



February 16, 2016

Co-operation on approaches to macro-prudential and capital flow management measures:  
Update by the IMF and the OECD<sup>1</sup>

At their meeting in Sanya on December 15, 2015, the G20 International Financial Architecture Working Group asked the OECD and the IMF for an update on progress in co-operation on their respective approaches to measures that are both macro-prudential measures (MPMs) and capital flow management measures (CFMs). This follows the submission by the two institutions of a joint note to the G20 Finance Ministers and Central Bank Governors at their meeting in Ankara in September 2015<sup>2</sup> and two more detailed reports to G20 Finance Ministers and Central Bank Governors at their meeting in Washington in April 2015<sup>3</sup>.

The OECD and IMF continued to cooperate through the OECD Advisory Task Force on the OECD Code on Liberalisation of Capital Movements (ATFC). ATFC agendas cover a broad range of issues, including adherents' invocation of the Code's derogation clauses for new restrictions (e.g., Greece), national applications by currency of Liquidity Coverage and Net Stable Funding Ratio requirements as alternatives to CFMs falling under the Code (e.g., Iceland), and presentations by G20 members that have not adhered to the Code on their plans with capital flows liberalisation and management (e.g., China and Indonesia). The ATFC is finalising the terms of reference for the upcoming review of the Code. All non-OECD G20 and FSB members, the IMF together with BIS, have standing invitations to participate in the discussions.

The IMF has discussed with the OECD on its work programme in response to the support from IMFC at their meeting in Lima in October 2015 for a stocktaking of members' policies in handling capital flows. The room for holding high-level expert workshops in a coordinated manner is being under consideration. The OECD plans to organise one such workshop already in Fall 2016 to provide further analytical support for the review of the Code and will look forward to the IMF's active participation in the event.

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<sup>1</sup> This note has benefited from comments by the BIS and FSB Secretariats.

<sup>2</sup> <http://www.oecd.org/g20/summits/antalya/Macro-Prudential-Capital-Flow-IMF-OECD-Update.pdf>

<sup>3</sup> Measures which are Both Macroprudential and Capital Flow Management Measures: IMF Approach, IMF Report to G20 Finance Ministers and Central Bank Governors, April 2015 (<https://www.imf.org/external/np/pp/eng/2015/041015.pdf>). The OECD's Approach to Capital Flow Management Measures Used with a Macro-prudential Intent, OECD Report to G20 Finance Ministers and Central Bank Governors, April 2015 (<http://www.oecd.org/daf/inv/investment-policy/G20-OECD-Code-Report-2015.pdf>).

The OECD-IMF co-operation helps inform each institution's assessments of specific country measures. As stated in the joint note provided in September, it also aims at addressing any perception that members might receive seemingly conflicting signals from the two institutions regarding the appropriateness of such measures. Furthermore, the co-operation is helpful in explaining the consistency of the IMF and OECD approaches with the G20 Coherent Conclusions for the Management of Capital Flows and for making clear the approaches do not give rise to any conflicting legal requirements.

The IMF's Institutional View on capital flow liberalisation and management serves to facilitate consistency and evenhandedness in Fund staff advice on the economic appropriateness of CFMs in light of circumstances; it does not create new obligations for Fund members. For its part, the OECD Capital Movements Code is a binding international agreement that provides for progressive liberalisation while recognising that countries may need to introduce new capital flow restrictions in certain circumstances; new restrictions can be introduced following due process in the collective interest of transparency and accountability, by lodging reservations or invoking derogations.

Both approaches assist countries in ensuring that measures are not more restrictive or maintained longer than necessary. The economic usefulness of maintaining CFMs over the longer term for managing systemic financial risks needs to be evaluated against their costs on an ongoing basis, and due consideration given to alternative ways that may be available to address the prudential concern that are not designed to limit capital flows. While the appropriateness of CFMs including those used with a macro-prudential intent depends on specific country circumstances that vary over time, features of CFMs recommended by the two institutions include: no substitute for warranted macroeconomic adjustment, transparency and temporary use of the measure, its proportionality relative to the objective pursued, and no discrimination between residents and non-residents to the extent possible and among countries in its application, being mindful of the rights and obligations of the country under international agreements it may have entered into, including the IMF's Articles of Agreement and the OECD Code.

To supplement this note, two documents, developed in a cooperative way between the OECD and IMF, are provided to the Working Group:

One document by the IMF lays out in more detail its work programme on a stocktaking of the implementation of policies on the liberalization and management of capital flows.

The other document by the OECD presents in more detail the Code and its upcoming review in international context. Among developments relevant to this review, are on the one hand the more active use of CFMs by some OECD and non-OECD emerging economies in the form of currency-based restrictions that extend to financial institutions' operations with non-residents and as part of their policy responses to the surge in capital inflows after the 2008 global financial crisis, and their renewed interest in restrictions on capital outflows in the context of unconventional monetary policy unwinding, and on the other hand significant steps taken or plans announced by some large G20 emerging economies toward full capital account convertibility in the longer term along paths similar to those followed by adherents to the Code since its inception.