

**Twenty-Fifth Meeting of the
IMF Committee on Balance of Payments Statistics
Washington D.C., USA
January 14–16, 2013
(Rescheduled from October 29–31, 2012)**

**The Implications for IMF Surveillance of Integrated
Surveillance Decision, the Pilot External Sector Report, and
External Balance Assessments**

**Prepared by the Research Department and
Strategy, Policy, and Review Department
International Monetary Fund**

NAVIGATING an INTERCONNECTED



WORLD

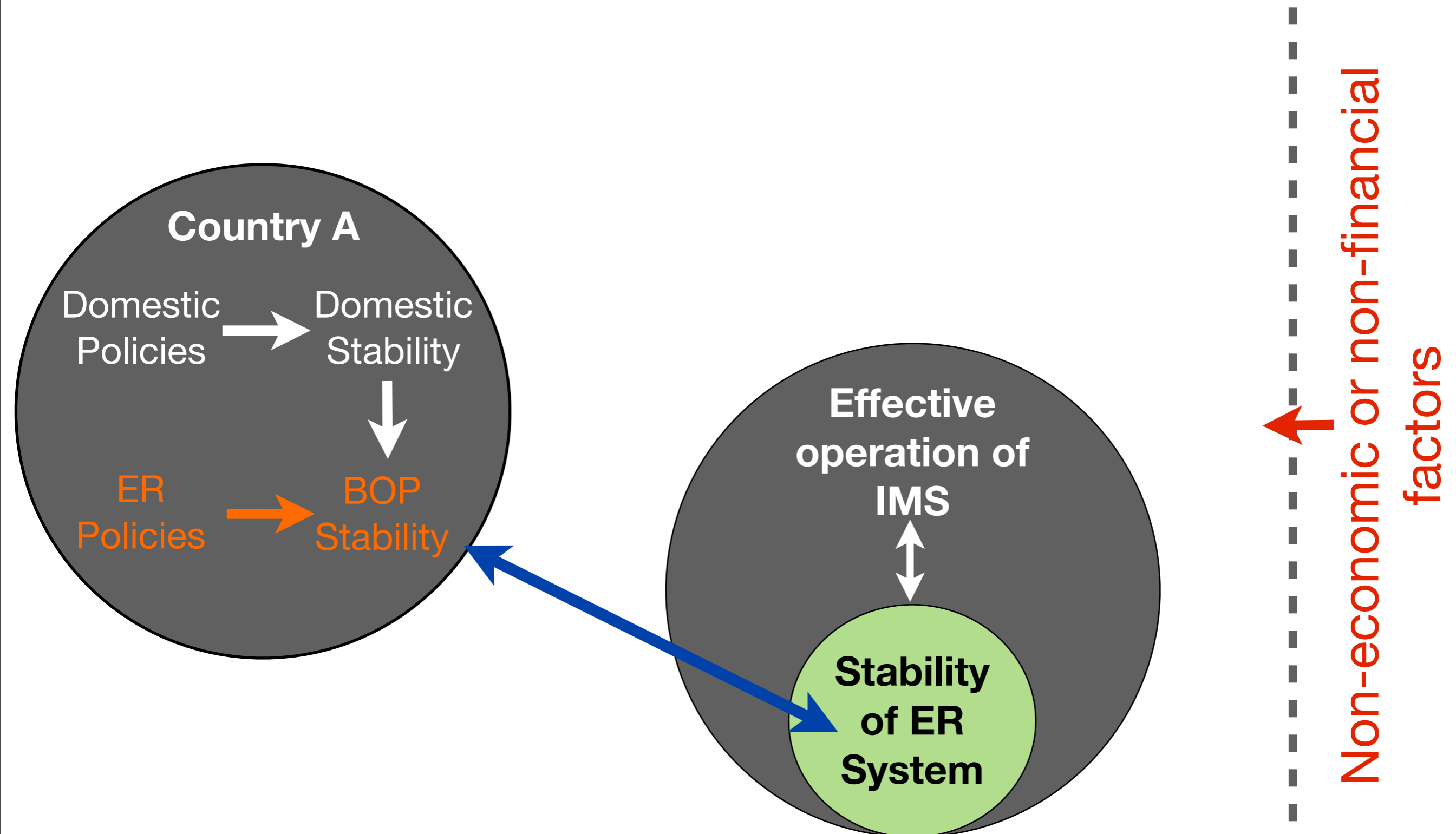
Alison Stuart (SPR) and Steve Phillips (RES)

I NTEGRATED
S URVEILLANCE
D ECISION

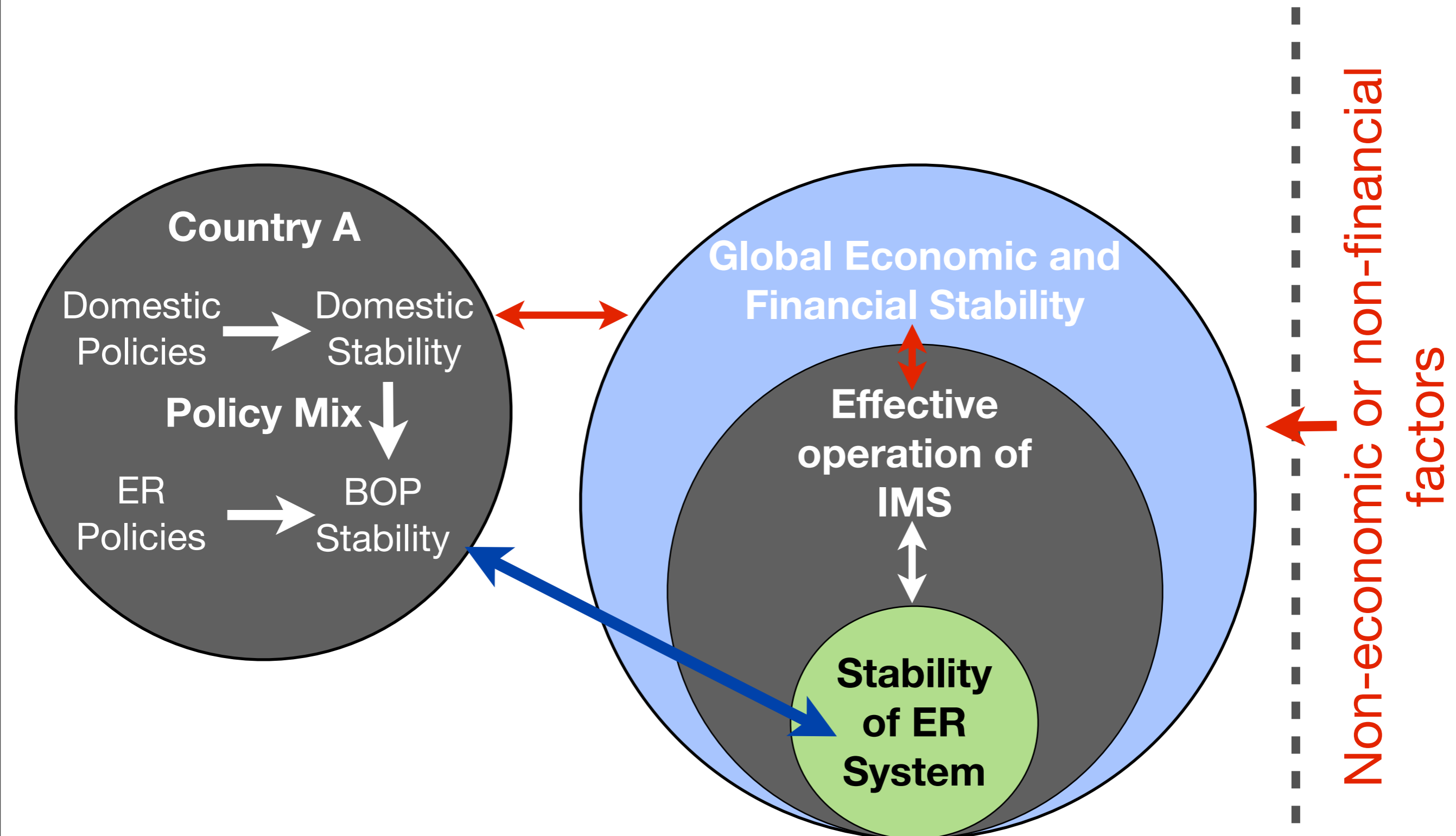
Why an Integrated Surveillance Decision?

- ◆ Highly interconnected world: need to monitor impact of country policies on global stability.
- ◆ Important gaps in the Fund's legal framework: need for better coverage of spillovers.
- ◆ Lack of ownership: need to improve Fund's legitimacy and traction.

Surveillance **Before**



Surveillance **Now**



The new framework should result in

- ◆ Comprehensive, integrated, consistent spillover analysis
- ◆ Assessment of impact of domestic policies on global stability
- ◆ Balanced treatment of domestic/exchange rate policies
- ◆ Framework for multilateral consultations

Heightens importance of good data:
especially cross border exposures and external balance sheets.

Statistical Challenges

Need for granular cross-border data.
BPM 6 should help

Need for continued progress on G20 Data Gaps initiative

Timeliness important

E XTERNAL

S ECTOR

R EPORT

Why an External Sector Report?

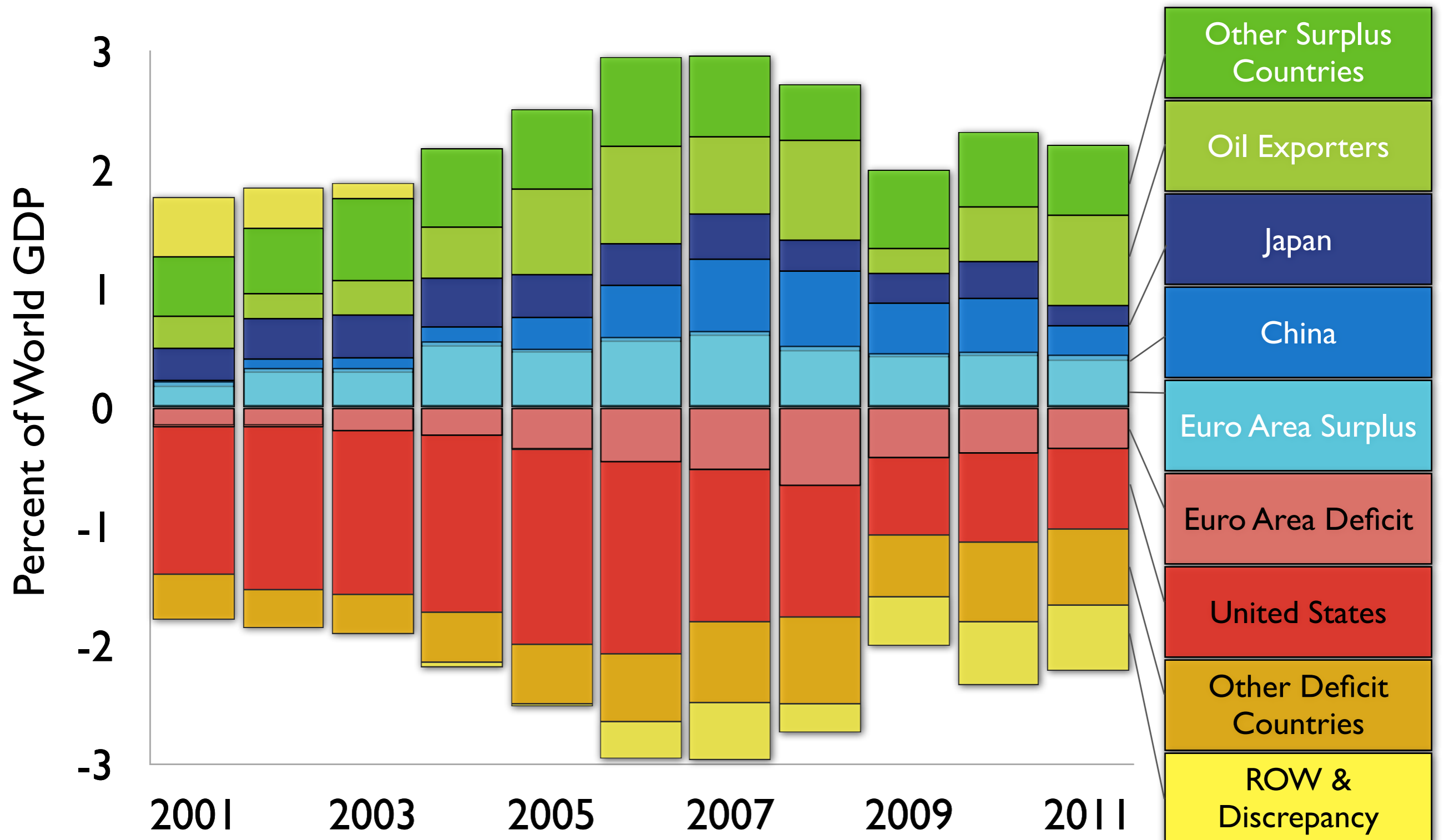
- ◆ Responds to call for more analysis on external sector
- ◆ Combines desk analysis, new tools, global consistency
- ◆ Examines consequences of desirable global policies

Why an External Sector Report?

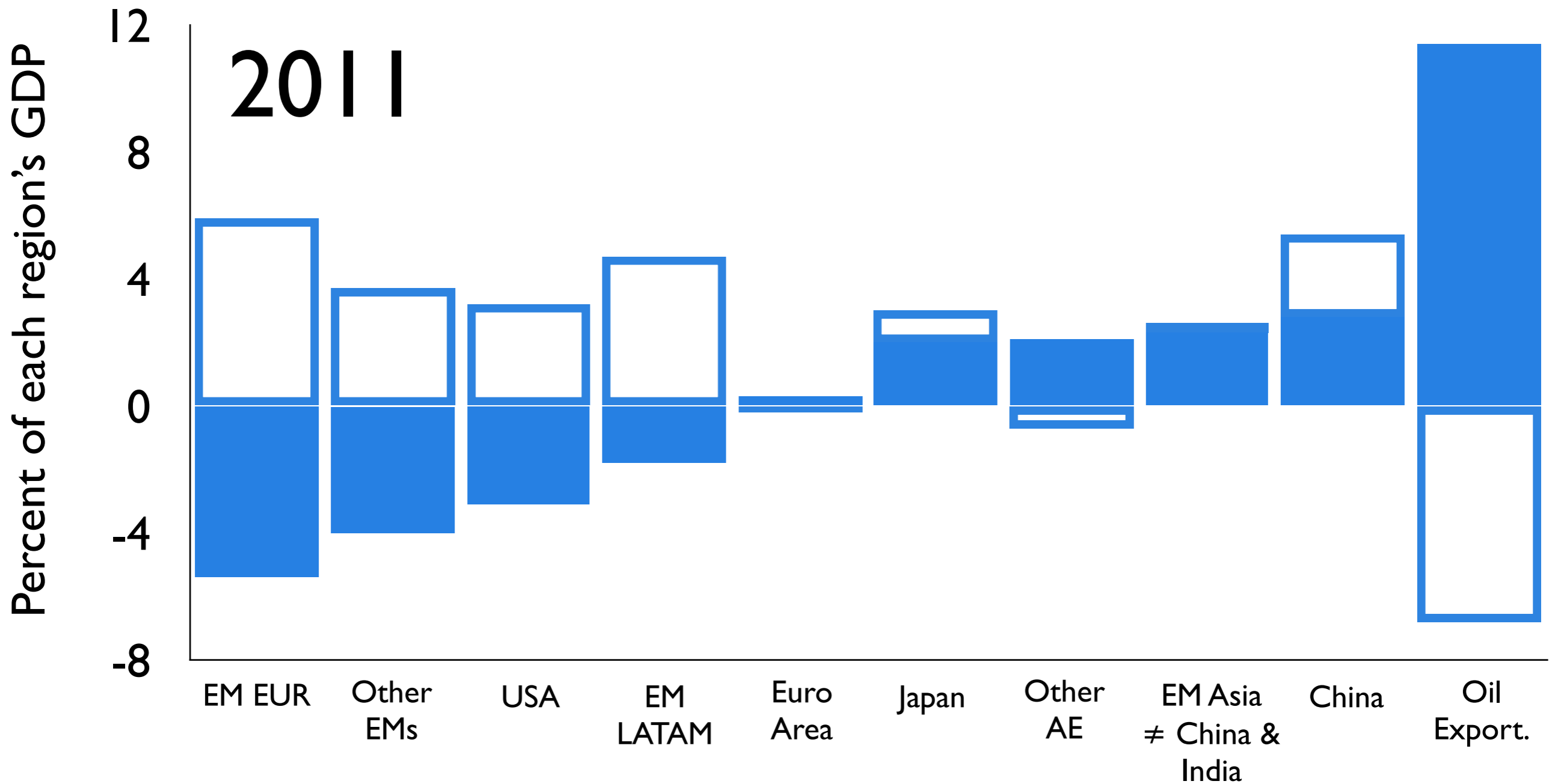
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We are seeking your feedback on the pilot.

Global Current Account Divergence



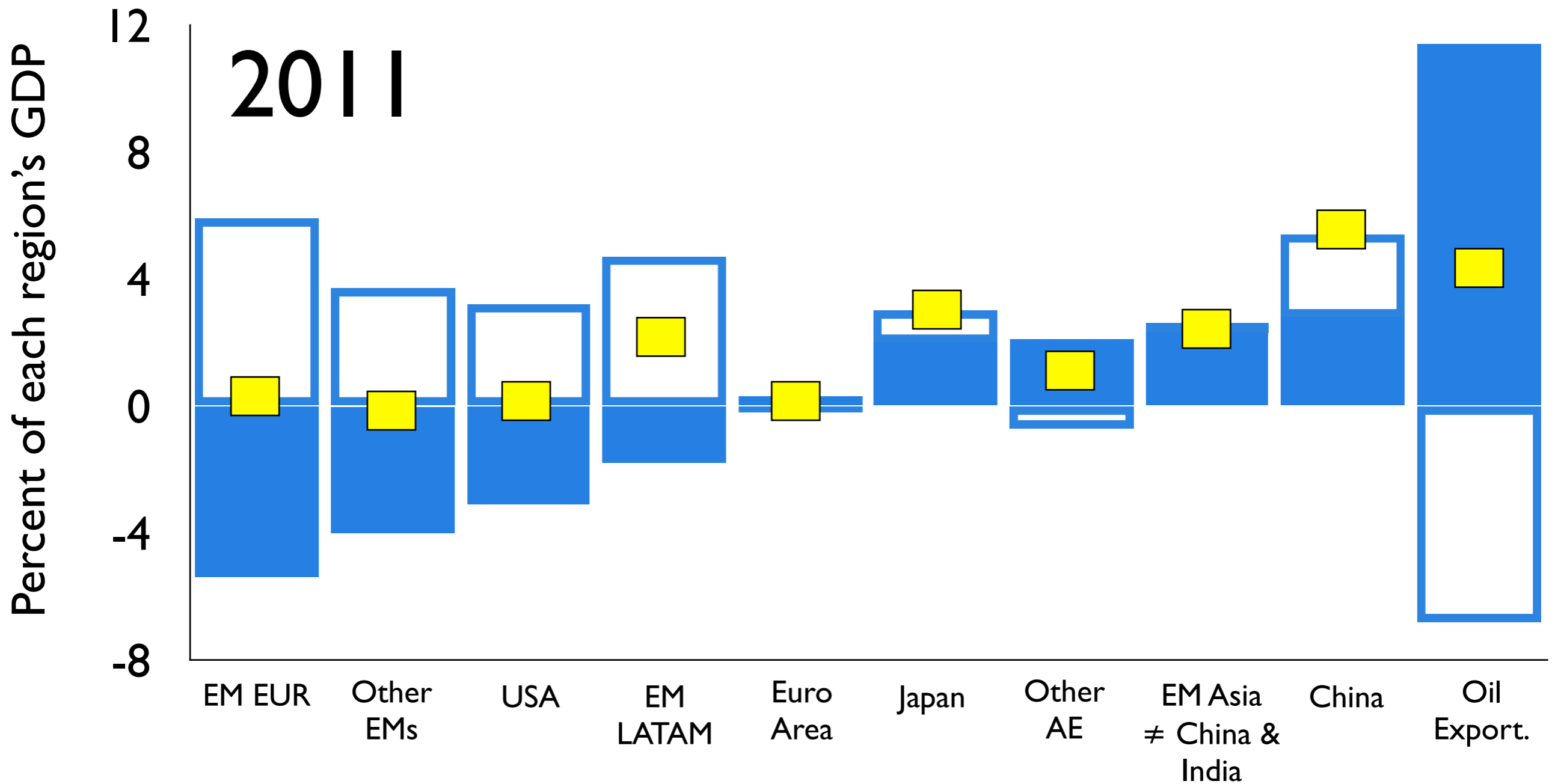
Current and Financial Account



Current Account

Private Capital Flows

Current and Financial Account

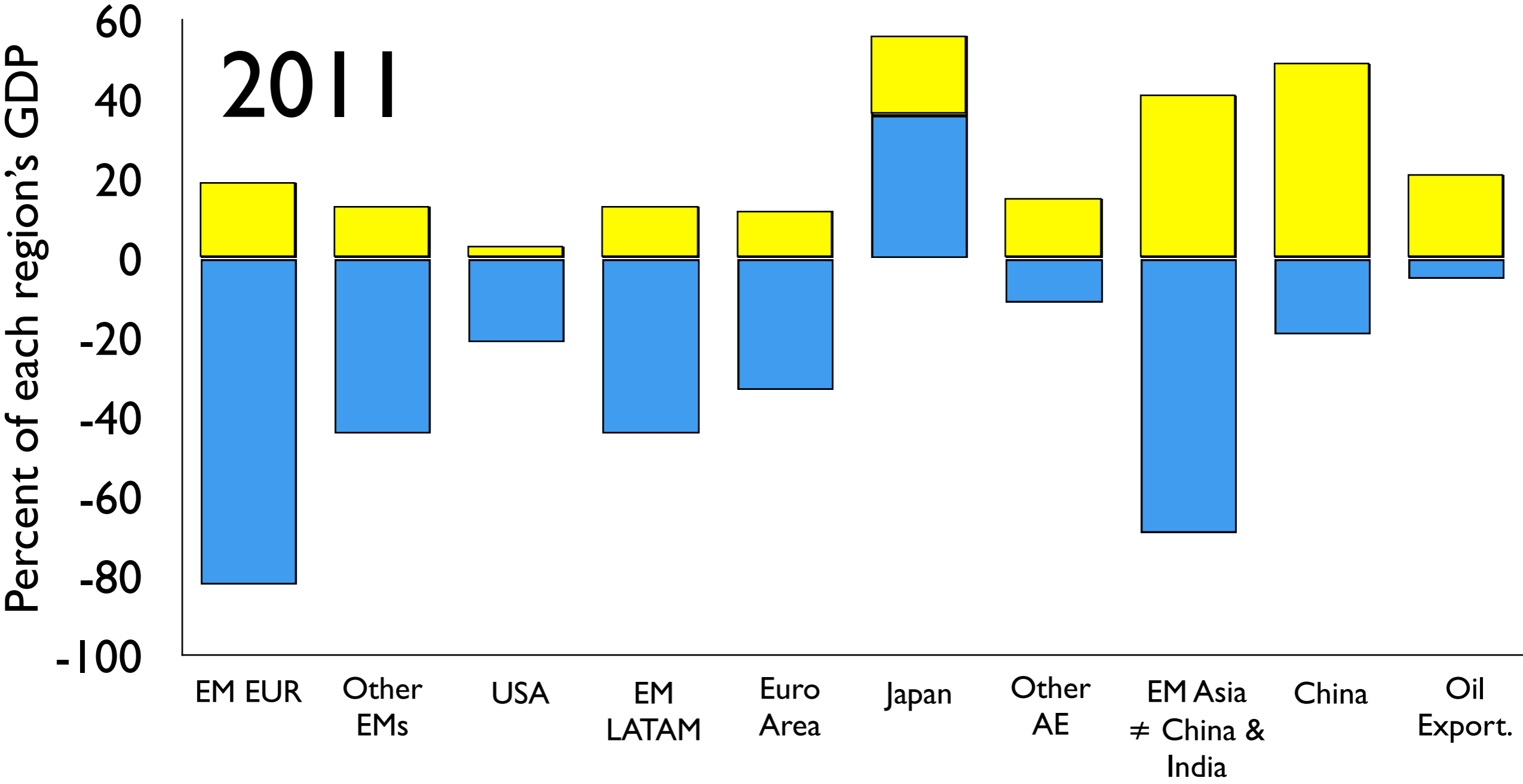


Current Account

Private Capital Flows

Change in Reserves

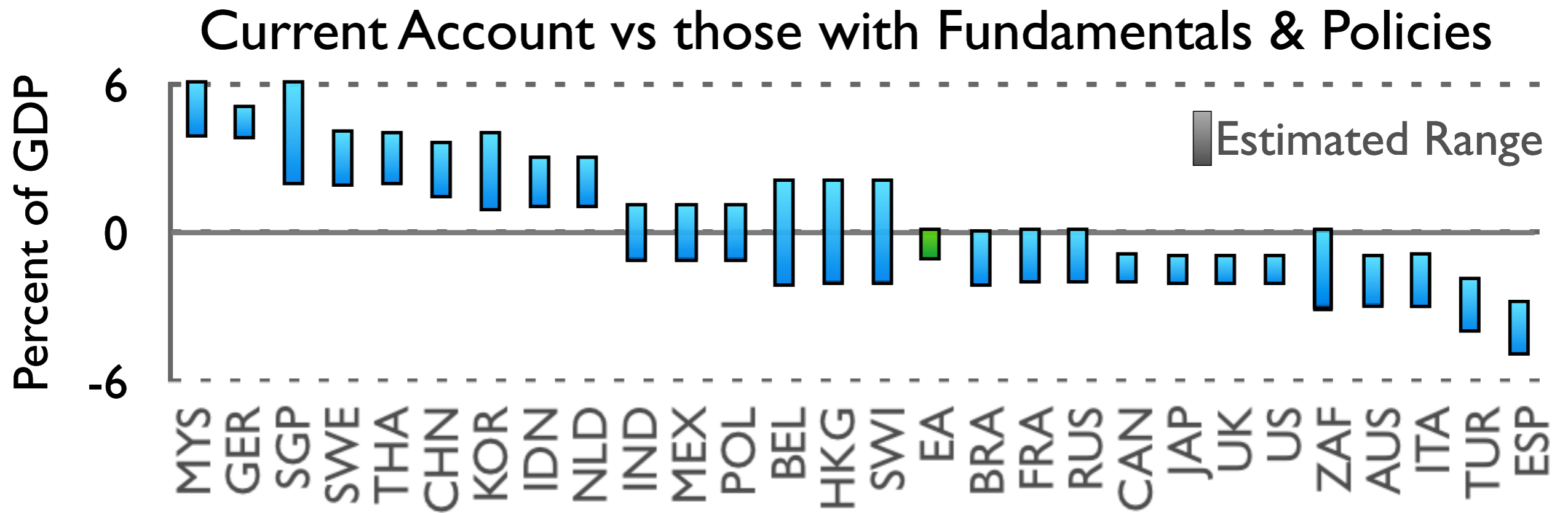
International Investment Position



Private Sector

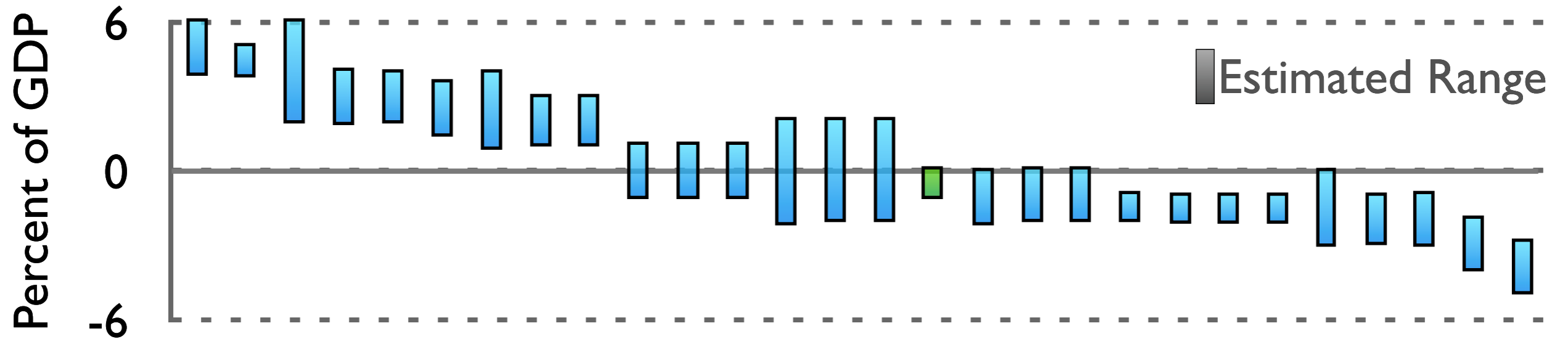
Reserves

Estimated Differences

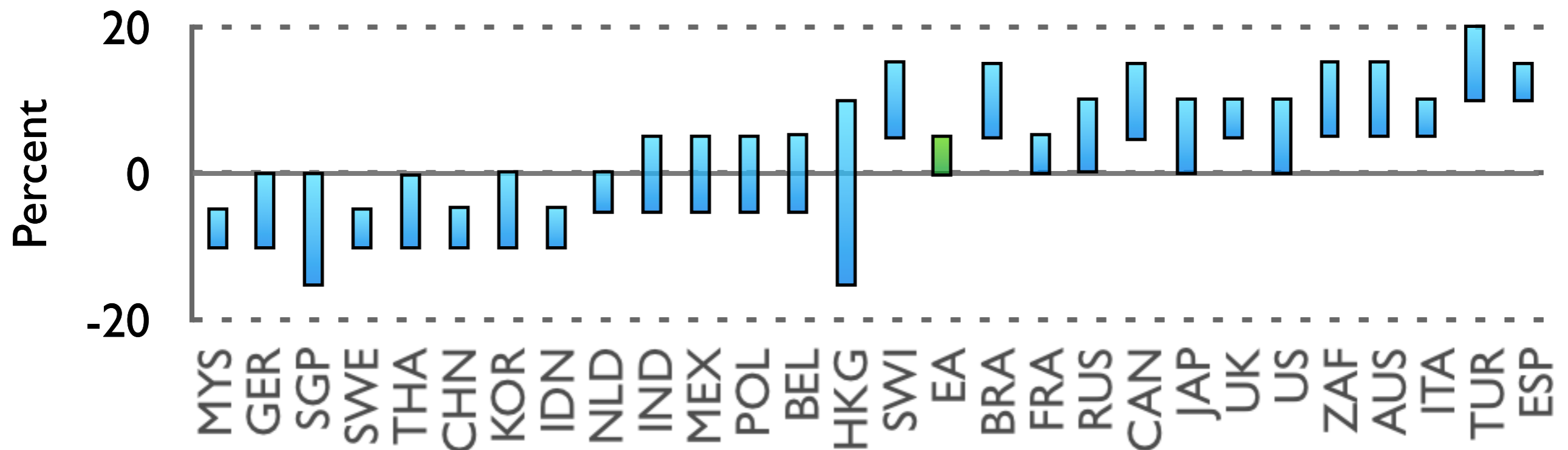


Estimated Differences

Current Account vs those with Fundamentals & Policies



REER vs those with Fundamentals and Policies



Statistical Challenges for Next Report

Focus on composition/direction of capital flows

Credit Growth -- when is it excessive?

IIP composition

EXTERNAL
BALANCE
ASSESSMENT

Presented by Steve Phillips

What is EBA?

- ◆ Tool to analyze current accounts, real exchange rates and NFA positions
 - ❖ To judge appropriateness and sustainability
- ◆ “Multilaterally-consistent’ exercise- critical for surveillance- gaps add up
 - ❖ Analyzes 50 economies simultaneously, relative to each other
- ◆ Evenhanded approach, but allowing for country characteristics
- ◆ Key analytical input to ESR, and therefore to IMF surveillance

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Key Advances of EBA

Accounts for effects of policies

- reserve accumulation and capital controls
- fiscal policy and social protection





And for impacts of

- global capital market swings
- business and commodity price cycles

Considers policy distortions/gaps and measures impact

- Separates impacts of 'domestic' and 'foreign' policies

Multilateral Impact of Policy Changes

COUNTRY	A	B
Fiscal Policy		
CA Imbalance		

Multilateral Impact of Policy Changes

COUNTRY	A	<u>B</u>
Fiscal Policy	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CA Imbalance	—	—

Calculation of Current Account Gaps

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Panel regression

$$CA = (\beta'POLICIES + \gamma'CYCLE) + (\delta'FUNDAMENTALS + \varepsilon)$$

(POLICIES, CYCLE, and FUNDAMENTALS
are measured relative to global averages)

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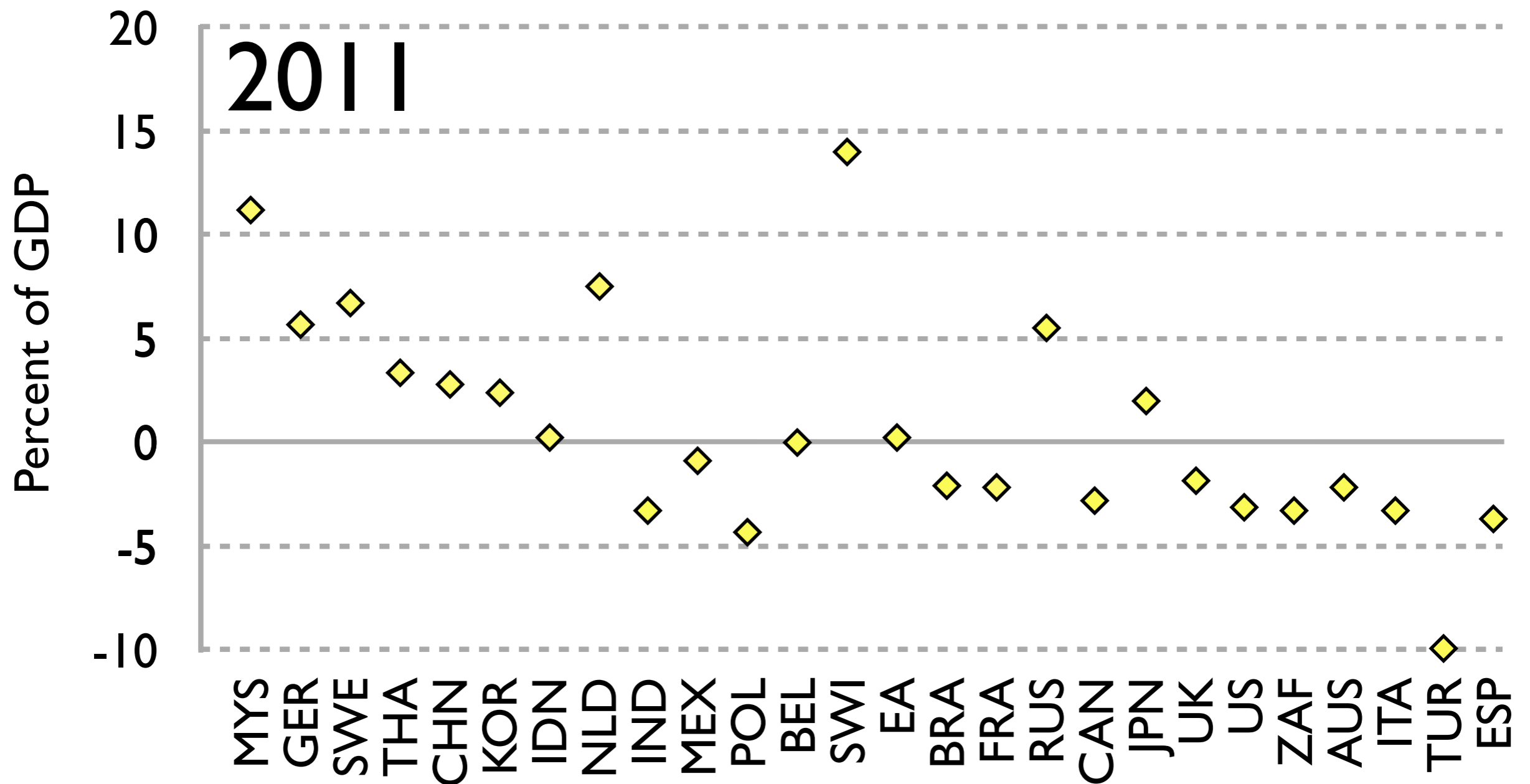
Current Account Gap

$$(CAADJ - CA^*) = \beta'(POLICIES - POLICIES^*) + (\varepsilon_2)$$

(POLICIES* is desirable policies,

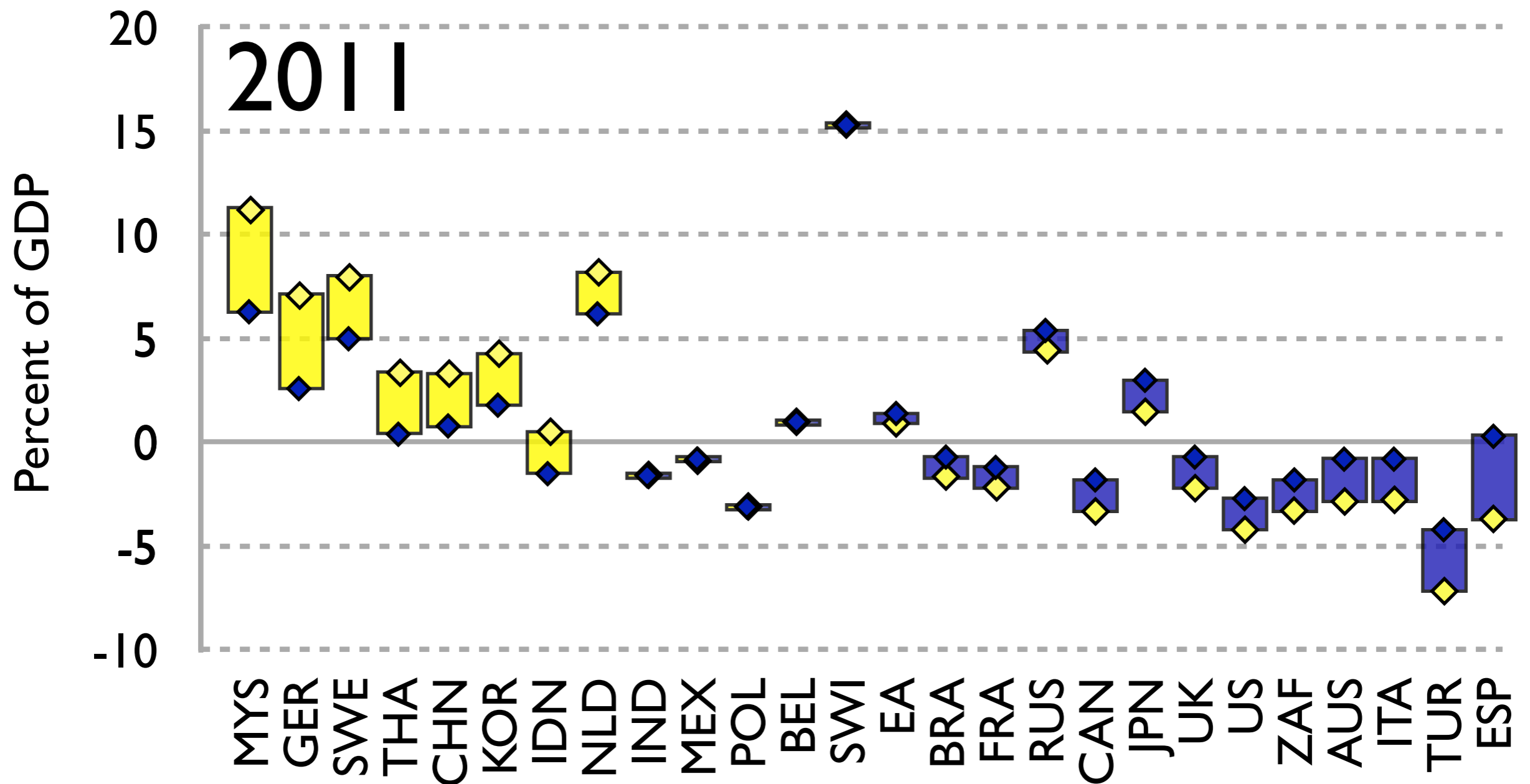
ε_2 is part of residual assigned to other policy distortions.)

Current Account Analysis



Actual

Current Account Analysis

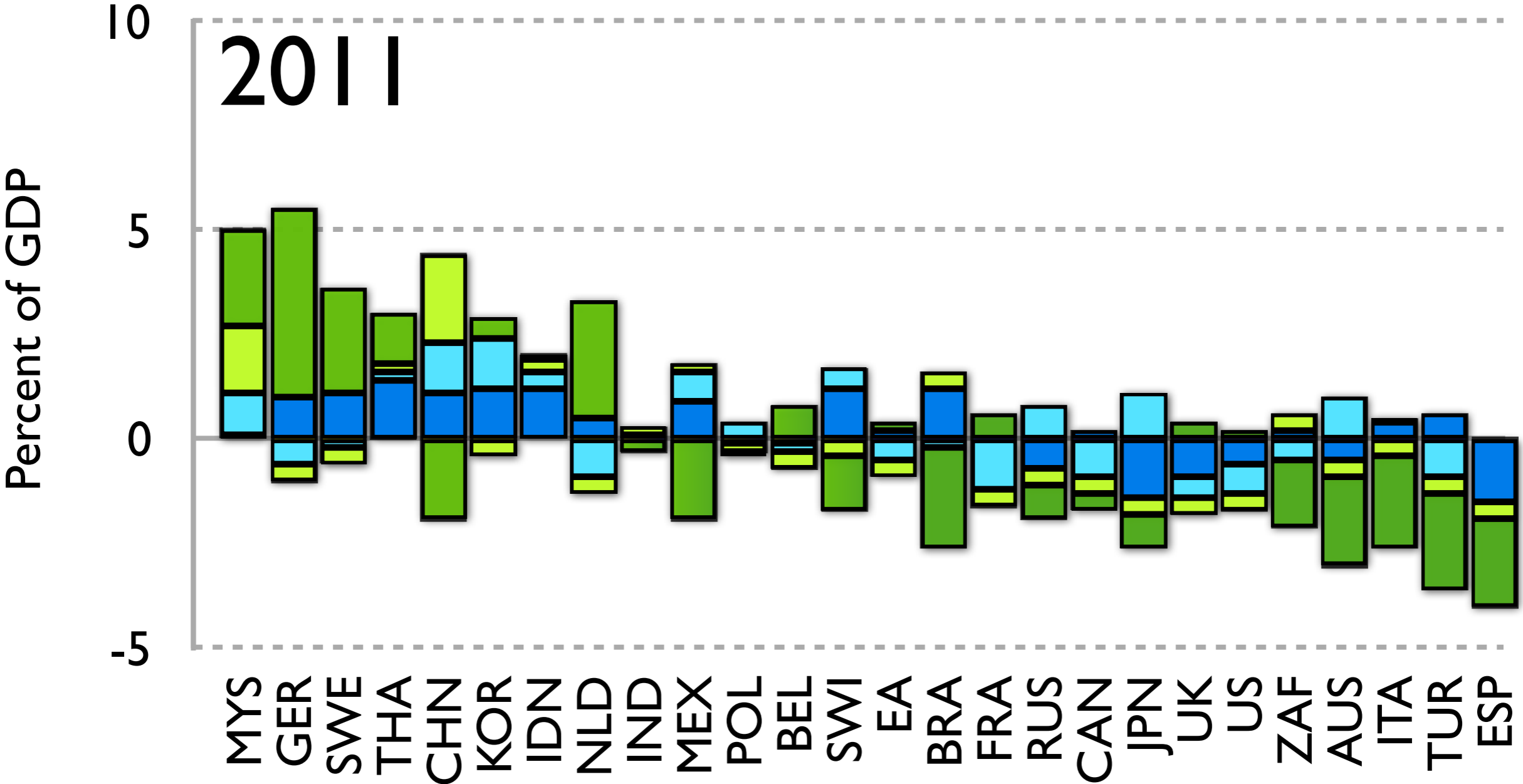


Cyclically Adjusted

Gap

Desirable Levels

Current Account Gap Components



Fiscal

Social Protection

Capital Controls & Intervention

Other Distortions

Statistical Challenges Assessing CAs, RERs

Real exchange rates: moving beyond country indices to measure levels across countries, value added trade

Limited/partial information on fx intervention

Measuring productivity

Accurately measuring CAs of financial center economies

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THANK YOU