

IMF Advice on Unconventional Monetary Policies

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General Impression

- Great work!
- Timely and candid
- Identifies very well what has been done right and what has not been
- Concrete suggestions/paths to move forward

The Emerging Markets:

- Fund advice was dependent on country circumstances but could be enriched by greater focus on relevant cross-country experience and deeper discussions of MP issues
- Article IV consultations were regarded as a useful source of advice on MP and dealing with capital flows.
- The IV on capital flows was welcomed as a departure from “orthodoxy”

Institutional View

The IV was viewed as an important step forward but concerns were raised regarding:

- Effectiveness
- Rigidity in application
- Lack of expansion of policy choice set
- Lack of impactful work on spillovers

Spillover Analysis

- The Spillover Reports signaled the Fund's desire and efforts to help EMs but their practical impact was limited
- The Spillover Reports had limited success in assessing the financial channels for adverse spillovers

Financial Channel of Spillovers

- Importance of capital flows in moving the credit cycle and the business cycle in EM
- Sensitivity of capital flows to country risk and global shocks
- Effect of capital flows on exchange rate and on lending/borrowing rates/spreads
- My work shows: almost half of credit growth can be due to financial channel spillovers (micro data identification)
- FED work shows: 1 percent contractionary MP shock in US have the same contractionary effect in EM (DSGE-VAR identification)

Positive Reaction from IMF Board and Next Steps

- Fund should be at the forefront of financial spillover analysis and provision of advice on dealing with capital flows
- Fund should pay greater attention to EMs and developing countries dealing with financial spillovers and capital flow volatility
- Should use insights from work on spillovers and the IPF (Integrated Policy Framework) as input for the CSR (Comprehensive Surveillance Review)
 - Will be great if next report gets into details of this!