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September 15, 2020

Statement by Mr. Mojarrad on Independent Evaluation Office – IMF Advice on Capital Flows
(Preliminary)
Executive Board Meeting
September 18, 2020

We thank the IEO for an excellent evaluation on IMF advice on capital flows, note with satisfaction the broad support by management of the three main recommendations, and would like to offer the following comments.

We agree with the IEO that "the IMF deserves considerable credit for upgrading the framework for its bilateral surveillance on handling volatile capital flows". Important milestones to support this conclusion include the introduction in 2012 of the Institutional View (IV) on the liberalization and management of capital flows, the development in 2013 of a framework for advice on Macro Prudential Measures (MPMs), and the current work on the Integrated Policy Framework (IPF). As a result, it is recomforting to note that "many countries officials appreciated that the Fund had become more open to the use of Capital Management Measures (CFMs) as a policy tool to handle inflow surges and more cautious in pushing capital account liberalization".

We are encouraged by these positive findings, even more so since countries made relatively little use of CFMs, to substitute for warranted policy adjustments, and recourse to tightening restrictions on outflows was rare even during the current COVID-19 crisis. Therefore, and in a global financial environment still characterized by growing risks associated with recurrent and abrupt volatility in capital flows, it is important for the Fund to adapt its toolkit so as to continue helping the membership meet its stabilization objectives, while reaping the benefit of international financial integration.

To this end, and as pointed out by the IEO, recent experience about the Fund's advice on capital flows has shown several gaps and raised concerns that need to be addressed to ensure that Fund's policy traction remains relevant. Here, we agree that the IV remains valid and do

not require a wholesale overhaul but would benefit from a revisit which, together with the current work on the IPF, could serve as major inputs to the 2021 review. *At this stage, could staff clarify if a Management Implementation Plan (MIP) will be prepared within six months of the Board's endorsement of the IEO recommendations or deferred later, after the conclusion of the 2021 review of the IV?*

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

Like the MD, we generally support revisiting the IV and agree to defer to the upcoming review to consider the specific elements of the recommendation. In the MD statement, reservations were expressed about some of the proposed changes and we would like to offer the following comments on some of them:

- **On the pre-emptive and long-lasting use of inflow CFMs**. The MD considers that such use would be a departure from the current framework and would require further regard to specific circumstances and to when it could be appropriate to operationalize it. However, and in addition to the arguments offered by the IEO, we note that staff's own analysis in the paper *Toward an Integrated Policy Framework* (SM/20/139, ¶13) are more sanguine, concluding that "precautionary CFMs on capital inflows, applied before shocks hit, can lower risks to financial stability in countries vulnerable to sudden stops". In the same vein, it is interesting to note that financial market participants and credit rating agencies are ready to recognize that well designated CFMs can have a useful function to contain risks of instability.

- **On the use of CFMs to address social issues**. We tend to agree with the views expressed by the IEO. Here again in the IPF paper referred to above, staff notes that the use by some advanced economies of CFMs to curtail purchases of real estate by non-residents are aimed at maintaining housing availability and affordability for residents rather than achieving macroeconomic objectives or financial stability.

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- **On the labeling of stabilization measures as CFMs or CFMs/MPMs**. We do not see the usefulness of stigmatizing actions by authorities that could help achieve financial stability. As pointed out by the IEO, discussions with the authorities and in the Board of such labeling have tented to crowd out time for more useful policy dialogue, may lead to unevenhanded coverage of such issues, and will not be helpful in improving the traction of the Fund's policy advice.

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

We support this recommendation and agree with the IEO that the Fund should remain at the cutting edge of work on capital flows and ensure that the IV and macroprudential framework rest on solid empirical ground. Important progress in monitoring, analysis, and research has already been made, in particular, as part of the development of the IPF. Going forward, we are reassured by the MD's indication that management will carefully consider how to advance these priorities in the context of the Fund's budget with a view to implementing them as soon as possible.

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

We support this recommendation and note with satisfaction from the MD statement that the Fund will continue to collaborate intensively with other multilateral organizations, with due regard to their respective mandates, purposes, and memberships. *The IEO made an interesting suggestion to establish a cooperation agreement on capital account issues with the OECD to institutionalize collaboration in applying the IV and the revised OECD Code, and we would welcome staff reaction to this suggestion.*

Finally, our Moroccan authorities appreciated their inclusion among the country cases for this evaluation and they broadly agree with staff conclusions. They would like, however, to suggest a correction to the first sentence in ¶42 of SM/20/138 Supplement 11 to the effect that the Moroccan economy was negatively affected by the GFC through a decline in remittances, tourism, exports, and FDI, leading to a decline in non-agricultural GDP by 1.6 percent in 2009.