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

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INTEGRATED SURVEILLANCE DECISION
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

Country A

Domestic Policies → Domestic Stability

ER Policies → BOP Stability

Effective operation of IMS

Stability of ER System
Surveillance Now

Country A
Domestic Policies → Domestic Stability
Policy Mix
ER Policies → BOP Stability

Global Economic and Financial Stability
Effective operation of IMS
Stability of ER System

Non-economic or non-financial factors
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
EXTERNAL REPORT

EXTERNAL

SECTOR

REPORT
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
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We are seeking your feedback on the pilot.
Global Current Account Divergence

Percent of World GDP

-3 -2 -1 0 1 2 3

2001 2003 2005 2007 2009 2011

Other Surplus Countries
Oil Exporters
Japan
China
Euro Area Surplus
Euro Area Deficit
United States
Other Deficit Countries
ROW & Discrepancy
Current and Financial Account

2011

Percent of each region’s GDP

Current Account
Private Capital Flows
Change in Reserves

EM EUR
Other EMs
USA
EM LATAM
Euro Area
Japan
Other AE
EM Asia ≠ China & India
China
Oil Export.
International Investment Position

Percent of each region's GDP

2011

EM EUR Other EMs USA EM LATAM Euro Area Japan Other AE EM Asia ≠ China & India China Oil Export.

Private Sector Reserves
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

Fiscal Policy

CA Imbalance

A

B
Multilateral Impact of Policy Changes

Fiscal Policy

COUNTRY

A

B

CA Imbalance

[Checkmark]
Calculation of Current Account Gaps
Panel regression

CA = (β'POLICIES + γ'CYCLE) + (δ'FUNDAMENTALS + ε)

(POLICIES, CYCLE, and FUNDAMENTALS are measured relative to global averages)
Calculation of Current Account Gaps

**Panel regression**

\[ CA = (\beta \text{POLICIES} + \gamma \text{CYCLE}) + (\delta \text{FUNDAMENTALS} + \varepsilon) \]

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

**Cyclical adjustment**

\[ CA_{\text{ADJ}} = CA - \gamma \text{CYCLE} \]
Calculation of Current Account Gaps

Panel regression

\[ CA = (\beta'\text{POLICIES} + \gamma'\text{CYCLE}) + (\delta'\text{FUNDAMENTALS} + \varepsilon) \]

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Cyclical adjustment

\[ \text{CAADJ} = CA - \gamma'\text{CYCLE} \]

Current Account Gap

\[ (\text{CAADJ} - CA^*) = \beta'(\text{POLICIES} - \text{POLICIES}^*) + (\varepsilon_2) \]

(POLICIES* is desirable policies, \( \varepsilon_2 \) is part of residual assigned to other policy distortions.)
Current Account Gap Components

Percent of GDP

2011

MYS  GER  SWE  THA  CHN  KOR  IDN  NLD  IND  MEX  POL  BEL  SWI  EA  BRA  FRA  RUS  CAN  JPN  UK  US  ZAF  AUS  ITA  TUR  ESP

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
THANK YOU