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Navigating an interconnected world: revamping IMF surveillance

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Speakers

- **Sean Hagan**, General Counsel, IMF
- **Tamim Bayoumi**, Deputy Director, IMF
- **Steve Phillips**, Division Chief, Research Department IMF
- Discussant - **André Sapir**, Bruegel
- Chair - **Jean Pisani-Ferry**, Bruegel

Sean Hagan, General Counsel and Director of the Legal Department at the International Monetary Fund (IMF), **Tamin Bayoumi,** Deputy Director in the Strategy, Policy, and Review Department at the IMF, and **Steve Phillips,** Chief Division of the Research Department at the IMF discussed the reasons that have led to a modernisation of the IMF surveillance practices as well as the analytical tools that have allowed this modification.

On the 18th of July 2012, the Executive Board of the IMF adopted a new Decision on Bilateral and Multilateral Surveillance, the "Integrated Surveillance Decision" (ISD). The 2011 Triennial Surveillance Review, in fact, highlighted the need to modernise the legal framework for surveillance, including to better integrate bilateral and multilateral surveillance, to better cover spillovers from member countries' economic and financial policies onto the global economy, and to clarify the framework for multilateral surveillance.

The ISD maintains important features of the existing legal framework. It does not change the scope of member countries' obligations, because no amendment of the IMF's Articles of Agreement has taken place. It also preserves the emphasis of bilateral surveillance on members' exchange rate policies, at the same time providing a basis for the IMF to engage more effectively with member countries on their domestic economic and financial policies. On the other hand, the ISD enhances the legal framework for surveillance. Moreover, it clarifies that surveillance should be focused on economic and financial stability both at individual and global levels. It makes Article IV consultations a vehicle for multilateral surveillance, allowing the IMF to discuss, although in a not obligatory framework, with a member country the full range of spillovers from its policies when these may have an impact on global stability. It rebalances the treatment of domestic and exchange rate policies and stresses the contribution of the overall policy mix to a country's domestic and balance of payment stability. Finally, for the first time, it defines the scope and modalities of multilateral surveillance, including laying out a framework for potential multilateral consultations.

As a matter of practice, these changes lead to a new intellectual framework combining what happens in the world with what happens in a particular country. Changes in national regulations, reduction of the US deficit, or the re-alignment of the Chinese exchange rate are all cases where national policies can influence other countries without passing through the channel of the balance of payment.

The "External Sector Report" is the analytical product that originates from this effort, thanks to its multilateral consistent analysis of the external position of major world economies, with a focus of the analysis broadened beyond exchange rates to cover detailed examinations of current account reserves, capital flows and external balance sheets. The "External Balance Assessment", likewise, is the analytical tool that made possible the improvement of the IMF system of surveillance. It allows analysing current account and real exchange rates of fifty economies at once, keeping into account country characteristics and framing them in a uniform

model. The key advances of the External Balance Assessments are to account for effects of policies like reserve accumulation, capital controls, fiscal policy or social protection, as well as for the impact of global capital market swings and business and commodity price cycles. In other words, this new analytic tool allows not only to consider policy distortions, but also to separately measure the impact of "domestic" and "foreign" policies.

The discussion after the presentation mainly focused on the ability of a non-legally binding framework to persuade member countries of changing their domestic policies, above all when these latter are undertaken in order to protect the internal stability of a country. By the same token, questions have been raised on the ability of this new system to install in developing countries some confidence in the international monetary system, and on the eventual possibility that one-day IMF surveillance and European Commission Country Specific Recommendations will be part of a coordinated international agenda.

Event notes by Lucia Granelli