FOREWORD

Giving advice to countries on how to handle volatile capital flows and capital account liberalization has been a long-standing challenge for the IMF. Since the Global Financial Crisis, emerging and developing economies have continued to be exposed to strong surges and sudden reversals in capital flows, including most recently from the COVID-19 pandemic. The IMF's advice in this area has evolved, and since 2012 has been guided by the so-called Institutional View on the Liberalization and Management of Capital Flows (IV), which sought to provide a coherent framework for IMF advice in this core area.

This report evaluates the influence and value added of IMF advice on capital flows focusing on the period since the approval of the IV. Lessons from this evaluation are particularly germane as the global outlook for capital flows following the COVID-19 shock remains highly uncertain. Together with the IMF staff's own work program on an Integrated Policy Framework (IPF), the evaluation provides important material for the review of the IV that is scheduled to take place in 2021.

The evaluation finds that the IV represented a considerable step forward. Together with other IMF policy frameworks, it has endowed staff with a stronger conceptual template for engaging with country authorities on how to contain risks from capital flow volatility while garnering long-term benefits from international financial integration. The evaluation finds that in practice most countries' policy approaches have been in line with the IV and that countries have avoided using unconventional tools as a substitute for warranted macroeconomic adjustment.

Despite these accomplishments, our review points to a number of concerns about Fund advice that is undercutting its traction. The guidance in the IV discouraging the pre-emptive or long-lasting use of capital flow measures is at odds with country experience and recent research that such use can be helpful to address financial stability concerns and to provide more space for macroeconomic policy. The IV could also pay more attention to the impact of capital flow measures on distribution and other social objectives such as housing affordability. In practice, labeling distinctions required by the IV have proven both contentious and unproductive, crowding out attention to policy discussion. The report also finds that the Fund could have provided more nimble support on dealing with capital outflows outside a "crisis or imminent crisis" context.

The report sets out three recommendations aimed at refreshing the Fund's advice on capital flows management. I am glad that all three were broadly endorsed by the Managing Director and by the Executive Board when it met to discuss the report in September 2020. I look forward to more detailed decisions to move this agenda forward in the year ahead.

Charles Collyns
Director, Independent Evaluation Office