

SM/13/167  
Correction 3

July 31, 2013

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: **2013 Pilot External Sector Report**

The attached correction to SM/13/167 (6/20/13) has been provided by the staff:

**Evident Ambiguity**

**Page 30, Figure 24, last line of note added to read:**“In light of the update of the EBA methodology, the policy contributions are not fully comparable with those presented in the 2012 Pilot External Sector Report.”

Clarifies that the policy gaps are not comparable with those in the 2012 Report.

Questions may be referred to Mr. Robinson, AFR (ext. 35691), Mr. Phillips, RES (ext. 37187), and Ms. Stuart, APD, (ext. 37897).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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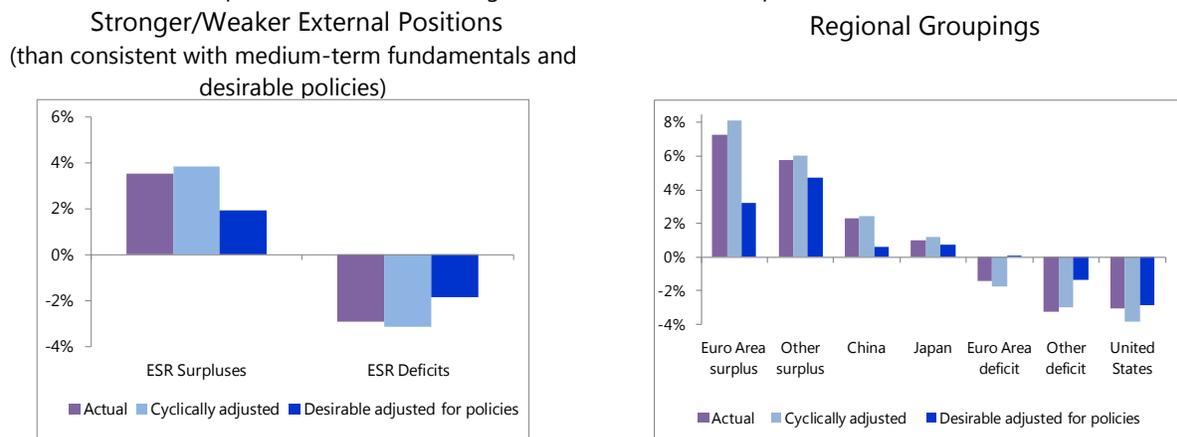
## POLICY CHANGES TO REDUCE EXTERNAL IMBALANCES

Many economies still need to take policy actions to reduce imbalances.

29. **While cyclical factors have played a role in narrowing global imbalances, addressing remaining policy gaps will be key to closing imbalances.** Actual current account gaps are smaller than the cyclically adjusted in most countries and country groupings but the cyclical factor is less than 0.5 percent of GDP (Figure 23). Policy gaps, on the other hand, are much larger and need to be addressed in order to close global imbalances. Needed actions differ by country (Figure 24).

**Figure 23. Estimated Impact of Cyclical Factors and Policies on Current Accounts 2012**

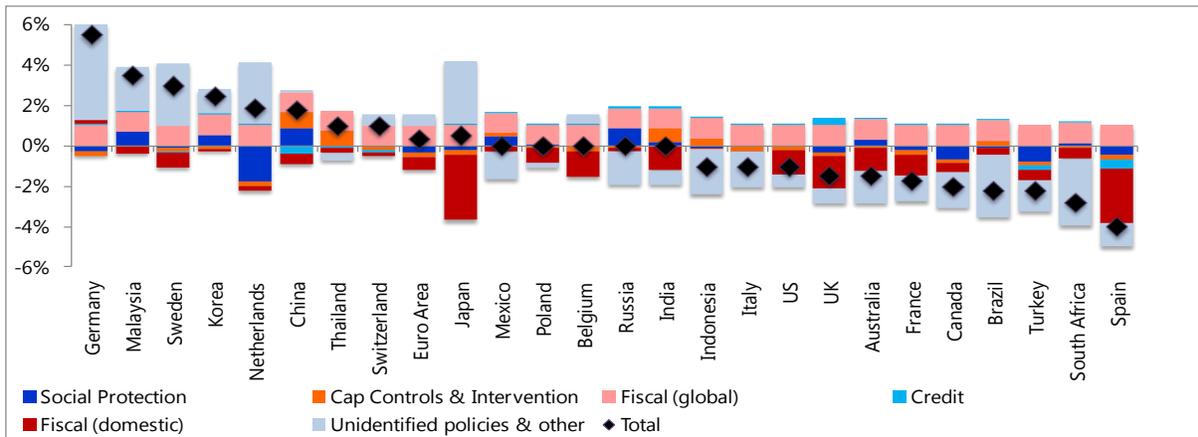
(In percent of economies' regional GDP based on mid points of staff estimates)



Source: IMF Staff Calculations.

30. **For AEs, some progress has been made in bringing down general government deficits as a percent of GDP.** The Fiscal Monitor notes that fiscal deficits narrowed on average by some  $\frac{3}{4}$  percent of GDP in cyclically adjusted terms and the average pace of consolidation is expected to pick up to  $1\frac{1}{4}$  percent of GDP this year. Yet, global fiscal imbalances remain a significant contributor to external sector imbalances—adding around 1 percent of GDP to the current accounts of other economies (see Figure 24).

**Figure 24. Individual Economies: Contribution of Policies to Current Account Gaps (2012)**  
(In percent of GDP, based on midpoint of staff estimates)



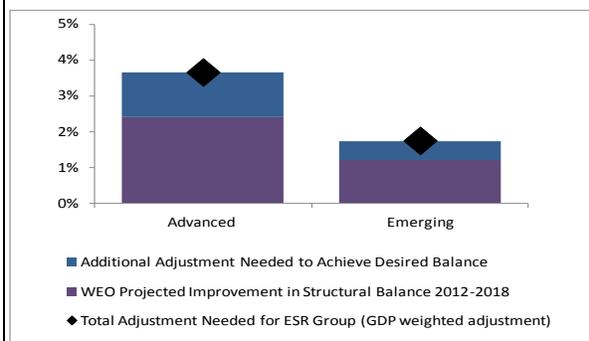
Source: IMF staff calculations from EBA, incorporates desk judgment.

Note: Policy contributions are estimates from EBA (see EBA methodology paper) of how much deviations from desirable policies contribute to the gap between the cyclically adjusted current account and that consistent with medium-term fundamentals and desirable policies. Deviations are measured for each economy relative to a global benchmark. For fiscal policy, the gaps are shown separately as a domestic policy contribution and a global fiscal contribution which illustrates how medium-term fiscal consolidation in the large advanced economies impacts the current accounts of others. The global fiscal policy gap is around 3 percent of GDP which has an effect on current account gaps of around 1 percent of GDP. "Unidentified policies and other" are not solely from EBA but represent all the other factors that affect the current account gap, including uncertainty over the size of the gap (see page 27 and Box 7). In light of the update of the EBA methodology, the policy contributions are not fully comparable with those presented in the 2012 Pilot External Sector Report.

31. **Thus, further progress on the fiscal front for the largest economies would have an important impact on reducing imbalances elsewhere—but the pace of adjustment should be carefully calibrated.** According to WEO projections, around two-thirds of the adjustment will have taken place by 2018 but further adjustment would be needed beyond that horizon. But in the short-term, the pace of fiscal consolidation in the larger AEs, such as the U.S., should not be too aggressive in order to avoid an adverse impact on global growth. Comprehensive reforms are needed in Japan if the monetary easing and the other two arrows of the strategy—medium term fiscal consolidation and structural reforms—are to succeed in ending deflation and achieving self sustaining growth.

32. **Within the euro area, external sector imbalances remain very high and policy actions are needed by both surplus and deficit economies to boost demand.** Large fiscal consolidations are already underway in the economies worst hit by the crisis but they have also faced a steep loss

**Figure 25. Fiscal Adjustment Required to Reach the Medium-Term Desired Structural Fiscal Position**



Source: IMF International Financial Statistics and IMF Staff Calculations.

Note: The desired structural fiscal position is from EBA and is based on desks' judgement on the structural fiscal position that would be desirable in the medium-term.