Foreword

This report reviews the IMF's approach to capital account liberalization and related issues, drawing on evidence from a sample of emerging market economies over the period 1990–2004. The role of the IMF in capital account liberalization has been a topic of major controversy. An independent evaluation of the IMF's advice on capital account issues is therefore both timely and appropriate.

The evaluation seeks to contribute to transparency by documenting what in practice has been the IMF's approach to capital account liberalization and related issues and to identify areas where the IMF's instruments and operating methods might be improved, in order to deal with capital account issues more effectively. The report deals not only with capital account liberalization per se but also with capital flow management issues, including particularly the temporary use of capital controls.

Capital account liberalization is an area where there is little professional consensus, making it difficult to evaluate the IMF's policy advice against some universal set of criteria. Moreover, the IMF Articles of Agreement give the IMF only limited jurisdiction over the capital account, with the result that the IMF had no formal policy on most capital account issues during the period under review. For these reasons, the evaluation assesses the IMF's *actual approach* to these issues, identifying what policy advice the IMF gave in the context of a specific country at a specific point in time.

The report begins by reviewing the IMF's general operational approach and analysis as they evolved from the early 1990s into the early 2000s. It then assesses the IMF's country work in terms of (1) its role in capital account liberalization during 1990–2002, (2) its policy advice to member countries on managing capital flows during the same period, and (3) its ongoing work on capital account issues in a group of emerging market economies during 2003–04. The report concludes by offering two broad recommendations. First, as noted in the original terms of reference, the evaluation does not seek to make a judgment on whether the Articles of Agreement should be amended to give the IMF an explicit mandate and jurisdiction on capital account issues, since this is an issue that goes well beyond the scope of the evaluation evidence. However, the report does conclude that greater clarity on the IMF's approach to capital account issues is needed and makes a number of suggestions as to how this might be achieved. Second, the report supports greater attention by the IMF's analysis and surveillance to the supply-side factors of international capital flows, a process that is already under way.

The report was discussed by the IMF Executive Board on May 11, 2005. In keeping with established practice, the report is being published as submitted to the Board, except for minor factual corrections. This volume also includes the response of IMF management and staff to the evaluation, the IEO response, and the Summing Up of the Board discussion.

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