The Euro and IMF Surveillance

Ajai Chopra
International Monetary Fund

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Outline

• The IMF and the Euro Area / EU
  ➢ What is the nature of engagement?
  ➢ What has been the recent focus of work?

• Euro area / EU policy frameworks
  ➢ How have the frameworks performed during the crisis?
  ➢ How will the frameworks need to evolve?
The IMF and the Euro Area / EU

- Individual EA countries - bilateral surveillance
- Euro area - regional surveillance

Focus of regional work
- Monetary and aggregate fiscal stance
- Financial sector policies and coordination
- Policy frameworks
- Trade and other structural issues
- Spillovers
- G-20 mutual assessment program

- Greece – IMF technical assistance
- Non-eurozone new member states

EA / EU Policy Frameworks

Unique aspects of the frameworks
- Tight monetary framework for the euro area
- But weak system of fiscal coordination and governance
- A single EU financial market
- But common EU-wide financial stability framework not yet fully in place
- Structural policies – Lisbon Agenda; EU 2020
How Did the Frameworks Perform During the Crisis?

- Monetary policy
  - So far robust to the crisis

- Fiscal policy
  - Coordination difficulties
  - SGP has not induced sufficient fiscal discipline in good times

- Financial sector
  - Immediate crisis response versus structural reaction
  - State aid framework and competition policy

Strengthening the Frameworks

- New EU financial architecture
  - Cross-border crisis management and resolution framework
  - Burden sharing arrangements

- Reform of fiscal governance
  - Institutional reforms to strengthen fiscal discipline
  - Incentive-compatible financing and crisis resolution mechanisms

- Better integration of frameworks
  - Complementarities between the frameworks
Conclusions

• Important gaps in policy frameworks

• Gaps present from the start of EMU

• Filling them is critical for better functioning of the monetary union

• Filling the gaps will require burden sharing ➔ Ceding power to a central authority