

## Summary of Summaries

Korea Institute of Finance in Korea and Fiscal Policy Research Institute in Thailand worked together in preparing a report on 'Lessons from Asia's Experiences with Sudden Capital Flows.' In this report, they examined recent trend in capital flows to Asia, its characteristics and policy responses of selected Asian economies to cope with these inflows. What they found out is that the types of flows that have raised concerns during the crisis vary across countries and markets, ranging from bank flows to portfolio inflows, and measures used by the authorities across countries are each designed to limit identified vulnerabilities in domestic asset markets in a way that cannot be achieved with conventional macroeconomic policy. Also they assert that well targeted macro prudential measures will be effective in achieving their intended objectives, because there are no strong incentives to circumvent them.

Against this backdrop, they drew some policy implications for managing the risk of large capital inflows. With regard to the use of macro prudential policy to deal with large (and possibly) volatile capital flows, one important lesson is that it is difficult to generalize about the effectiveness of prudential controls or limits on capital flows. Any potential measure has to be assessed in a country specific and market specific context to examine the incentives and the ability of investors to circumvent, and beyond this narrow criteria, whether they are effective in achieving their objectives. In this respect, the ASEAN+3 Research Group needs to actively engage in studying the impact and effectiveness of a wide range of macro prudential measures, including those that are primarily aimed at preserving domestic financial stability.

At the same time, considering the difficulty in choosing the right signals to respond to and the right timing to intervene, it is important to secure built-in stabilizers to cope with sudden capital outflows in times of crisis. To this end, three policy initiatives will have to be considered in addition to the policy measures emerging countries have been implementing in response to the crisis: 1) establishment of a global financial safety net (FSN), 2) strengthen surveillance and cooperation, and 3) reinforcing prudential regulation on FX transactions of financial institutions.