

IEO

Independent Evaluation Office
of the International Monetary Fund

IMF ADVICE ON UNCONVENTIONAL MONETARY POLICIES AND CAPITAL FLOWS

CHARLES COLLYNS

CEMLA, Santo Domingo | September 27, 2019

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?

Scope of the Evaluation

Country Cases

- ▶ Major central banks implementing UMP
- ▶ Other advanced economy central banks
- ▶ Major EMs affected by spillovers

Thematic Papers

- ▶ Financial risks and other side-effects of UMP
- ▶ Promoting international monetary cooperation
- ▶ Frontier central banking issues
- ▶ Institutional and HR issues

Evidence for the Evaluation



- ▶ Extensive interviews with country officials and IMF staff
- ▶ Intense review of public and internal documents
- ▶ Analysis of HR, budget and citation data
- ▶ Workshops with monetary experts

IMF 'Corporate View'

- ▶ IMF deserves credit for rapid deployment of support for UMP
- ▶ Fund's view to downplay financial stability risks from UMP was sound for the exceptional circumstances
 - and complemented with active monitoring of risks and work on macroprudential policies
- ▶ But Fund should have:
 - paid greater attention to the mix between monetary and fiscal policies
 - done more to recognize EM challenges in managing volatile capital flows
 - been at forefront of cross-country assessment of how well these policies were working

Advice to Major Advanced Economies

- ▶ Useful validation of actions by Fed and Bank of England
- ▶ Pressed ECB and Bank of Japan toward stronger actions
 - Interactions between ECB and IMF staff were influential in run-up to ECB decision to launch QE in 2012
- ▶ Limited value added of Fund analysis relative to central banks' own work
- ▶ Major central banks valued Fund's multilateral research

Advice to Smaller Advanced Economies

▶ The Fund:

- Generally went along with novel actions
 - Denmark moved to negative policy interest rates (NIR) in 2012. Fund assessment of NIR came in 2016-17
 - Exchange rate floors by Switzerland and Czech Republic
- But did not bring new ideas on toolkit these economies would need
- And was not much used as source of external advice

Advice to Emerging Markets

- ▶ Article IV regarded as a well informed check on macro framework. But countries would appreciate:
 - deeper expertise and market awareness for value-added on monetary policy issues
 - greater focus on global developments and cross-country experience
- ▶ ‘Institutional View’ (IV) on capital flows welcomed as sign of Fund’s flexibility. But concerns have built that it is too restrictive in implementation and design

Fostering International Monetary Cooperation

▶ Extensive collaboration with G-20 (e.g. MAP) but limited impact

▶ Spillover Reports: attracted attention to the issue, but few analytic breakthroughs on financial spillovers and little influence on policy advice

▶ Institutional View' appreciated, but:

- Some think it "open blessing" for capital controls
- Others find it too rigid and not supportive enough of CFMs

▶ Flexible Credit Line launched and appreciated by users (Mexico, Colombia, Poland), but limited take up

Frontier Central Banking Issues

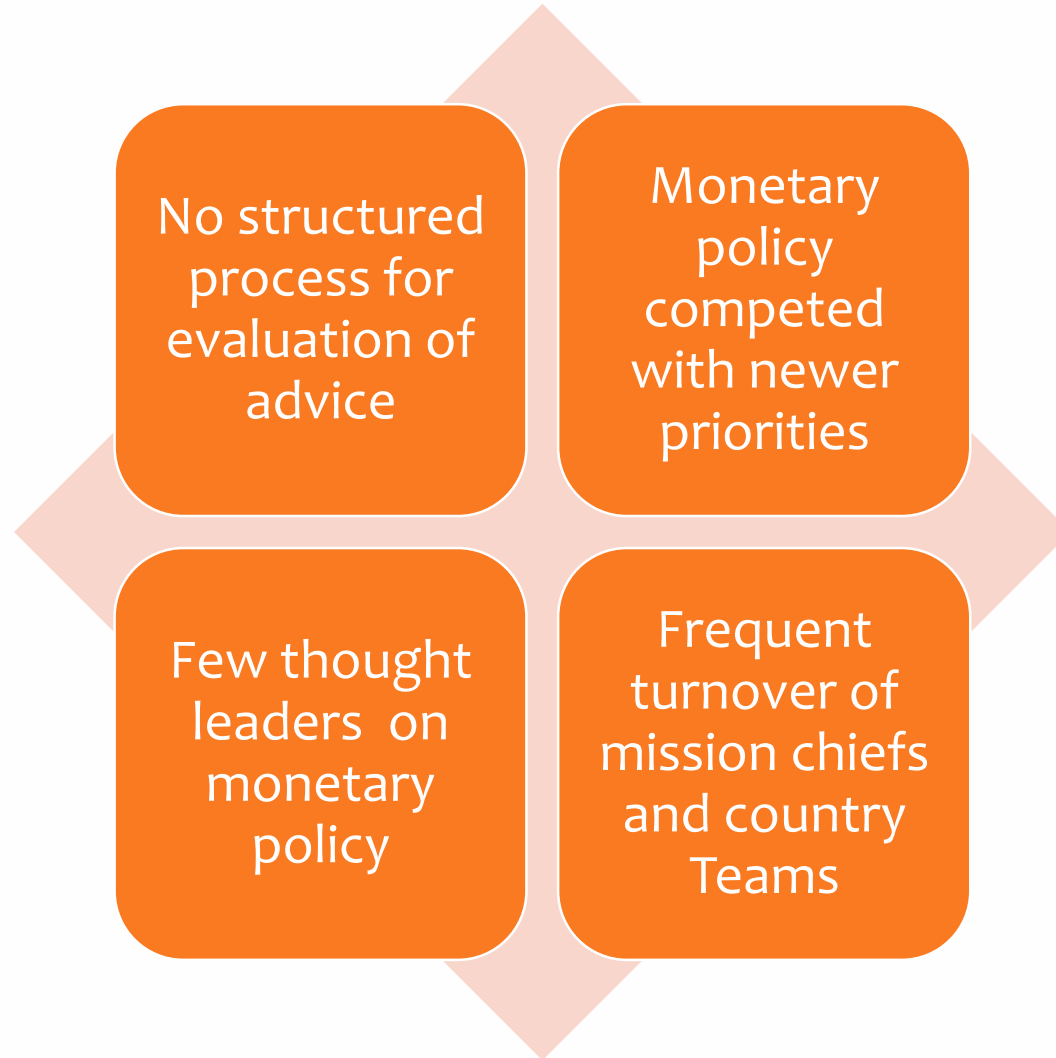
Issues Being Debated

- ▶ Monetary policy toolkit: should UMP be part of conventional toolkit?
- ▶ Monetary policy framework: still IT? should inflation target be raised?
- ▶ Governance of central banks: rein in “unelected power”?
- ▶ Central bank digital currency: will it help get around ZLB issues?

Fund's work

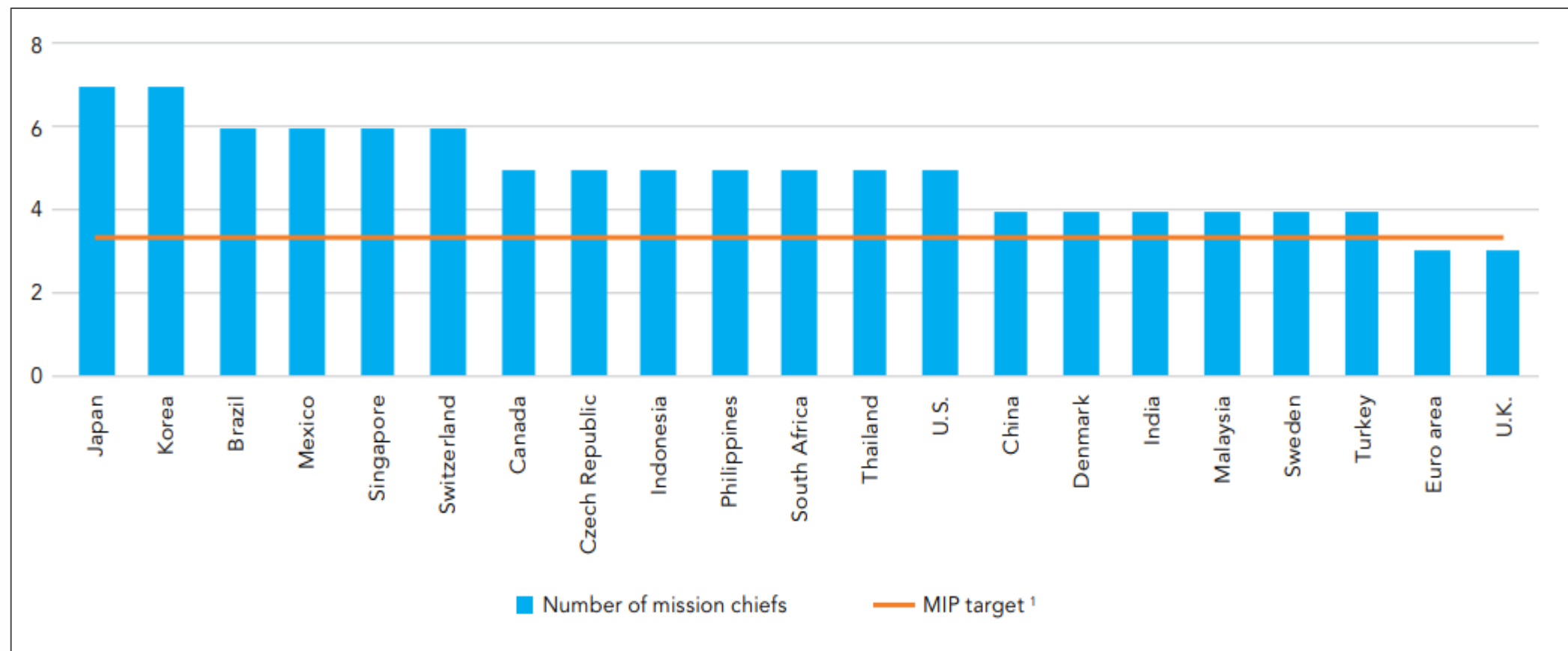
- ▶ Fund not considered at forefront of new thinking on these issues
 - Exception: early discussion of case for higher inflation target

Institutional and HR Issues



Frequent Turnover of Mission Chiefs

Number of IMF Mission Chiefs (2008-17)

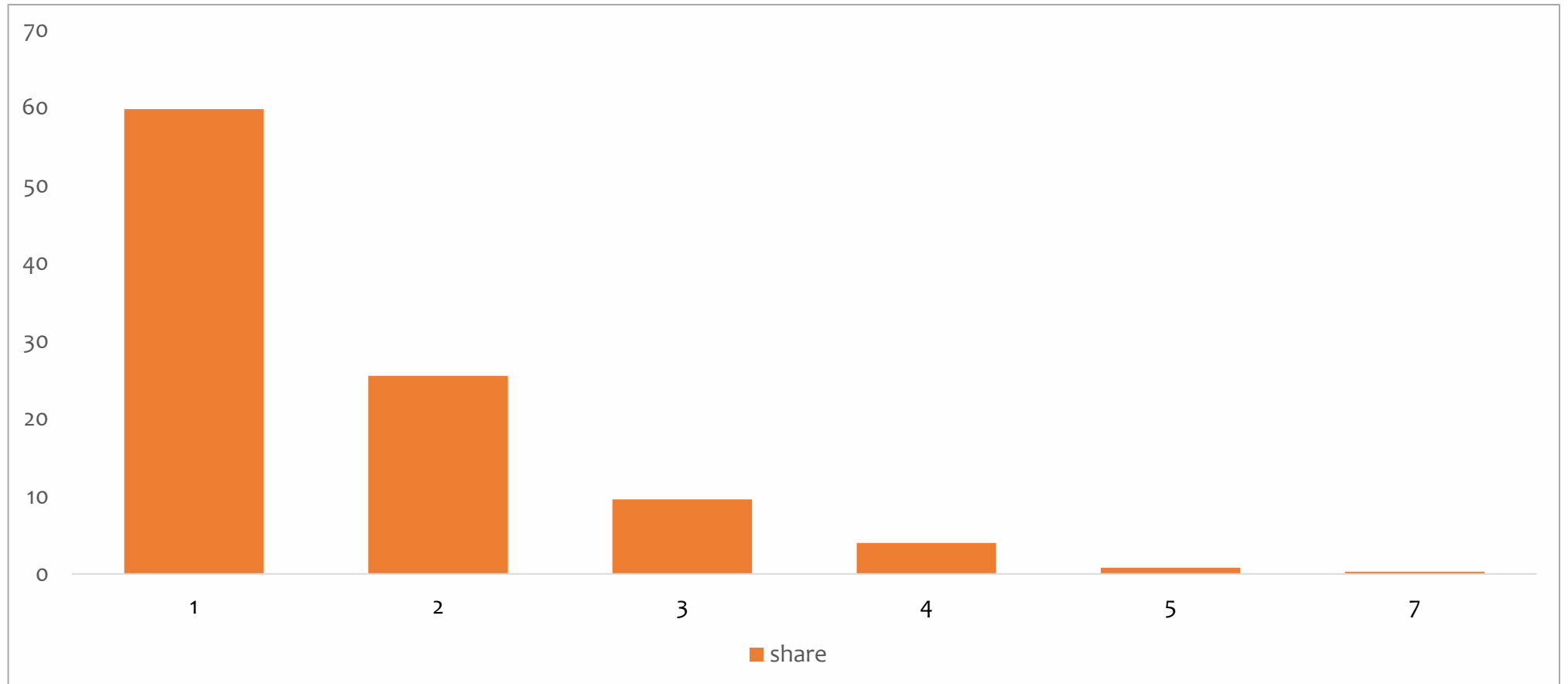


Source: IEO staff calculations based on Article IV Reports 2008-2017

Note: 1/ Based on MIP – Role of the IMF as Trusted Advisor

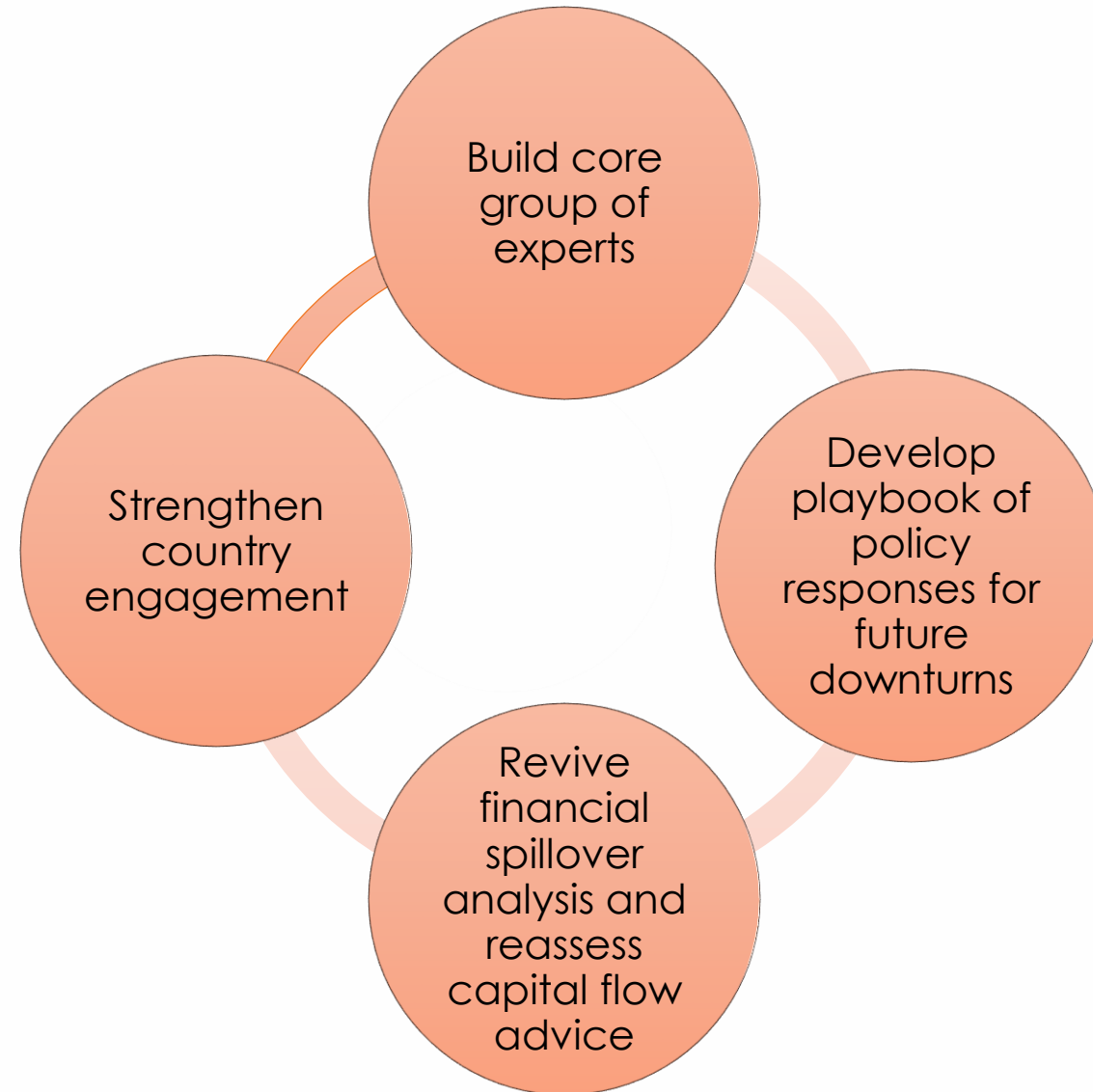
High Turnover in Country Teams

Participation of Staff in Article IV Missions, by Number of Missions



Source: IEO staff calculations based on Article IV Reports 2008-2017

Four Recommendations



Management and Board Response

- ▶ **MD** welcomed overall finding that the Fund's engagement on UMP has been wide-ranging and in many respects impressive
- ▶ 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

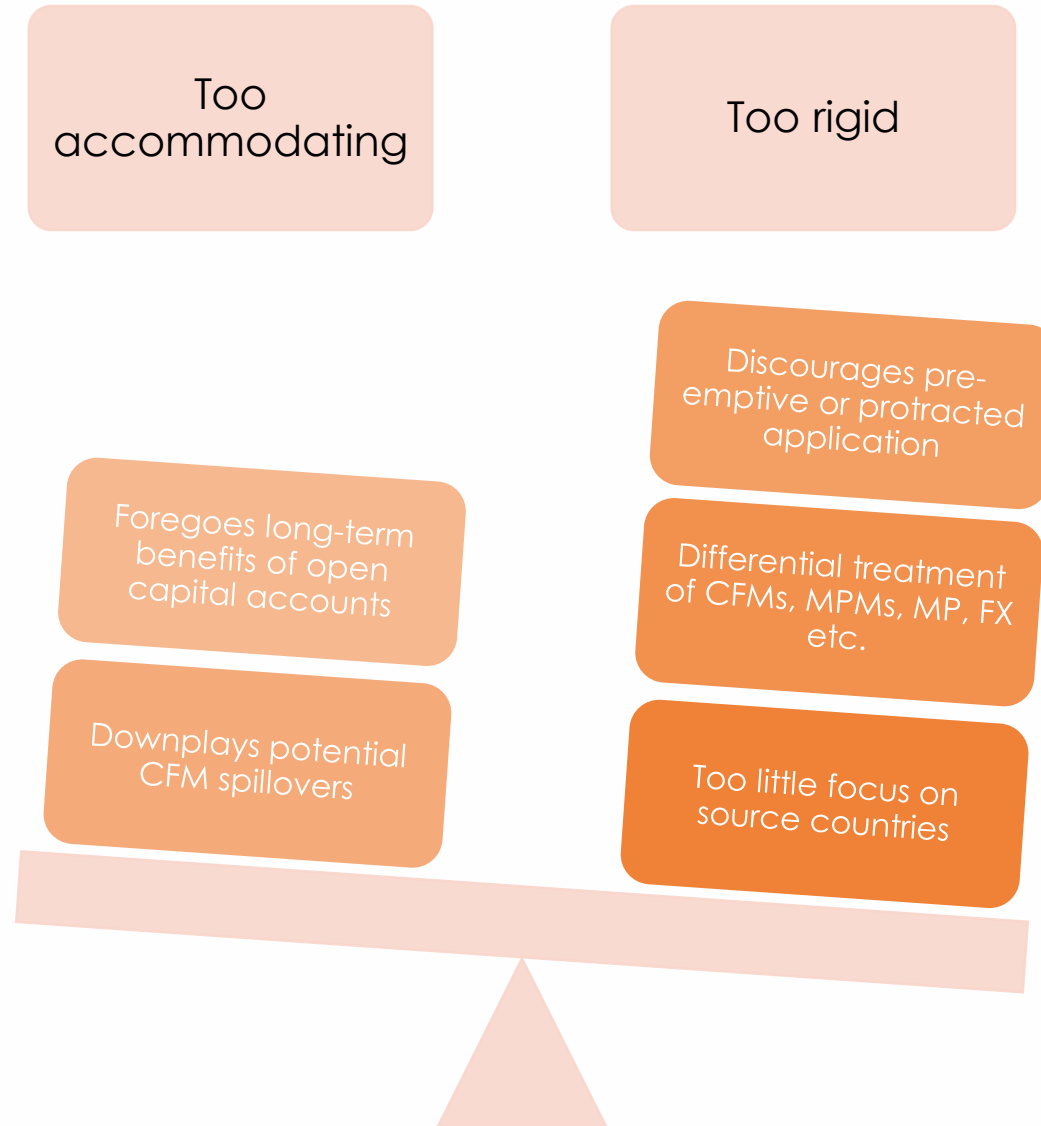
Next Steps and Follow-Up

- ▶ 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

Goals of the Capital Flows Evaluation

- ▶ Provide a review of country experience since the “Institutional View” was approved in 2012
- ▶ Assess whether IMF advice is “state of the art” and consistent with empirical evidence
- ▶ Make concrete recommendations to improve value added and influence of Fund advice from both a bilateral and multilateral perspective
- ▶ Provide input to staff in their work on an ‘Integrated Policy Framework’

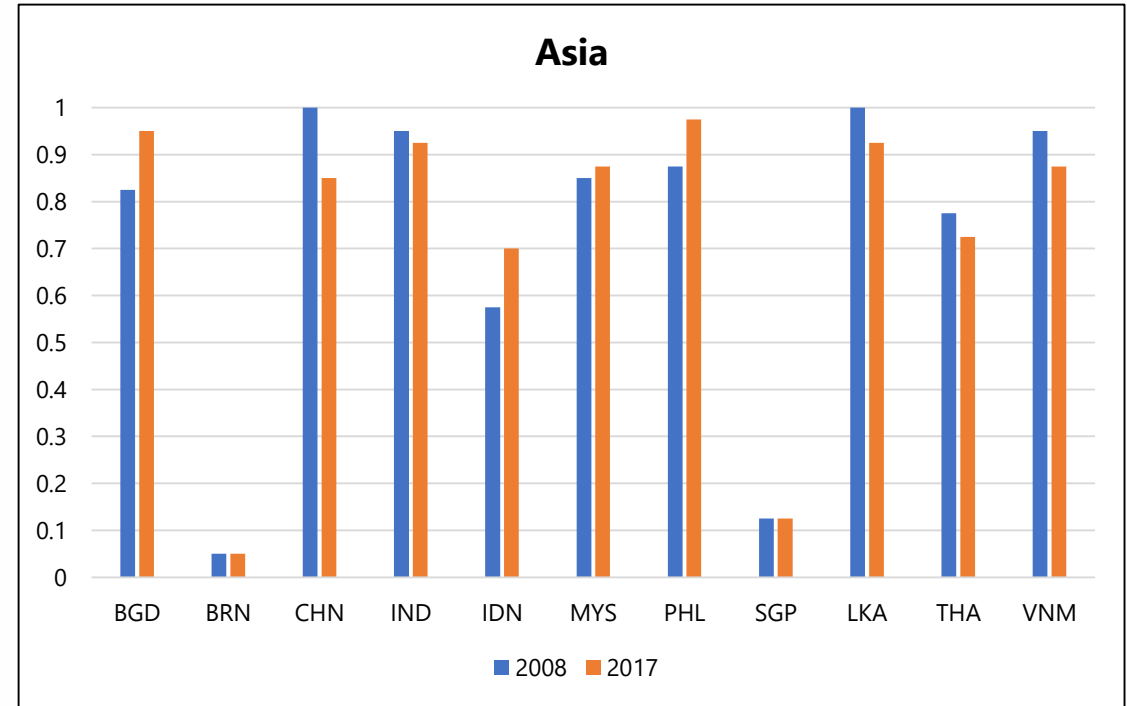
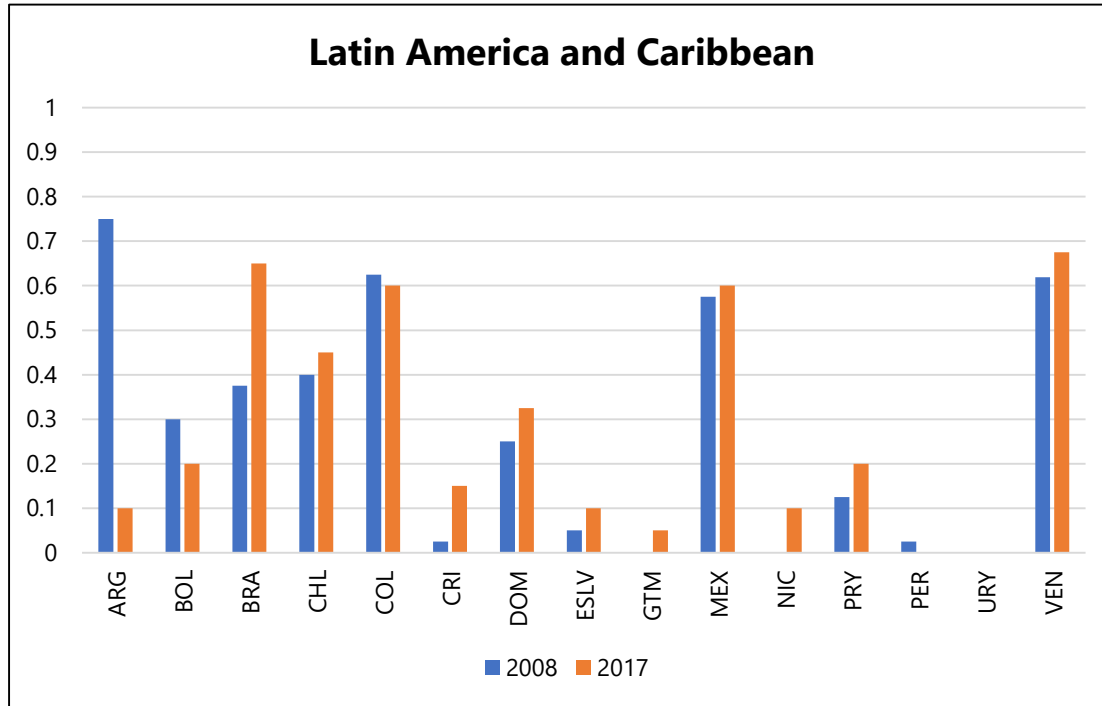
Institutional View: One-size-fits-nobody?



Timeline of the evaluation

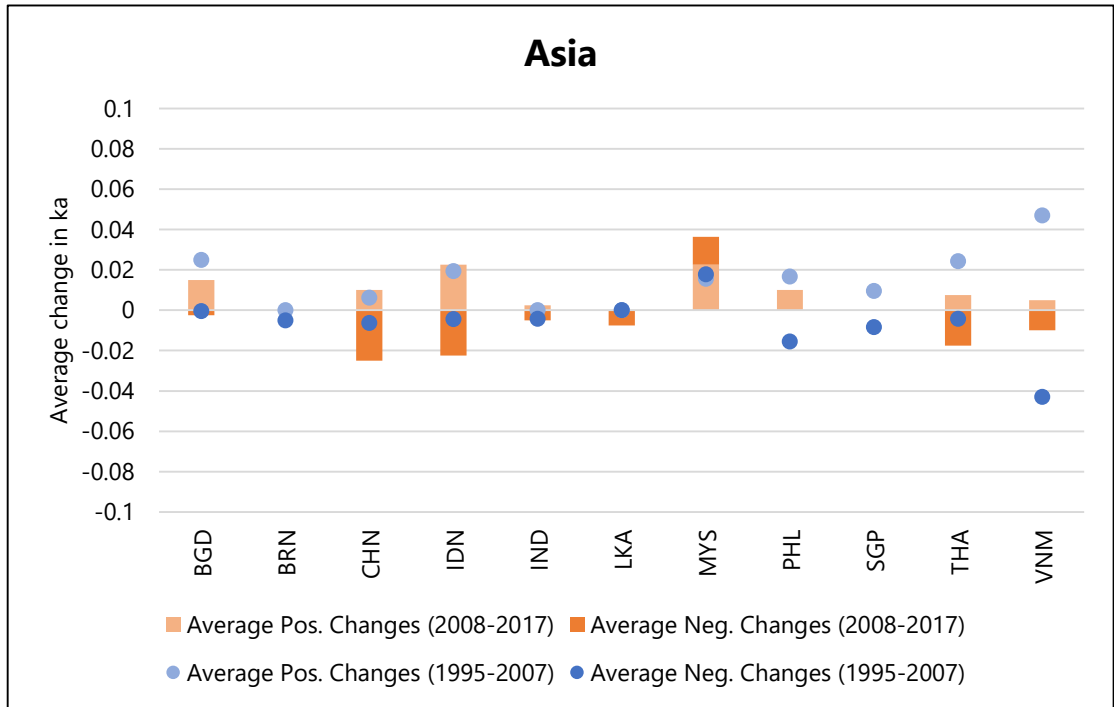
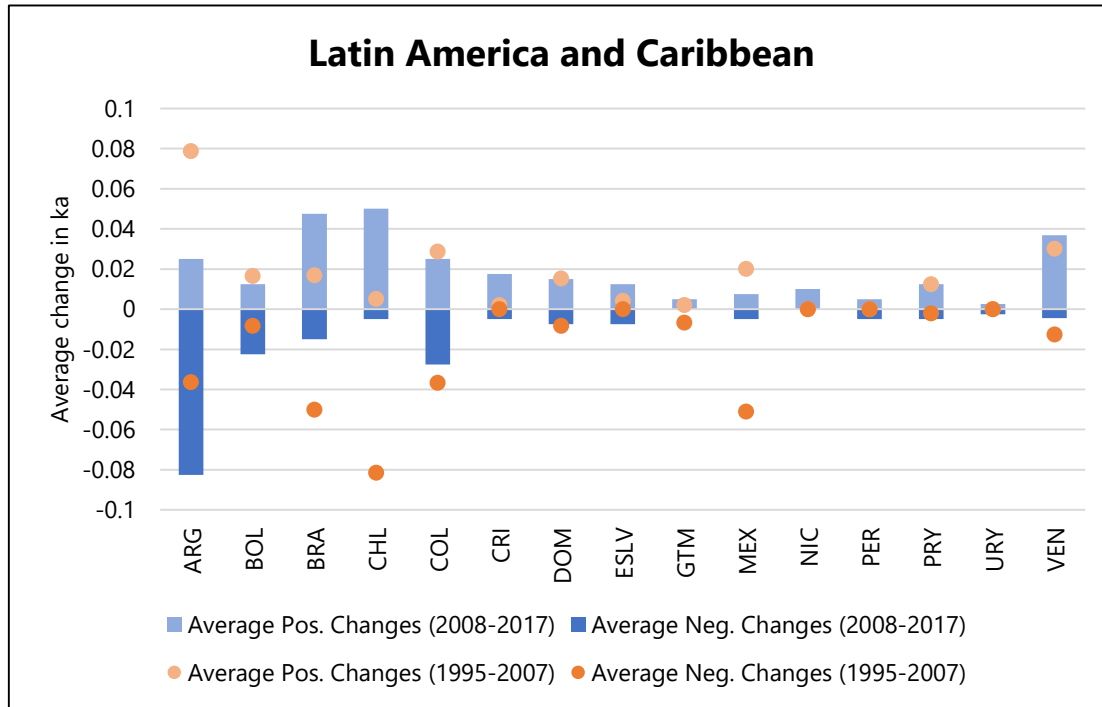


In Latam, the capital account is on average more open than in Asia



Based on Fernandez et al. (2016) index of capital account restrictiveness. '0' indicates fully open and '1' fully closed.

Latam uses CFMs more often than Asia



Based on Fernandez et al. (2016) index of capital account restrictiveness. '0' indicates fully open and '1' fully closed.

THANK YOU!
Visit us at ieo.imf.org