

Luncheon Discussion: The Global Calculus of Unconventional Monetary Policies

Ms. Malmgren: There is a perception that exists now that the IMF endorsed, if not required, the implementation of capital controls inside the eurozone in the case of Cyprus. The question is, given we've just had further capital controls introduced in India this week in response to the tapering, could you elaborate a little bit on the IMF's position on capital controls going forward?

Ms. Lagarde: First of all as far as Cyprus is concerned, you all well know from anything we have done in the euro area it is something that we have done together with two other members, who are the European Commission and European Central Bank, it's a set of measures that we have recommended collectively. By saying that, I'm not trying to disengage from what we have advised, because we are part of it. Certainly we take collective responsibility together with the other two partners. As you will also remember it was advised in a very specific case where we massively restructured two of the key banks in that particular country and applied a significant restructuring on the deposit in excess of the guaranteed deposit in those two banks. It was really in response to a very, very specific, and I would say very severe and grave circumstances that we did recommend the capital flow control, which is still in place, although it is being gradually over time, phased out. There is also capital control in another country where the IMF was involved, which

is Iceland. But I think that is very much unrelated to the sort of capital flow control that we are seeing in various corners of the world and that we have seen over the last few years. Brazil has used some capital flow control measures, and India is using it at the moment. It's going to be country specific. In our view, and we have published extensively last year on capital flows in general and liberalization of the capital account, it needs to be sort of the last resort in a way and many other tools have been used and exhausted prior to that being used and it will have to be country specific. I hope it clarifies the position. Thanks.

Mr. Lipsky: In less than two weeks you will be going to St. Petersburg to join the G-20 Leaders Summit. The G-20 leaders have created that forum; it's the leading venue for negotiations on economic and financial issues. What do you hope and expect to accomplish at the St. Petersburg summit?

Ms. Lagarde: In my wildest dreams I would hope that the 2010 reform would be completed. I'm not sure if this will happen, that's why I call it my wildest dream. For those not in the know, the 2010 reform was one that was decided in order to actually significantly change the governing system of the IMF to make space for emerging market countries in particular and also increase the quota shares. Well John, clearly since the question comes from you, I would also hope that the mutual assessment process that you have yourself contributed so much to would be not only validated but reinvigorated by the leaders of the G-20. It's a fact, and I've lived that period of time as Minister of Finance in the old days, starting in Washington, and then moving to London, then Toronto and so on and so forth. At the height of the crisis there was this momentum, this impetuous, this determination to collectively get out of that crisis together. Clearly as the level and degree of that crisis has abated in some corners of the world and has traveled the level of urgency, the momentum has weaned a bit. I would hope that given the fact that it affects everybody, one after the other, one group after the other, one would hope that this mutual assessment process, which really intended to identify policy recommendations that will ultimately add to more collectively than one set of policy mix would apply to one particular country, that process would be as I said be rejuvenated, reinvigorated

I think that is my second dream. In less dreamy territories, I would also hope that the financial sector reform be strongly encouraged not for implementation, but for completion and be probably broadened to include shadow banking and a couple of areas where there has been slow progress.

Mr. Hoenig: You mentioned unconventional monetary policy and it has done, in your words, served a hero's role but you also mentioned how we exit from that. Have you thought about, or have there been discussions about, the signals that would be used to try and begin the withdrawal, thinking about the withdrawal of unconventional monetary policy around the world especially in an environment where we are cooperating. Any thoughts?

Ms. Lagarde: First observation that was very well documented this morning is the signaling matters almost more than the actual implementation, which will take its course and probably will happen over time. Who am I to make recommendations other than for the fact that we are all together in unknown and uncharted territories. I'm not exactly too sure how the signaling should take place, how coordinated it should be with others. Certainly intuitively and well as empirically we think is needed is clarity of communication, timeliness of it all, coordination of communication so there is a single voice. I know difficult it is. I've grown in an environment where there were 17 ministers of finance actually commenting on one single decision and producing 17 different wires, so I know it's tough. We believe that would be most helpful. And finally, I'm also convinced that there has to be an element of coordination among central bankers from the UMP countries and central bankers from the non-UMP countries; policymakers from UMP countries and policymakers from non-UMP countries, because the spillovers are quite obvious and things will backfire if there is no adequate coordination. I believe that this forum, thanks to you, you too as I may say, it's an ideal place for this exchange of views that will hopefully bring people together of how to move together.

Ms. Moyo: This might be slightly tangential but I believe in the context of the G-20 and some of the implications of an uncoordinated exit from the UMP, would you care to comment on what you see as

possible risks of nationalization? Particularly resource nationalization and particularly in the emerging market, so places like Mongolia and South America and even discussions in some countries in Africa. If I may loosen the question a little bit, by saying nationalization in sort of more flexible terms, so things like higher taxation, royalty payments, issues around even including outright expropriation. If you have a view given some of the reaction or concerns around natural resources and what governments will be doing and concerns on fiscal policy in the advent of a UMP withdrawal.

Ms. Lagarde: I certainly hope we can guard against that. I believe that was one of the three key goals of the G-20 in late 2008, which was then enforced very diligently I believe with the help of the WTO actually. That there should be and there would no protectionism and I would associate the measure you refer to as including in relation to royalty and resource management to a level of protections and that would be very detrimental to the coordinated approach that we need to have, but it is a risk that is there—no question about it.