Statement by the Managing Director on the Independent Evaluation Office Report on the IMF's Approach to Capital Account Liberalization: Revisiting the 2005 IEO Evaluation

I would like to thank the Independent Evaluation Office (IEO) for preparing this informative report, which provides an update on the IMF's progress in clarifying, enhancing, and communicating its approach to capital account liberalization. I broadly concur with the findings of this follow-up report, including the issues that are identified as meriting continued attention.

Capital flows have increased significantly in recent years and have become a defining feature of the international monetary system in the twenty first century. They offer potential benefits to both originating and recipient countries, but their size and volatility can also pose policy challenges. Given the relevance and importance of capital flows for economic growth and financial stability, the follow-up review of the IMF's advice on capital account liberalization prepared by the IEO is timely and welcome.

Overall, I am pleased with the report's finding that the IMF has made considerable progress since 2005 in clarifying, enhancing, and communicating its approach to capital account liberalization, and that the public's response has been positive to this evolution in the IMF's approach. Indeed, as the IEO points out, the IMF has developed an "institutional view" on which to base its advice on the liberalization and management of capital flows, produced a substantial amount of analytical and operational research on these issues, and broadened multilateral surveillance to cover the implications and spillovers from capital flows. It is reassuring that the review did not find any instances of inconsistent advice that could not be explained by specific country circumstances.

Against the background of a generally encouraging assessment of progress, the IEO report identifies two challenges for our work on capital account issues going forward. Noting that the institutional view represented a delicate balance of views, the report cautions that its impact on the consistency and traction of the IMF's advice on capital account issues remains to be seen. The report also points out that international policy coordination is an ongoing challenge given the absence of universally agreed "rules of the game" on cross-border capital flows, and that continued efforts will be needed to promote greater cooperation among recipients and suppliers of capital.

It is true that more time is needed to fully assess the impact of the institutional view, considering that it was only finalized two years ago. The findings of this review suggest that the start has been encouraging. Overall, the institutional view offers a comprehensive, flexible, and balanced approach for the liberalization and management of capital flows, based on the state of research and the views of the membership. Our priority in the period ahead will be to provide well-tailored and consistent policy advice to all members, and also to allow for the institutional view to evolve as we learn from country experience and research.

The large number of different bilateral, regional, and international agreements regulating cross-border capital flows creates some challenges from a multilateral policy perspective, as the IEO's report rightly points out. In these circumstances, the IMF's focus remains on fostering multilateral cooperation in high-level *fora*, including various conferences cited in the report, engaging systemic countries through discussions of the spillover reports in Article IV consultations, and participating in G20 Ministerial meetings. The G20 Finance Ministers and Governors, at their February 9-10 meeting in Istanbul, asked the IMF together with the OECD, with input from the BIS and FSB, to assess by April if further work is needed on our respective approaches to measures which are both capital flow management and macro-prudential measures, and we are currently taking this work forward.

Overall, I would like to note that management and staff remain fully committed to maintaining a strong emphasis on capital flow issues in the IMF's work agenda, given their importance for economic development and financial stability in the membership. In this context, we will continue to reflect on lessons learned from country experiences and advances in research, and update the institutional view on capital account liberalization and capital flow management as needed.