

# NAVIGATING an INTERCONNECTED



# WORLD

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**I** NTEGRATED  
**S** URVEILLANCE  
**D** ECISION

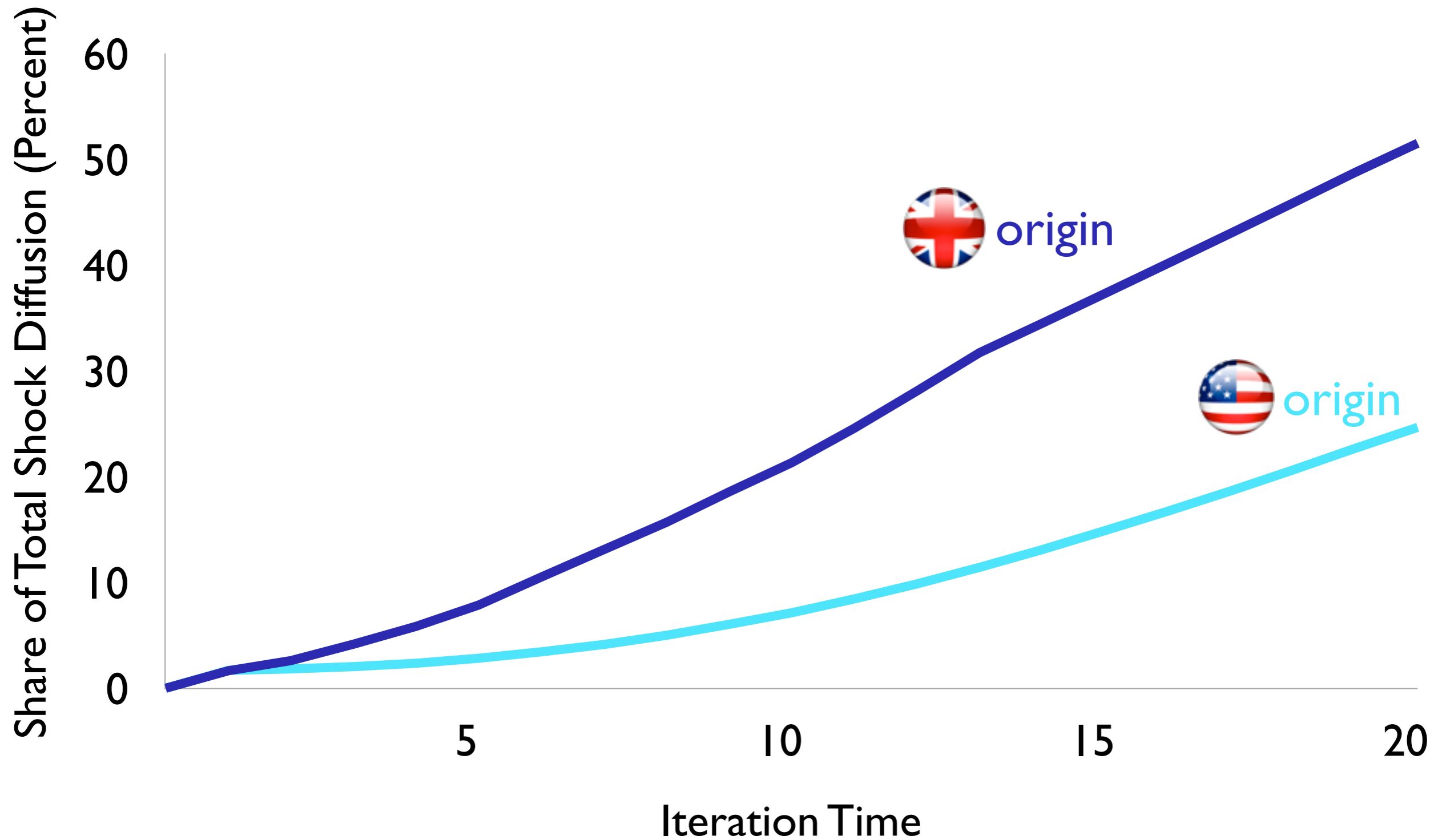
# Why an Integrated Surveillance Decision?

- ◆ 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.

# Example I: Main Financial Hub



# Example I: Diffusion Shocks

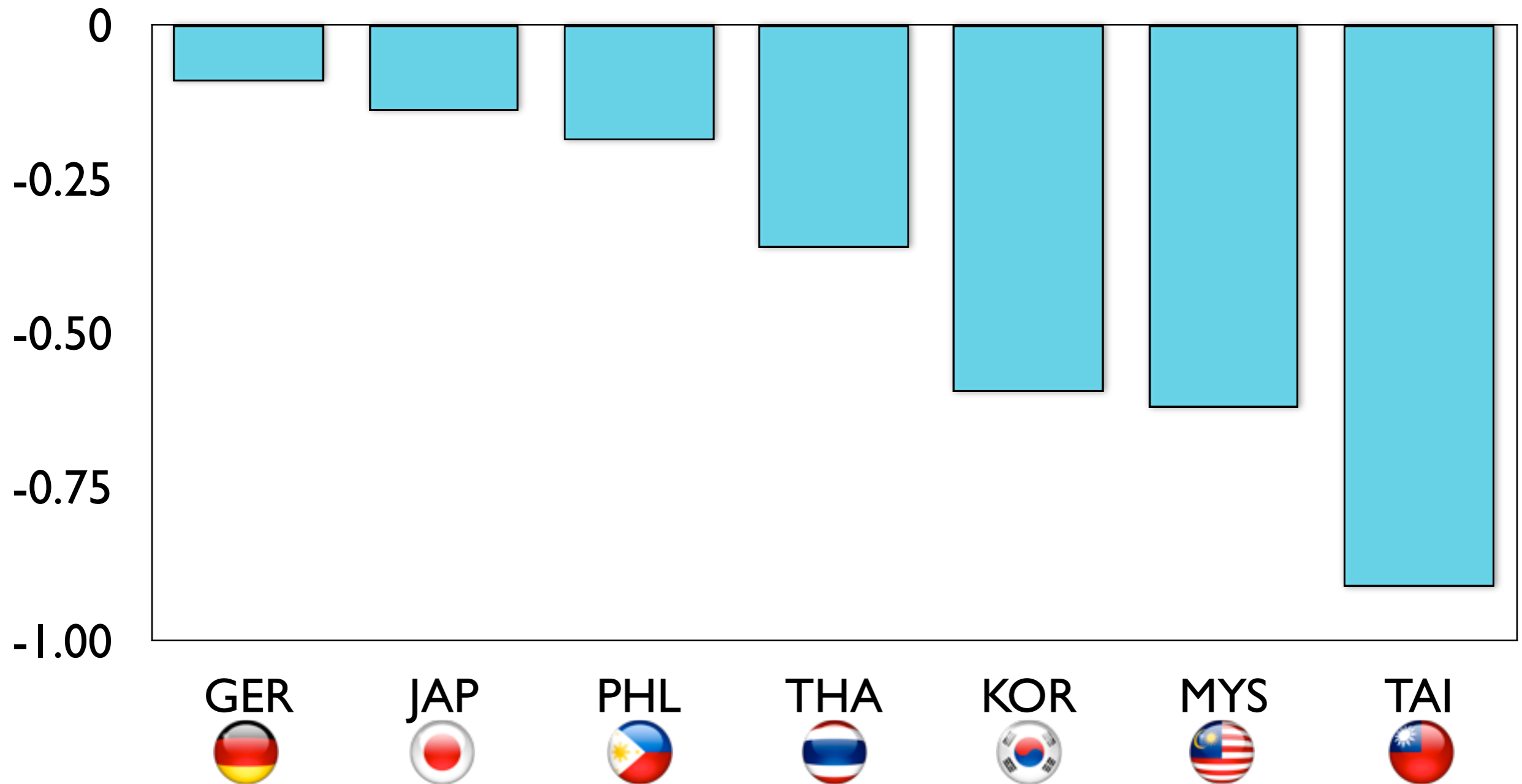




# Example 2: China Rebalancing

## Short-term Impact on Trading Partners

(percentage point reaction to 1 percentage point of rebalancing)

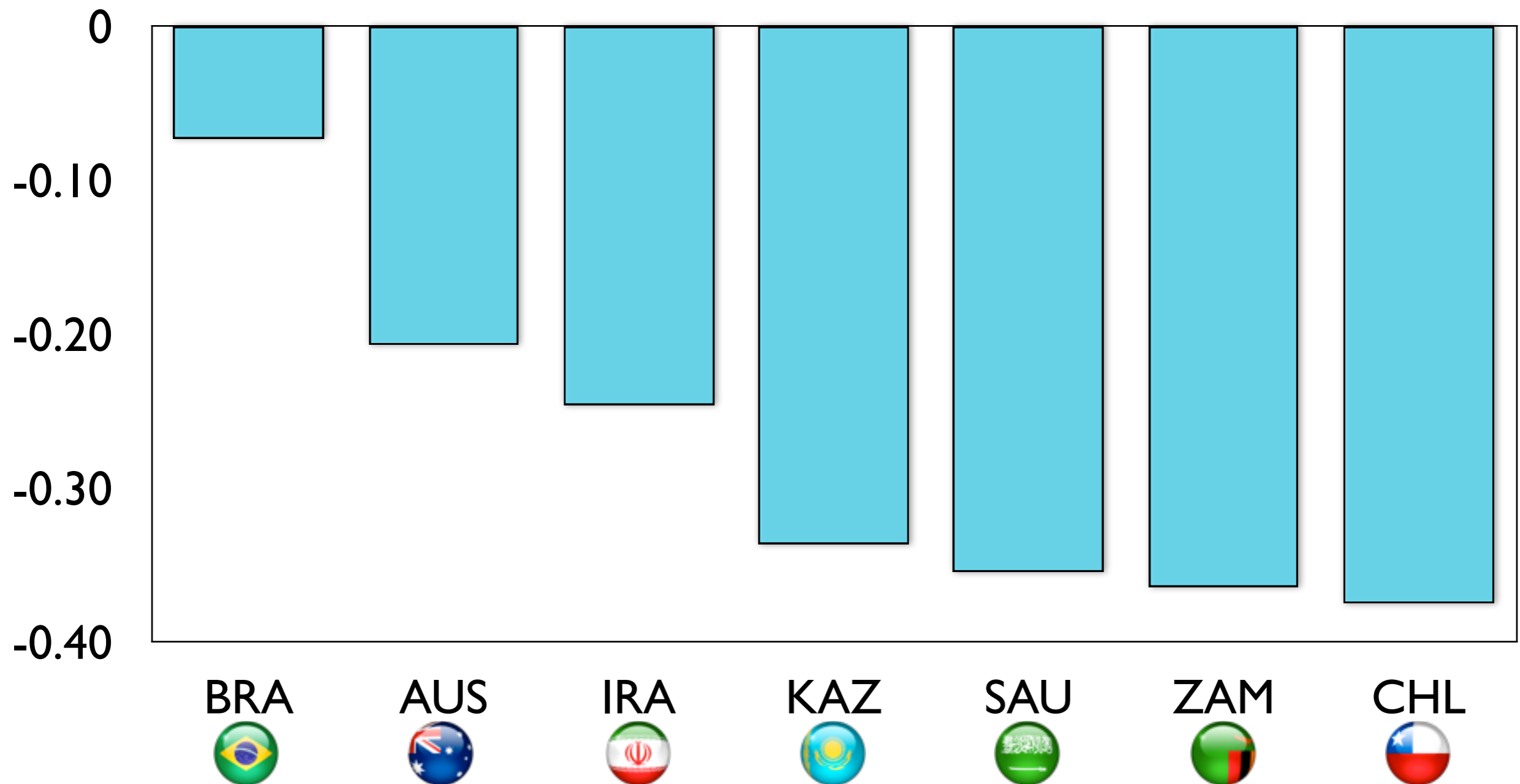




# Example 2: China Rebalancing

## Short-term Impact on Commodity Exporters

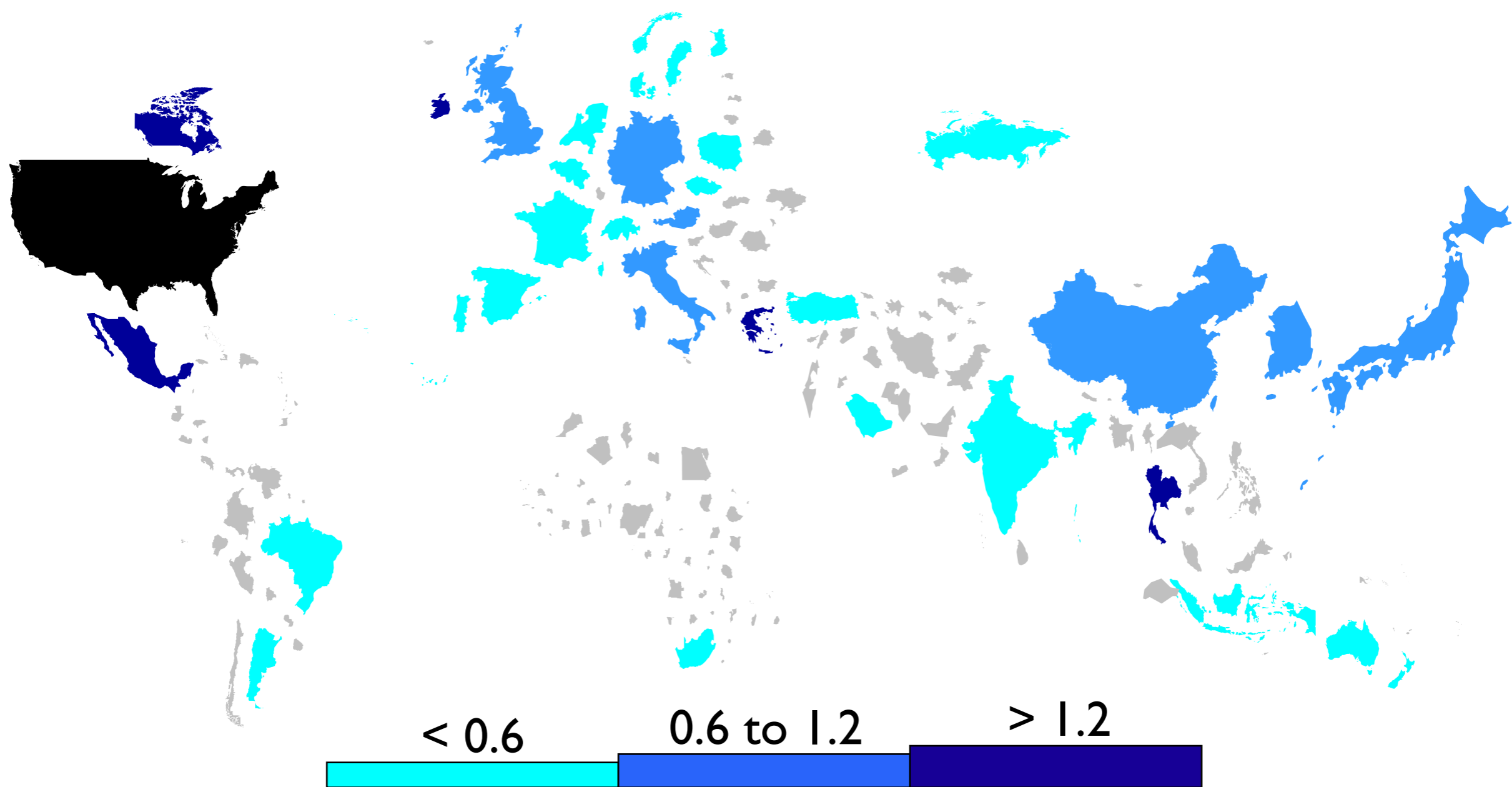
(percentage point reaction to 1 percentage point of rebalancing)





# Example 3: US Fiscal Cliff

## Normal Fiscal Effects

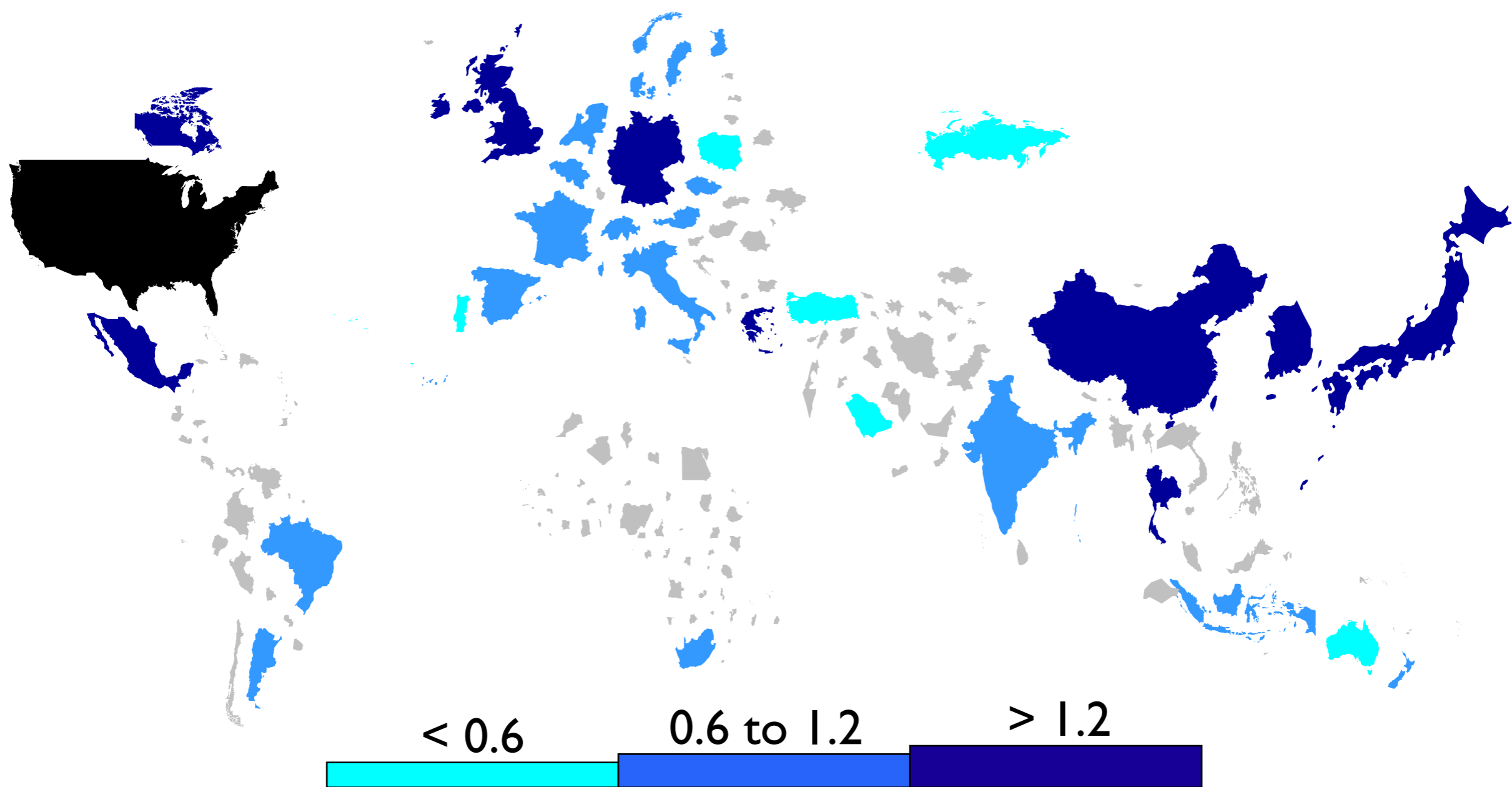


Cumulative output losses 2013 - 2014, % deviation from baseline



# Example 3: US Fiscal Cliff

Adding Zero Bound and Financial Contagion



Cumulative output losses 2013 - 2014, % deviation from baseline

**E** XTERNAL

**S** ECTOR

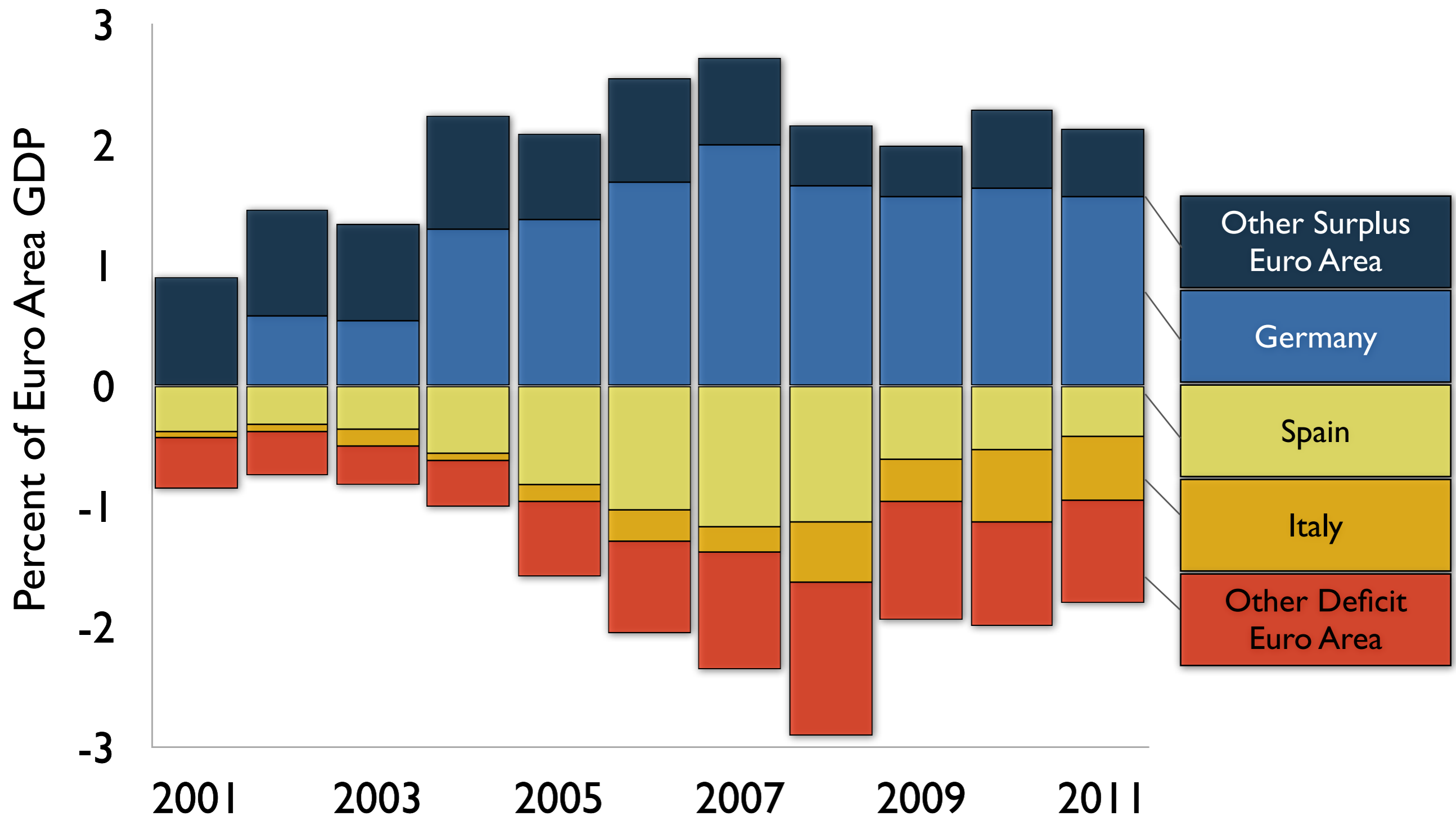
**R** EPORT

# Why an External Sector Report?

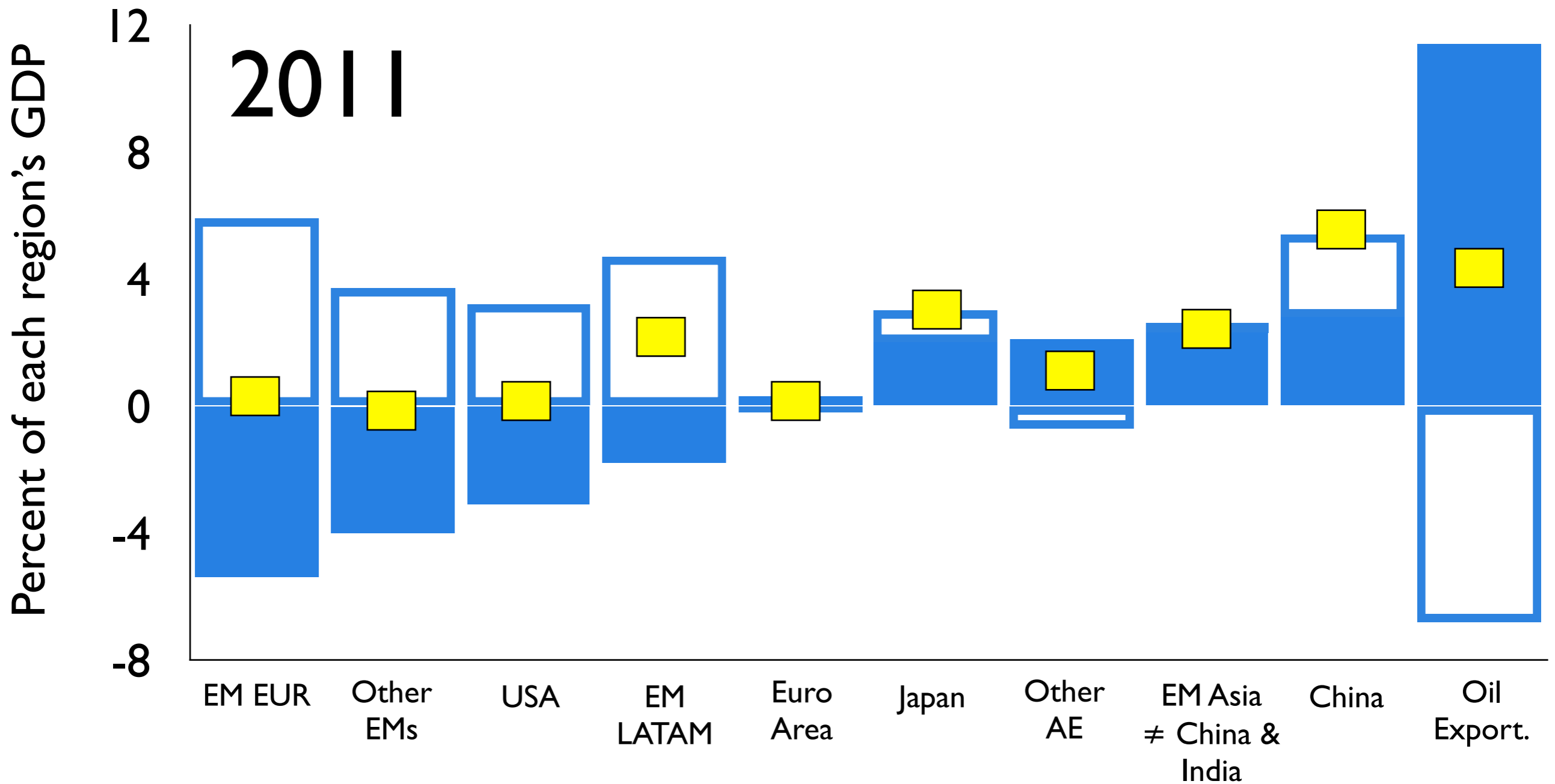
- ◆ Responds to call for more analysis on external sector
- ◆ Combines desk analysis, new tools, global consistency
- ◆ Examines consequences of desirable global policies
- ◆ **We are seeking your feedback on the pilot.**



# Euro area Current Account Divergence



# Current and Capital Account

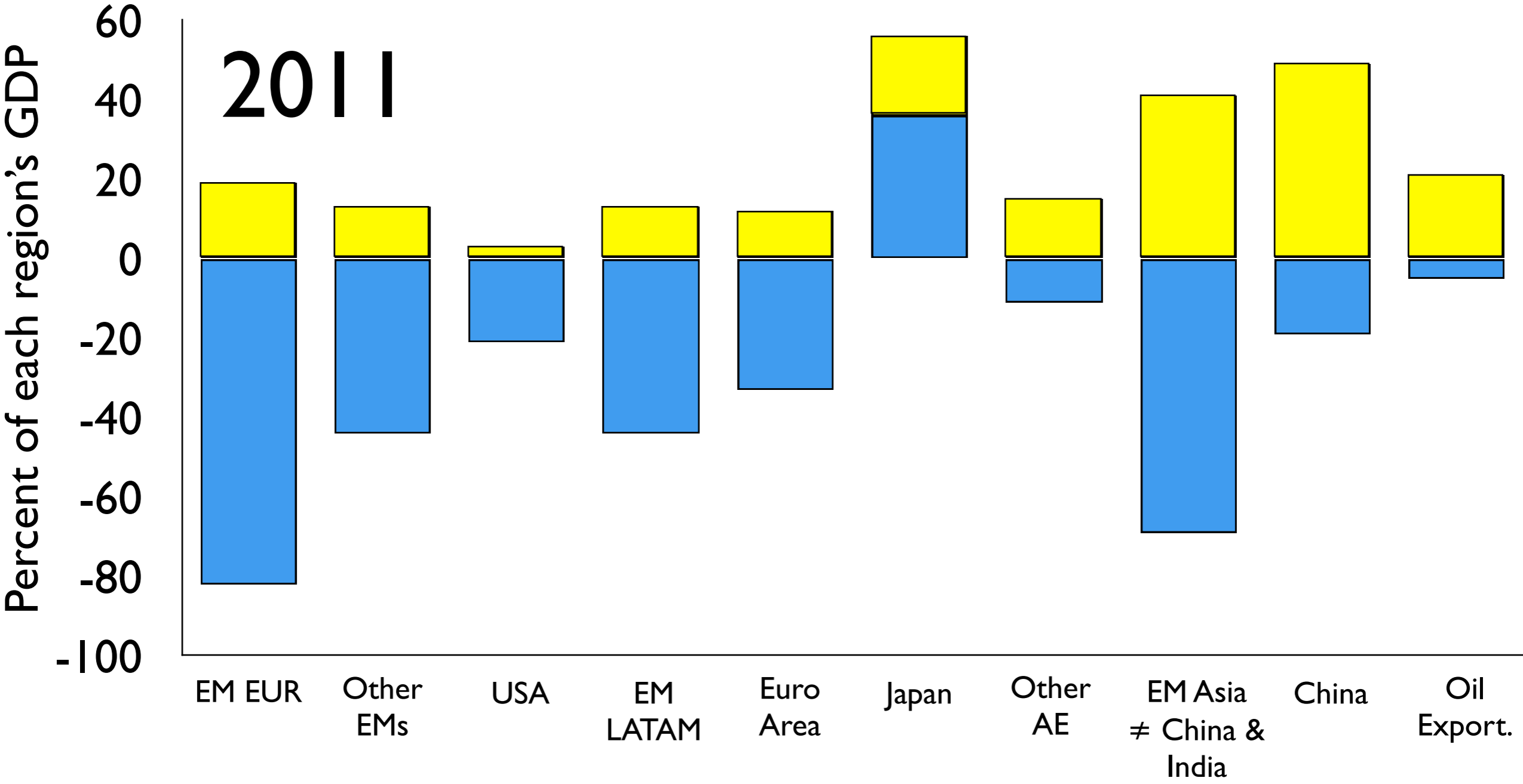


Current Account

Private Capital Flows

Change in Reserves

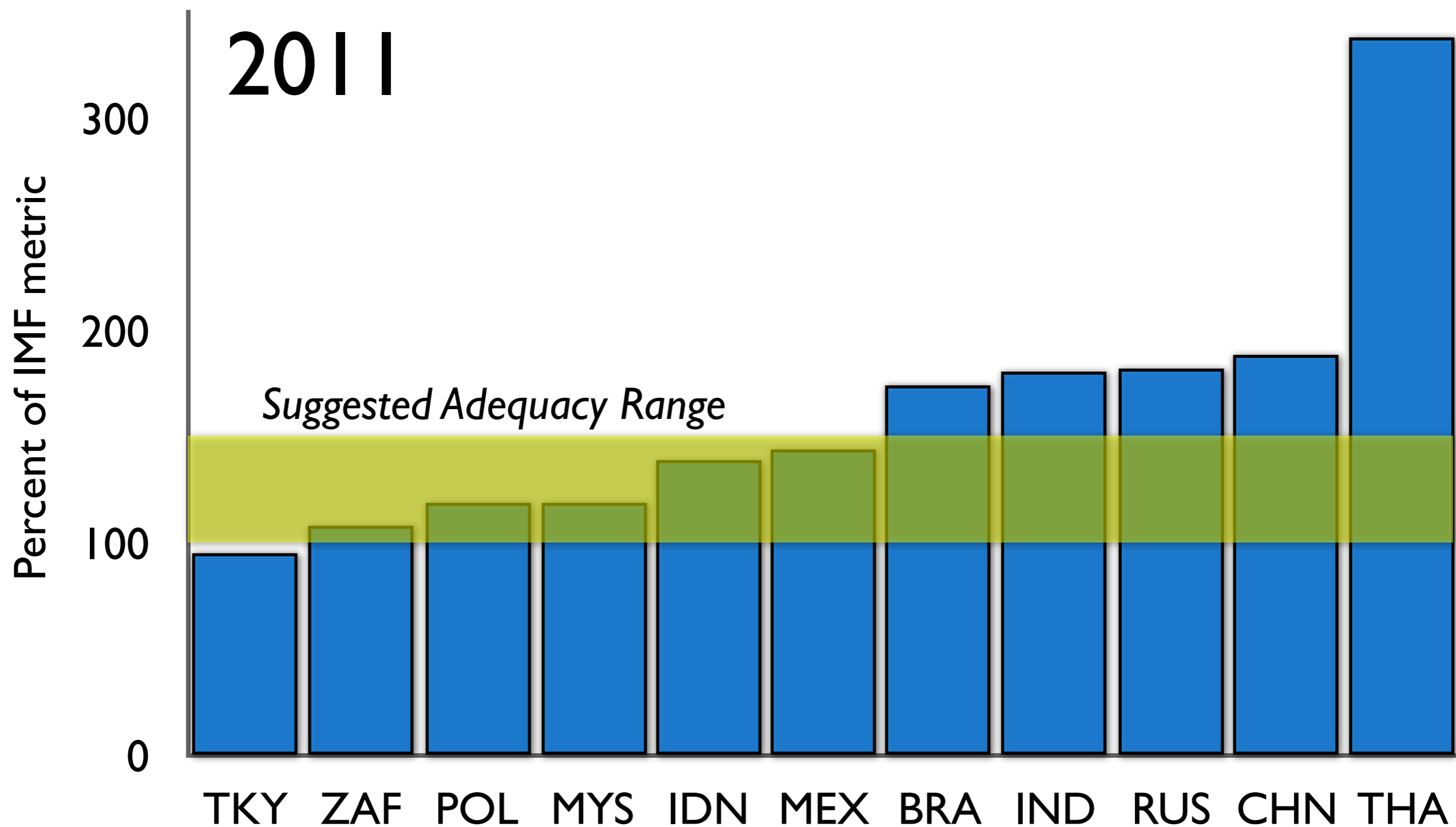
# International Investment Position



Private Sector

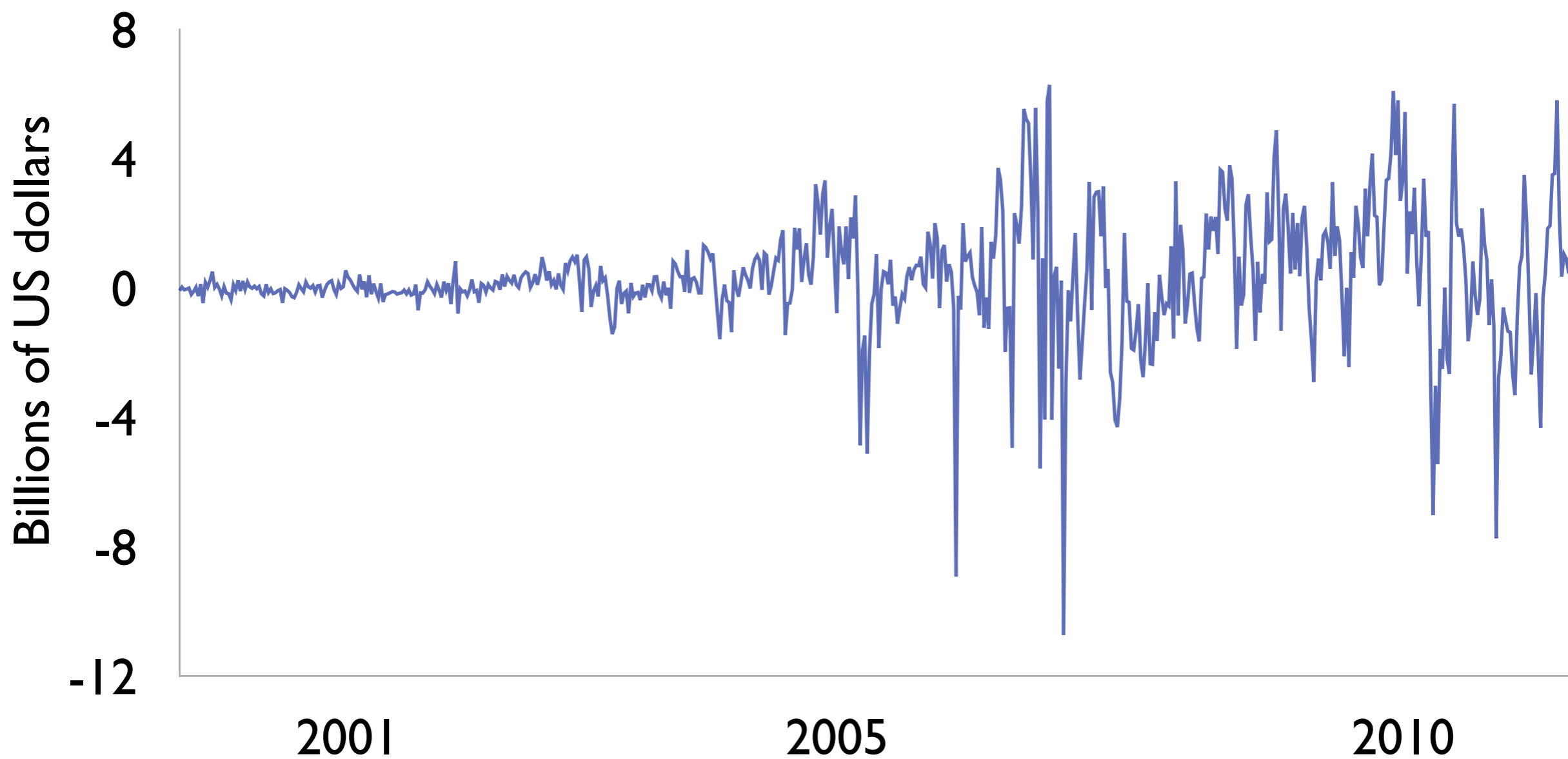
Reserves

# Reserve Adequacy

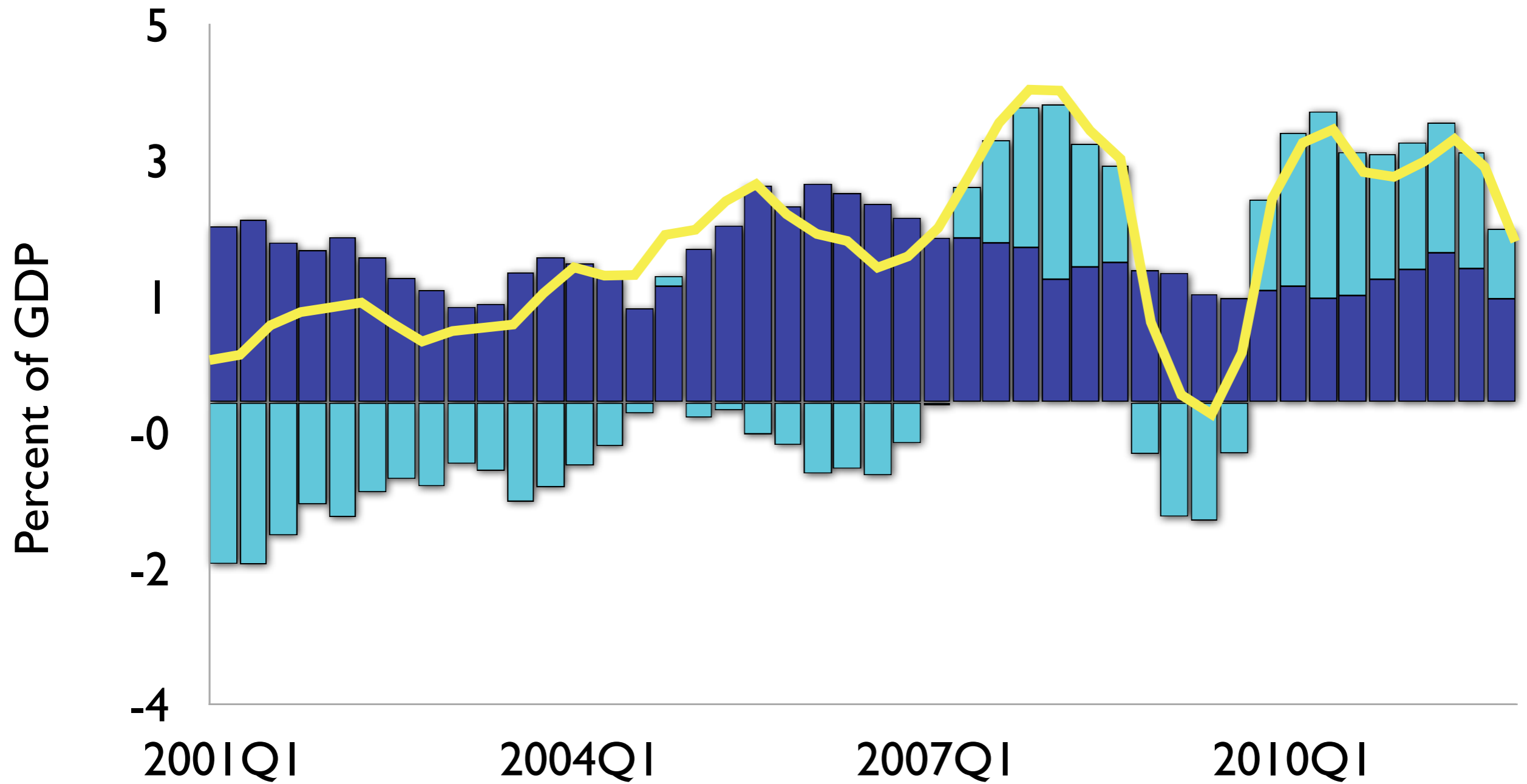


# Volatility of Capital Flows to EMs

## Equity Fund Flows to EMs



# Composition of EM Capital Flows



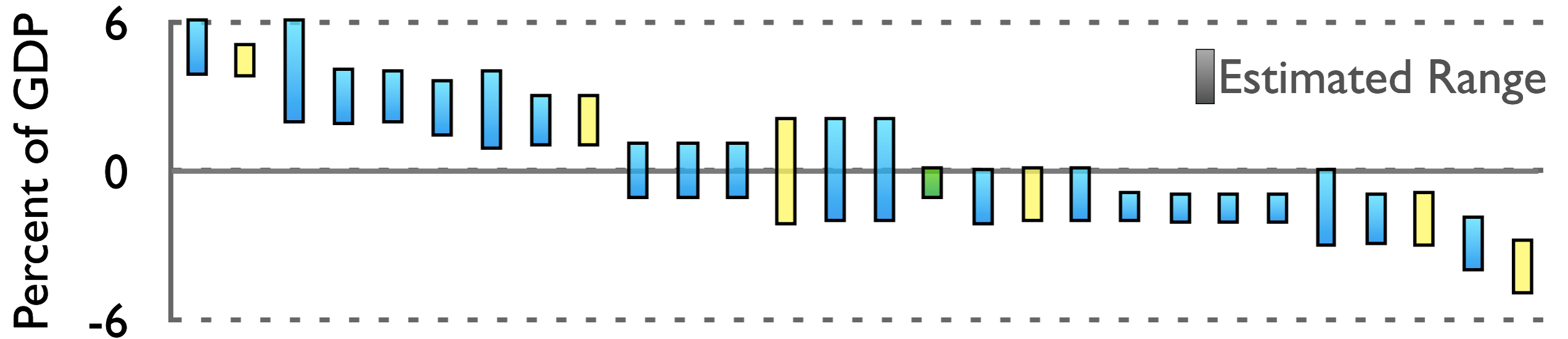
Equity Flows

Debt Flows

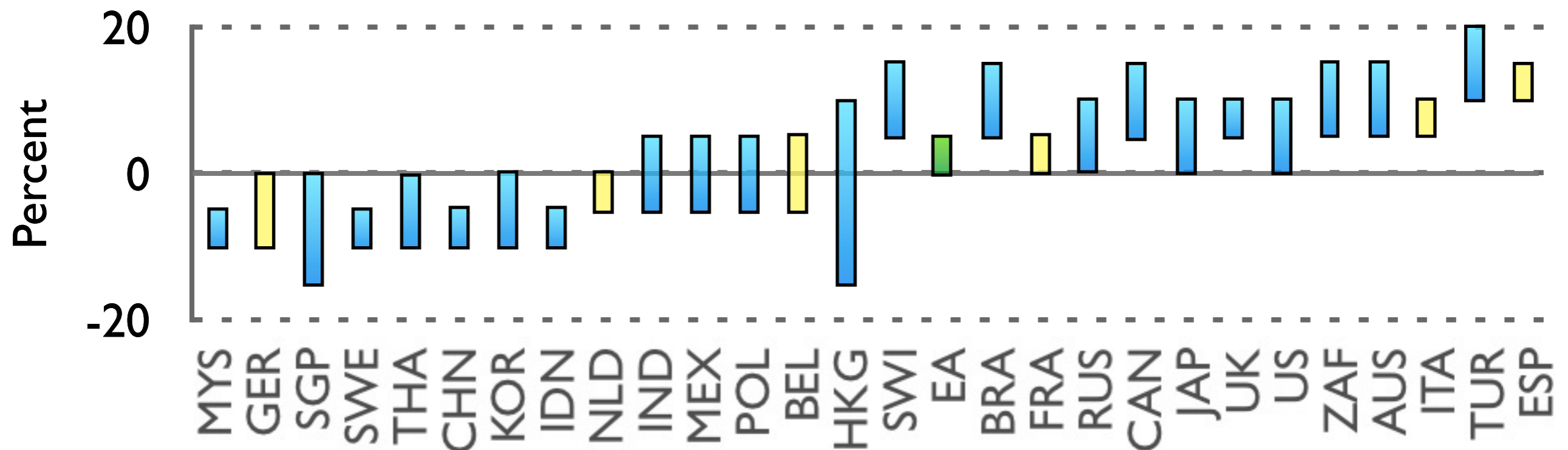
Net Flows

# Estimated Differences

## Current Account vs those with Fundamentals & Policies



## REER vs those with Fundamentals and Policies



**E**XTERNAL  
**B**ALANCE  
**A**SSESSMENT

*Presented by Steven Phillips*

# What is EBA?

- ◆ Better tool to analyze current accounts and real exchange rates
- ◆ Analyzes 50 economies so gaps are consistent (“add up”)
- ◆ Applied uniformly while allowing for country characteristics
- ◆ Key input to IMF surveillance **but not the final word**
- ◆ **We are seeking your feedback.**

# 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 Desirable CA Balance

## Panel regression

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

(POLICIES, CYCLE, and FUNDAMENTALS are measured vs. global averages to ensure consistency.)

## Cyclical adjustment

$$CAADJ = CA - \gamma'CYCLE$$

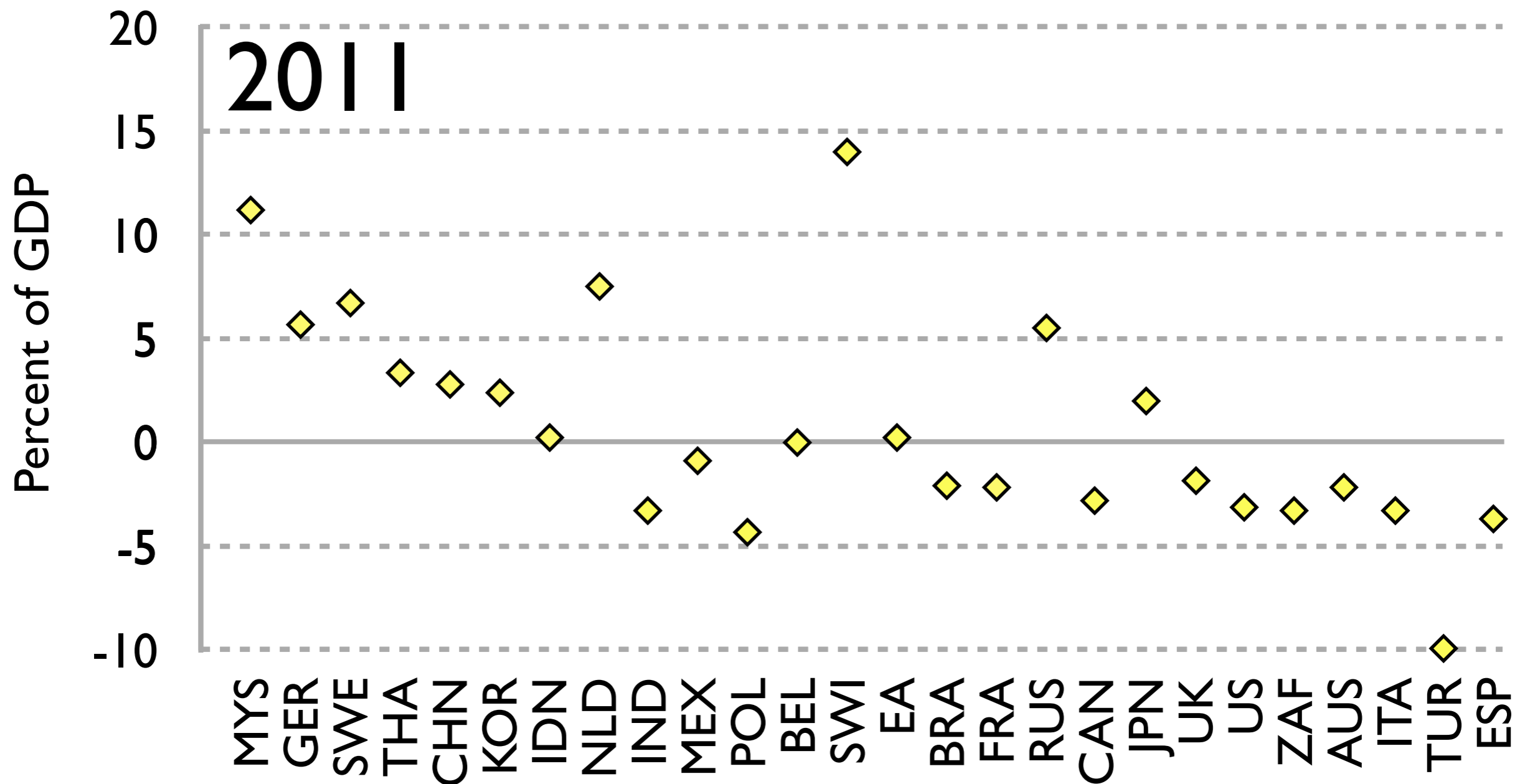
## Desirable balance

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

(POLICIES\* is desirable policies,

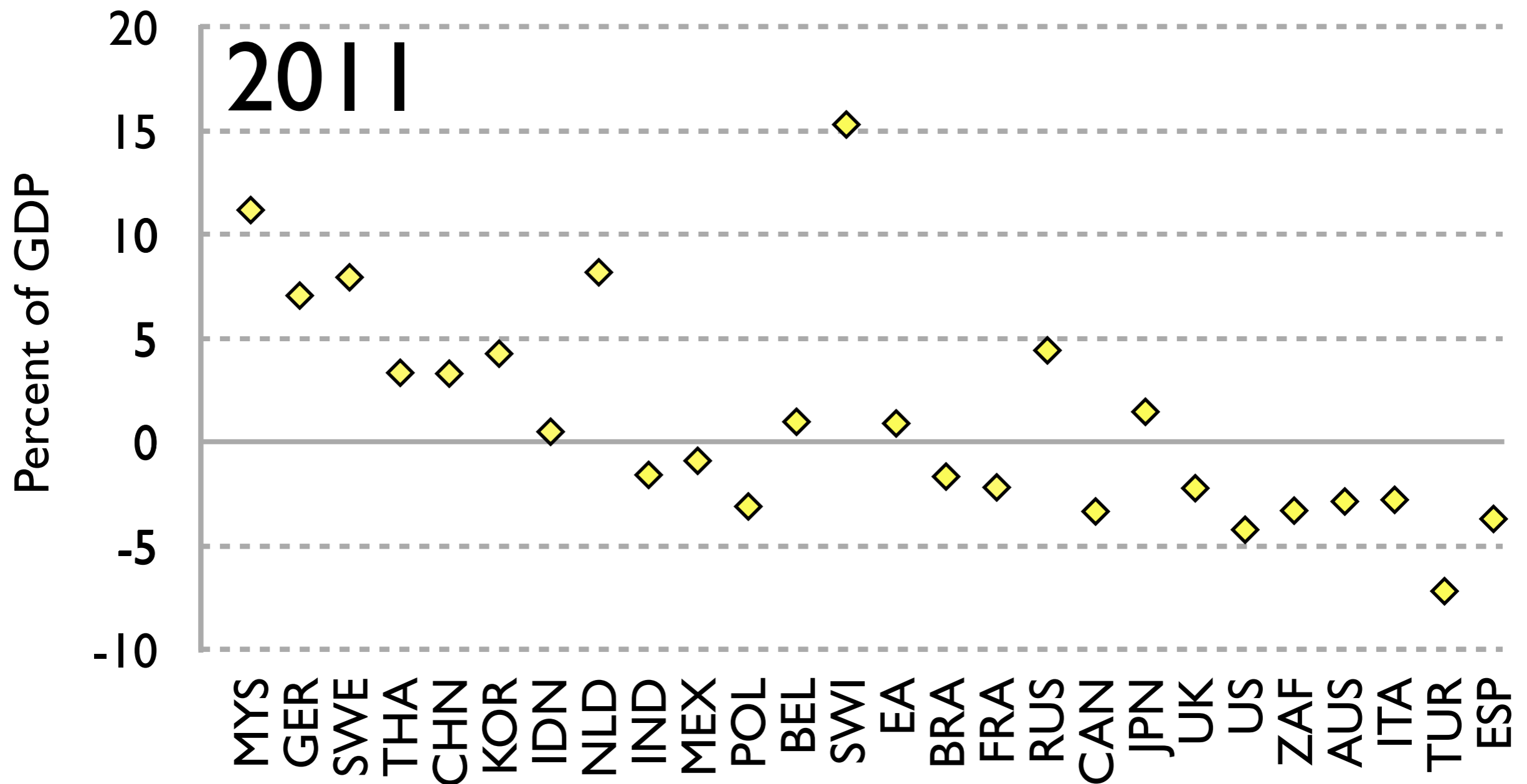
$\varepsilon_2$  is part of residual assigned to other policy distortions.)

# Current Account Analysis



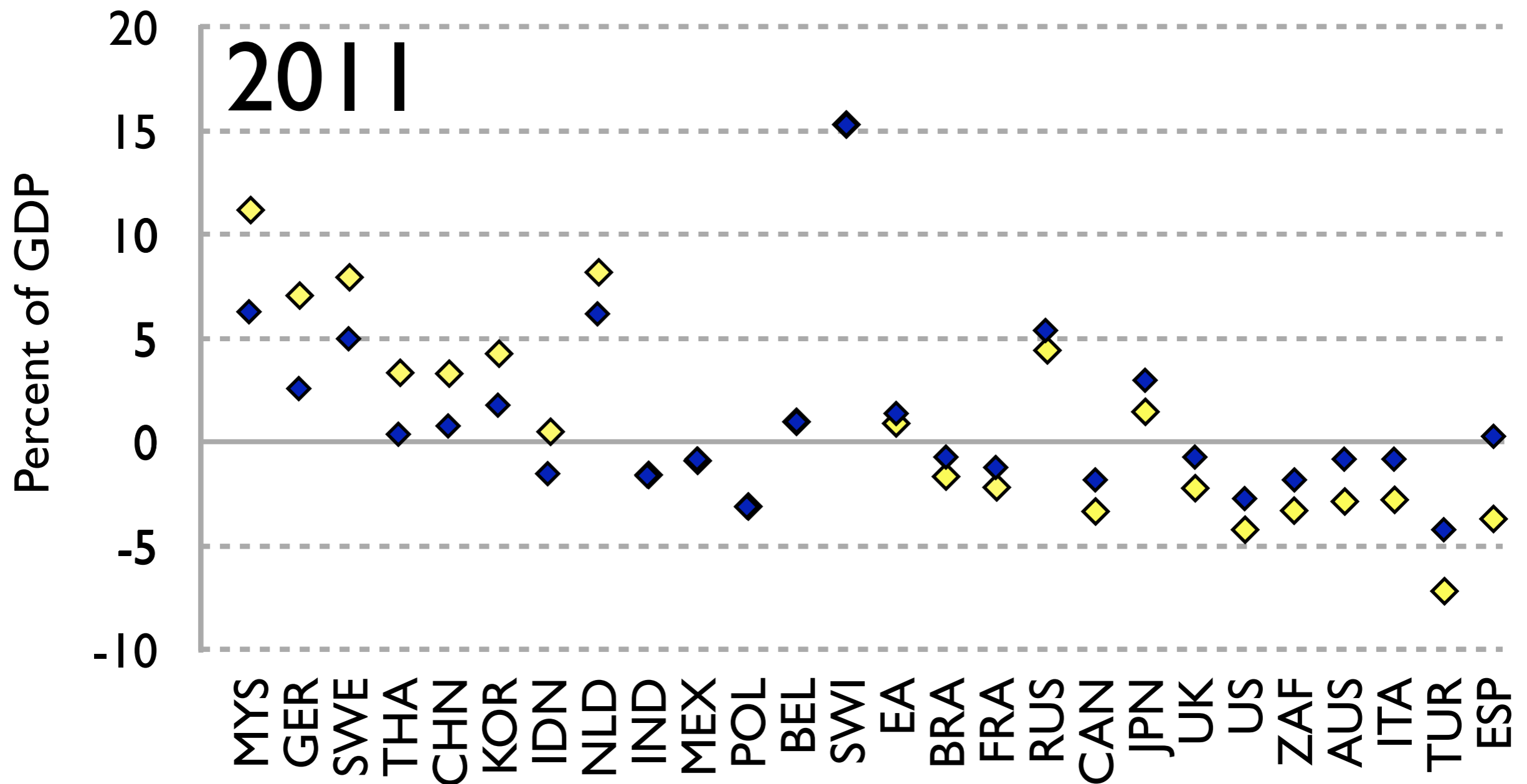
Actual

# Current Account Analysis



Cyclically Adjusted

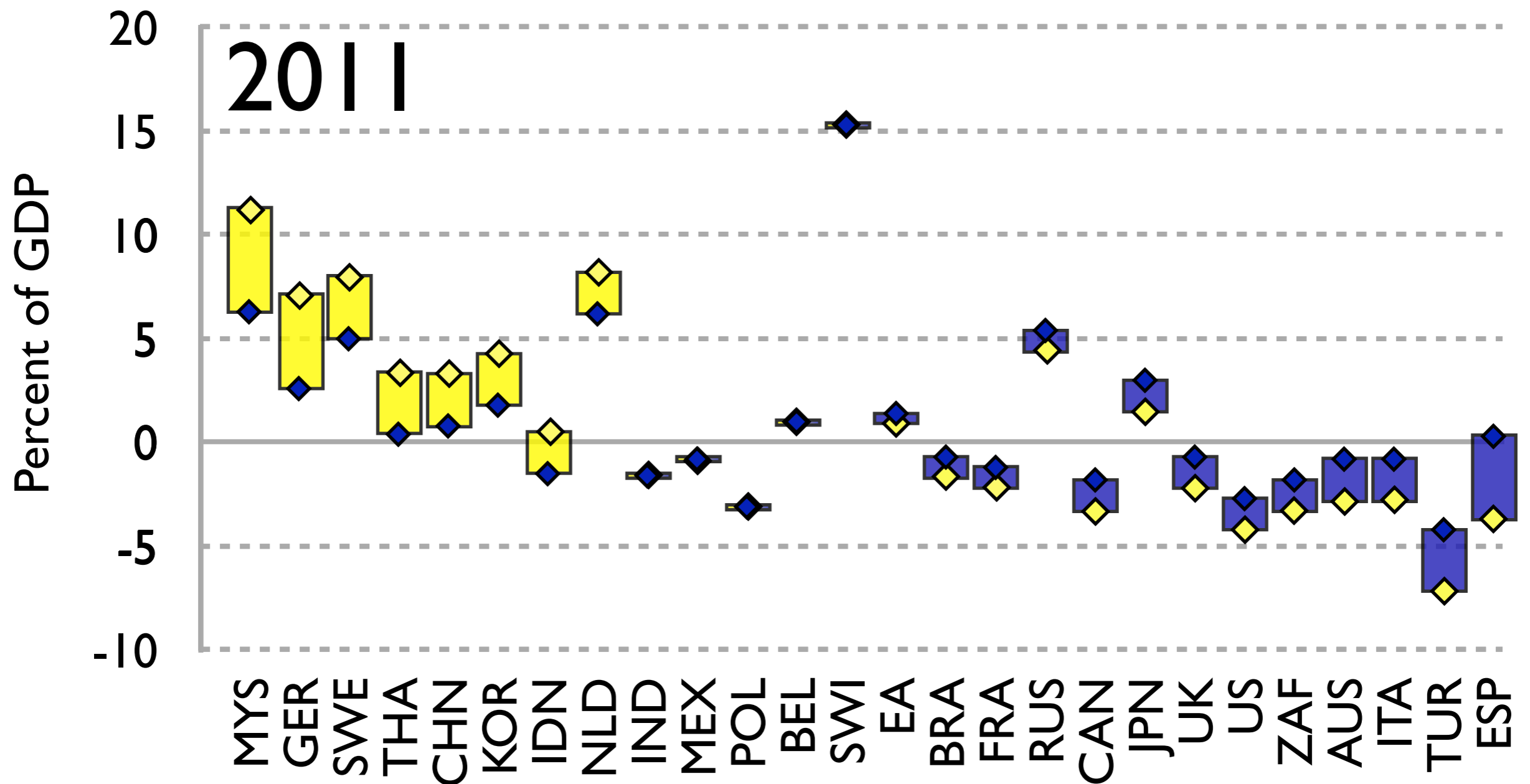
# Current Account Analysis



Cyclically Adjusted

Desirable Levels

# Current Account Analysis

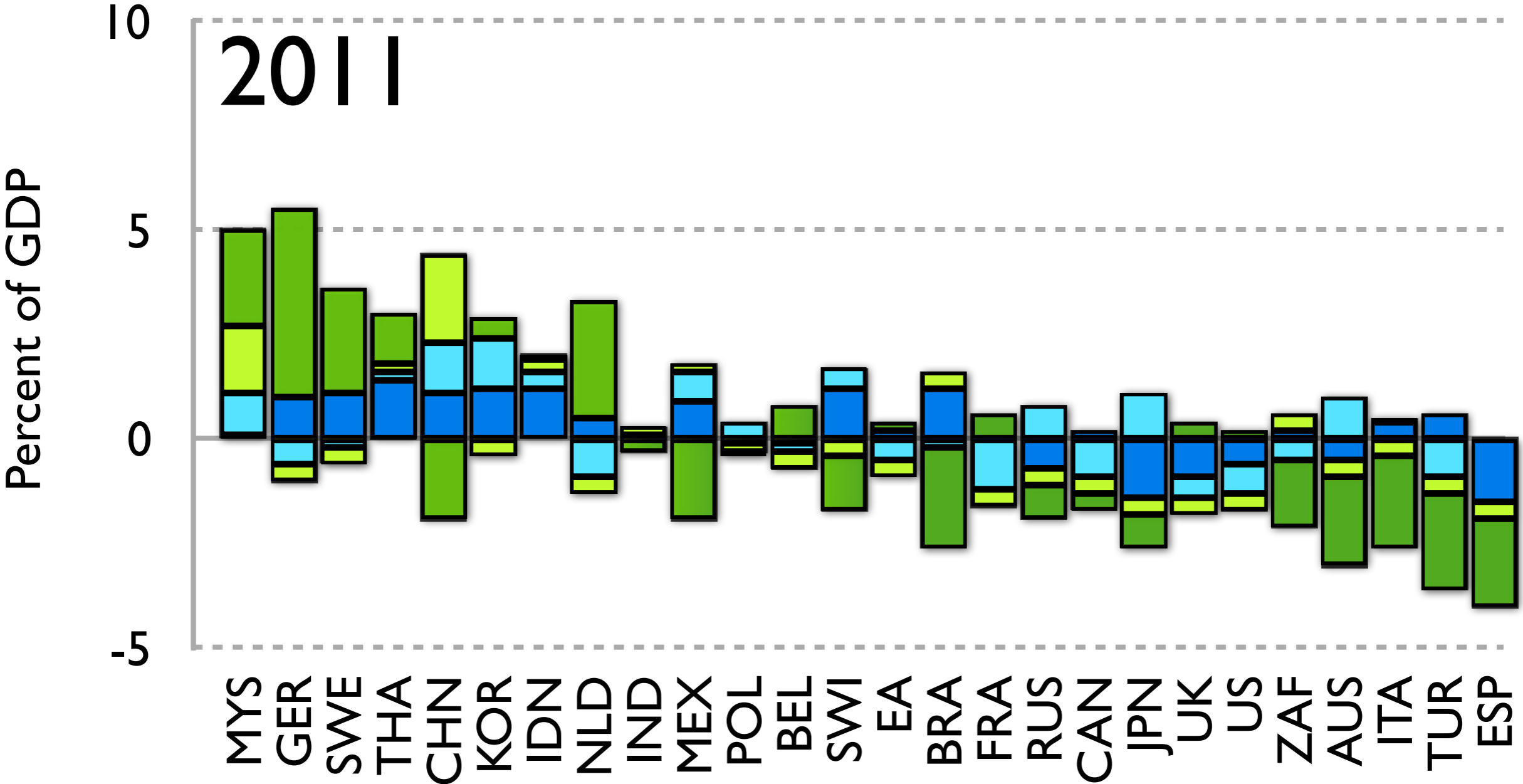


Cyclically Adjusted

Gap

Desirable Levels

# Current Account Gap Components



Fiscal

Social Protection

Capital Controls & Intervention

Other Distortions



**THANK YOU**