

IMF ADVICE ON CAPITAL FLOWS



The IEO discussed its new evaluation of *IMF Advice on Capital Flows* with the Board in September.

The evaluation looked at IMF advice on handling volatile capital flows and capital account liberalization; it complements the work by staff on developing an Integrated Policy Framework (IPF) for handling exogenous shocks. The relevance of this topic has been highlighted by the volatile capital flows during the COVID-19 pandemic and the uncertain future prospects.

The evaluation credited the Fund for its upgrade of the framework for advice on capital flow management that culminated in the approval of the Institutional View (IV) in 2012, which has been applied carefully and consistently across countries. However, the review of Fund advice based on both country experience and recent research pointed to several issues that have reduced the traction of the Fund's advice in this area. A key concern related to the blanket guidance that capital flow measures not be used pre-emptively or in a lasting manner, for example for financial stability purposes, to increase macroeconomic policy space, or to address social concerns like housing affordability, which seems misaligned with recent research and came across as too restrictive for certain country circumstances. The evaluation also found that disagreements on the labelling of measures often crowded out time for

serious policy discussion; suggested that greater attention be placed on broader implications of capital account liberalization, including distributional issues; and raised concerns about the limited impact of the IMF's engagement on source country policies affecting capital flow volatility and about potential tensions with other multilateral frameworks relevant to capital flows.

Considering these concerns, the evaluation recommended that the IMF refresh its approach to dealing with capital account issues to reflect recent country experience and research. Such a revisit need not involve a wholesale overhaul of the IV, the broad principles of which remain valid, but should consider some well-defined extensions of the circumstances in which capital flow measures could provide a helpful part of the policy toolbox, particularly when their preemptive and longer-lasting use could be justified. To complement this refresh, the evaluation further recommended that the IMF sustain a strong, adequately resourced, medium-term work program on monitoring and research on capital account issues and strengthen cooperation with multilateral partners on issues related to capital flows, including the OECD, the BIS, and the FSB.

In discussing the evaluation on September 18, 2020, Executive Directors expressed appreciation for the quality and breadth of the evaluation, and broadly supported its recommendations. The Managing Director also welcomed the report, noting that it would inform the upcoming review of the IV scheduled for next year. IMF management will work with staff to propose a follow-up implementation plan by March 2021.

MESSAGE FROM THE DIRECTOR



The IEO has made good progress in advancing our work program while adapting to the challenges from the COVID-19 pandemic. While evaluation is not part of the frontline response that has dominated IMF activity over the past six months, independent evaluation remains a key function for learning from experience and drawing lessons for the Fund as it focuses on meeting members' urgent and evolving needs. Since April, IEO engagement with the Executive Board has resumed, including formal discussion of the recently completed evaluation of IMF advice on capital flows and an informal seminar on Bank-Fund collaboration on climate issues.

Contributing to transparency and understanding of how the IMF works is also an important aspect of the IEO's mandate. We are therefore re-energizing our outreach activities, which were curtailed by the travel restrictions following the pandemic outbreak, taking advantage of opportunities from new technologies to broaden our connections. We were very pleased to engage with many interested civil society partners in a virtual workshop on our agenda in September. We are now planning a virtual seminar on our capital flows evaluation on October 6 and then later in the year on our Bank-Fund collaboration evaluation. You can find updated information on our virtual seminar series on our website (ieo.imf.org) and on our new Linked-In page.

These are challenging times for all of us. I hope you and our families are staying well and safe. We in the IEO look forward to continuing to play our part to strengthen IMF governance, and we hope that you will continue to provide us your interest and support.



Participants in an IEO workshop with CSOs.

IMF COLLABORATION WITH THE WORLD BANK ON MACRO-STRUCTURAL ISSUES



As reported in April, the IEO has completed its evaluation of *IMF Collaboration with the World Bank on Macro-Structural Issues*. This evaluation assessed how effective the IMF has been in collaborating with the World Bank, focusing in particular on IMF pilot initiatives to enhance coverage of inequality, gender, energy/climate, and macro-structural reform in Article IV surveillance. Board discussion of this evaluation, scheduled for March, was

delayed as the Fund focused on the emergency response to the COVID-19 crisis. In June, the IEO presented an informal seminar to the Board on material from the evaluation relevant to climate change, reflecting the increasing attention in the IMF to this important issues and ahead of staff engagement with the Board on the integration of climate change in surveillance. Board discussion of the full evaluation and IEO recommendations, which are intended to feed into the Comprehensive Surveillance



IEO Presentation on IMF Collaboration with the World Bank at an IEO-IEG Brown Bag Lunch, September 2020.

Review, is scheduled for later this year, after which the report will be made public.

ON THE HORIZON - IEO'S WORK PROGRAM

The work program has been adjusted to reflect new challenges.

The evaluation of adjustment and growth in IMF-supported programs, which will assess how well IMF-supported programs have helped to sustain economic growth while delivering necessary adjustment for external viability, has taken on added relevance in view of the large adjustment needs and growth constraints posed by the pandemic.

The evaluation of IMF engagement with small developing states looks at how the Fund has supported a group of countries that have been particularly hard hit by the collapse of global tourism and have limited institutional capacity to respond to climate and health shocks.

The newly launched evaluation of the IMF's capacity development work will take a broad look at this important and growing part of IMF activities ahead of the next strategic review scheduled for 2023. A draft issues paper outlining

the motivation, themes and scope for this evaluation is being prepared for discussion and feedback.

The small developing states and capacity development evaluations will include some assessment of the IMF's early response to the COVID-19 crisis as relevant to these two topics. Looking further ahead, the IEO is now considering a range of possible future topics, and will consult broadly with stakeholders to provide input into the selection process. Suggestions may be provided on the IEO website (ieo.imf.org).



IEO staff.

ABOUT THE IEO

The Independent Evaluation Office (IEO) was established in 2001 to conduct independent and objective evaluations of IMF policies and activities. Under its Terms of Reference, the IEO is fully independent from the management of the IMF and operates at arm's length from the Executive Board. The IEO's mission is to enhance the learning culture within the Fund, strengthen the IMF's external credibility, and support the Executive Board's institutional governance and oversight responsibilities.