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Statement by Mr. Tanaka, Mr. Chikada, Mr. Naka, Mr. Kuretani, and Mr. Shimada on Independent Evaluation Office – IMF Advice on Capital Flows
(Preliminary)
Executive Board Meeting
September 18, 2020

We thank the Independent Evaluation Office (IEO) for the comprehensive papers on the evaluation on the IMF Advice on Capital Flows. Challenges faced by emerging market countries in dealing with volatile capital flows in the wake of the Global Financial Crisis as well as the current COVID-19 crisis have brought further attention to capital flow issues. The Fund's work on dealing with capital flows has evolved substantially over the past ten years, with the adoption of an Institutional View (IV) in 2012. Against this background, we welcome the IEO's timely evaluation on the IMF advice on Capital Flow before the review of the IV in 2021. We appreciate the IEO's huge efforts to have reviewed internal and external documents of the Fund and conducted extensive research on country cases, which provide useful information on the IMF advice from broad perspectives. We broadly support the IEO's assessments and recommendations, and would offer some comments on each recommendation as follows:

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

First of all, **we welcome that the IEO positively evaluates the basic principles of the IV: the concepts that increasing capital flows will bring substantial benefit for the countries and that the Capital Flow Measure (CFM) should not substitute for warranted macroeconomic adjustment**. Given that the IV is the fruit of delicate wisdom of counties with collective views, we need to keep this principle in mind and should be cautious on to what extent and in what part we should modify the IV, in the review of the IV scheduled in 2021.

At the same time, we concur with the direction of IEO's recommendation that CFMs would be a useful policy measure, as one of policy mix, in broader circumstance. We recognize that IEO' recommendation is based on the progress of academic research, the Fund's experiences through surveillance after the IV adoption and the lessons from the IPF framework, and will provide valuable inputs for the review of the IV. We are open to discuss these points in the review of the IV. Regarding each recommendation, we would like to give the following comments:

- On the preemptive and more long-lasting use of the CFMs, we should be cautious about in what situation and how long such measures could be justified, considering it could discourage the authorities to tackle with structural issues, including deepening and developing domestic financial markets. In relation to that, *we would appreciate if staff could clarify whether the term "precautionary use of CFM" in the IPF is the same meaning as the term "preemptive use of CFM" in the IEO report.*

- On the removal of the sharp policy distinction between MPMs (Macro Prudential Measures) and CFMs/MPMs, we are of the view that there should be still different classification and axes among MPMs and CFMs/MPMs in terms of the time horizon from tentative measures to long lasting measures and in terms of the degree of the effect on capital flows in the measures. To avoid "Anything goes", we encourage the IEO staff to work more on this issue to illustrate the distinction, for example, by mapping the policy measures' distribution in a scatter plot, and showing pro and cons of each measure. In addition, the Fund should continue to discuss with the authority on whether there is alternative MPMs without any sense of CFMs.

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

As we have engaged in Data Gaps Initiative to support to strengthen the monitoring of capital flow, we recognize that the monitoring, analysis, and research of capital account issues are important factors to deal with this area. In particular, it is crucial to conduct more research on the costs and benefits of capital account and macroprudential measures, which will provide a basis for more granular assessment. However, we note that building up those research activities as the Fund-wide medium-term agenda possibly needs more resource. In this regard, more details on resource are needed to discuss how to implement this issue.

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

Capital liberalization is not legal mandate of IMF in the Articles of Agreement. But to ensure the stability of the international monetary system, this capital flow matters are tasked to IMF for the better surveillance of member countries. While we broadly support the importance of continued cooperative engagement with the relevant organizations on policy issues related to capital flows, we should recognize the difference and need to assess the member countries' specific situations from the perspective of the development stage. We welcome strengthening the monitoring and coordination of macroprudential and capital flow policies taking into account of the spillover effect upon the global and regional economy working together with the FSB and BIS. We should also take it in to consideration that there is growing need to coordinate with AML/CFT issues.

Resource implications

On recommendation 2 and 3, as we noted, some additional resource is necessary to implement these suggestions. Considering the limited resource in the IMF, prioritization is important to implement these recommendations. *In this context, we would appreciate if the IEO would provide its view on the priority of these recommendations.*