



# Global imbalances and capital flows in the era of new technologies

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# G20 Eminent Persons Group on global financial governance

## ➤ *Key questions*

- Does the global financial governance system really work as a system?
- How can we get more private flows into Emerging Market and Development Countries?
- How to improve the global financial safety net and economic and financial surveillance?

# EPG Proposal 11, 11a, 11b

*"A more comprehensive IMF framework of policy guidance should enable countries to move toward the long-run goal of openness to capital flows and to better manage the risks to financial stability"*

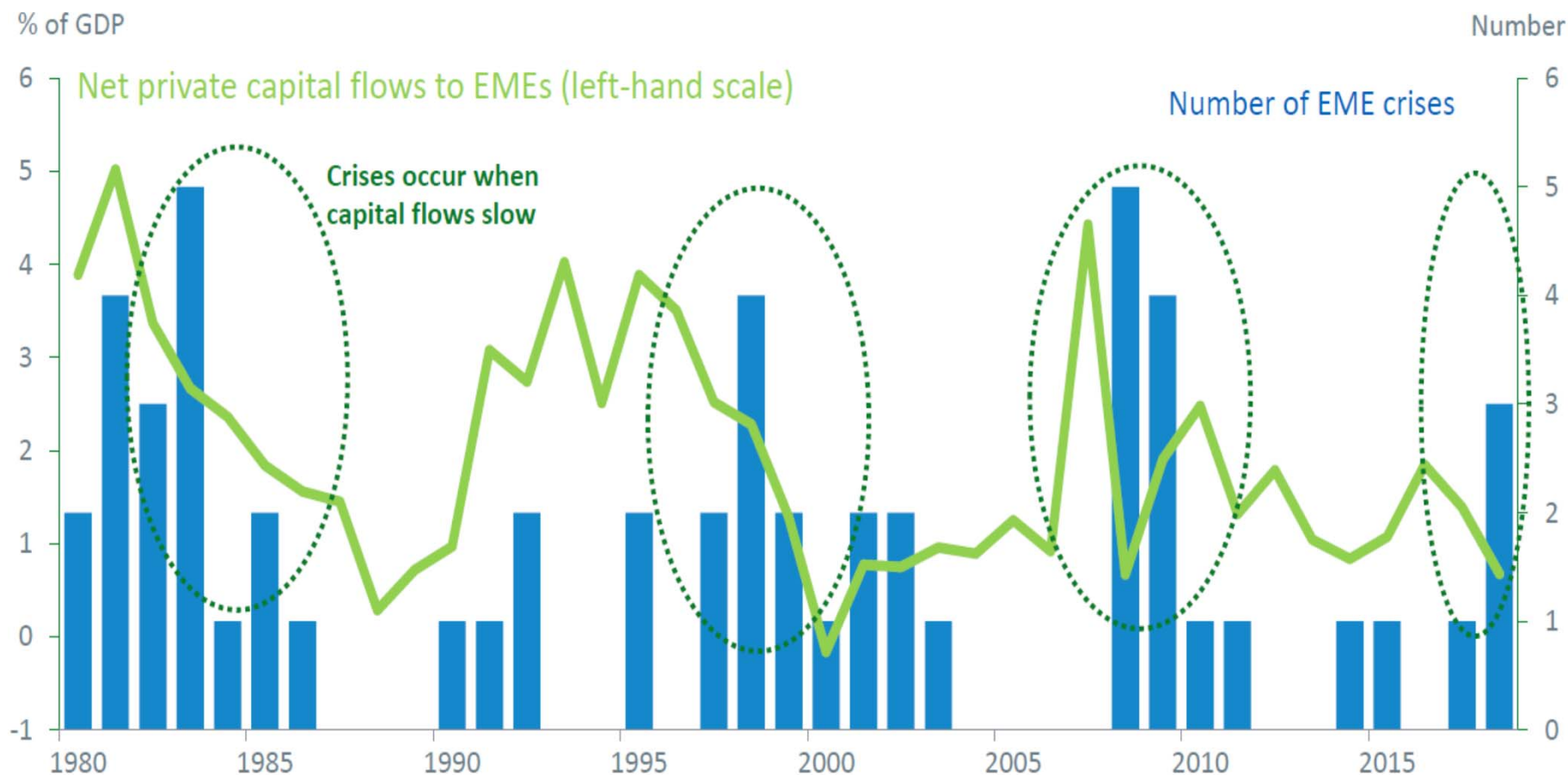
- Proposal to establish a framework to assess and enable mitigation of excessive volatility of capital flows and exchange rates.
  
- A Global "Rule Book" for capital flows management would have merits:
  - (i) equipping the IMF with a stronger mandate for capital flows surveillance;
  - (ii) ensuring greater consistency between the IMF institutional view on capital flow liberalisation and management and the OECD code of liberalisation of capital movements.

# EPG Proposal 11, 11a, 11b (cont.d)

➤ But there are some conceptual difficulties in the EPG proposal:

- no consensus on what “excessive” volatility is;
- the direction of causality between capital flows and exchange rates is uncertain;
- ambiguity in the discussion between concerns about volatility and concerns about levels.

## Wide fluctuations in short-term capital flows can prove disruptive under certain circumstances



Source: Carney (2019), « Pull, Push, Pipes: Sustainable Capital Flows for a New World Order ».

# EPG Proposal 12, 13

*“Integrate the surveillance efforts of the IMF, FSB and BIS in a coherent global risk map, while preserving the independence of each of the three institutions’ perspectives. Build on the IMF-FSB Early Warning Exercise (EWE) to ensure policy follow-up from the global risk map.”*

➤ Give the EWE again its initial purpose and ensure its place in the global surveillance exercise

- The severe global impact of the 2008 crisis took by surprise the majority of economists and institutions.
- A first dry-run of a joint IMF-FSB Early Warning Exercise (EWE) took place in 2009.
- Over the years, discussions have moved away from the initial country focus to cover broader topics -> more difficult to identify clear operational conclusions.

# EPG Proposal 12, 13

## ➤ How to ensure a proper follow-up of the Early Warning Exercise?

- The IMF, FSB and BIS should work together on the EWE, while keeping their analysis independent.
- Allowing for discussions in the G20 would enable an integrated vision and common understanding of the main messages produced by IMF-FSB-BIS.
- Key to improve the link between the EWE and IMF Article IV reports and other IMF flagship reports.

# EPG Proposal 14, 15a

*“Stitch together the various layers of the GFSN to achieve scale and predictability.”*

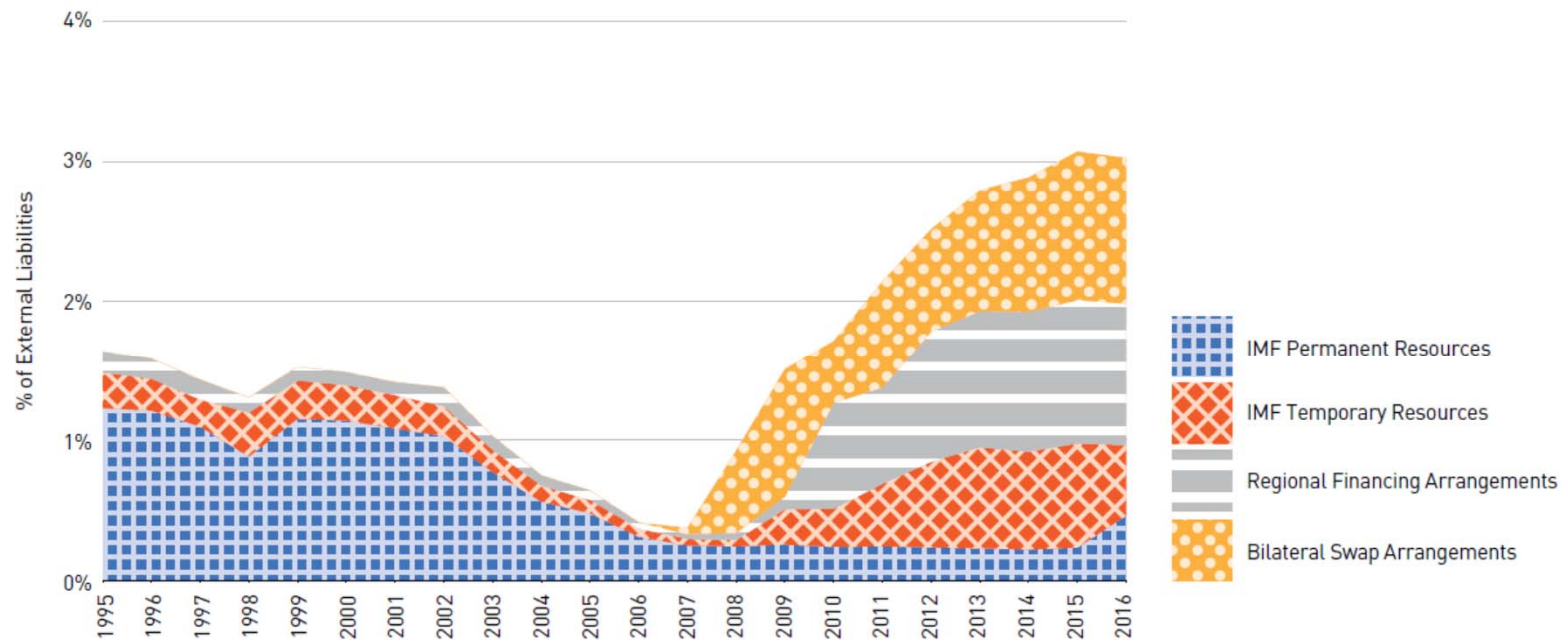
*“Promote common operating protocols and improve speed of crisis response”*

➤ Plug the gap in the GFSN with regard to future crisis of a systemic, tail risk nature.

- Ensure the complementarity of various layers and avoid overburdening of one single element.
- Risk: another delay in diagnosis and a fragmented cooperation could exacerbate future crisis.



## *Evolution of the GFSN\*:* a more multi-layered GFSN



Source: IMF and Bank of England

\*Graph inserted in EPG Report on Global Financial Governance, page 60