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CCAMTAC Regional Webinar on

“Review of the Institutional View on the Liberalization and Management of Capital Flows”

Thursday, September 8, 2022

Introduction and Moderation:

Mr. Norbert Funke, Director, CCAMTAC

Presenters:

Mr. Pablo Morra, Deputy Division Chief, Strategy, Policy, and Review Department, IMF

Mr. Suman Basu, Senior Economist, Research Department, IMF

Ms. Annamaria Kokenyne, Lead Financial Sector Expert, Monetary and Capital Markets Department, IMF

Intervention:

Mr. Azat Uskenbayev, Director, Balance of Payments Department, National Bank of Kazakhstan

The IMF's Institutional View on the Liberalization and Management of Capital Flows (IV) was adopted in 2012 and provides the basis for consistent Fund advice on policies related to capital flows. The IV aims to help countries reap the benefits of capital flows while managing the associated risks in a way that preserves macroeconomic and financial stability and does not generate significant negative outward spillovers. The review undertaken in 2022 aimed to bring the IV up to date with advances in theoretical and empirical research and policy experiences.

In the first part of presentation, Mr. Pablo Morra went over the background of the IMF's IV. It was explained that the IV does not impose obligations on IMF members; it constitutes a framework for consistent policy advice on the liberalization and management of capital flows. Even though capital flows are beneficial to countries, they may generate risks due to their size and volatility. The 2012 IV envisaged that, in certain circumstances, capital flow management measures (CFMs) may be appropriate to help tackle the macroeconomic challenges and financial stability risks associated with capital inflow surges, provided that such measures do not substitute for warranted macroeconomic policy adjustments. CFMs on outflows would only be appropriate in crisis or near-crisis circumstances. Moreover, it was emphasized that capital flow liberalization should be well-planned, timed, and sequenced. Focusing on the review of the IV, Pablo Morra stated that the core principles remained valid, while two policy changes were introduced. In addition, the review of the IV provides greater guidance on selected issues, such as macro-criticality, identifying capital inflow surges, imminent crisis, premature liberalization, etc.



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Delving into policy changes, Mr. Suman Basu started by elaborating on the preemptive use of measures on inflows that are both capital flow management measures and macroprudential policy measures (CFM/MPMs). It was recognized that the use of CFM/MPMs on debt inflows in a preemptive manner may be appropriate in the presence of stock vulnerabilities in certain circumstances, including elevated currency mismatches, which make countries vulnerable to systematic financial risks in the event of capital flow reversals or local currency debt stock vulnerabilities.

Ms. Annamaria Kokenyne explained in greater detail the second policy change that establishes a special treatment for certain categories of CFMs, which, will not be subject to the appropriateness assessments applicable to other CFMs under the IV. These include measures introduced solely for national or international security reasons, certain measures adopted under internationally agreed prudential frameworks (including reciprocity agreements), AML/CFT measures implemented consistently with international standards, and measures arising from certain international cooperation standards against the avoidance or evasion of taxes. In addition, Annamaria Kokenyne briefly discussed additional guidance on some concepts that support policy advice under the IV.

Mr. Azat Uskenbayev, from the National Bank of Kazakhstan, the institution responsible for currency regulation/control and related legislation in the country, gave an overview of the policies and reforms over the 30 years of Kazakhstan's independence in the area of capital flow liberalization. He also covered the challenges faced by the authorities in highly volatile external environment in the context of relatively shallow foreign exchange market. Azat Uskenbayev also confirmed that the views expressed in the IV are highly relevant for the CCAM region and can be referred to by the authorities.

During the general discussion the questions to the speakers covered (i) the level of priority of the special treatment for certain categories of measures, (ii) the relative importance of capital inflows/outflow measures; and (iii) key considerations on potential currency regulation phaseout in Kazakhstan.

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