations for recipient as well as source countries. The Report is broadly aligned with the Integrated Policy Framework workstream so far. **We broadly agree with the conclusions and recommendations of the IEO Report** and offer the following comments:

Recommendation 1

We appreciate staff’s recommendation to **update the Institutional View** to reflect recent research, country experiences, and challenges in its implementation, while retaining the presumption of the overall positive role that capital flows can play in development under the right circumstances. Capital Flow Management Measures (CFMs) cannot be a substitute for external or macroeconomic adjustment. We positively note that Fund advice has followed the existing framework quite carefully ensuring evenhandedness, and we are thus wondering whether substantial changes to the IV are strictly necessary or whether the inherent flexibility of the IV could be better utilized by updating staff guidance notes.

Increased **flexibility on the use of preemptive CFMs** can support staff advice in country-specific circumstances and should be complemented by firm surveillance within a structured framework to ensure transparency, consistency, and evenhandedness. This, however, should not come to be seen as a blanket approach condoning the use of preemptive CFMs. The IEO

Report proposes a more flexible approach to both short-term advice when dealing with volatility in inflows and outflows, as well a more benign view of CFMs in addressing long-term risk accumulation in the financial sector. The advice on longer-term capital account liberalization should continue to cautiously balance risks and benefits, conditional on development of the supervisory and regulatory framework.

Regarding the **labeling and classification of CFMs**, we concur with the proposed revisions to emphasize the discussions with authorities on policies and to reduce the risk of unnecessary punitive signaling. We would have welcomed additional efforts to identify CFMs or other policies, including macroprudential measures, with significant impact on domestic or balance of payments stability and the exchange rate. We note that rigorous empirical tests of CFMs impact on exchange rates have not been done at the Fund. A more robust External Sector Framework would also support staff in technical discussions with authorities on exchange rate valuation and adequacy of foreign exchange reserves.

The IEO Report identifies adopted **CFMs with social and political objectives**, but more work is needed to understand the extent of their relative effectiveness or efficiency. In particular, although we acknowledge that limiting nonresidential inflows can be helpful in improving housing affordability, we wonder if non-discriminatory supply side policies and vacancy taxes have a greater impact on affordability of housing in the medium and long run. *We ask staff to provide more details on additional steps that can be taken to ensure consistency in Fund advice in this area and avoid an “anything goes” environment.*

Recommendation 2

We concur with the need to beef up the **monitoring and research of capital account issues** at the Fund in the context of a more flexible approach to CFMs. Staff judgement when formulating Fund advice will be essential in the consistent application of any revised guidance, and enhanced monitoring should also ensure evenhandedness and transparency. Regarding the research agenda, we would welcome additional work on CFMs’ relative effectiveness in achieving social and political objectives. We invite Management to discuss how to take the proposed research agenda forward and identify the necessary resources in the context of the next budget discussion.

Recommendation 3

We welcome the efforts to strengthen **multilateral cooperation** to ensure coherence in the treatment of capital account issues, as well as to enhance the monitoring and coordination of macroprudential and capital flow policies. Cross-border policy coordination would help mitigate the spillover effects of policies. The Fund could also intensify efforts to strengthen financial regulatory oversight outside the banking system. We stand ready to discuss the resource needs at the next budget discussion.