

**Statement by the Managing Director on
Recent Experiences in Managing Capital Inflows—Cross-Cutting Themes
and Possible Policy Framework
Executive Board Meeting
March 21, 2011**

1. The management of capital inflows is an area where historically the Fund has found it difficult to find a clear consensus. Yet our policy advice clearly cannot exclude a whole swath of economic policies—still less an area where the benefits of getting it right are significant, the economic and financial risks of getting it wrong large, and the potential global gains from internalizing multilateral considerations substantial.
2. The recent surge in capital flows, amid ample global liquidity, has made it more important that we bring our members the best advice in this area, and that we do so consistently and in a manner that promotes the common good. The staff paper illustrates well the variety of recent country responses to capital flows. The staff needs a clear organizing framework to weigh the effects of alternative policies to manage inflows, and this framework must be one that is supported by the Board.
3. I believe we can all agree on this, and hence, as foreshadowed in the recent Board discussion of *The Fund's Role Regarding Cross-Border Capital Flows*, on the importance of clarifying our views in this area—of developing what the paper calls “a policy framework.” I am also encouraged by my discussions with some of you, and by the staff’s conversations with Directors, that views on the substance of the issue have started to move a little closer. The staff’s analytical work and the various discussions of the issue in individual country cases have been a great help. But I am aware that, given the present state of the art and the different circumstances of countries, we are still likely to face significant challenges in coming to a fully shared view. Indeed, our work on capital inflows forms part of a broader work agenda, including on macroprudential policies and capital account liberalization, which aims to provide countries with a better roadmap for navigating an increasingly interconnected global financial system. So I very much view our forthcoming discussion as a first step.
4. Nevertheless, we need to move forward. What I hope for from the discussion is an airing of views, but also a clarification of those areas where we do have broad consensus, in a way that will guide our policy advice to countries. We will have to accept that our framework may need to adapt as we gain experience and as the state of the art evolves. But our members have to make decisions on these matters every day, and we owe it to them to give the best advice we can, even now. I hope that, with your support, we will make meaningful progress in this direction.