



SESSION 1: THE GLOBAL ECONOMIC OUTLOOK AND THE ACCELERATION OF TIGHTENING MONETARY POLICY

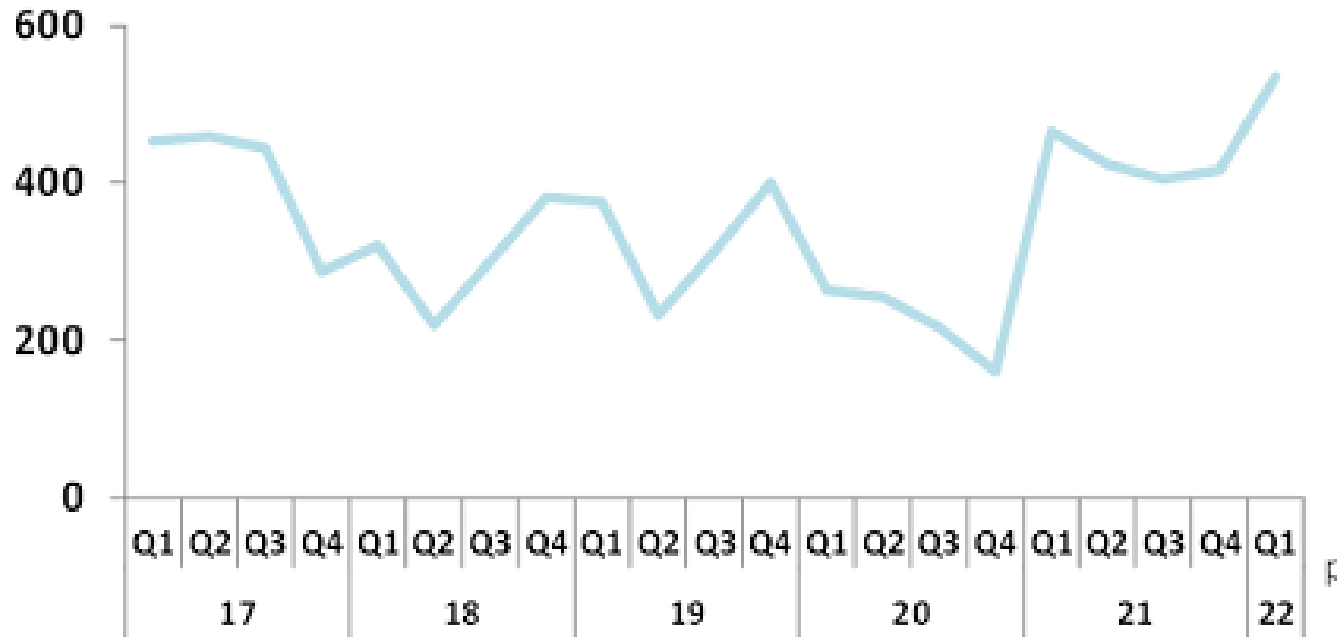
CAPITAL FLOWS: RECENT DEVELOPMENTS AND POLICY MEASURES

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Global FDI flows: continued upward trajectory

Global FDI flows (bln USD)



Note: p= preliminary.

Source: OECD Direct International Investment Statistics July 2022 update

• 2021:

- Global FDI flows **surged 88%**, rising above pre-pandemic levels
- Driven by record **high earnings of foreign owned business** not distributed to parents
- **Greenfield investment** well above pre-COVID levels in AEs but weak in EMEs

• 2022Q1:

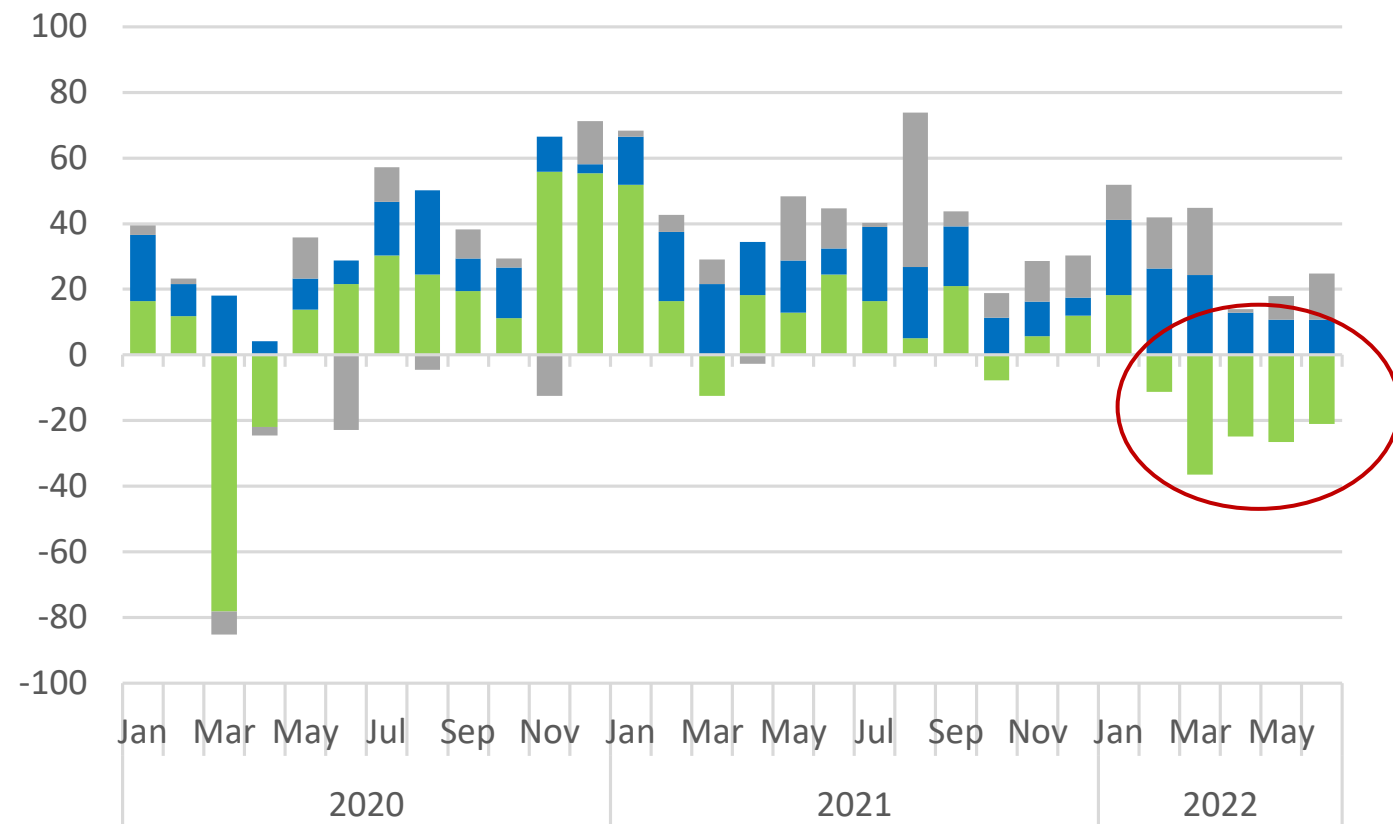
- Further **28% increase compared to Q4 2021**, to USD 535 billion
- Year-over-year **15% increase** of global FDI flows **compared to Q1 2021**
- Top recipients of FDI inflows in Q1 2022: **China, US, Australia**



Portfolio flows: Important outflows from EMEs in 2022

Capital inflows to emerging economies (bln USD)

■ Portfolio inflows ■ FDI inflows ■ Other inflows



Source: OECD Monthly Capital Flow dataset.

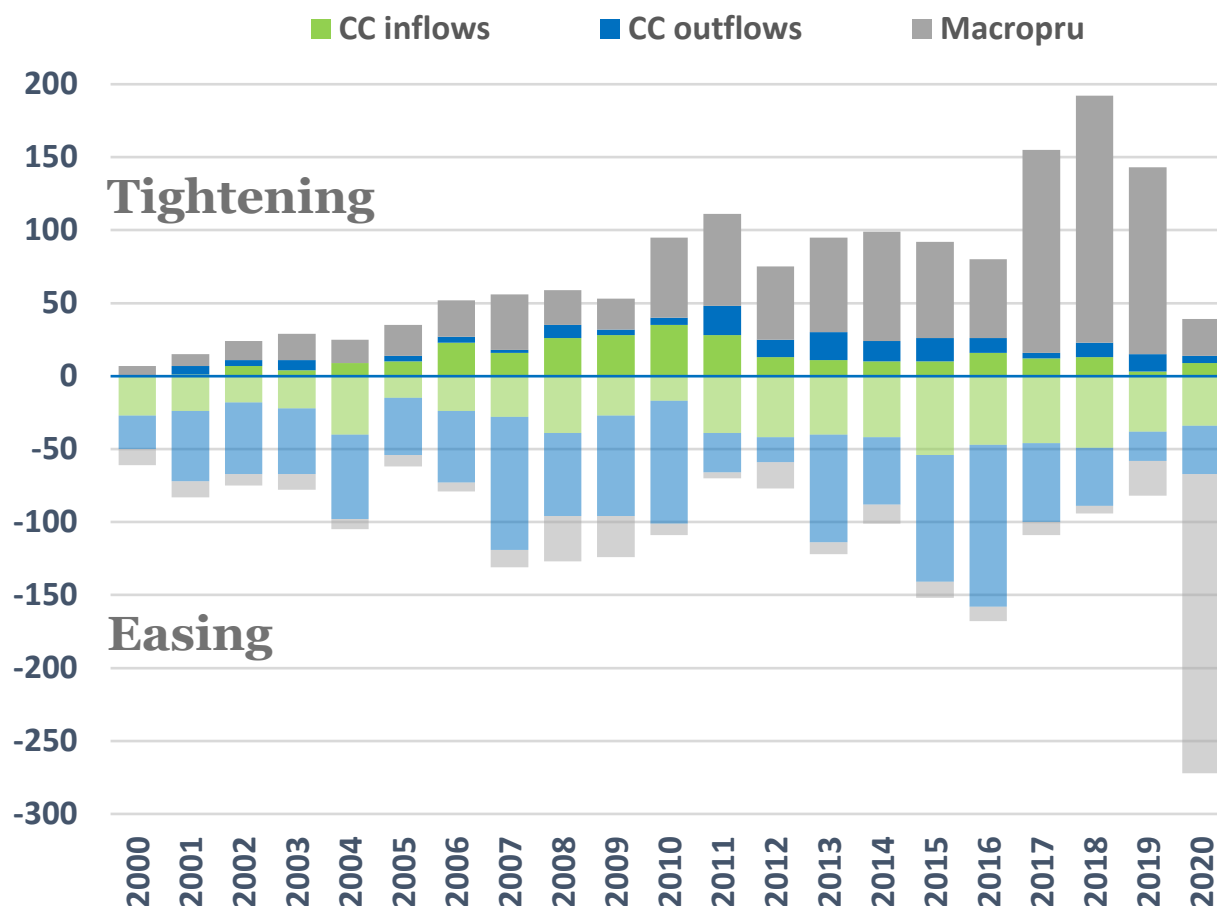
Note: Maximum sample of 22 EMEs for portfolio flows, 15 for other inflows, and 16 for FDI.

- **End 2020/2021: important recovery in portfolio flows following COVID-19 drop**
- **2022: Cumulative portfolio outflows of USD 120 bln from Feb to Jun (> Mar 20 drop)**
 - Monetary policy tightening
 - Added uncertainty and renewed inflation pressures from **war in Ukraine** despite limited direct exposure
 - Renewed **geopolitical concerns**
 - **Country-specific contexts**, e.g. COVID-19 measures in China
- Associated with **declining reserves** and **depreciating exchange rates**
- **Banking flows** and **FDI flows** remained positive and relatively strong



The policy toolkit post-2008 and during COVID-10

Yearly number of adjustments of capital flow and macroprudential measures



Post-2008 (inflow period):

- Active use of MPMs
- Substantial **liberalisation of restrictions on outflows**
- Some **reintroduction of inflow restrictions**

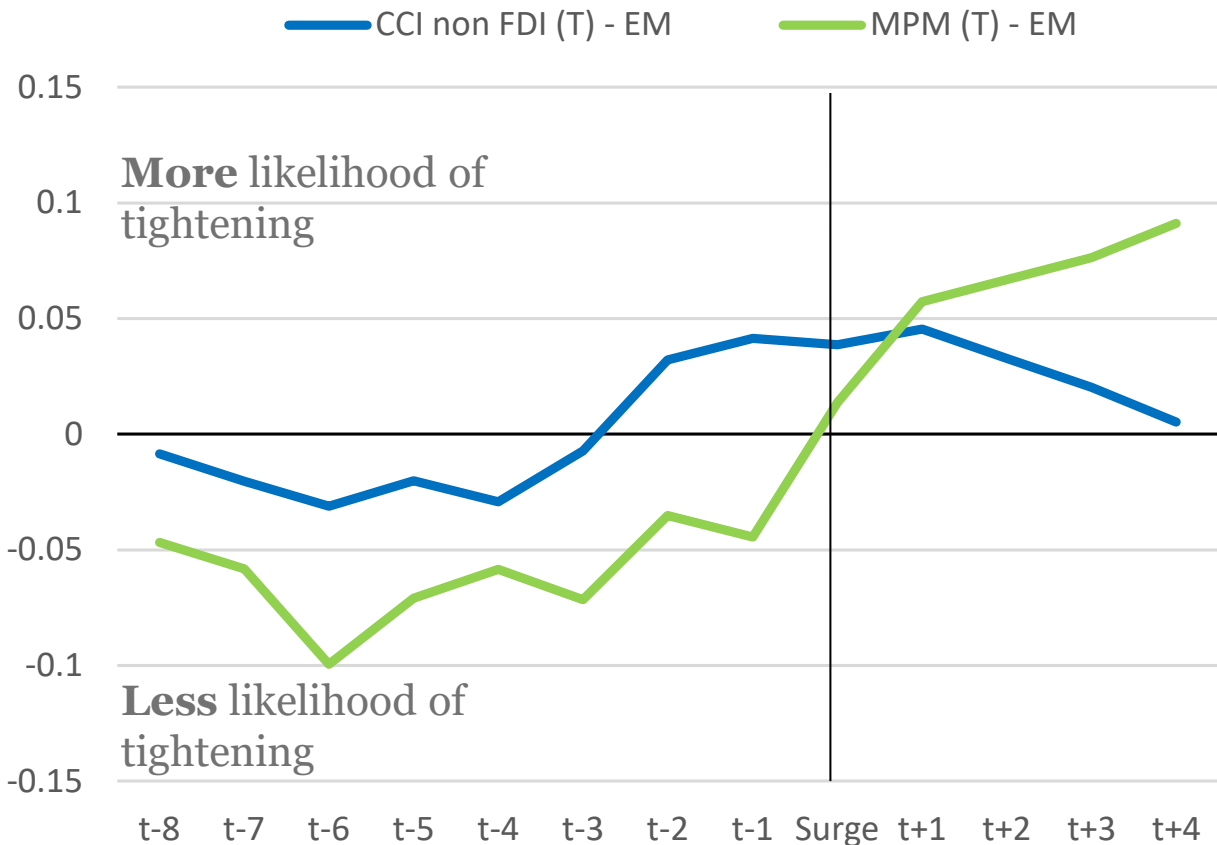
During COVID-19 (outflow period):

- Little reintroduction of outflow restrictions during COVID
- **Easing of controls on inflows** and FX measures to relax liquidity constraints
- Some tightening in late 2020 = **normalisation of 2020H1 easing**



Inflow periods: Surges and policy responses

Conditional tightening of macroprudential and inflow measures around surges



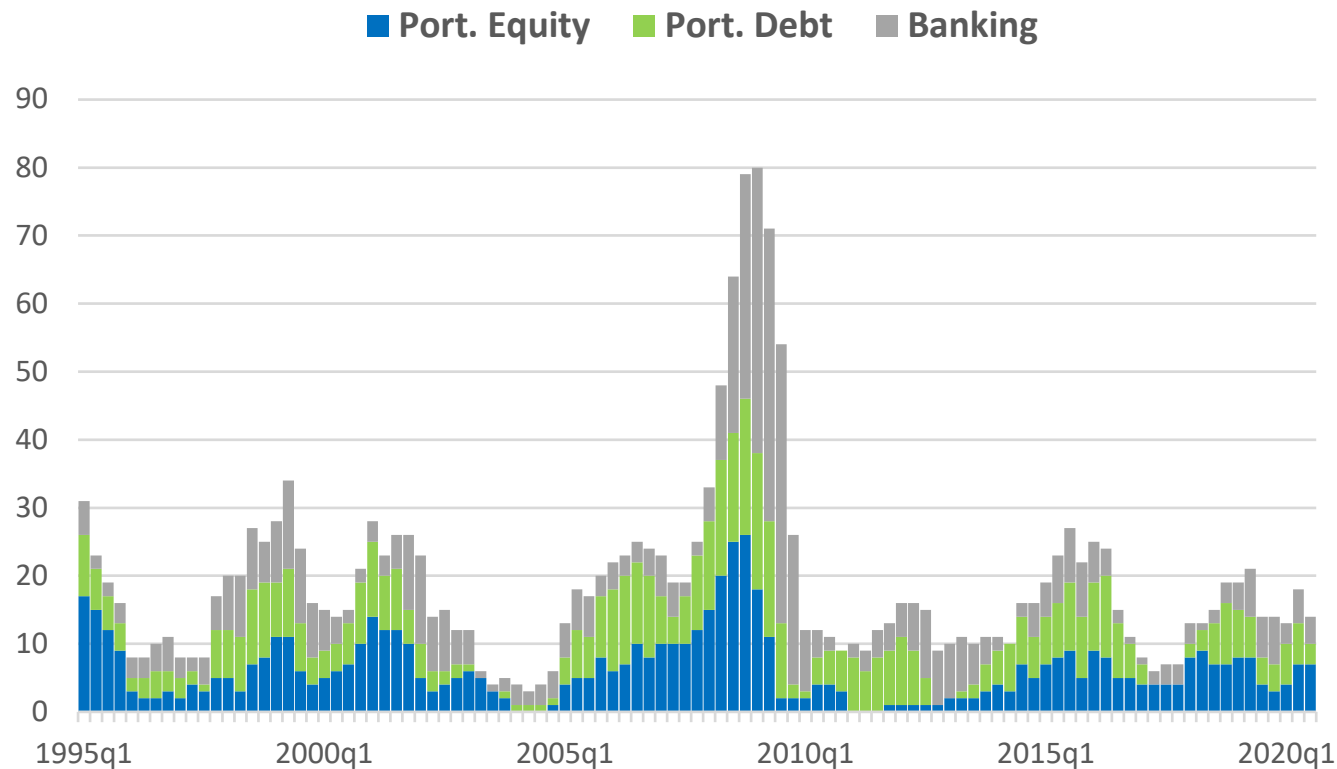
Source: OECD (2022). Note: Lines plot the likelihood of tightening action in an event window of [8q-4q] around capital inflow surge episodes compared to normal times, with coefficients from multiple linear probability fixed effect models and conditional on controls above mentioned. Surge episodes defined as in Forbes and Warnock (2012, 2021).

- **Number of surges has not increased in the post GFC period** (Forbes and Warnock 2021, De Crescenzo and Lepers 2021)
- **Focus of much of the recent revisions of the OECD Code and the IMF IV**
 - **IMF: Focus on pre-emptive CFMs in case of high FX mismatches**
 - **OECD: Treatment of FX measures targeted at high FX liabilities**
- **Inflow measures** are more likely to be reintroduced during or right after surge episodes than before.
- **Macroprudential policy** appears to be tightened ex-post in emerging markets



Outflow periods: Sudden stops and policy responses

Number of Sudden stop episodes by type of flows



Source: Forbes and Warnock (2021), OECD.

- **Number of sudden stops has not increased in the post GFC period** (Forbes and Warnock 2021, De Crescenzo and Lepers 2021)
- **Easing monetary policy** a double-edged sword: protecting domestic balance sheets but may accelerate outflows
- Sterilised **FX intervention** generally effective in delaying depreciation
- No clear pattern in **use of macroprudential tools**
- Easing **inflow controls** in stop and flight episodes helpful in some cases
- **Outflow controls** rarely tightened, typically last-resort tool in crises



Policy frameworks for capital flows: The OECD Capital Movements Code and the IMF Institutional View

- **OECD Code** (adopted in 1961) is a **set of mutual rights and obligations** on capital flow policies agreed by governments. Last revised in 2019.
- **2019 Review** of OECD Code: **more flexibility for certain measures** affecting capital flows (e.g. case-by-case assessments of restrictions on FX liabilities of financial institutions)
- **IMF IV** (adopted in 2012) is a framework for **staff policy assessments and advice** within the confines of members' rights and obligations under the IMF Articles of Agreement.
- **2022 Review** of IMF IV: Preemptive **inflow CFM/MPMs**, special treatment for certain categories of measures
- While some differences remain, the **reviews of both frameworks have generally resulted in greater coherence.** Collaboration between the IMF and OECD continues to be strengthened.



BACKGROUND



OECD Capital Movements Code: Flexibility mechanisms

Reservations may be lodged:

- At the time of adherence or when new obligations apply
- At any time on **short-term operations**: e.g. on derivatives, real estate purchase, money markets (List B)
- ***No presumption that a restriction needing a reservation is inappropriate***

Derogations (temporary derogation from Code obligations)

- **Serious economic and financial disturbance**
 - Most frequently used derogation, mostly used in connection with outflows but also with inflows
- **Balance of payments**

Public order and security

- maintenance of public order or protection of public health and safety;
- protection of essential security interests;
- fulfilment of obligations relating to international peace and security.



Strong collaboration between IMF and OECD

- New provision in Code that allows OECD Investment Committee to consult other IOs (incl. IMF)
- Close dialogue - Informal cooperation
- IMF participation in Advisory Task Force on the Codes (ATFC)
- Annual capital flows workshop (OECD/IMF jointly w/ BdF/BoE/BoI)
- Other forms of cooperation to be explored



Policy Responses in COVID-19

- **FX intervention as first line of defence:** spot and forward, importance of initial level of reserves
- **Relaxation of inflow controls:**
 - ✓ **China:** eased a ceiling on cross-border financing
 - ✓ **Peru:** reduced reserve requirements on liabilities to non-residents
 - ✓ **India:** eased limits on foreign portfolio investments in corporate and government bonds
- **No reintroduction of outflow controls** (easing in Argentina)
- **Currency-based measures: mainly easing**, some tightening
 - ✓ FX reserve requirements: Indonesia, Turkey, Peru (easing)
 - ✓ FX derivatives caps: Korea (easing), Turkey (tightening)
 - ✓ FX liquidity ratios: Korea, Sweden (easing), Hungary (tightening)
 - ✓ FX liability levy: Korea (easing)