

## Navigating an interconnected world: revamping IMF surveillance

The new Decision on *Bilateral and Multilateral Surveillance* (see <http://www.imf.org/external/np/pp/eng/2012/031612A.pdf>) provides the IMF with a legal framework to better integrate its surveillance over individual economies and global developments. In particular, the Decision:

- *Ensures a more comprehensive, integrated, and consistent spillover analysis.* By making country consultations a vehicle for both bilateral and multilateral surveillance, the Decision allows the IMF to discuss with countries the full range of spillovers from their economic policies when these may have a significant impact on global stability.
- *Encourages countries to be mindful of the impact of their policies on global stability.* Besides policy recommendations made to promote countries' own stability, with the new Decision the IMF can encourage countries to consider alternative policies to reduce outward spillovers, even if the policies generating spillovers do not undermine countries' own stability.
- *Rebalances the treatment of domestic and exchange rate policies* and stresses the contribution of the overall mix of policies to a country's domestic and balance of payment stability.
- *Clarifies that multilateral surveillance focuses on the key issues* relevant to global economic and financial stability and lays out a framework for possible multilateral consultations to engage members in constructive dialogue to tackle issues of global importance.
- *The new Decision allows the IMF greater leeway to detect vulnerabilities and risks to countries, provide timely policy advice, and help members adopt appropriate policies—*including for inward spillovers from policies of others.

The *Pilot External Sector Report* (<http://www.imf.org/external/pp/longres.aspx?id=4674>) provides a practical example of the integration of multilateral and bilateral views that can make external sector surveillance more effective. In particular, the pilot report:

- *Brings together bilateral and multilateral surveillance in a single report.* It assesses developments in global external positions in depth for 28 of the largest economies plus the euro area simultaneously. Multilateral consistency is achieved by using the same methodologies applied to all countries, while country-specific factors are taken into account by modifying these assessments based on the in-depth knowledge of individual country teams.
- *Broadens the focus of the Fund's external sector surveillance.* The Report encompasses more systematically developments in capital accounts, reserve accumulation, capital flow

measures, and foreign assets and liabilities as well as analyzing exchange rate and current account developments.

- *Uses the newly-developed pilot External Balance Assessment approach (<http://www.imf.org/external/np/res/eba/index.htm>). The new approach builds on and improves previous methods. It strips out the influence of cyclical factors and allows the IMF to identify the impact on a country's current account of policy distortions in fiscal policy, social protection, capital controls and reserve accumulation, and other structural factors. The approach can also identify whether the home country's policies need to change or whether other economies should change course.*

Feedback is being sought to help the Fund make surveillance resonate with policy makers and to be more effective. In particular feedback would be useful on how to implement the new Decision and how to refine the approach to future External Sector Reports and to the External Balance Assessment approach. Your comments will help ensure that these initiatives enable the Fund to better address the possible effects of spillovers from members' policies on global stability; monitor the stability of members' external sectors in a more comprehensive manner; and engage members in constructive dialogue to address issues of global importance.