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Statement by Ms. Levonian and Ms. Vasishtha on Toward an Integrated Policy Framework
(Preliminary)
Executive Board Meeting
September 28, 2020

We continue to strongly support the ongoing work related to the Integrated Policy Framework (IPF) and thank staff for the comprehensive paper. The IPF agenda is a very timely and ambitious step forward in terms of responding to concerns about the coherence, consistency, and clarity of Fund advice on capital flows in a world with rising spillovers and increasing international integration. We agree that it is important to clarify the conditions under which the use of various instruments -- monetary policy, foreign exchange interventions (FXI), macroprudential measures (MPMs), and capital flow management measures (CFMs) -- is appropriate in order to help provide robust and consistent policy advice. At the same time, the operational implications of the IPF findings need to be considered very carefully, not least because the findings are subject to a number of caveats.

The IPF provides valuable insights on how the efficacy of multiple tools can depend on country characteristics, initial conditions, and the nature of shocks, and that there is no "one size fits all." In particular, we welcome the clear articulation of the circumstances under which the various IPF tools can be used, while continuing to state a preference for flexible exchange rates when none of these conditions apply. As noted in the paper, in countries with flexible exchange rates, deep foreign exchange (FX) markets, and continuous market access, allowing the exchange rate to adjust fully to economic and financial shocks is typically optimal.

While we agree that the use of multiple tools can, in some circumstances, enhance monetary autonomy and financial stability, we believe the Fund should also help countries to address the underlying vulnerabilities directly. As noted by staff, since FXI and CFMs cannot always help monetary policy fully offset the impact of shocks in the presence of vulnerabilities, addressing the underlying vulnerabilities is crucial. For instance, if lack of FX market depth requires frequent FXI, the Fund should encourage countries to pursue reforms or structural policies that increase FX markets depth and help create appropriate hedging instruments. Similarly, in cases where monetary policy lacks credibility and requires the frequent use of additional (IPF) tools, staff should provide advice on how to enhance or restore monetary policy credibility. Furthermore, by helping countries address the underlying vulnerabilities, the Fund can also play an important role in reducing some of the tradeoffs in the use of multiple tools that are highlighted in the paper. We would encourage staff to take these considerations into account in future work.

We strongly support staff's plans to analyze in depth the multilateral implications of the examined policies, including the role of domestic and foreign spillovers. We understand that this might need some model extensions. As acknowledged in the paper, macroprudential policy may "leak" by encouraging the provision of credit by non-banks and from abroad. Additional lines of inquiry include how CFMs and MPMs can lead to a reallocation of capital flows to other economies; and how FXI or monetary policy can lead to an appreciation of exchange rates elsewhere. In terms of broader research areas, we continue to emphasize work on macroprudential tools to reign in vulnerabilities outside of the banking sector, such as in market-based finance, shadow banking, and the non-financial corporate sector.

We generally agree that safeguards and judgment in the application of multiple tools are needed. There are gaps in the development of strategies and tools to detect and deal with the inappropriate use of IPF policies. Differentiating between appropriate and inappropriate usage of IPF tools will require developing suitable metrics for assessing their use. We welcome the examples of potential metrics provided in the paper and encourage staff to prioritize work in this area, which will also inform the upcoming review of the Institutional View (IV).

Communication with the membership needs to be carefully managed and should emphasize that the Fund is examining these issues with an open mind. While we see merit in using preliminary insights to inform staff advice to countries and foster richer discussions, especially during the COVID-19 crisis, Fund communication should emphasize that staff advice remains anchored in current policy frameworks. The analytical findings should also be communicated carefully, acknowledging the associated shortcomings and caveats.

The IPF agenda dovetails well with other key parallel workstreams. We strongly encourage staff to leverage the findings from the recent IEO evaluation of *IMF Advice on*

Capital Flows, which provides comprehensive evidence on country experiences on relevant issues in recent years. Both the IEO evaluation and the IPF work should be carefully considered by staff for the planned review of the IV, along with the lessons learned from countries' experiences during the pandemic. In addition, the IPF work has important implications for the CSR and FSAP reviews. *Could staff elaborate on how the IPF agenda is being factored into the ongoing CSR and FSAP reviews and vice versa?*