IMF ADVICE ON UNCONVENTIONAL MONETARY POLICIES AND CAPITAL FLOWS

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UMP Advice: Why This Evaluation?

- Did IMF provide value added advice and influence decisions in a core area at a time of unprecedented challenge?

- Did IMF help countries affected by spillovers and promote cooperative approaches?

- How can the Fund be better prepared next time that UMP are needed?
Noteworthy Achievements

- Rapid deployment of support for UMP provided useful public validation
- Valued sounding board from trusted advisor
- Attention to financial stability risks from UMP through active monitoring and development of macroprudential toolkit
- Actively sought to promote international monetary cooperation through G20
- Responded to help EMs facing volatile capital inflows with new facility and more pragmatic advice
Challenges for the Fund

- Fund did **not provide much value added advice** or cutting edge ideas for UMP to central banks.

- **Limited payoff from efforts at international cooperation.** Fund should have paid greater attention to the mix between monetary and fiscal policies.

- Fund **could have done more to recognize EM challenges** in managing volatile capital flows. Institutional view seen by many as too restrictive.

- Fund **not at forefront in rethinking frontier issues** in central banking or cross-country assessment of how well UMP were working.
Institutional Constraints

- Lack of top monetary policy experts
- Monetary policy competed with newer priorities
- Frequent turnover of mission chiefs and teams

High turnover on country teams

![Bar chart showing participation of staff in Article IV missions, by number of missions.

Source: IEO staff calculations based on Article IV Reports 2008-2017]
Raising the IMF’s Game on Monetary Policy

- Build core group of experts
- Strengthen country engagement
- Develop playbook of policy responses for future downturns
- Revive financial spillover analysis and reassess capital flow advice
Management and Board Response

► Managing Director agreed that there is room to improve timeliness and value added of IMF work on monetary policy issues

► Executive Directors broadly supported recommendations.
  ▪ Agreement on need to deepen IMF monetary policy expertise and country engagement, within resource constraints
  ▪ Emphasis that the Fund should focus on comparative advantages not compete with or substitute for central bank strengths
  ▪ Skepticism about options for strengthening international monetary cooperation
Next Steps and Follow-Up

- **Management Implementation Plan** due by December 2019 for Board approval
- Key findings and recommendations to feed into the **Comprehensive Surveillance Review** as well as budget discussions and the new HR strategy
- Staff work on new **integrated policy framework**
- **IEO evaluation** on IMF advice on capital flows
Why An Evaluation of IMF Capital Flow Advice?

- Capital flows to emerging and frontier markets likely to remain volatile.
- After seven years with the Institutional View:
  - no one seems very satisfied with how it is applied
  - worth learning from recent experience and research for best practices
- IEO evaluation can complement staff work on an integrated policy framework
Evaluation Questions

► Has the Fund provided value added and persuasive advice on capital flows to members since the IV?

► Is IMF advice “state of the art” and consistent with empirical evidence

► Does the IMF appropriately balance bilateral and multilateral considerations?
IV: One-size-fits-nobody?

Too accommodating:
- Inadequate attention to long-term benefits of open capital accounts and flexible exchange rates
- Lacks market empathy and downplays potential CFM spillovers

Too rigid:
- Discourages pre-emptive or protracted application of CFMs
- Differential treatment of CFMs and MPMs
- Too little focus on source country policies

Inadequate attention to long-term benefits of open capital accounts and flexible exchange rates
Lacks market empathy and downplays potential CFM spillovers
Timeline of the evaluation

- **Board discusses draft issues paper**
  - Jul 23, 2019

- **Consultants are hired, preparatory work**
  - Aug-Sep, 2019

- **Thematic and case studies finalized**
  - Oct 2019-March 2020

- **IEO presents evaluation to the Board**
  - Mid-2020
THANK YOU!

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