

SM/13/167  
Correction 4

August 1, 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:

**Typographical Error**

**Page 28, Figure 22, Estimated Differences between Cyclically-Adjusted Current Accounts and those Consistent with Fundamentals and Desirable Policies:** Figure replaced to correct current account range for Brazil (to  $-1\frac{3}{4}$  percent to  $-2\frac{3}{4}$  percent of GDP).

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)

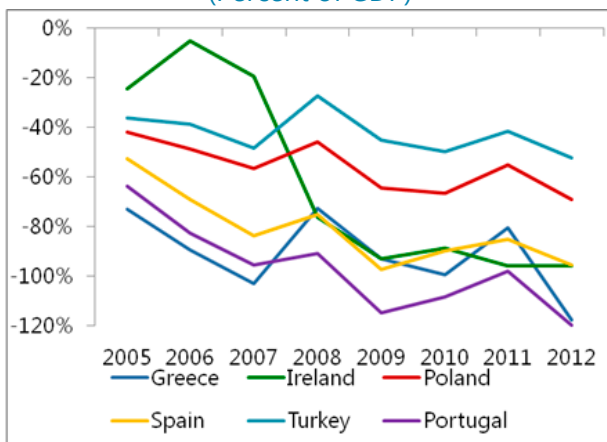
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Department Heads



- **The external sustainability approach highlights the need for a narrowing of current account deficits for a number of economies with high negative NFA positions.** For

economies in the euro area with high negative NFA positions, small current account surpluses (Portugal and Spain) or small deficits (Greece and Ireland) would be needed over the medium term to generate a significant improvement in the NFA position. Although current accounts narrowed in 2012 and surpluses were recorded in Ireland and Portugal, NFA positions continued to widen in some countries as current accounts remained weaker than their NFA/GDP-stabilizing levels, amid low or negative output growth in some cases. In Turkey, the composition of the IIP has deteriorated in recent years, with short term liabilities accounting for a growing fraction of total liabilities.

**Figure 21. Net Foreign Assets**  
(Percent of GDP)

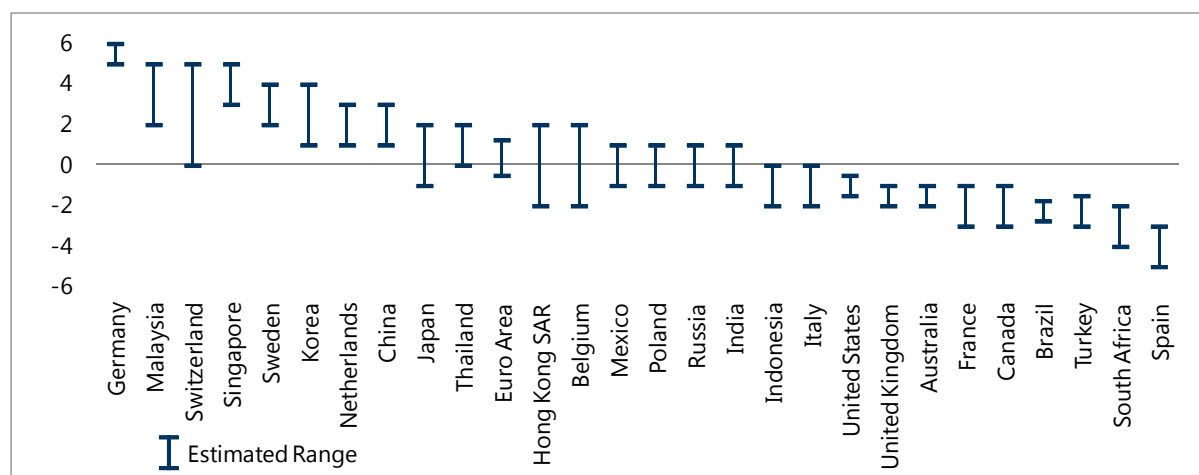


Sources: IMF International Financial Statistics and IMF staff

- **Recent major changes to Japan's macroeconomic framework make an assessment of the external position subject to an unusual degree of uncertainty.** The depreciation of the yen since 2012Q3 likely reflects both a dissipation in safe haven flows and the fundamental changes to the policy framework which are hard to disentangle (as well as other factors such as higher energy imports following the great Japan earthquake of 2011). The substantial changes to the policy framework may also have far reaching effects on expectations, inflation, and growth. While the real exchange rate currently appears moderately undervalued relative to fundamentals, this results from the critical and welcome attempt to decisively exit from deflation. Over the medium-term, if the other key arrows of the strategy—namely fiscal consolidation and structural reforms to open up product markets and raise labor supply—are implemented in a comprehensive and credible way, the expectation is that the current account/currency could well move to levels broadly consistent with fundamentals and therefore the yen's recent depreciation is not seen as necessarily problematic.

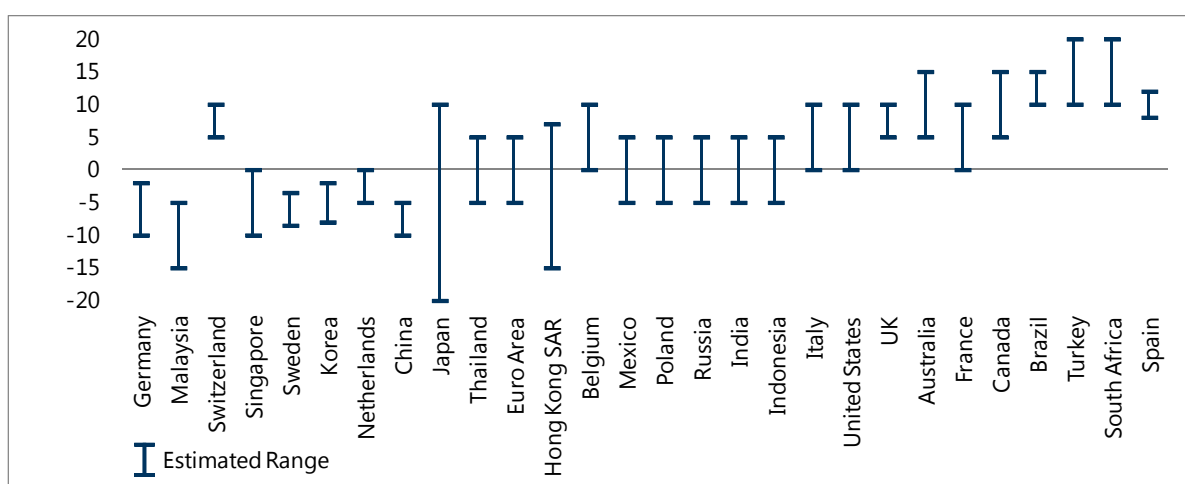
**Figure 22. Estimated Differences between Cyclically-Adjusted Current Accounts and those Consistent with Fundamentals and Desirable Policies**

(Percent of GDP)



**Estimated Differences between Real Effective Exchange Rates and those consistent with Fundamentals and Desirable Policies**

(Percent)



Source: IMF Staff calculations (see Figure 18 for details).