

The Euro and IMF Surveillance



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The Euro and the Dollar in the Crisis and Beyond

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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

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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

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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

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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

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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

