

Background Paper (PPP/22–02)

Capital Flow Management and Macroprudential Policy Measures in the ASEAN+3: Summary of Members’ Survey Responses

March 2022

Disclaimer: The findings, interpretations, and conclusions expressed in this material represent the views of the author(s) and are not necessarily those of the ASEAN+3 Macroeconomic Research Office (AMRO) or its member authorities. Neither AMRO nor its member authorities shall be held responsible for any consequence arising from the use of the information contained therein.

[This page is intentionally left blank]

Capital Flow Management and Macroprudential Policy Measures in the ASEAN+3: Summary of Members' Survey Responses

Prepared by Li Lian Ong (Financial Surveillance), Matthew Siu Fung Yiu (Country Surveillance), Anne Oeking (Regional Surveillance),* and Laura Grace Gabriella (Financial Surveillance)

Approved by Hoe Ee Khor (Chief Economist)

March 2022

Executive Summary

The use of capital flow management measures (CFMs) and their differentiation from macroprudential policy measures (MPMs) continues to be controversial. In the ASEAN+3 region, member authorities have historically deployed one or both as part of a comprehensive policy mix to maintain financial stability while promoting economic growth. To inform the preparation of AMRO's Policy Position Paper on a "regional view" on CFMs and MPMs, staff had surveyed member authorities on these issues even prior to the COVID-19 pandemic, and received detailed and comprehensive responses.

ASEAN+3 members have been implementing CFMs/MPMs for many decades. The main goal of most members in applying these measures is to address identified macro-financial risks, in particular, to mitigate systemic risks. Most members apply diverse toolkits that are carefully considered in their design and calibrated in their implementation. Correspondingly, members take into account various factors in deciding whether to remove (or calibrate) existing CFMs and/or MPMs.

Many members broadly agree with international financial institutions (IFIs) that consistency with international standards and domestic institutional arrangements is important, but there are several main areas of disagreement. The "best practices" promoted by IFIs are not necessarily relevant, suitable, or feasible for every economy, and views on even-handedness of assessment are also mixed. In particular, members disagree with IFI positions in the following areas:

- ***Country-specific factors are not always given due consideration and reflected in IFI positions.*** There is a tendency for IFIs to adopt a one-size-fits-all approach, which is overly prescriptive and does not allow sufficient flexibility amid a rapidly evolving international monetary system. Key concerns are that the asymmetric impact of capital flows and exchange rate fluctuations on EMEs and small open economies, compared to the major AEs, tend to be underestimated; and that there is insufficient recognition in the different roles and implications between real and financial assets.
- ***The classification of policy measures into CFMs and MPMs is not constructive and give rise to negative connotations and places unwarranted pressure on policymaking.*** Given the overlapping nature of some CFMs and MPMs, the

* Anne Oeking contributed to this paper while she was on secondment at AMRO.

classification and oversimplification of certain measures—notably the residency-based criterion—could obscure their main purpose and potentially obstruct their necessary implementation to mitigate risks in a timely manner.

- ***CFMs and MPMs could have multiple objectives and applications.*** Policymakers apply MPMs with multiple objectives in mind, and CFMs/MPMs should be part of a broad package of macro-financial policies to address the challenges posed by volatile capital flows and other financial shocks. So, while members agree with the IMF that MPMs should complement other macroeconomic policies, some disagree with the IMF/FSB/BIS that MPMs should be implemented to limit only systemic risks and not overburdened with other objectives that are not systemic in nature but nevertheless are important to financial soundness.
- ***There should be flexibility to impose CFMs on a pre-emptive basis and to determine the appropriate timing for their removal.*** CFMs are an integral part of the policy toolkit for EMEs, to mitigate the impact of volatile capital flows and maintain stability in domestic markets. In some circumstances, it would more effective to implement CFMs pre-emptively to forestall market disruptions, given that they make take time to become effective, and then calibrate them at a later stage as individual situations warrant.

Contents

I.	Background on the Survey	1
II.	Analysis of Survey Responses	2
III.	Conclusion	14
Appendix I. Questionnaire on Capital Flow Management and Macroprudential Policy Measures		16
Reference Material.....		18

Figures

Figure 1. ASEAN+3: Members' Responses on Differentiation between CFMs and MPMs	3
Figure 2. ASEAN+3: Preferred Duration of CFMs	8
Figure 3. ASEAN+3: Main Areas of Disagreement with IFIs.....	11
Figure 4. ASEAN+3: Perceptions about IFI Even-handedness in Assessing CFMs/MPMs..	13

Tables

Table 1. ASEAN+3: Survey Respondents	1
--	---

Abbreviations

AE	advanced economy
ASEAN+3	Association of South-East Asian Nations, comprising Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam
ASEAN+3	ASEAN plus China; Hong Kong, China; Japan; Korea
BIS	Bank for International Settlements
CFM	capital flow management measure
COVID	corona virus disease
EME	emerging market economy
FSB	Financial Stability Board
IFI	international financial institution
IMF	International Monetary Fund
IV	Institutional View
LIDC	lower income developing country
MPM	macroprudential policy measure

I. Background on the Survey

1. **The use of capital flow management measures (CFMs) and their differentiation from macroprudential policy measures (MPMs) is a controversial issue.** In the ASEAN+3 region, member authorities have historically deployed one or both as part of a comprehensive policy mix to maintain financial stability while promoting economic growth. Developments surrounding the COVID-19 pandemic crisis have provided a salient reminder of the importance of having these toolkits readily available. In addition to being exposed to volatile markets and cross-border capital flows, the implementation of unprecedented expansionary fiscal, monetary, and financial sector policies have required keeping MPMs in place to safeguard financial stability while supporting growth.

2. **To inform the preparation of AMRO's Policy Position Paper on a "regional view" on CFMs and MPMs, staff had surveyed member authorities on these issues even prior to the pandemic.** The questionnaire, comprising six qualitative questions (Appendix 1), was sent to all 27 AMRO member institutions. Completed questionnaires were received from 15 respondent institutions, covering all AMRO member economies, in line with their respective mandates for ensuring financial stability (Table 1). By and large, members provided detailed and comprehensive answers to each question, and referenced key policy and research papers by IFIs that are relevant to the issues.

Table 1. ASEAN+3: Survey Respondents

Member	Institution
Brunei	Authoriti Monetary Brunei Darussalam
Cambodia	National Bank of Cambodia
China	People's Bank of China
Hong Kong, China	Hong Kong Monetary Authority
Indonesia	Bank Indonesia
Japan	Ministry of Finance
Korea	Bank of Korea
	Ministry of Economy and Finance
Lao PDR	Bank of the Lao PDR
Malaysia	Bank Negara Malaysia
Myanmar	Ministry of Planning, Finance, and Industry
Philippines	Bangko Sentral ng Pilipinas
Singapore	Monetary Authority of Singapore
Thailand	Bank of Thailand
Vietnam	State Bank of Vietnam

Source: AMRO staff compilation.

3. **This paper is organized as follows.** Section II provides an anonymized, thematic compilation of members' responses to each survey question. Section III concludes with a brief summary of the key findings from the survey.

II. Analysis of Survey Responses

4. **The survey sought members' input on several key issues relating to the use of CFMs/MPMs.** Specifically, they were asked about their: (1) definitions of CFMs/MPMs; (2) design and implementation of CFMs/MPMs; (3) considerations for removing CFMs/MPMs; (4) “best practices” in relation to CFMs/MPMs; (5) areas of agreement and disagreement with international financial institutions (IFIs) on CFMs/MPMs; and (6) views on the even-handedness of IFIs' assessments. Where several members share common views about particular issues raised in the survey questions, they are organized into separate threads. Given that not all members differentiate between CFMs and MPMs, and some do not have formal definitions (see Question 1), the measures are sometimes discussed interchangeably in their responses. The two main references of member authorities in the context of this survey are [IMF \(2012\)](#) and [ASEAN \(2019\)](#).¹

Question 1. Does your institution distinguish between CFMs and MPMs?

5. **The majority of ASEAN+3 members do distinguish between CFMs and MPMs.** Some members do not have official or working definition(s) of CFMs/MPMs (Figure 1). Where they do, they mostly relate to MPMs—members that have completely liberalized capital flows and do not restrict the free flow of capital by law, including those with currency boards, tend not to formally define CFMs. When defined, some members differentiate among the measures based on the target of the tools—CFMs are specifically designed to limit cross-border capital flows while MPMs are used to mitigate systemic financial risk or cyclical behavior in financial markets. Members argue that CFMs could also be classified as MPMs if they are used to address excessive financial market volatility. More generally, the semantics of classifying a measure are considered less relevant than a holistic assessment of targeted policy measures and their effectiveness in safeguarding financial stability.

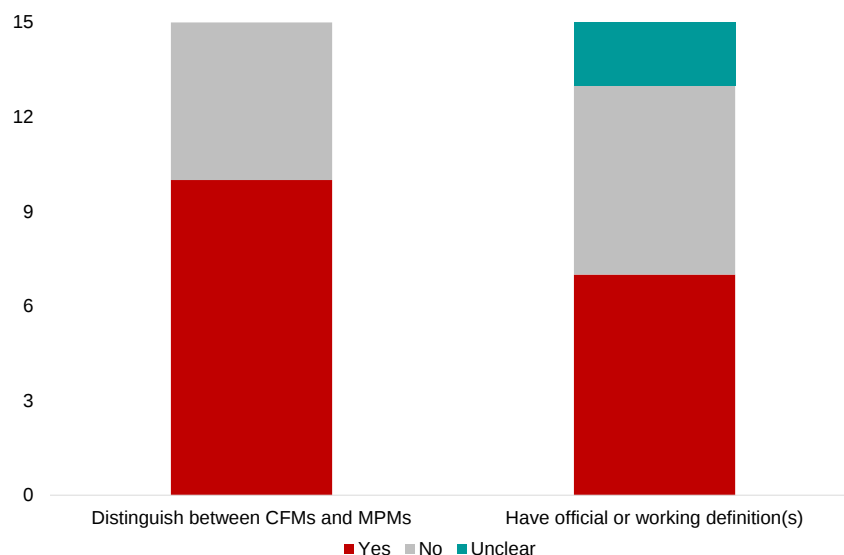
6. **CFMs/MPMs may overlap when dealing with systemic risks to the financial system arising from large capital flows.** Several members stress that policy formulation should be risk-focused, with the objective of safeguarding financial stability, without necessarily labeling the respective policies as one or the other. Those policies should, among other aims, increase the resilience of the financial system to shocks, contain the build-up of systemic risks over time, and address structural vulnerabilities arising within the financial system through inter-linkages and common exposures. That said, some members note that the measures might be classified as CFMs or MPMs, or both, by third parties *ex post*.

7. **As a working definition of CFMs, several members broadly follow that proffered by international financial institutions (IFIs), especially the IMF Institutional View (“IMF IV”).** CFMs are variably defined by members as measures that are specifically designed to limit or restrict short term and speculative capital flows “at the gate,” to: (1) safeguard both macroeconomic and financial system stability from the risk of sudden reversals; (2) support the exchange rate against risks of overshooting and guide its movement along a path that is appropriate for the overall macroeconomic outlook; and/or

¹ [Asian Consultative Council \(2020\)](#) summarizes responses to two questionnaires on how Asia-Pacific central banks (1) model exchange rates and capital flows, and incorporate them into their policy frameworks, and how they deal with challenges related to capital flows and exchange rates; and (2) changed their responses to the COVID-19 pandemic, which represented a severe stress test on their policy frameworks.

(3) influence their size and composition. Some members argue that CFMs should not differentiate capital flows with regard to residency.

Figure 1. ASEAN+3: Members' Responses on Differentiation between CFMs and MPMs
(Number of respondents)



Sources: AMRO members; and AMRO staff calculations.

8. **MPMs are largely considered to be important mitigants against the build-up of systemic risks and to counter macro-financial procyclicality, which could amplify risks during a downturn.** Members are of the general view that macroprudential policy should be implemented with a holistic perspective, focusing on the risks created through the interactions and interconnections among and within financial markets, institutions and infrastructures, and the real economy, including spillovers from other economies; one member observed that MPMs should also be implemented in concert with fiscal, monetary and structural policies. While distinct from microprudential oversight, which assesses the risks at individual financial institutions, some members note that MPMs can overlap with microprudential—or supervisory—measures that promote the safety and soundness of these financial institutions (e.g., capital conservation and countercyclical capital buffers).

9. **Some members take the position that MPMs should also be aimed at managing vulnerabilities associated with capital inflows.** In their view, if the tools are used to control systemic risks or procyclicality in the financial sector, they should be classified as MPMs even though they may impact cross-border capital flows. While MPMs are generally targeted towards mitigating risks to the financial system as a whole, these risks could emanate from destabilizing capital flows, excessive credit growth, and/or other risk-taking activities.

Question 2. What are your institution's key considerations when designing and implementing CFMs/ MPMs?

10. **Members' design of CFMs and MPMs generally cover three key areas:** (1) the objective(s) of the measures; (2) the principles underlying the design of those measures; and (3) the methodologies adopted:

- **Objectives.** Broadly, members' overall goal of implementing CFMs/MPMs is to mitigate against potential systemic risks to ensure financial stability. At a more detailed level, several members expound on the main goals of MPMs as some combination of: (1) strengthening the resilience of financial institutions and financial infrastructures, and constraining overleverage; (2) managing credit, liquidity, and market risks; (3) limiting the concentration of exposures; (4) calibrating credit growth to the private sector; (5) increasing financial system efficiency and financial access. Members with less developed financial sectors take a longer-term perspective on financial deepening and systemic risks in designing MPMs, focusing—not surprisingly—on the banking sector. Separately, some members argue that CFMs are consistent with open capital account regimes, aimed at mitigating the impact of any capital flow reversals to the exchange rate and economy.
- **Principles.** Members typically adhere to several principles in their design of CFMs/MPMs. They include some combination of the following: (1) research-based; (2) forward-looking; (3) subject to strong governance; (4) integrated with other policy areas, both within the financial system and the broader economy to ensure optimal policy mix; (5) consistent with international standards and practices, and relevant laws; (6) timely in terms of the current environment and imminence of any crisis. For one member, CFM decisions should take into account the following factors: (1) evolving market needs/sentiment; (2) domestic and international developments; and (3) the country's commitments to the international community, and especially to the region.
- **Methodologies.** Members usually design CFMs/MPMs after assessing the effectiveness of existing measures. They incorporate factors such as macro-financial linkages (e.g., the financial cycle) and financial interconnectedness. Findings from policy reviews and analyses of trends and developments are also important. One member notes that it tends to look to the practices of Asian neighbors and/or those of similar countries, overlaying them with country-specific considerations, and referencing international and regional standards. Some members also undertake “impact studies” *ex ante* to, among other things: (1) determine the capability of supervised entities to comply with measures; (2) allow supervisors to identify and fill the gaps identified to maximize the effectiveness of the proposed measure(s); and/or (3) identify calibrations needed to achieve their intended outcome(s) and avoid unintended consequences.

11. **Members use diverse toolkits to pre-emptively address macro-financial risks.** For most members, key considerations when implementing those measures include:

- **Sources and nature of risks.** Members' identification of the sources of any excessive volatility or instability—for which having relevant information is crucial—enables the selection of appropriate, practical, and targeted measures to address each specific circumstance. Their determination of risks include the root causes,

nature, transmission channels, and impact upon manifestation. Several members indicate that they utilize forward-looking analyses—incorporating both high frequency and more intermittent information—to identify systemic risks and highlight vulnerabilities so that appropriate preventive policy actions may be taken to address them. They underscore the desirability of taking preventive measures to reduce the probability and potential impact of a crisis rather than to take corrective actions only after a crisis has occurred.

- ***Policy objectives and their effectiveness.*** Members assess the emerging risk(s) that need to be addressed and the efficacy of alternative measures, in determining the appropriate tool(s) to use. MPMs are applied to forestall the accumulation of risks from the "boom-bust" of pro-cyclicality and to mitigate systemic risks arising from financial interconnectedness. One member notes its preference for adopting targeted policy measures to address the sources of financial vulnerabilities—which are not evenly spread and tend to be concentrated in specific sectors—while minimizing unintended spillover effects to other areas. MPMs may also be used when capital flow surges are anticipated to negatively impact financial stability. In turn, CFMs may be implemented to manage specific types of capital flows, particularly short-term and speculative ones, in some cases to dampen large swings in the exchange rate to provide some stability for importers and exporters.
- ***Policy space, mix, and trade-offs.*** Members' choice of MPMs and/or CFMs would typically take into account what the appropriate policy mix may be. In particular, they are considered vis-à-vis the monetary, fiscal, and microprudential policies already in place and the available policy space, complementarities and trade-offs, and are coordinated with other authorities where possible. One member observes that a diverse toolkit, including credit and fiscal measures, would enable the most appropriate tool(s) to be employed to address the risks identified. Some members hold a more conservative view that CFMs could limit economic efficiency, and should hence be imposed only when absolutely necessary; the identification of viable alternative policy options may help avoid the need to use CFMs.
- ***Timing and time horizon of measures.*** Several members see the determination of appropriate timing of implementation, especially of CFMs, to be an important factor contributing to their effectiveness. It should take into account the development of and interaction between the economic and financial cycles, in the context of both, the current situation and the outlook. The timing of implementation should also consider the process itself, while the time horizon for which the measure(s) are in place should be based on the intended objective(s). More generally, some members argue that CFMs should be ad hoc, temporary, and limited, to be implemented at times of (imminent or actual) crisis, to safeguard economic stability and financial inclusion.
- ***Calibration of measures.*** Several members note that MPMs should be tightened or eased, depending on the assessed build-up of risks, to preserve financial stability. Among the more conservative views, CFMs may be used when the room for adjusting macroeconomic policies is limited, as a temporary backstop when the requisite policy steps require time to implement, or when the macroeconomic adjustments require time to take effect. One member notes the importance of taking a calibrated approach, allowing the impact to be reviewed and monitored for any unintended consequences so that policy adjustments could be made as appropriate,

while minimizing the risk of “overshooting” macroprudential objectives, that is, have a greater impact than is intended.

- ***Risk of unintended consequences.*** Members are mindful of the likelihood that market players behave differently during “normal” times versus “crisis” periods. They acknowledge that the effects may be exacerbated by the increasing interconnectedness of global financial markets. In particular, they observe that behaviors tend to be pro-cyclical, amplifying credit cycles, and hence recommend targeting MPMs and/or CFMs at the resulting negative externalities. Some members conduct impact studies to assess the unintended consequences of the proposed measure(s)—such as market distortions or disproportionate costs to the economy—that could negatively impact the reputation and independence of the implementing authority.
- ***Communication.*** Some members emphasize the importance of communicating clearly on proposed measures. It would require explaining the rationale for and ensuring smooth implementation. One member elaborates that it pursues information sharing, joint analyses of risks, and general dialogue between and among agencies that handle and implement measures, to avoid conflicting and overlapping policies. It also gathers insights from both market participants and bank supervisors to ensure that the policies are consistent with prevailing laws and attuned to domestic conditions and market expectations.

Question 3. What are your institution’s key considerations when removing CFMs/MPMs?

12. **Members take into account various factors in deciding whether to remove (or calibrate) CFMs and/or MPMs.** For some, it is a discretionary decision that is dependent on changing risk assessments and impact analyses, together with the economic and financial situation at any particular time. The use of CFMs and MPMs and the related studies of their effectiveness are seen to be still at a relatively early stage compared to the well-studied instrument of monetary policy. As such, any decision to remove the former policy measures should be less of a mechanistic process, with key considerations that include:

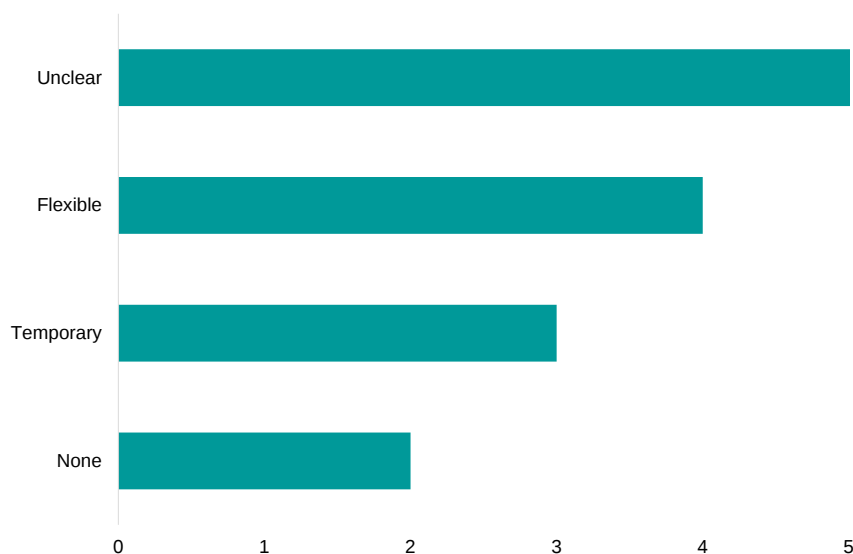
- ***Macro-financial environment.*** Members typically analyze both country-specific conditions, as well as the global environment, which could interact with existing vulnerabilities. Domestic factors, such as real estate prices and transactions, are examined to determine where they are in the cycle, while global factors, such as interest rate expectations, are assessed for their ability to influence domestic rates and hence debt-servicing capability. Other macro-financial factors that are taken into consideration include exchange rate fluctuations, price stability, credit growth and financial deepening, asset valuations, capital and trade flows, and adequacy of reserve coverage.
- ***Effectiveness of measures.*** Members may keep measures in place as long as they serve their objectives, and/or if there is still a structural need for them. Broadly:
 - Measures may be removed when: (1) they have achieved the intended outcome(s), namely, when they have been effective in curbing excessive volatility or addressing financial instability, and the identified risks to financial stability have receded; or (2) other conditions put in place (for example, strengthened risk

management practices) are assessed to be adequate and effective in mitigating vulnerabilities to systemic risks; or (3) they are no longer appropriate because of circumvention or changing circumstances, or replaced with more robust ones; or (4) they do not have the desired impact.

- Some measures may need to be calibrated based on cyclical or symmetrical circumstances, rather than be completely discarded. For example, one member evaluates and adjusts MPMs dynamically by improving the associated indicators, weights and related parameters. Another member noted that any decision it makes to change or remove MPMs would take into full account the pace, order, and method of implementation needed. Members also underscore the importance of calibrating measures to incorporate the asymmetries between inflow and outflow periods—while the benefits of capital inflows may take time to be transmitted to the real economy, the negative effects of capital reversals tend to be transmitted rapidly through the financial system and disrupt the real sector.
- **Policy overlaps.** Some members consider overlaps between CFMs and MPMs with other existing policy measures a justifiable reason to remove the former, where there is the possibility of conflicting policy effects. One member is of the view that measures should be removed if they are inconsistent with international consensus.
- **Orderliness and timeliness of exit.** Members underscore that well thought out exit strategies help to ensure the smooth transition out of CFMs and MPMs that are in place, and prevent unintended consequences. The timing and timeliness of the exit are key, underpinned by important considerations, notably:
 - *Time horizon.* There are opposing views on the appropriate time horizon for maintaining CFM measures, in particular. While some members stress that CFMs should be scaled back once capital flow pressures abate, others prefer the flexibility to implement CFMs on a more permanent basis, including as pre-emptive measures (Figure 2):
 - Some members agree with the IMF IV that if CFMs are imposed, they should be scaled back when capital inflow pressures abate in order to minimize distortions; MPMs may be maintained over the longer term if the objective is to prevent and mitigate systemic risks in the financial system.
 - In contrast, other members argue that any framework that rigidly stipulates that CFMs must be temporary in nature could expose a country to surges in capital flows. Such a prescription could potentially pressure policymakers into sub-optimal policy decisions, such as the premature removal of those measures. Moreover, structural measures would remain relevant under most market conditions.
 - Several members take the position that measures may remain in place as long as they serve their objectives, and/or there is still structural need for them. Structural measures might be necessary to ensure financial prudence, but may have to be calibrated depending on cyclical circumstances; cyclical measures should be removed once they are no longer appropriate given prevailing market conditions.

- *Timing.* The timing of any policy action to exit from measures in place must take into account that those measures need time to be effective. The appropriate timing of any action would need to be carefully considered, notwithstanding possible pressure to remove some of the measures (through market participants or IFI recommendations). Relaxing policy measures too early on could lead to a resurgence in risks to financial stability, while easing too late could potentially contribute to a prolonged downturn. On the other hand, the timely unwinding of measures could be undertaken (1) to provide headroom as vulnerabilities abate; or (2) after necessary reforms been put in place; or (3) to avert a downturn.
- *Market perceptions.* Several members underscore the importance of taking into account market sentiments toward any impact from the removal of policy measures. Specifically, any premature removal of measures before the requisite economic adjustments are complete could negatively affect market sentiments. Such actions could be perceived as policy inconsistency and trigger negative market reactions with undesirable consequences for the economy. Consequently, some members take the position that stakeholders, such as financial sector participants, should also be consulted ahead of time.

Figure 2. ASEAN+3: Preferred Duration of CFMs
(Number of respondents)



Sources: AMRO members; and AMRO staff estimates.

Question 4. In your institution's view, what should "best practice" CFMs/MPMs entail?

13. Most members agree that the overarching goal of CFMs/MPMs should be the mitigation of systemic risks, arising from interconnectedness among financial institutions, markets and infrastructures. But, some members caution that these measures should supplement sound macroeconomic policies, and not be seen as a replacement for necessary economic reforms and adjustments. Rather, financial stability should be sustained by timely, carefully targeted, integrated, and continuously calibrated policy mix (monetary, fiscal, financial).

14. **Some members note that a comprehensive framework for monitoring systemic risks and producing enhanced information on the financial system is key to operationalizing macroprudential policy.** Policymakers need to be able to identify and develop the measures needed to achieve their macroprudential objectives, and to do so must be able to: (1) provide a holistic assessment of the condition and performance of the financial system; (2) identify emerging vulnerabilities and risks confronting the financial sector and their potential impact on financial stability; and (3) craft informed and calibrated policy decisions in areas that require careful supervisory action. Where possible, quantitative methods should be employed and complemented by the use of expert judgment that takes into account non-readily measurable factors such as market participants' conduct, culture, and risk-taking behavior.

15. **Members generally agree that consistency with international standards and domestic institutional arrangements play an important role in the implementation of CFMs/PMs.** Macroprudential authorities must have the explicit mandate and power to design and implement the requisite measures. Additionally, there should be a legal framework for institutional arrangements to ensure clear responsibilities and accountability. For example, decisions on MPMs alongside the other policy objectives of a central bank require clear distinction, given the possible complementarities and conflicts, to avoid policy overreach or inaction. One member suggests that any use of CFMs should ideally be "informal," in conjunction with other economic policies.

16. **Some members also posit that the implementation of CFMs should adhere to certain key principles.** In particular, they must be: (1) *effective*, by taking into account the types and phases of risk; (2) *efficient*, by applying the most appropriate tool(s) to target specific risks while minimizing any negative impact and unintended consequences, considering their interaction and complementarities with other policies, minimizing potential leakages and circumvention, and retaining flexibility; as well as be (3) *transparent*, to ensure accountability; and (4) *well communicated* so that their intent and implementation are clearly understood. A few members explicitly referenced the IMF's "best practice" recommendations that CFMs should also be transparent and targeted, temporary, and non-discriminatory.

17. **However, not all members agree that the "best practices" promoted by IFIs are necessarily relevant, suitable, or feasible for small, open economies.** One member advocates for "appropriate practices" instead, tailor made to the unique characteristics and challenges facing a country's economy and financial sector. Others concur, noting that country specific circumstances need to be taken into account, and that the selection of CFMs/MPMs should be conducted based on various factors, particularly in the context of a country's economy and the global developments.

18. **Some members also argue that there should be scope for CFMs to be applied pre-emptively ("leaning against the wind").** They are concerned about the potential costs of waiting for the negative effects of disruptive capital flows to materialize before taking action, and take the position that there should be flexibility in adoption, that is, not waiting until there is a crisis; and on their removal, in not being rigidly expected to remove them as soon as the crisis abates. A couple of members observe that in a rapidly evolving financial landscape, policymaking needs to remain flexible and pragmatic, taking into account the various sources of risk and considerations in implementing the most appropriate tools to target the identified risks.

Question 5. In which ways does your institution agree with and what are the areas of disagreement (if any) regarding the position that some international financial institutions (IFIs), such as the IMF, OECD, etc., take on CFMs and MPMs?

19. **Many members broadly agree with the position of IFIs on CFMs/MPMs.** They concur that any liberalization of the capital account should be gradual, well-planned, and appropriately sequenced—capital flows that are well-managed and stable would be beneficial to economies; CFMs/MPMs should be part of the policy toolkit to manage ever larger and more volatile capital flows; and that MPMs should complement other macroeconomic policies such as monetary policy in order to achieve both price stability and financial stability.

20. **Members acknowledge that the positions of IFIs on CFMs/MPMs have evolved over time, particularly with the publication of [IMF \(2012\)](#).** One member notes that the appropriate use of CFMs is an ongoing conversation between IFIs and individual countries, and there may be scope for some consensus. Another argues that IFIs should be responsible for advising on “best practices” for CFMs/MPMs to support the economic and financial stability of members but that members should be responsible for designing their own frameworks appropriate for their respective economies.

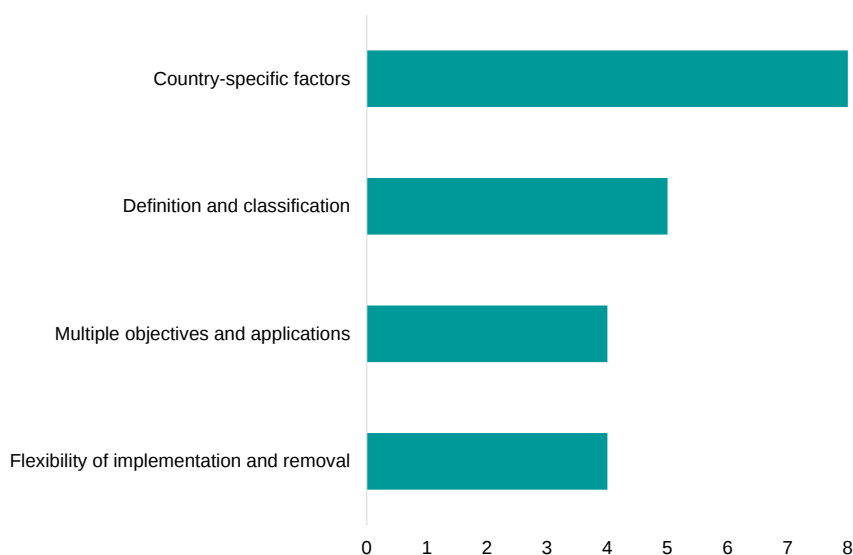
21. **However, members note that there is a need to better understand CFMs/MPMs, their motivations, rationale, effectiveness, and cross-country experiences.** They are of the view that IFI policy guidance should be implemented in a pragmatic way, sensitive to country-specific circumstances, and cognizant of the complexities and uncertainties facing policymakers. In this regard, members disagree with IFI positions in several key areas (Figure 3), notably: (1) the importance of country-specific factors; (2) the definition and classification of measures; (3) the objectives and applications of measures; and (4) the timing of implementation and removal of measures. The concerns of ASEAN members in relation to topics (1) and (2) are discussed in [ASEAN \(2019\)](#).

22. **The main source of disagreement is related to the fact that country-specific factors are not always given due consideration and reflected in IFI positions.** For instance, some members argue that IFI staff’s overly prescriptive approach in applying the IMF IV does not allow sufficient flexibility amid a rapidly evolving international financial system. One member observes that IFI guidance may become better informed as their staff accumulate more experience from countries across a variety of circumstances and conditions. Another underscores the necessity of approaching assessments of specific policies on a case-by-case basis. Several members cite the following examples:

- **Asymmetric balance of risks.** IFIs are seen to typically underestimate the impact of capital flows and exchange rate fluctuations on EMEs and small open economies, which do not have reserve currencies. Unlike major AEs, EMEs are confronted by structural risks, such as currency mismatches and exchange rate risks arising from foreign currency denominated transactions (for example, the issuance of short-term foreign debt). Given the asymmetric balance of risks, policymakers may have to err on the side of caution, and should have the leeway to utilize the full range of tools at their disposal to safeguard domestic financial stability. A more symmetric focus on both the recipient as well as the source country of capital flows may also be necessary.

- Property market.** There needs to be a stronger recognition that real estate is different from other types of (financial) assets, and thus may warrant different policy tools. The supply of real estate assets is more inelastic than financial assets, and thus more prone to asset bubbles. The importance of real estate on household balance sheets carries far-reaching implications—instability in the property market raises the credit risks for banks and consequently, threatens financial stability. There are also strong social implications from instability in property prices, such as inclusivity and equality, which directly impact broad swathes of the population, compared to instability in financial asset markets. Hence, the adoption of higher rates of stamp duty on non-residents than on first-time resident homebuyers to prevent “exuberance” are macroprudential in nature and should not be labelled a CFM.

Figure 3. ASEAN+3: Main Areas of Disagreement with IFIs
(Number of respondents)



Sources: AMRO members; and AMRO staff estimates.
Note: Respondents may disagree on more than one area.

23. **Another main area of contention relates to IFIs' classification of policy measures into CFMs and MPMs.** Many members are of the view that classifications are unhelpful, and place additional burden on policymakers, who have to deal with any associated negative connotation, even though certain CFMs may be the most appropriate risk mitigant at a particular point in time. Several members argue that available policy tools should be employed with a risk focus to address domestic vulnerabilities. The specific designation of a tool by IFIs as either a CFM or MPM—which is mainly based on residency—with attendant recommendations, may be too rigid and distract from the actual risks at hand. Members argue that country-specific reasons behind introducing the measures should also be considered, notably:

- Financial stability.** The collective goal should be to use the most appropriate policy tools available to ensure financial stability. Given the overlapping nature of some CFMs and MPMs, certain measures could either limit capital flows or tackle systemic risks, or both. Thus, measures that are not intended to limit capital flows but to

ensure financial stability could be classified in a way that obscures their main purpose as a pre-emptive MPM, and potentially obstructs their implementation.

- ***Social stability.*** The focus on the residency criterion oversimplifies the consideration as to whether a measure is a CFM or not. Some residency-based measures, such as additional stamp duty on non-residents' purchase of local real estate, are driven by social considerations rather than the desire to manage capital flows. Thus, any strict definition and implementation criteria could restrict a government's ability to effectively safeguard social, and consequently, economic stability.

24. **Closely related to the issue of classification is that CFMs/MPMs could have multiple objectives and applications.** Members agree with the IMF IV that MPMs should complement other macroeconomic policies, such as monetary policy, in order to achieve both price stability and financial stability. Many central banks have mandates to be both, a monetary authority and a banking supervisor, and hence may have to pull different levers to contribute to "the greater good." In this context, it may be almost impossible to separate and assess the efficacy of individual measures:

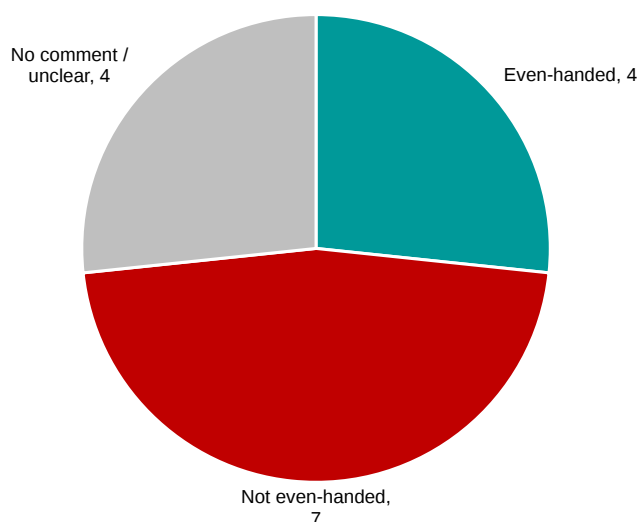
- ***Financial stability versus other economic objectives.*** Some members disagree with IMF/FSB/BIS (2016), which takes the view that MPMs should be implemented to limit systemic risks and not overburdened with other objectives that they are not suited to achieve. One member notes that it may apply MPMs with multiple objectives in mind, notably, to prevent and reduce systemic risks; encourage balanced and quality intermediary functions; and improve financial system efficiency and financial access, and in doing so, strike a balance between maintaining financial stability and optimizing the contribution of financial system to economic growth.
- ***Measuring the effectiveness of MPMs/CFMs.*** MPMs/CFMs are part of a broader package of macro-financial policies available to authorities, all of which can affect capital flows. However, as one member observes, disentangling the effects of the various policies and quantifying the contributions of MPMs/CFMs to the outcome poses a difficult challenge. Circumvention further increases the difficulty in measuring their effectiveness empirically, given that targeted flows typically find other channels, wherein the flows covered by a particular measure may decrease but other types of flows may increase.

25. **Several members argue that there should be flexibility to impose CFMs on a pre-emptive basis and determine appropriate timing for their removal.** Most EMEs consider CFMs an integral part of the policy toolkit, to mitigate the impact of volatile capital flows and maintain stability in domestic markets. They disagree with the IMF IV that CFMs should only be implemented when other policies have been exhausted, and that they should generally be used only temporarily and in crisis situations, or when a crisis appears to be imminent. Given that the efficacy of some of these measures may take time to materialize, implementing them when a crisis is imminent may be too late, and more so during a crisis. In some circumstances, it would more practical to implement CFMs pre-emptively to forestall market disruptions and then calibrate them at a later stage as the individual situations warrant.

Question 6. Do you feel that the IFIs are even-handed across members when assessing members' use of those measures? If "no," in what way do they discriminate?

26. **ASEAN+3 members hold mixed views about the even-handedness of IFIs in their assessment of members' use of CFMs/MPMs.** Members understand that IFIs are generally looking to encourage a consistent approach to promoting good policy practices and standardizing policy positions on capital flows across all countries, albeit with varying degrees of success. Some members feel that IFIs are even-handed or at least make an effort to reflect members' opinions when making capital liberalization-related decisions (Figure 4). They appreciate that IFIs collect members' opinions—the OECD adopts the principle that decisions regarding capital account liberalization should be based on agreement among members, while the IMF actively seeks members' views through conference calls, working groups and so forth. However, other members either disagree or are non-committal.

Figure 4. ASEAN+3: Perceptions about IFI Even-handedness in Assessing CFMs/MPMs
(Number of respondents)



Sources: AMRO members; and AMRO staff estimates.

27. **Almost half the respondents disagree about IFI even-handedness.** One member sums it up in observing that, *“Evenhandedness should mean similar countries are treated similarly but not identically. The Institutional View in practice prescribes the latter.”* Even so, members do not think that IFIs deliberately set out to “discriminate” among their constituents. The debate about even-handedness arises in several areas:

- **Country-specific considerations.** Although IFIs try to be even-handed in their policy assessments across economies, they also need to be mindful of country specificities and avoid adopting “one-size-fits-all” policy prescriptions. No one policy is able to meet the needs of all countries, and as such, any advice should be sensitive to country-specific circumstances. For example, the IMF is perceived to not comprehensively take into account the differences between AEs and EMEs when

setting assessment standards. Consequently, the impact of capital flows and exchange rate fluctuations on EMEs are underestimated, and some EME MPMs—which are aimed at targeting systemic risks brought about by their volatility—are seen to be incorrectly classified as CFMs, and inconsistent with IMF (2019).

- **Sources of capital flows.** IFIs should be more balanced and receptive in their recommendations by addressing the spillovers caused by policies of source countries that result in volatile capital flows. They should not focus solely on the recipient countries, which stigmatizes their usage of CFMs. IFIs could add value to the discourse by encouraging collaboration between the two parties, considering that policy actions by source countries could have implications for capital-receiving countries. Such efforts could help both countries address challenges arising from capital flows in a systematic manner and secure a more globally efficient outcome. Moreover, recipient countries should be given more flexibility to manage portfolio flows given that they are directly affected by any volatility in those flows.
- **IMF staff judgment.** Classifications of whether a measure is an MPM or CFM ultimately depend on IMF staff judgment, even though [IMF \(2017\)](#) states that “all relevant information” should be considered to guide their determination. Members argue that there should be more transparent justifications of staff judgement in ensuring consistent and evenhanded applications of the assessment frameworks, for the following reasons:
 - Although the surveillance guidelines of IFIs are open to staff judgement on the categorization and appropriateness of official policies, their application in practice could make the recommendations less relevant to country-specific circumstances given that staff may still adopt a cookie-cutter approach and apply the same policy label to similar measures across countries.
 - Even though IMF staff may take into account the context, measure calibration, and other country-specific circumstances, assessments of similar measures may still be treated differently across countries by different IMF staff.
 - The IMF does not appear to have clear guidelines on the importance of focusing on such measures in a country assessment. The result is that greater importance may be placed on covering CFMs/MPMs in some economies than in others during the IMF’s annual consultations with members.

III. Conclusion

28. **ASEAN+3 members adopt varying practices with regard to CFMs and MPMs, which complicate efforts to label their use for various objectives.** Although the majority of members distinguish between CFMs and MPMs, some do not have official or working definition(s) of CFMs/MPMs. Importantly, CFMs/MPMs may overlap when dealing with systemic risks to the financial system arising from large capital flows. Some members take the position that MPMs could also be applied to manage vulnerabilities associated with capital inflows, which may then be classified as CFMs with the associated stigma.

29. **The main goal of most members in applying CFMs/MPMs is to address identified macro-financial risks, in particular, to mitigate systemic risks.** Most members apply diverse toolkits of measures that are carefully considered in their design and calibrated

in their implementation. Correspondingly, members take into account various factors in deciding whether to remove (or calibrate) existing CFMs and/or MPMs. Many broadly agree with the position of IFIs on CFMs/MPMs, and that consistency with international standards and domestic institutional arrangements is important. However, most are of the view that the “best practices” promoted by IFIs are not necessarily relevant, suitable, or feasible for every economy.

30. **There are several main areas of disagreement with IFI positions, and views on even-handedness of assessment are mixed.** Chief among them is that country-specific factors are not always given due consideration and reflected in IFI positions. IFI classifications of CFMs and MPMs are also seen to be problematic, especially given that they could have multiple objectives and applications. Several members support being afforded the flexibility to impose CFMs on a pre-emptive basis and determine appropriate timing for their removal. Although some members disagree about IFI even-handedness across countries, they acknowledge that IFIs do not deliberately set out to “discriminate” among their constituents.

Appendix I. Questionnaire on Capital Flow Management and Macroprudential Policy Measures

ASEAN+3 MACROECONOMIC RESEARCH OFFICE (AMRO) Short Survey on Capital Flow Management and Macroprudential Policy Measures

1. Does your institution distinguish between capital flow management measures (CFMs) and macroprudential policy measures (MPMs)?

- ☐ Yes
☐ No

What definition do you use for both or each?

CFM/MPM if they are considered one and the same

CFM

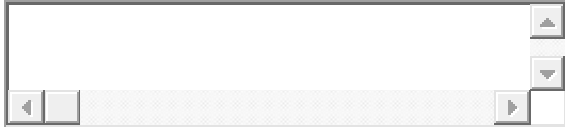
MPM

2. What are your institution's key considerations when designing and implementing CFMs/MPMs?

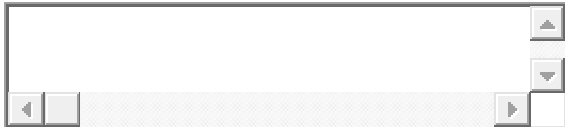
3. What are your institution's key considerations when removing CFMs/MPMs?

4. In your institution's view, what should "best practice" CFMs/MPMs entail?

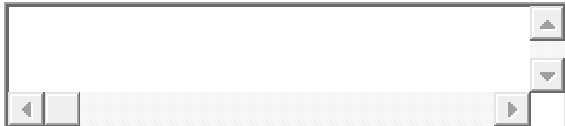
5. In which ways does your institution agree with and what are areas of disagreement (if any) regarding the position that some international financial institutions (IFIs), such as the IMF, OECD, etc., take on CFMs and MPMs?

A rectangular text input box with a thin border. It contains no text. On the right side, there are two small square buttons with upward and downward arrows. On the bottom left, there are two small square buttons with left and right arrows. The bottom right corner has a small square button with a right arrow.

6. Do you feel that the IFIs are even-handed across members when assessing members' use of those measures? If "no," in what way do they discriminate?

A rectangular text input box with a thin border. It contains no text. On the right side, there are two small square buttons with upward and downward arrows. On the bottom left, there are two small square buttons with left and right arrows. The bottom right corner has a small square button with a right arrow.

7. Is there any other issue that should be taken into account that may not be covered by the questions in this survey?

A rectangular text input box with a thin border. It contains no text. On the right side, there are two small square buttons with upward and downward arrows. On the bottom left, there are two small square buttons with left and right arrows. The bottom right corner has a small square button with a right arrow.

Reference Material

- Asian Consultative Council. 2020. “Capital Flows, Exchange Rates, and Policy Frameworks in Emerging Asia.” Bank for International Settlements, Basel, November 27.
<https://www.bis.org/publ/othp34.htm>.
- Association of South-East Asian Nations (ASEAN). 2019. “Capital Account Safeguard Measures in the ASEAN Context.” ASEAN Working Committee on Capital Account Liberalization, February 22.
<https://asean.org/storage/2012/05/2019-02-25-ASEAN-Paper-The-Role-of-Safeguard-Measures-in-ASEAN.pdf>.
- Bank of International Settlements (BIS). 2018: *Annual Economic Report 2018*. Basel, June 24.
<https://www.bis.org/publ/arpdf/ar2018e.htm>.
- Bayangos, Veronica. 2017. “Capital Flow Measures and Domestic Macro Prudential Policy in Asian Emerging Economies: Have These Been Effective?” BSP Working Paper 2017-01, Bangko Sentral ng Pilipinas, Manila.
https://www.bsp.gov.ph/Media_And_Research/WPS/WPS201701.pdf.
- Financial Services Agency (FSA). 2019. “Targeting the Stability of the Financial System: Inspection and Supervision Concepts and How to Proceed.” Tokyo.
<https://www.fsa.go.jp/news/30/ginkou/20190329-5.html> [In Japanese].
- International Monetary Fund (IMF). 2012. “The Liberalization and Management of Capital Flows—An Institutional View.” IMF Policy Paper, Washington, DC, November 14.
<https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/The-Liberalization-and-Management-of-Capital-Flows-An-Institutional-View-PP4720>.
- . 2017. “Increasing Resilience to Large and Volatile Capital Flows—The Role of Macroprudential Policies.” IMF Policy Paper, Washington, DC, September.
<https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/07/05/pp060217-increasing-resilience-to-large-and-volatile-capital-flows>.
- . 2019. “IMF 2019 Taxonomy of Capital Flow Management Measures.” Washington, DC, October 15.
- International Monetary Fund, Financial Stability Board, and Bank for International Settlements (IMF-FSB-BIS). 2016. “Elements of Effective Macroprudential Policies: Lesson from International Experience.” Washington, DC, and Basel, August 31.
<https://www.bis.org/publ/othp26.htm>.
- Jácome, Luis I., and Erlend W. Nier. 2012. “Macroprudential Policy: Protecting the Whole.” *Finance & Development*. International Monetary Fund, Washington, DC, March, 30–33.
<https://www.imf.org/external/pubs/ft/fandd/basics/macropriu.htm>.

Yellen, Janet. 2009. "A Minsky Meltdown: Lessons for Central Bankers." Federal Reserve Bank of San Francisco. Presentation to the 18th Annual Hyman P. Minsky Conference on the State of the US and World Economies, "Meeting the Challenges of the Financial Crisis." New York City, New York, April 16.
<https://www.frbsf.org/our-district/press/presidents-speeches/yellen-speeches/2009/april/yellen-minsky-meltdown-central-bankers/>.

[This page is intentionally left blank]



Address: 10 Shenton Way, #15-08

MAS Building, Singapore 079117

Website: www.amro-asia.org

Tel: +65 6323 9844

Email: enquiry@amro-asia.org

[LinkedIn](#) | [Twitter](#) | [Facebook](#) | [YouTube](#)