



# 2013 Pilot External Sector Report

# Structure

## As in 2012:

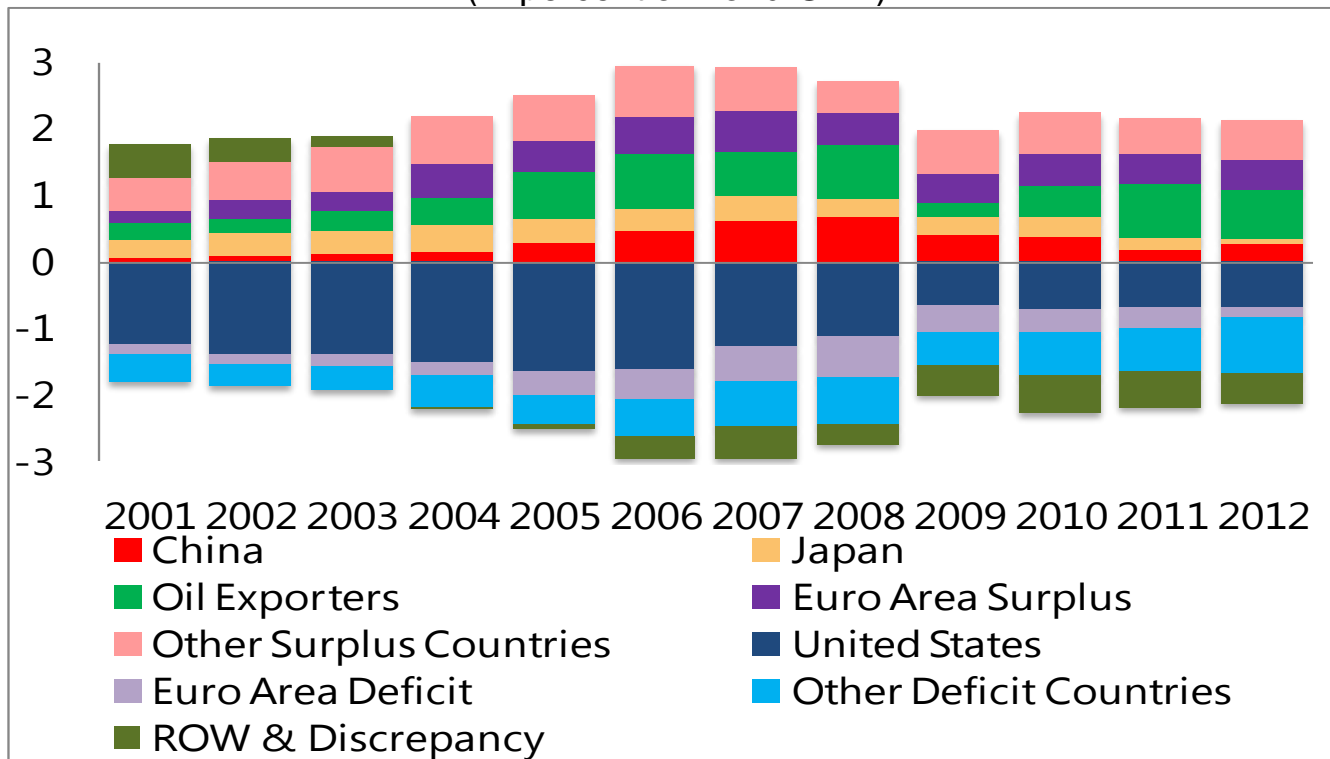
- Stock-take: multilaterally consistent assessment of external sector policies of the largest economies
- Feeds into Article IVs
- Draws on External Balance Assessment (EBA) methodology/other
- Identifies policy gaps
- Assessments cover: current account, real exchange rate, reserves, capital account and external assets/liabilities

## New in 2013:

- Greater emphasis on capital flows
- Refinements to EBA methodology

# Global Current Account Divergences Continued to Narrow in 2012...

**Current Account**  
(In percent of world GDP)



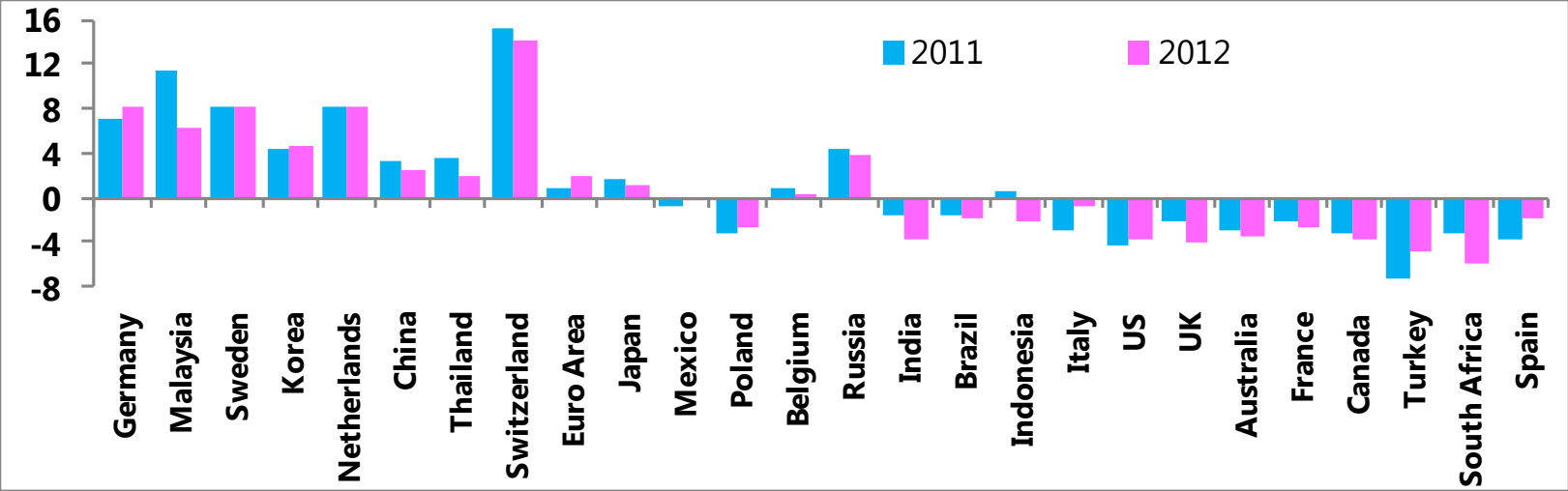
# ...All Regions Have Contributed

## Change in Current Account Divergences (2006–07 to 2012)

	(% of world GDP)	(% of own GDP)
<b>Surplus</b>		
China	-0.26	-6.83
Japan	-0.28	-3.41
Euro Area	-0.10	0.17
o/w Germany	-0.08	0.12
Other	-0.04	-1.11
Oil	0.02	-3.05
<b>Deficit</b>		
United States	0.77	2.48
Euro Area	0.19	1.29
Other	-0.13	-0.69

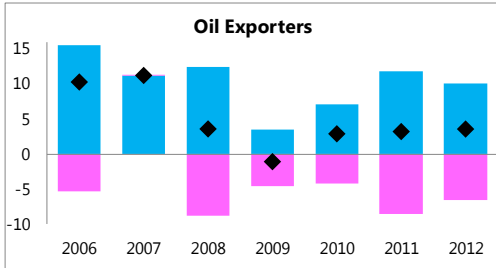
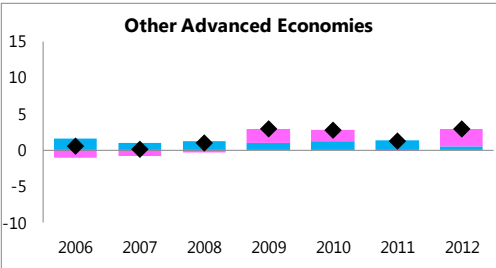
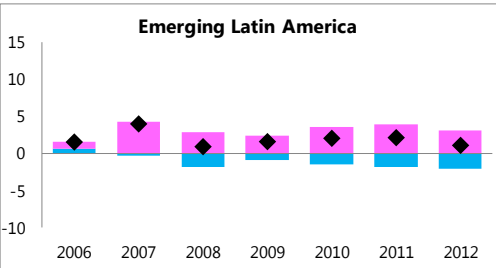
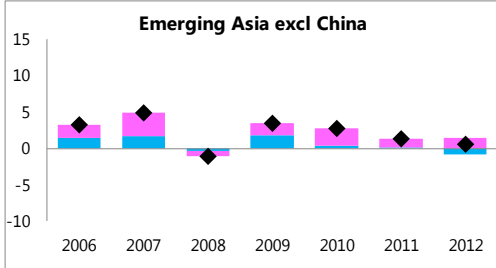
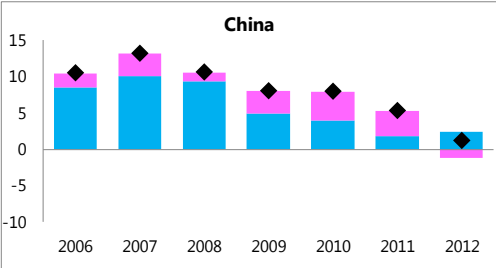
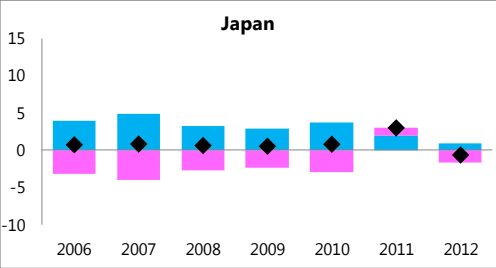
# Cyclically Adjusted Balances Suggest Reduced Divergences for Many in 2012

Cyclically Adjusted Current Account Balances  
(In percent of GDP)



# Lower Current Accounts Have Implied Lower Capital Flows and Less Reserve Accumulation

(In percent of each economy's or region's GDP)



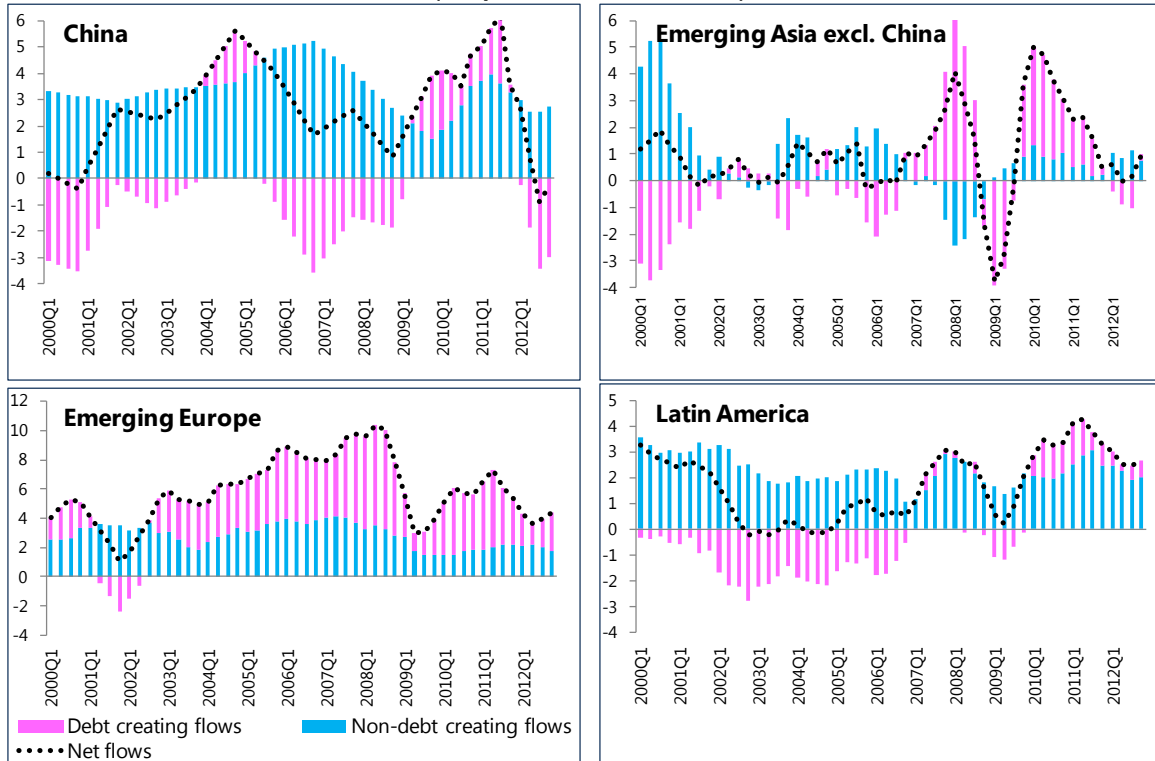
Current account

Capital & Financial Accounts  
(includes errors and omissions)

Reserves

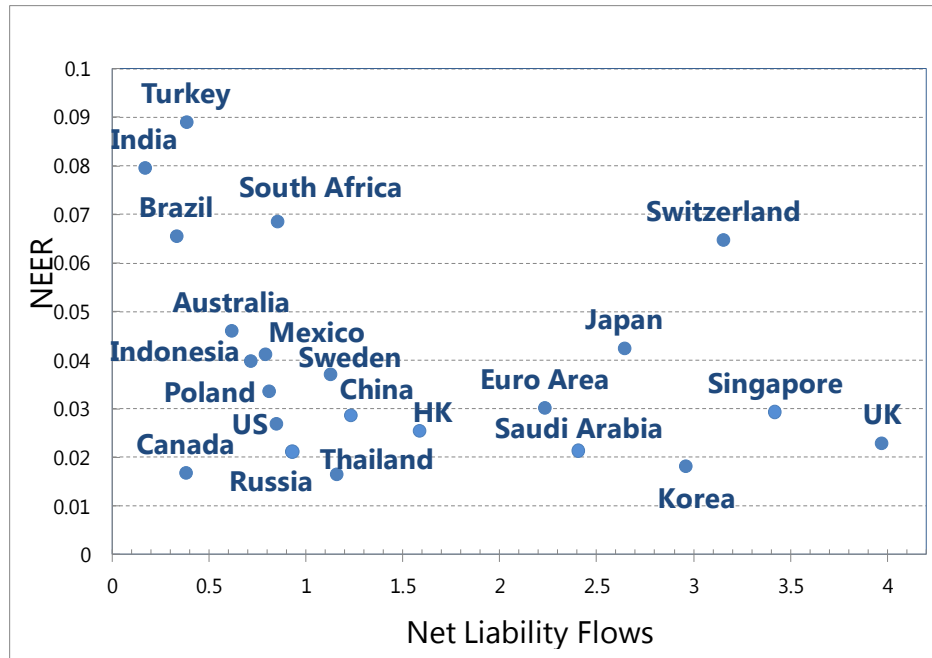
# Capital Flows to Emerging Markets Have Been Volatile, especially Debt Creating Flows

Net Capital Flows to Emerging Markets 2000Q1–2012Q4  
(In percent of GDP)



# Capital Volatility Highest for Financial Centers; Exchange Rate Volatility in Emerging Markets

Exchange Rate and Capital Flow Volatility  
Coefficient of Variation  
(2010 Q1–2012 Q4)

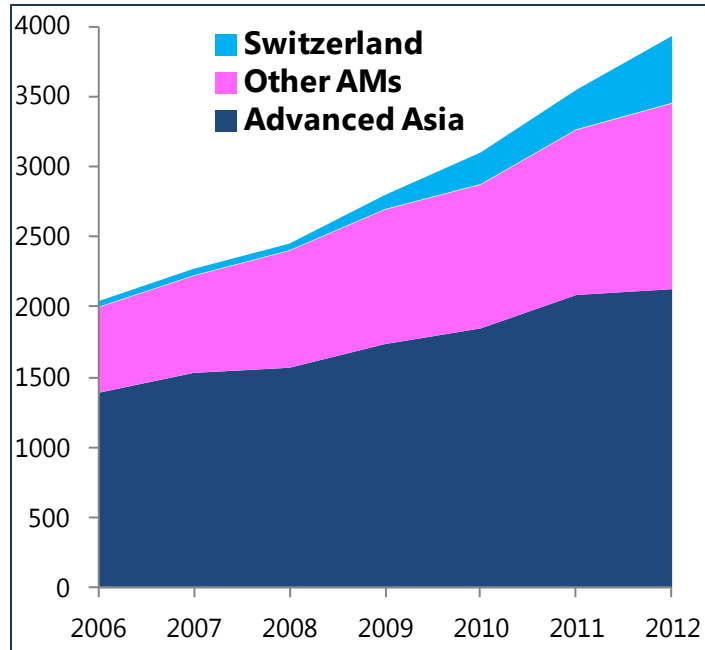




# Significant Reserve Accumulation by Some Advanced Economies

## Reserves

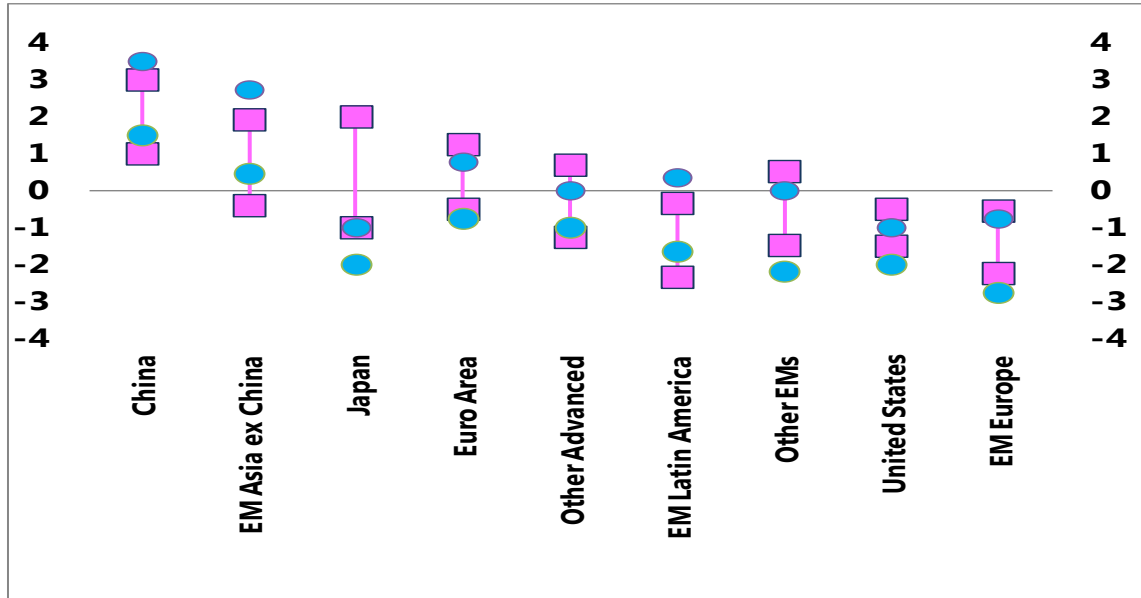
(In billions of US dollars)



# External Imbalances Narrowed Slightly

## Comparison of External Imbalances 2012 ESR range vs. 2013 ESR range

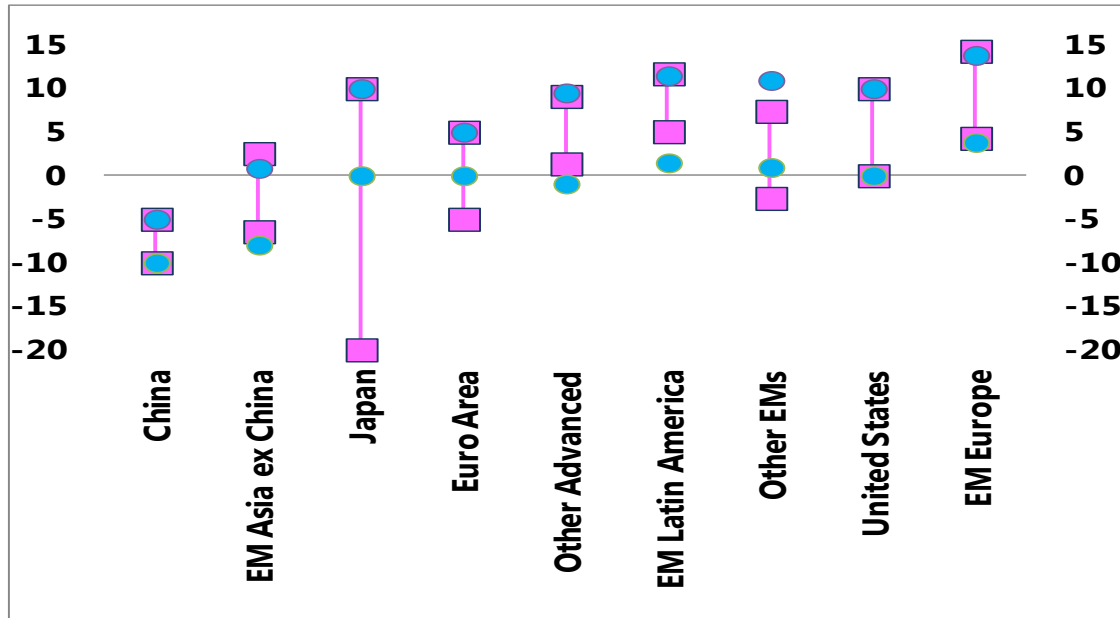
Cyclically-Adjusted Current Accounts: Difference between actual and norm  
(In percent of GDP)



# External Imbalances Narrowed Slightly

## Comparison of External Imbalances 2012 ESR range vs. 2013 ESR range

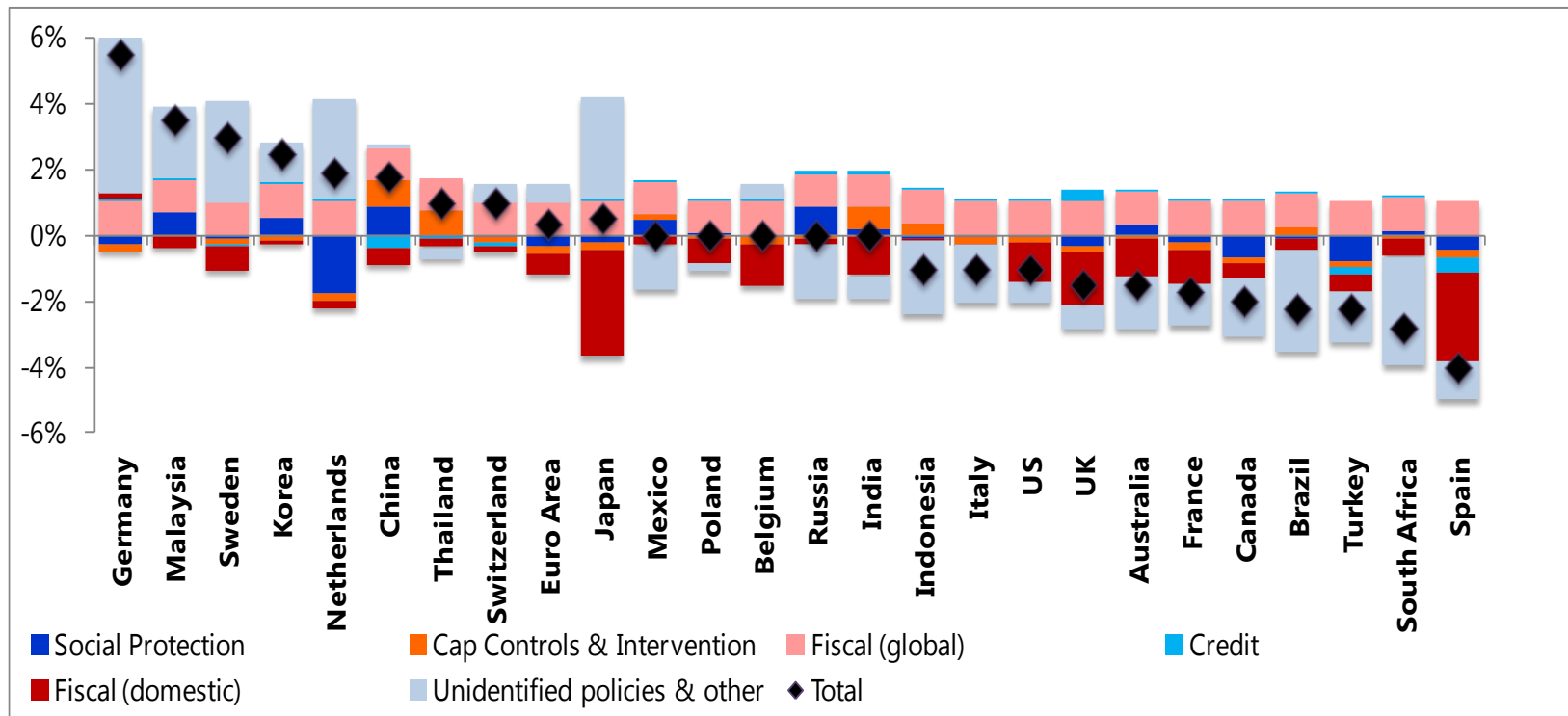
Real Effective Exchange Rate: Difference between actual and norm  
(In percent)



# Role of Policies in External Imbalances?

## Contribution of Policies to Current Account Gaps (2012)

(In percent of GDP, based on midpoint of staff estimates)



# Conclusions

- ◉ Policy responses to the weakness in growth in Advanced Economies and changes in risk sentiment have shaped the evolution of external positions and contributed to capital flow volatility
- ◉ Global imbalances have continued to narrow and are now about  $\frac{3}{4}$  percent of global GDP, significantly lower than in 2006-7
- ◉ Cyclical factors did play a role in this narrowing, but there has also been progress on closing structural policy gaps
- ◉ Capital flows have been volatile, have posed policy challenges, and will continue to do so
- ◉ International policy coordination is crucial.



**2013**

**External Balance  
Assessment  
Methodology  
(EBA, “version 2.0”)**

# What is EBA?

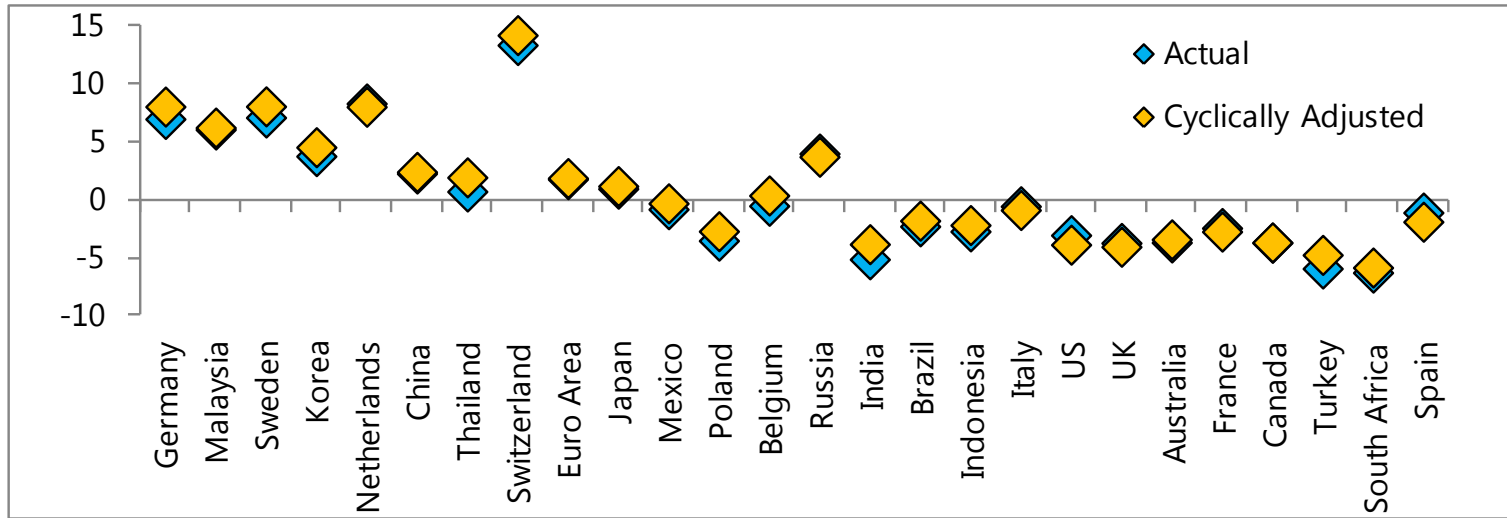
- ◉ A *tool* to give *estimates* of current account and exchange rate gaps (imbalances).
- ◉ A successor to the IMF's "CGER" methodology, but taking account of role of policies and policy distortions. And allowing for temporary, cyclical influences
- ◉ Gaps are deviations from levels implied by country fundamental characteristics and desirable policy settings. Gaps are consistent across countries.
- ◉ Also a separate exercise focused on external *sustainability*
- ◉ An input to the External Sector Report. Under ongoing development...

# What's new in EBA “2.0”?

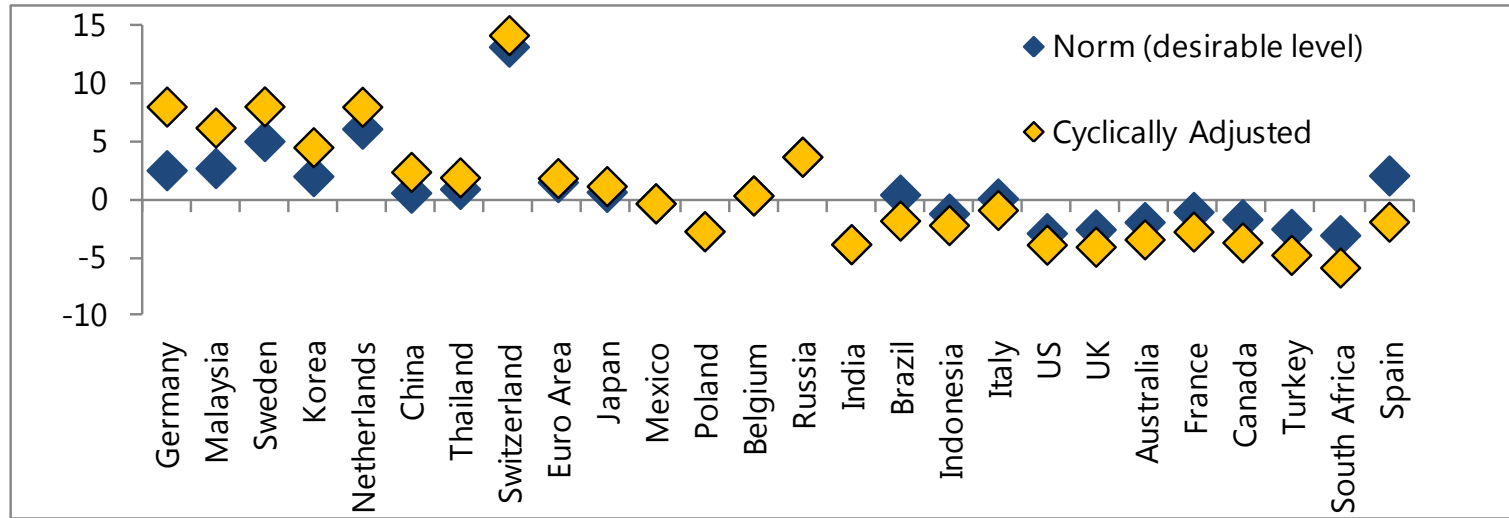
- ◉ Role of financial excesses. (Proxied by private credit)
- ◉ Monetary policy role in exchange rate (but not CA). FX intervention role in exchange rate (as well as CA)
- ◉ Structural policies? Risks from institutional/ political environment
- ◉ Better fit, for some countries
- ◉ Other refinements, see EBA 2.0 methodology paper [www.imf.org/external/np/res/eba/pdf/080913.pdf](http://www.imf.org/external/np/res/eba/pdf/080913.pdf)



# Actual and Cyclically Adjusted Current Accounts



# Cyclically Adjusted Current Accounts and Norms



# Another view: Cyclically Adjusted Current Accounts and Norms

