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EVALUATION UPDATE

The IMF's Approach to Capital Account Liberalization

Revisiting the 2005 IEO Evaluation

2015

THE IMF'S APPROACH TO CAPITAL ACCOUNT LIBERALIZATION: REVISITING THE 2005 IEO EVALUATION

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This report is part of an IEO series that revisits past evaluations. Reports in this series aim to determine whether the main findings and conclusions of the original IEO evaluations remain relevant, and to identify any outstanding and new issues related to the evaluation topic that merit continued attention. The assessments are based on desk reviews of IMF documents and interviews of IMF staff and members of the Executive Board.

This report was prepared by Ling Hui Tan in consultation with Shinji Takagi, with contributions from Francesco Luna, Franz Loyola and Tam Nguyen. Arun Bhatnagar, Annette Canizares, and Amy Gamulo provided administrative assistance. The report was approved by Moises Schwartz.

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Executive Summary

The 2005 IEO evaluation of *The IMF's Approach to Capital Account Liberalization* found that there was much ambiguity on the scope of IMF surveillance in this area and apparent inconsistencies in policy advice given to individual countries; the IMF's policy advice on managing capital flows, moreover, focused to a large extent only on what recipient countries should do. The evaluation recommended that (a) the Executive Board formally clarify the scope of IMF surveillance on capital account issues and provide clear guidance to staff on the IMF's official position; and (b) the IMF give greater attention to push factors behind international capital flows and how to minimize the volatility of capital movements.

The IMF has made considerable progress since 2005 in clarifying, enhancing, and communicating its approach to capital account liberalization. In 2012, it issued the Integrated Surveillance Decision that elucidated the place of capital account issues in bilateral and multilateral surveillance, and developed an "institutional view" on which to base Fund advice on the liberalization and management of capital flows. IMF staff has produced and synthesized a substantial amount of academic and operational research on capital account liberalization and capital controls and developed new multilateral surveillance products (e.g., spillover reports) that allow for greater attention to push factors affecting international capital flows.

The institutional view recognizes that full capital account liberalization may not be an appropriate goal for all countries at all times, and that under certain circumstances capital flow management measures can have a place in the macroeconomic policy toolkit. It has done much to change the public image of the Fund as a doctrinaire proponent of free capital mobility.

Going forward, there are two main challenges of note.

First, the consensus reflected in the institutional view was fragile, as fundamental differences remain within the IMF—as well as the academic and policymaking communities—on how to manage capital flows. It remains to be seen if implementation of the institutional view will bring greater consistency to the IMF's advice on capital account issues and whether this advice will be convincing to member countries.

Second, there is currently a patchwork of bilateral, regional, and international agreements regulating cross-border capital flows among different groups of countries, but there are no universally agreed "rules of the game." A key challenge for the IMF is to find ways to support multilateral cooperation on policies affecting these flows. While the IMF has recently given more attention to actual and potential adverse side effects of policy spillovers, continued efforts will be needed to promote their discussion and foster greater policy cooperation among recipients and suppliers of capital.

I. INTRODUCTION

1. **A decade ago, the IEO undertook an evaluation of the IMF's approach to capital account liberalization.**[1] The evaluation took place following a period of highly volatile international capital flows and financial crises in a number of major emerging market economies. At that time, there was a major debate over whether the IMF had encouraged member countries to liberalize their capital accounts prematurely and whether this had contributed to much of the financial instability and economic distress experienced in many emerging market countries. The IMF's role was particularly controversial because there was little professional consensus on the net benefits of free capital mobility and the Fund had no explicit mandate to promote capital account liberalization.

2. **The IEO evaluation of *The IMF's Approach to Capital Account Liberalization,* which was published in 2005, assessed the Fund's role in liberalizing capital flows and its approach to capital flow management**, including the use of capital controls. The evaluation, which covered the period 1990–2004, did not address the question of whether an open capital account was intrinsically beneficial or whether the Articles of Agreement should be amended to give the IMF jurisdiction over international capital movements—a proposed amendment to that effect in the late 1990s did not receive enough support from the membership.

3. **This report revisits the findings, conclusions, and recommendations of the 2005 IEO evaluation**. It provides an update on the main issues raised in the evaluation and analyzes developments to date, based on a review of Fund documents—including Board papers and internal memoranda and minutes—and interviews with staff and Executive Directors who were closely involved with these issues during 2005–14.

4. **The report is organized as follows.** Section II summarizes the key findings and recommendations of the 2005 evaluation. Section III describes and analyzes the IMF's efforts—research, operational approach, policy advice, and external communications—since 2005 pertaining to the liberalization and management of capital flows. Section IV concludes with a discussion of outstanding issues.

II. KEY FINDINGS AND RECOMMENDATIONS OF THE 2005 EVALUATION

5. **The 2005 IEO evaluation found much ambiguity on the scope of IMF surveillance and apparent inconsistencies in policy advice given to individual countries with regard to capital account issues**. There was no evidence that the IMF had indiscriminately pressured member countries to liberalize the capital account; overall, IMF

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[1] The IEO evaluation, following the established practice within the IMF and in the academic literature, used the term "capital account" to describe the subset of the balance of payments covering all noncurrent international transactions—what the fifth and subsequent editions of the IMF *Balance of Payments Manual* refer to, for statistical purposes, as the "capital and financial account."

staff was “to a surprising extent … supportive of country authorities’ policy choices, whatever they may have been” (IEO, 2005). The evaluation further noted that while IMF staff was, in principle, opposed to capital controls—controls were considered not very effective, especially in the long run, and not a substitute for required adjustments in macroeconomic policies—they “displayed a remarkable degree of sympathy with some countries in the use of capital controls” (IEO, 2005). To be sure, the lack of a formal IMF position on capital account issues gave individual staff members freedom to use their own professional and intellectual judgment in dealing with specific country issues. On the other hand, the evaluation noted that the ambiguity had led to some lack of consistency in IMF country work and that some staff members felt uneasy operating in the absence of a clear official position. In addition, the IMF’s analysis remained largely directed at what recipient (mainly emerging market) economies should do to cope with the volatility of capital flows and much less on exploring options for reducing the cyclicality of capital movements in source (mainly advanced) economies.

6. **The evaluation made two broad recommendations.**

a) The IMF should provide more clarity on its approach to capital account issues—with or without a change in the Articles of Agreement. The Executive Board should formally clarify the scope of IMF surveillance on capital account issues and provide clear guidance to staff on the IMF’s official position; the evaluation suggested the so-called integrated approach outlined in Ishii and Habermeier (2002) as a possible starting point.[2] At the same time, the IMF should sharpen its advice to individual countries on capital account issues, based on solid analysis of the particular situation and risks facing each country.

b) The IMF should give greater attention to the supply side factors of international capital flows and what, if anything, could be done to minimize the volatility of capital movements.

7. **The Executive Board supported the call for further research on capital account liberalization issues but stopped short of fully endorsing the two IEO recommendations.** At the Board discussion of the evaluation report in May 2005, no consensus was reached on how to clarify the IMF’s approach to capital account issues—Executive Directors in favor of capital account liberalization worried that the official position might be construed as validating the use of capital controls; Executive Directors chary of liberalization worried that

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[2] The integrated approach was discussed in an Executive Board seminar in 2001 but was not endorsed as official IMF policy by the Board. The approach considers capital account liberalization as part of a comprehensive program of economic reforms in the macroeconomic policy framework, the domestic financial system, and prudential regulation. It envisions a sequenced liberalization process involving: first, liberalization of foreign direct investment (FDI) inflows; second, liberalization of FDI outflows and long-term portfolio flows; and finally, liberalization of short-term portfolio flows.

the official position might result in a one-size-fits-all policy to open the capital account. Most Directors did not wish to reopen the discussion of giving the Fund jurisdiction over capital movements. And many Directors underlined the challenge that would be faced in developing operationally useful guidance to staff on capital account issues in the absence of firm theoretical and empirical conclusions and given how far apart (and strongly held) views were within the Board. In the end, staff was encouraged to continue to exercise their informed professional judgment and discretion and to build on analytical work underway to improve their understanding of how best to obtain the benefits and manage the risks of capital account liberalization as well as of push factors and their operational and policy implications.

III. Developments Since the 2005 Evaluation

8. **This section discusses the evolution of IMF work on capital account liberalization issues since 2005**, focusing on the Fund's (i) research outputs; (ii) mandate and strategic approach; (iii) policy advice in the context of bilateral and multilateral surveillance, and (iv) public communications, including Management outreach.

A. Research[3]

9. **The IMF intensified its analytical work on capital account liberalization issues after the IEO evaluation.** The research was initiated first as part of the Fund's medium-term strategy (IMF, 2005) and received an additional fillip from the global financial crisis.[4] At the same time, there was also substantial research on liberalizing and managing capital flows in the academic and policy circles outside the IMF, including joint work with IMF staff.[5]

10. **Notwithstanding these efforts, the empirical literature has been unable to establish a robust positive relationship between capital account liberalization and growth.** There is by now an enormous body of empirical research inside and outside the Fund on the macroeconomic effects of capital account liberalization.[6] Two survey papers prepared by the IMF's Research Department after the IEO evaluation synthesized the findings to date and offered a "guardedly positive overall assessment" of the macroeconomic

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[3] IMF research includes Working Papers, Staff Position Notes, Staff Discussion Notes, Policy Discussion Papers, Occasional Papers, etc. Distinct from policy papers, any views expressed and positions taken in these papers may not be attributed to the IMF Executive Board or Management.

[4] "Capital Flows" was the theme of the IMF's Seventh Jacques Polak Annual Research Conference in November 2006.

[5] Within the IMF, Offices of Executive Directors also contributed to the research output with working papers on liberalizing and managing capital flows in Chile; Iceland and the Baltic countries; and the Czech Republic, Poland, and Romania.

[6] The term "capital account liberalization" is closely related to "financial globalization," "financial openness," and "international financial integration," and no attempt is made to disentangle them in this report.

effects of capital account liberalization (Kose and others, 2009) that was "broadly supportive of the IMF's 'integrated' approach'" (Dell'Ariccia and others, 2008). These papers concluded that financial globalization affected long-run growth not so much directly through the cost of capital but indirectly through macroeconomic discipline and financial and institutional development; they further argued that there were threshold effects whereby financial globalization led to higher long-run growth only if countries had a certain level of macroeconomic discipline and financial and institutional development. More recently, however, Jeanne, Subramanian, and Williamson (2012) performed a meta-analysis of over 2,000 regressions based on current empirical studies and found no robust evidence of a positive relationship between financial globalization and growth and no evidence to support the argument of Kose and others (2009) that there were significant indirect benefits of financial globalization for growth, "raising questions about the pursuit of all forms of international financial integration as an urgent policy goal."

11. **As for the flip side of capital account liberalization—i.e., restricting international capital flows—the existing empirical research also offers mixed results.** Since the 2005 IEO evaluation, there has been more research both within and outside the Fund on the effectiveness of controls on capital inflows and outflows.[7] These measures are now referred to broadly within the IMF as capital flow management measures (CFMs) (Box 1).[8] Capital controls have been quite effective in countries with well established restrictions on most categories of capital flows (i.e., countries that have relatively closed capital accounts, such as China and India) but less effective in countries with largely open capital accounts. In the latter group of countries, inflow controls have been, in general, less effective in reducing the aggregate volume of capital inflows and more effective in temporarily altering the composition of capital flows in favor of longer maturities.[9]

12. **The headline message drawn from the IMF's own research in this area is that controls on capital inflows can be effective under certain circumstances.** In a widely cited staff position note, Ostry and others (2010) found that countries that had capital controls in place prior to the global financial crisis suffered less serious output declines during the crisis than countries that did not employ controls. They argued that "if the

[7] Examples include Habermeier, Kokenyne, and Baba (2011) and Magud, Reinhart, and Rogoff (2011). On the theoretical side, Korinek (2011) developed a theory of prudential capital controls which considered systemic financial fragility as "an uninternalized by-product of external financing just as air pollution is an uninternalized by-product of driving" that optimally would be addressed through a Pigouvian tax on risky capital flows.

[8] Capital controls have also been referred to elsewhere in the literature as capital account regulations and capital management techniques; see, for example, Gallagher, Griffith-Jones, and Ocampo, eds. (2012).

[9] However, Blanchard, Dell'Ariccia, and Mauro (2013) questioned the finding that capital controls affected the composition of flows but not their level—given the specialization of the different types of investors, they argued, if capital controls decreased short-term flows, it was unlikely they would be replaced by long-term flows one for one.

economy is operating near potential, if the level of reserves is adequate, if the exchange rate is not undervalued, and if the flows are likely to be transitory, then use of capital controls—in addition to both prudential and macroeconomic policy—is justified as part of the policy toolkit to manage inflows." This conclusion was seen by many outside the IMF as a welcome shift in the Fund's long-held views on capital controls (see Section III.D).

Box 1. Capital Flow Management Measures (CFMs)

A CFM is a policy measure that is designed to limit capital flows. The IMF distinguishes between two types of CFMs: residency-based and other.

- "Residency-based CFMs" are what are typically referred to as capital controls. They encompass a variety of measures (including taxes and regulations) affecting cross-border financial activity that discriminate on the basis of residency. For example, a restriction on nonresidents buying domestic government securities would be considered a residency-based CFM or capital control.
- "Other CFMs" are prudential policies that do not discriminate on the basis of residency but are nonetheless designed to influence cross-border capital flows. They include measures that differentiate capital account transactions on the basis of currency (e.g., reserve requirements on foreign exchange deposits) as well as measures that typically are applied to the non-financial sector (e.g., minimum holding periods).

In general, it is often difficult to determine whether a particular measure constitutes a CFM and considerations such as the overall policy context and the timing of the measure may need to be taken into account. Fund staff has compiled a taxonomy of such measures for internal use.

13. **Turning to the supply side of international capital flows, there has been an upsurge of IMF research since 2005 to better understand the sources and transmission channels.** The role of global liquidity—global supply factors that alter the ease of funding in international markets—gained prominence in the period preceding the global financial crisis, in the context of the accommodative monetary policy stance of the U.S. Federal Reserve and other advanced economy central banks. The discourse veered towards liquidity crunches associated with the global financial turmoil in the summer of 2007; then back to concerns of "excess" global liquidity generated by the unconventional monetary policies of major advanced economies in 2010; and again to the possibility of liquidity crunches associated with the U.S. Federal Reserve's so-called tapering policy after that. The empirical studies typically found that advanced economy interest rates (or other proxies for monetary policy) were important determinants of capital flows to emerging market economies.[10]

14. **Less research has been done on the question of what country authorities and others could do to minimize the volatility of capital flows.** IMF research to date on this topic has focused on examining the feasibility of international policy coordination to ensure that source countries internalize spillovers from their policies (monetary, prudential-

[10] See, for example, Psalida and Sun (2011); Ghosh and others (2012); Bluedorn and others (2013); and Cerutti, Claessens, and Ratnovski (2014).

regulatory, etc.). Ostry and Ghosh (2013) concluded that while there is a case for policy coordination in theory, there are serious obstacles to such coordination in practice.

15. **The IMF's research agenda on capital flow liberalization and management remains active.** Ongoing work by Research Department staff examines how emerging market countries should combine the different elements of their policy toolkit to manage the various risks posed by the rising and ebbing tides of capital flows.[11] The theme of the IMF's Fifteenth Jacques Polak Annual Research Conference in November 2014 was "Cross-Border Spillovers," including topics such as spillovers, contagion, and capital flows; policy frameworks and design to dampen adverse spillovers; capital flow management and macroprudential policies to mitigate spillovers; and international coordination of policies.

B. Mandate and Institutional View

16. **Progress has been made in clarifying the place of capital account issues in IMF surveillance.** After the onset of the global financial crisis, in the fall of 2009 the International Monetary and Financial Committee (IMFC) called on the Fund to review its mandate "to cover the full range of macroeconomic and financial sector policies that bear on global stability" (IMFC, 2009). In July 2012, the Board adopted the Integrated Surveillance Decision that explicitly requires the Fund to consider capital account policies in the context of multilateral surveillance. In bilateral surveillance, the Fund will continue to consider "the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital" and "the pursuit, for balance of payments purposes, of monetary and other financial policies that provide abnormal encouragement or discouragement to capital flows" among developments that require thorough review and a possible need for discussion with country authorities.[12] In multilateral surveillance, the Fund may discuss the impact of members' domestic policies, including "policies respecting capital flows," on the effective operation of the international monetary system even if such policies do not give rise to domestic instability (and accordingly are not subject to bilateral surveillance) (IMF, 2012c). Importantly, however, the Decision does not broaden the scope or change the nature of member countries' obligations under the Articles of Agreement.

17. **Some efforts have been made to strengthen the IMF's ability to address push factors behind volatile capital movements.** In the fall of 2010, as quantitative easing in major advanced economies prompted concerns of currency wars in large emerging market

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[11] A draft paper was presented at a meeting on "Monetary Policy and Financial Stability in Emerging Markets" organized by the National Bureau of Economic Research and the Central Bank of Turkey in Istanbul in June 2014. Due to the still-controversial nature of the topic, the paper has not been issued as an IMF Staff Discussion Note.

[12] IMF (2010c) clarified that the right of IMF members to "exercise such controls as are necessary to regulate international capital movements" under Article VI, Section 3, is qualified by members' obligations under Article IV relating to the stability of the system of exchange rates.

economies, the IMFC named as a priority the need to "address the challenges of large and volatile capital movements, which can be disruptive" (IMFC, 2010). In response, the IMF introduced: (i) experimental spillover reports in 2011 for five major economies (China, the euro area, Japan, the United Kingdom, and the United States) to examine the cross-border implications of their economic and financial policies; and (ii) pilot external sector reports in 2012 to provide multilaterally consistent assessments of external balances in major world economies, focusing on "exchange rates, developments in current accounts, capital accounts, reserve accumulation, capital flow measures, and foreign assets and liabilities" (IMF, 2012d). In 2013, the Fund expanded the scope of its mandatory financial stability assessments for systemically important financial centers to allow a more comprehensive analysis of spillovers arising from members' financial sector policies.[13] On the other hand, efforts by the Fund to develop operational global liquidity indicators and incorporate them into surveillance work have not progressed very far.[14]

18. **An "institutional view" on capital flow liberalization and management was agreed at the end of 2012.** This view was developed via a series of policy papers discussed by the Board over the course of two years (Box 2). These policy papers were prepared in parallel with the in-house research efforts described earlier. The Board discussions took place against the backdrop of extraordinary volatility in global capital flows and intense international debate regarding the appropriate policy responses to those flows—a debate that was mirrored, with similar intensity, at the Board. To justify the development of an institutional view, IMF Management and staff cited the 2005 IEO evaluation finding that Fund staff lacked a consistent basis for giving advice on capital account liberalization issues and the IMFC's September 2011 call for a "a comprehensive, flexible, and balanced approach for the management of capital flows" (IMFC, 2011). The institutional view does not alter the Fund's jurisdiction; neither does it alter member countries' rights and obligations under other international agreements pertaining to capital flows (which often differ from the recommendations set forth in the Fund's institutional view).

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[13] In September 2010, the IMF Board made financial stability assessments under the Financial Sector Assessment Program (FSAP) a mandatory part of bilateral surveillance under Article IV for 25 jurisdictions with systemically important financial sectors. In December 2013, the list of jurisdictions was lengthened to 29 and at the same time, the legal framework governing mandatory financial stability assessments was updated to reflect the Integrated Surveillance Decision adopted in July 2012

[14] In November 2011, the G20 called on the IMF and the Bank for International Settlements (BIS) to work on developing reliable global liquidity indicators that could be used in IMF surveillance and other monitoring processes; the call was repeated in September 2013. Fund staff briefed the Board on credit and funding indicators in June 2013 and on global liquidity issues for surveillance in March 2014. The BIS has started monitoring a selection of indicators, including price, flow, and stock measures, in semi-annual updates.

Box 2. Development of the Institutional View

The institutional view was built up from a series of policy papers involving the joint work of four departments: Legal, Monetary and Capital Markets (MCM), Research, and Strategy, Policy, and Review (SPR).

- *The Fund's Role Regarding Cross-Border Capital Flows* (IMF, 2010c) explored how the Fund could contribute to developing "rules of the game" for global capital flows. The paper was discussed in December 2010, when major emerging market economies were expressing a renewed interest in capital controls as a policy response to capital inflow surges precipitated by advanced economies' unconventional monetary policies. A month prior to the Board discussion the Group of Twenty (G20), under Korea's presidency, had explicitly recognized the use of "carefully designed macro-prudential measures" to counter capital inflow surges (G20, 2010). A month later, France, on assuming the G20 presidency, called for a code of conduct to regulate international capital flows.
- *Recent Experiences in Managing Capital Inflows* (IMF, 2011a) proposed a possible policy framework for managing capital inflows in recipient countries (mainly emerging market economies) with open or partially open capital accounts. Essentially, the framework specified three criteria—exchange rate (over)valuation, reserve adequacy, and economic overheating—to help determine if consideration of CFMs would be appropriate. During the Board discussion in March 2011, a significant minority of Directors (mainly from emerging market economies) were opposed to incorporating the framework into Fund surveillance, "emphasizing that policymakers need flexibility and discretion to adopt policies that they consider appropriate to mitigate risks rising from large capital inflows" (IMF, 2011b). In October 2011, the G20 Coherent Conclusions for the Management of Capital Flows stated: "There is no one-size-fits-all approach or rigid definition of conditions for the use of capital flow management measures. Country-specific circumstances have to be taken into account when choosing the overall policy approach to deal with capital flows" (G20, 2011).
- *Multilateral Aspects of Policies Affecting Capital Flows* (IMF, 2011d) focused on capital-flow source countries (mainly large advanced economies). It called for: (i) the completion and implementation of national regulatory and supervisory reform agendas to enhance national and global financial stability; and (ii) greater cross-border coordination, including of macroprudential policies, and cross-border resolution of global systemically important financial institutions, to help mitigate the riskiness of capital flows. It found inconclusive evidence on the multilateral effects of both advanced economy monetary policies and emerging market CFMs. During the Board discussion in November 2011, Directors noted that the Fund could play an important role in its bilateral and multilateral surveillance by "monitoring global liquidity and cross-border flows, surveying international spillovers, fostering a multilateral dialogue and policy coordination over capital flows, and providing candid advice" (IMF, 2011e).
- *Liberalizing Capital Flows and Managing Outflows* (IMF, 2012a) proposed a policy framework for liberalizing capital flows and managing capital outflows in countries with (partially) closed capital accounts. The paper explicitly referred to IEO (2005) and espoused an updated version of the "integrated approach" as the basis for Fund policy advice on the liberalization of capital flows. During the Board discussion in April 2012, Directors did not agree on whether full capital account liberalization was a worthy long-term goal (IMF, 2012b).
- The *Institutional View* (IMF, 2012e) synthesized the conclusions of the previous policy papers and related research with the aim to "provide a consistent basis for Fund input to all members, while taking into account their specific circumstances and policy objectives." The Board discussion stretched over two sessions in November 2012. Most Directors agreed that the institutional view was "comprehensive, flexible, and balanced" but many Directors felt that the role of capital flow source countries had not been adequately integrated and a few Directors considered adoption of the institutional view to be premature (IMF, 2012f). Directors stressed that the institutional view would need to evolve over time to incorporate new experience and insights.

19. **The institutional view incorporates key elements of the integrated approach and recent Fund research on CFMs**, with two notable features: (i) there is no presumption of full capital account liberalization as the final goal, only greater liberalization—IMF (2012e) allows that "[l]iberalization does not rule out … the temporary reimposition of CFMs under certain circumstances, if capital flows pose risks to macroeconomic or financial system stability" and that "[t]here is some scope for the long-term maintenance of CFMs provided they are not adopted for balance of payments purposes and that there are no less distortive measures available that are effective;" and (ii) CFMs are not designated as a last resort in an explicit hierarchy of policies for managing capital flows—IMF (2012e) allows that "CFMs can help gain time when taking the needed policy steps requires time, when the macroeconomic adjustments require time to take effect, or when there is heightened uncertainty about the underlying economic stance due to the surge."

20. **The Board discussions of the institutional view were contentious and the final document reflected what is best described as a fragile consensus** (Box 2). Although there was general agreement within the Fund that CFMs could be effective in certain circumstances, some in the Board (and staff) remained of the opinion that once the capital account was liberalized, reversals were damaging on net and should be avoided as far as possible, whereas others were equally firm in their view that some types of capital flows needed constant managing and CFMs were a legitimate means by which to do so. The institutional view as presented in IMF (2012e) was the furthest some Directors (mainly from major advanced economies) were prepared to go in condoning the use of CFMs and the minimum other Directors (mainly from major emerging market economies) were willing to accept as a repudiation of full capital account liberalization as a desirable goal. While all but two Directors ultimately supported the institutional view for the Fund, a number of Directors made clear that their authorities did not share the same view, and member country authorities' differing positions on capital flow liberalization and management were apparent in statements made during the 2013 Spring Meetings.[15] This raises questions for the traction of Fund policy advice based on the institutional view.

21. **A related guidance note to staff was issued in April 2013 after consultation with the Board.** The guidance note (IMF, 2013a) provides clear and sensible instructions on when and how staff should approach capital account issues under the new Integrated Surveillance Decision; it also affords staff broad flexibility to exercise judgment as to when to discuss capital account issues and to tailor policy advice to different country circumstances.

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[15] For example, the U.S. Treasury secretary and Italy's minister of economy and finance stressed that CFMs should not substitute for necessary macroeconomic adjustments and Switzerland's finance minister stressed that capital flow measures should only be applied as a last resort and that full liberalization of capital flows was an appropriate long-run goal of economic policy. On the other hand, Brazil's finance minister stressed that capital controls, as well as macro-prudential measures, had to be ready for use and the central bank governors of India and Malaysia stressed that country authorities should be free to determine when and how to implement prudential measures and CFMs in relation to macroeconomic policies.

C. Policy Assessments and Advice

22. **This section reviews Fund policy assessments and advice related to the liberalization and management of capital flows** embedded in a range of IMF reports related to bilateral country work (Article IV staff reports, program reviews, technical assistance reports, Financial Sector Stability Assessments, etc.) and multilateral surveillance (the *World Economic Outlook* (*WEO*), *Global Financial Stability Report* (*GFSR*), spillover reports, and external sector reports). The 2005 evaluation found that while the IMF's view (albeit unofficial) at the time was by and large positive toward capital account liberalization and negative toward capital controls, the policy advice to individual countries was much more varied; however, it was hard to determine if the variation reflected consistent application of the same principles to different circumstances or the discretion of individual country teams. To the extent allowed by the short period since their issuance, this section considers whether the Integrated Surveillance Decision and institutional view have helped to produce a more consistent approach to capital account liberalization issues.

Liberalizing the capital account

23. **At the country level, IMF advice on capital account liberalization during the post-evaluation period continued to be varied.** Among the 140 or so IMF members with less than fully open capital accounts, this review identified 27 countries in which one or more Fund missions expressed a view or provided advice (including technical assistance) on the removal of capital account restrictions during 2006–14.[16] In certain countries (e.g., India and South Africa), capital account liberalization was addressed more or less continually throughout the review period in Article IV discussions (although the nuance of the Fund's advice evolved over time); in others (e.g., Burundi, Fiji, and Vietnam), staff attention to the issue was more cursory and short-lived. When the issue of capital account liberalization was discussed during Fund missions, it typically came up in the context of financial sector development, financing investment for growth, or reform of the monetary/exchange rate regime. In the majority of cases, the discussion was "demand driven" in the sense that the issue was raised, or an opening-up process had been initiated or was being considered, by the authorities. Fund staff was usually supportive of liberalization although this review also noted a distinct cautionary tone in several cases.[17] Capital account liberalization featured in IMF-supported programs in four countries during the review period.[18]

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[16] Countries rated 2.44 from 2006 onwards on the Chinn-Ito index were considered to have fully open capital accounts during the review period. Countries in which capital account liberalization issues were addressed by IMF missions were identified through a search of the institutional repository using keywords such as "capital account liberalization" and "capital controls," and through information on relevant technical assistance missions from the Monetary and Capital Markets Department.

[17] Examples include: Barbados in 2008–09, when Fund staff agreed that capital account liberalization should be put on hold as global markets were volatile; Georgia in 2009, when Fund staff disagreed with a proposed law

(continued)

24. **All this is consistent with the Integrated Surveillance Decision and the institutional view**, as encapsulated in the 2013 guidance note. The guidance note provides ample room for staff to exercise judgment in deciding whether or not to discuss capital account liberalization: "Capital flow liberalization should be covered, in particular, when the authorities are undertaking or considering liberalization measures, when in staff's view the benefits of further liberalization relative to the costs have risen, or, conversely, when liberalization appears to have outpaced the economy's capacity to safely handle capital flows" (IMF, 2013a). Most mission chiefs interviewed for this review indicated that the guidance note did not change how they analyzed the issue of capital account liberalization in Article IV and technical assistance missions. This review did not uncover any instances of inconsistent advice that could not be explained by the particular circumstances of the countries in question, both before and after the issuance of the guidance note. The few technical assistance missions on implementing capital account liberalization during 2006–14 largely stuck to the script of the integrated approach.

Controlling capital inflows and outflows

25. **The evolution of the Fund's view on CFMs to manage capital inflow surges was reflected in its flagship multilateral surveillance reports.** The topic of managing capital inflows was covered in special *WEO* and *GFSR* chapters in 2007, 2010, and 2013. In the fall of 2007, both the *WEO* and *GFSR* discouraged the use of capital controls.[19] In the spring of 2010 the *GFSR* encouraged policymakers in capital-receiving economies to use macroeconomic policies and prudential regulations in response to the surge in flows and added: "When these policy measures are not sufficient and capital inflow surges are likely to be temporary, capital controls may have a role in complementing the policy toolkit" (IMF, 2010a). The Fall 2013 *WEO* highlighted new risks from capital flows and suggested that "capital flow management measures and foreign exchange intervention can be useful in

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that would prohibit the use of capital controls; Tanzania in 2010, when Fund staff urged the authorities to revise their capital account liberalization plan to ensure that the lifting of controls was properly sequenced and supported by other policies; South Africa in 2008–13, when Fund staff advised against liberalizing controls on capital outflows too quickly; and India in 2013–14, when Fund staff warned against further relaxation of external commercial borrowing rules.

[18] Tanzania's 2008 program under the Policy Support Instrument included a structural benchmark for the central bank to complete a review of the regulatory framework governing capital account transactions that would form the basis for a plan to liberalize the capital account. Iceland's 2009 program under the Stand-By Arrangement, Bangladesh's 2013 program under the Extended Credit Facility, and Cyprus' 2013 program under the Extended Fund Facility included the preparation of roadmaps for removing capital account restrictions as part of the authorities' package of economic policies.

[19] The Fall 2007 *WEO* highlighted the microeconomic costs of capital controls and concluded: "Tightening capital controls does not appear to deliver better outcomes" (IMF, 2007a). The Fall 2007 *GFSR* noted: "In line with the earlier empirical results … capital controls, broadly defined, are usually unhelpful in managing inflows" (IMF, 2007b).

moderating the volatility of capital flows and exchange rates in less resilient emerging market economies in some circumstances" (IMF, 2013b).

26. **This evolution was also apparent in bilateral surveillance.** There were some 40 emerging market economies that experienced capital inflow surges at some point in time during 2006–13.[20] IMF Article IV missions discussed policies to manage actual and potential capital inflow surges in 30 of these countries at least once during this period.[21] The most common advice was to let the exchange rate be the first line of defense, followed by fiscal tightening, monetary policy, prudential policies, and reserve accumulation. The issue of CFMs was raised in half of the countries where Article IV missions discussed capital inflow management. A review of the Article IV staff reports for these countries found that staff advice on CFMs tended to be more discouraging in the earlier part of the period and more supportive and even encouraging from 2010 onwards—as evident in the Article IV staff reports for Brazil (in 2010); Colombia (in 2011); Peru (in 2012); Philippines (in 2013); South Africa (in 2013); and Thailand (in 2013), for example.[22, 23]

27. **However, the stigma associated with capital controls has not been eliminated entirely by the name change to CFMs.** In two instances in 2010, mention of possible use of capital controls had to be deleted from Article IV staff reports before publication. In 2010, the Korean authorities took pains to explain to the Article IV mission that their recently introduced foreign currency measures were "prudential and intended to reduce capital flow volatility within the current framework of an open capital account" (IMF, 2010b). Similarly, in 2013 the Peruvian authorities averred that their macro-prudential measures "aim at enhancing financial stability, and do not constitute CFMs as the Peru has an open capital account" (IMF, 2014).[24] Nonetheless Article IV mission chiefs interviewed for this review

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[20] Episodes of capital inflow surges were identified using a methodology similar to that in IMF (2011a). A surge is defined to occur when gross private capital inflows exceed their long run trend by one standard deviation and are larger than 1.5 percent of annual GDP in two consecutive quarters. Based on this methodology, 41 emerging market economies were identified as having experienced capital inflow surges at some point during 2006–13.

[21] The sample consisted of 254 Article IV staff reports issued between January 2006 and August 2014 for 39 emerging market economies identified as above (excluding Argentina and Venezuela which had no Article IV consultations during this period). Forty percent of the staff reports contained a discussion of policies to manage actual or potential capital inflow surges; within this set, 16 percent mentioned CFMs.

[22] An interdepartmental working group on capital inflows was formed in October 2010 to share real-time information on countries experiencing capital inflow surges, the authorities' policy response, and staff's policy advice.

[23] Gallagher and Tian (2014) also find that the IMF's level of support for capital controls increased after the global financial crisis.

[24] Grabel (2014) also provides examples illustrating that "some governments are still afraid of the stigma and market-driven punishments that long attached to capital controls."

felt that the institutional view has helped by removing taboos in their discussions with country authorities.

28. **It is too early to tell if adoption of the institutional view and the related guidelines have led to greater consistency in Fund policy advice on the use of CFMs to manage capital inflows.** Since the issuance of the guidance note in April 2013, concerns about capital inflow surges have receded and Fund missions have had few opportunities to opine on this topic. But it may be difficult to assess consistency even with time. Since member countries take, and the institutional view allows for, diverse approaches to CFMs, inconsistency in Fund advice on the subject across countries would be very hard to detect. Furthermore, while the guidance note is clear in specifying when CFMs may be useful, it is less precise in explaining what measures are considered CFMs, particularly those that are not residency-based and overlap with macroprudential measures (which do not carry the same stigma as CFMs). To assist staff in applying the institutional view, the IMF's SPR department has compiled a taxonomy of CFMs adopted by country authorities since 2008. But the classification hinges on the underlying intent of the measure and the circumstances prevailing in the country at the time of implementation. Therefore, a measure assessed as a CFM in one country may not be considered a CFM in another country.

29. **As for controls on capital outflows, the IMF has shown greater tolerance for their use in crisis situations in the post-evaluation period**. The 2008 Stand-by Arrangement (SBA) with Iceland supported the country's decision to introduce capital controls in order to help stabilize the exchange rate. With the balance of external debt larger than the size of the Icelandic economy, the IMF recognized that alternatives were few and not palatable. On the other hand, staff did not approve of the exchange controls imposed by Ukraine to help stem capital outflows in late 2008 and recommended that they be eliminated as soon as possible in the context of the SBA. The IMF did not discuss the use of capital controls to stem outflows in Latvia's SBA program (agreed a month after the Iceland program) or in Ireland's 2010 Extended Arrangement program. Both countries had EU treaty commitments to avoid capital controls on outflows and their authorities expressed no interest in using capital controls.[25] The 2013 Extended Arrangement for EU-member Cyprus, however, accommodated the introduction of capital controls and restrictions on deposit withdrawals.

[25] The 2008 SBA with Latvia did support a partial deposit freeze on Parex Bank to prevent an excessive outflow of deposits—an exchange restriction approved by the Board under Article VIII, Section 2(a). Additionally, in Latvia and other crisis-hit European countries where foreign-owned banks controlled a large segment of the banking sector, the IMF participated in the "Vienna Initiative" under which the strategic owners of the large foreign bank groups voluntarily agreed to maintain their exposures in those countries. These agreements, often referred to as private sector involvement, could be characterized as implicit capital controls and indicate the IMF's greater willingness to use direct means of limiting capital outflows in the event of a crisis.

Addressing push factors

30. **The *WEO* and *GFSR* had a mixed record addressing the supply side of volatile capital flows.** After the global financial crisis erupted, the Spring 2009 *WEO* and *GFSR* both called for cooperative efforts across countries and preemptively warned against financial protectionism; the concern then was that unilateral actions by (advanced) countries to support their own financial systems could crowd out foreign lending, with damaging consequences for emerging market countries and the wider global economy. However, when the United States and other advanced economies engaged in ultra-expansionary monetary policy in response to the crisis, attention to the spillover risks from these policies was not commensurate with the extent of disruption witnessed by the emerging markets.[26] The Spring 2011 *WEO* and *GFSR* simply recommended macroeconomic policy tightening in emerging markets, accompanied if necessary by CFMs. It was not until the spring of 2013 that the multilateral surveillance reports urged policymakers in advanced economies to consider the complications and risks associated with exceptionally easy monetary policies for the rest of the world and to adjust their policy mix appropriately.[27]

31. **After a lag, the spillover reports also provided some advice to source countries on conducting policies that affected global capital flows.** The 2011 and 2012 spillover reports downplayed the adverse impact of quantitative easing on emerging markets, in terms of financial market and exchange rate volatility. Following the "taper tantrum" in May 2013, however, the 2013 and 2014 spillover reports appropriately highlighted the importance of finding the right pace of monetary normalization in the United States and for the Federal Reserve to communicate its intentions clearly so as to avoid excessive market volatility and reversals of capital flows to emerging markets. These points were reinforced in the IMF's policy advice to the United States during the related Article IV consultations.[28] The 2013 spillover report also underscored the importance of international cooperation in regulatory and macroprudential policies, e.g., through reciprocity in the implementation of macroprudential measures aimed at limiting bank lending abroad. The 2012–14 pilot external sector reports, on the other hand, presented detailed analyses of international capital flows and their determinants but only focused policy advice on capital recipient countries.

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[26] IEO (2014b) noted that the Fund had prematurely endorsed fiscal consolidation in large advanced economies, and, in parallel, encouraged reliance on expansionary monetary policy to stimulate demand—a policy mix that was considered less than fully effective in promoting recovery and contributed to capital flow volatility in emerging markets.

[27] To lower the spillovers and risks emanating from unconventional monetary policies, the Spring 2013 *WEO* called for more medium- and long-term fiscal adjustment and mending weak balance sheets and the Spring 2013 *GFSR* called for restraining a rapid rise in leverage and encouraging prudent underwriting standards.

[28] The U.S. Article IV missions also stressed that slowing the pace of short-run fiscal adjustment would allow for a more balanced policy mix by partly relieving monetary policy of the burden for supporting the recovery, reducing the risks to U.S. and global financial stability from a prolonged period of low interest rates.

32. **The Fund has been less effective in pushing for international policy coordination to reduce capital flow volatility than in providing analyses of the potential benefits of such coordination.** It is well understood that the IMF lacks the mandate to enforce such coordination; it has to rely on persuasion, e.g., by providing analysis (such as in spillover reports) illuminating potential gains from coordinated action and by providing a forum for discussion of mutually advantageous international policy options.[29] To date, analysis has been forthcoming, as noted above, but forums for discussion less so.[30] The Managing Director made a strong call for international policy cooperation and coordination at the Jackson Hole Economic Policy Symposium in August 2013 and gently raised the issue again during her interview of the Chair of the Federal Reserve Board a year later.[31] There is no evidence as yet of formal IMF collaboration with institutions involved in the design and promotion of regional and international frameworks on capital flows.[32]

D. Public Communications

33. **Management and staff have made a concerted effort to publicize the evolution of the IMF's approach to capital account liberalization.** The 2005 IEO evaluation found a partial disconnect between the IMF's public pronouncements in strong favor of free capital mobility and the policy advice reflected in its country work, which was much more varied with respect to capital account liberalization and the use of capital controls. However, in the aftermath of the global financial crisis—even before the issuance of the institutional view—the IMF began to change its tone on capital controls in public communications (Box 3). By the latter half of 2010, the Managing Director was emphasizing pragmatism—including the use of capital controls—in responding to capital inflow surges; and by January 2011, senior IMF staff was already referring to capital controls as "part of the toolkit" in briefings to the press.[33] The institutional view and the research and policy papers associated with it were widely disseminated and discussed outside the Fund, including at high-level conferences

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[29] The 2014 *Triennial Surveillance Review* recommended appointing an expert group to explore how to strengthen the Fund's role in global cooperation but this recommendation was not endorsed by the Board.

[30] The first spillover report was clear about the limitations of the exercise: "[Spillover reports] are not a recipe for global coordination at the level of the Fund's Executive Board or the IMFC. They are not a substitute for multilateral processes in other venues tackling issues of long-term sustainability, such as the G-20 Mutual Assessment Process. And they are not a surrogate 'Multilateral Consultation' of the sort convened by the Fund in 2006 to broker policy commitments to resolve global imbalances" (IMF, 2011c).

[31] The need for international policy coordination to minimize potential adverse cross-border policy spillovers and spillbacks was also featured in the Managing Director's global policy agenda to the IMFC in April and October of 2014.

[32] Fund staff has been participating in meetings of the Advisory Task Force on the OECD Codes of Liberalization and has had informal interactions with other bodies.

[33] "Transcript of a Press Briefing by Caroline Atkinson, Director, External Relations Department, International Monetary Fund," January 6, 2011 and February 3, 2011.

jointly sponsored by the IMF and country authorities in Indonesia (in March 2011), Brazil (in May 2011), and China (in March 2013). By early 2013, therefore, the disconnect noted in the 2005 evaluation was much less apparent, if at all.

Box 3. Evolution of IMF Management Views on Capital Controls

- "[C]ontrols on capital inflows might succeed temporarily in reducing inflows and easing exchange market pressure. However, they are unlikely to do so for very long, and they also have important disadvantages. They tend to set central banks and private financial institutions against each other. And since private institutions are generally imaginative and well resourced, they generally find ways around the restrictions, often very quickly. Indeed, recent studies conclude that capital controls rapidly become ineffective after their imposition. Capital controls can also create distortions in the behavior of firms and individuals, and when imposed on short-term flows they can cause particular problems for companies that cannot get long-term finance—usually small businesses and start-up firms."
  - Rodrigo de Rato, Bangkok, Thailand, July 28, 2007

- "While capital inflows are generally beneficial, they can raise risks of rapid and potentially destabilizing movements of currencies and asset prices. Policy makers have several tools to mitigate the effects of these inflows. They include exchange rate appreciation, tighter fiscal policy, and, where appropriate, lower interest rates. In addition, macro-prudential instruments can limit the risk of asset price bubbles. Market-based controls on capital inflows can help reduce the volatility of such flows. But these measures are costly and tend to lose effectiveness over time."
  - Dominique Strauss-Kahn, Singapore, November 13, 2009

- "Dealing with crises is important, but it's even better to prevent them … Countries have a number of policy options in their toolkits—lower interest rates, reserves accumulation, tighter fiscal policy, macro-prudential measures, and sometimes capital controls. The response should depend on circumstances—there is no one-size-fits-all solution. For example, with a credit-fueled housing bubble, prudential tools might be the way to go. If instead the problem is debt inflows fueling a boom in foreign currency lending to unhedged borrowers, then the solution might be different and might include capital controls. Again, we should always be pragmatic."
  - Dominique Strauss-Kahn, Shanghai, October 18, 2010

- "[W]hile capital flows can bring great benefits, they can also overwhelm countries with damaging cycles of crescendos and crashes … Economic management is the key. If the flows are coming through the banking system, then macro-prudential tools make sense—such as tightening conditions for housing loans or having banks hold more capital. In other circumstances, temporary capital controls might prove useful. I should point out that Malaysia was ahead of the curve in this area."
  - Christine Lagarde, Kuala Lumpur, Malaysia, November 14, 2012

- "In some cases, capital flow management and foreign exchange intervention may be appropriate to contain financial instability—but they should not substitute for necessary macroeconomic adjustment. In fact, several countries such as Brazil, Uruguay and Indonesia, used some form of capital controls to discourage short term inflows. Other countries, such as India and Peru, intervened directly in the foreign exchange market. These policies helped limit excessive volatility. And as long as they remain targeted and temporary, these policies are not expected to take the steam out of needed adjustments."
  - Christine Lagarde, Sintra, Portugal, May 25, 2014

34. **Public response to the evolution of the IMF's view has been positive.** The release of the staff position note on the role of capital inflow controls (Ostry and others, 2010) in February 2010 was welcomed as the first sign that the IMF was trying to adapt its advice on

capital flow management to global economic realities.[34] Rodrik (2010) called the paper "a stunning reversal—as close as an institution can come to recanting without saying, 'Sorry, we messed up.'" The publication of the institutional view (IMF, 2012e) almost three years later in December 2012 cemented the notion that the Fund had officially adjusted its approach to capital account liberalization for the better.[35] Krugman (2012) noted that while the institutional view was "basically a codification of recent practice," it was nonetheless an "indicator of the IMF's surprising intellectual flexibility."

IV. Conclusion

35. **The IMF has come a long way since 2005 in clarifying, enhancing, and communicating its approach to capital account liberalization.** Within the last five years, it issued the 2012 Integrated Surveillance Decision that elucidated the place of capital account issues in bilateral and multilateral surveillance, and developed an institutional view on the liberalization and management of capital flows. IMF staff produced and synthesized a substantial amount of academic and operational research on capital account liberalization and capital controls, and developed new multilateral surveillance products (e.g., spillover reports) that allow for greater attention to push factors affecting international capital flows. In the process, the Fund has also internalized many of the substantive lessons from past IEO evaluations (highlighted in IEO, 2014a) on the importance of providing clear Board guidance; explicitly taking into account, in policy and practice, different country circumstances and the need for evenhandedness; and breaking down internal silos.

36. **The issuance and dissemination of the institutional view was arguably a significant step.** The institutional view provided staff with official backing to discuss capital account issues that they previously may have been hesitant to raise in the course of surveillance. Moreover, from a public relations standpoint, it changed the perception of the IMF as a doctrinaire proponent of free capital mobility to a learning institution willing to adapt to new knowledge and global realities. This more sympathetic public image of the Fund has helped to smoothen staff's relationship with country authorities, particularly in emerging markets.

37. **But ambiguities still exist.** The institutional view was carefully drafted to achieve a compromise that could be endorsed by the Board. The compromise was delicate, as fundamental differences remain within the Board on how to manage capital flows, reflecting, perhaps, the present rich spectrum of evidence on these issues. The institutional view thus

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[34] See, for example, "Fundamental questions," *The Economist*, February 18, 2010 and "IMF reconsiders capital controls opposition," *Financial Times*, February 22, 2010.

[35] See, for example, "IMF drops opposition to capital controls," *Financial Times*, December 3, 2012; "IMF officially endorses capital controls in reversal," *Bloomberg*, December 3, 2012; "IMF eases its blanket opposition to capital controls," *Wall Street Journal Online*, December 3, 2012; "IMF officially backs capital controls in crises," *Dow Jones Newswire*, December 3, 2012.

reads in parts like an exercise in constructive ambiguity and the related operational guidance note provides substantial leeway for staff discretion on these issues. While this leaves undeniably important room for policy advice to be tailored to country-specific circumstances, it remains to be seen if implementation of the institutional view will bring greater consistency to the IMF's advice on capital account issues and whether this advice will be convincing to member countries.

38. **International policy coordination is an ongoing challenge.** There is currently a patchwork of bilateral, regional, and international agreements regulating cross-border capital flows among different groups of countries, but there are no universally agreed "rules of the game." A key challenge for the IMF is to find ways to support multilateral cooperation on policies affecting these flows. While the IMF has recently given more attention to actual and potential adverse side effects of policy spillovers, continued efforts will be needed to promote their discussion and foster greater policy cooperation among recipients and suppliers of capital.

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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.

The IMF's Approach to Capital Account Liberalization
Revisiting the 2005 IEO Evaluation