G20 Coherent Conclusions
for the Management of Capital Flows Drawing on Country Experiences

as endorsed by G20 Finance Ministers and Central Bank Governors

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Capital flows are a central feature of the international monetary system. A key challenge facing policy makers worldwide, and especially among G20 countries, is how to reap the benefits from financial globalization, while preventing and managing risks that could undermine financial stability and sustainable growth at the national and global level. In order to help address the challenges posed by large and volatile capital flows, G20 members, drawing on countries' experiences, have come to the following conclusions, which should be seen as a non-binding contribution to their decision making process regarding capital flow management measures, and not as a limitation of national policy choices.

1. Precise classifications of different policy measures are hard to draw in some instances; in particular there is an overlap between capital flow management measures and macro-prudential policies. For the purposes of these conclusions, capital flow management measures are those designed to influence capital flows and comprise residency-based capital flow management measures, often referred to as capital controls, and other capital flow management measures that do not discriminate on the base of residency but are nonetheless designed to influence flows. The latter category would typically include (a) measures that differentiate transactions on the basis of currency, including a subset of prudential measures, and (b) other measures (e.g. taxes on certain investments) that are typically applied in the non-financial sector.[1]

2. Capital flow management measures may constitute part of a broader approach to protect economies from shocks. In circumstances of high and volatile capital flows, capital flow management measures can complement and be employed alongside, rather than substitute for, appropriate monetary, exchange rate, foreign reserve management and prudential policies.

3. The decision about whether and how to use capital flow management measures should be approached from a practical economic and financial risk management perspective, taking into account that the coordinated use of different policy tools is

[1] Based on this nomenclature, if a measure is not designed to influence capital flows it would not fall under the capital flow management umbrella. These non-capital flow management measures do not discriminate by residency or by currency. Relevant examples are prudential measures to ensure the resilience of financial institutions.

key for an effective and coherent approach. Sound macroeconomic policies bear the prime responsibility for ensuring overall economic health, and an appropriate structural environment, including effective financial regulation and supervision, is important for financial stability.

4. Capital flow management measures should not be used to avoid or unduly delay necessary adjustments in the economy. In particular, we will move towards more market-determined exchange rate systems, enhancing exchange rate flexibility to reflect underlying economic fundamentals and refraining from competitive devaluation of currencies.

5. There is no one-size-fits-all approach or rigid definition of conditions for the use of capital flow management measures. Country-specific circumstances have to be taken into account when choosing the overall policy approach to deal with capital flows.

6. The size, depth, and level of development of the local financial sector, as well as the institutional and regulatory strength of a country, play a key role in assessing the appropriateness and relative strengths and drawbacks of different policy measures.

7. Recognizing that sudden stops and reversals can undermine financial stability, capital flow management measures should operate in a countercyclical fashion, according to the specific global and domestic macroeconomic and financial stability situation. Capital flow management measures should be transparent, properly communicated, and be targeted to specific risks identified. In order to respond properly to the specific risks identified, capital flow management measures should be regularly reviewed by national or regional authorities as appropriate. In particular, capital controls should be adapted or reversed as destabilizing pressures abate. Capital flow management frameworks need to maintain sufficient flexibility in order to be effective under varying circumstances and challenges, including in order to help prevent circumvention efforts.

8. It is important to further strengthen domestic financial sectors. The development and deepening of local capital and bond markets can help absorb capital flows and deal with their volatility, direct them to productive activities in the real sector, promote growth and development of the local economy, and maintain a financing base in case of international financial turmoil. As a more sophisticated financial market tends to attract capital flows and, thus, can give rise to sudden outflows, it is important that adequate regulation and prudential practices are set up commensurate with financial sector development and a prudent balance with the real sector economy is maintained. An appropriate macro-prudential framework should also be considered.

9. Both push and pull factors, such as global liquidity conditions, long-term growth prospects, and global risk perception, play a role in determining size and composition of capital flows. Any country that has the potential to affect others through its national policy decisions (including, in this particular context, exchange rate management policies, monetary policy in reserve currency issuing countries and regions, regulatory and supervisory policies, and capital flow management measures) should take the potential impact of such spillovers into account when weighing different policy options consistent with national macroeconomic frameworks. These policies should be the object of regular, credible and even-handed multilateral surveillance to assess both their individual impact and aggregate spillover effects.

10. The macroeconomic policies of reserve currency issuers can have a central impact on global liquidity and, therefore, on capital flows. Those countries bear a special responsibility in keeping a sound and sustainable macroeconomic policy with a view to avoid excessive imbalances and sharp reversals of policy.

11. There is no obligation to capital account liberalization under the IMF's legal framework. However, there is agreement that the flow of capital may entail important benefits for the country concerned as well as the global economy, provided that important preconditions for successful capital account openness, including in particular a robust regulatory and supervisory framework, are sufficiently met. An important long-term goal for G20 countries should be to put in place, domestically and internationally, through enhanced cooperation, the conditions that allow members to reap the benefits from free capital movements, while preventing and managing risks that could undermine financial stability and sustainable growth, and avoiding financial protectionism.