



Independent Evaluation Office
of the International Monetary Fund

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IEO Releases Evaluation of IMF Advice on Capital Flows

The Independent Evaluation Office (IEO) of the International Monetary Fund (IMF) released today its evaluation of IMF Advice on Capital Flows. The report assesses the IMF's advice on how to manage volatile capital flows and capital account liberalization, focusing on the period since the approval of the IMF's Institutional View (IV) on this set of issues in 2012.

The evaluation credits the IV as a widely appreciated upgrade to the Fund's framework for advice on capital flow issues and found that the IV has generally been applied carefully and consistently across countries.

While welcoming these accomplishments, Prakash Loungani, a team leader for the evaluation, said the report identified "a range of issues" with the IMF's approach that could undermine the value added and influence of the Fund in this core area.

In particular, advice under 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 in certain circumstances be helpful to address financial stability concerns and to provide more space for macroeconomic policy. The IV could also pay more attention to the use of capital flow measures for social objectives such as housing affordability and to the distributional impact of capital account liberalization.

The report makes concrete recommendations on how to refresh the Fund's Institutional View to align the IMF's advice on capital flows to recent country experience and research and on other steps to raise the Fund's capacity to provide timely and well-tailored advice. This refresh would not require a major overhaul of the Fund's approach but would involve careful consideration of a broader range of circumstances in which less conventional policy instruments may be helpful.

IEO Director Charles Collyns noted that implementing the report's recommendation would help make sure that the IMF was providing "state of the art" advice to countries on how to deal with volatile capital flows during these challenging times. He welcomed the Executive Board's broad support for the report's recommendations and the Managing Director's commitment to take account of the evaluation's findings in an IMF review of the IV next year.