

INTERNATIONAL MONETARY FUND

EXTERNAL SECTOR REPORT

Pandemic, War, and
Global Imbalances

2022



©2022 International Monetary Fund

Cataloging-in-Publication Data
IMF Library

Names: International Monetary Fund, publisher.

Title: External sector report (International Monetary Fund).

Other titles: ESR

Description: Washington, D.C. : International Monetary Fund, 2012- | Annual | Some issues also have thematic titles. | Began in 2012. | Includes bibliographical references.

Identifiers: ISSN 2617-3832 (print) | ISSN 2617-3840 (online)

Subjects: LCSH: Balance of payments—Periodicals. | Debts, External—Periodicals. | Investments, Foreign—Periodicals. | International finance—Periodicals.

Classification: LCC HG3882.I58

ISBN: 979-8-40021-494-3 (Paper)

979-8-40021-550-6 (ePub)

979-8-40021-578-0 (PDF)

The *External Sector Report* (ESR) is a survey by the IMF staff published once a year, in the summer. The ESR is prepared by the IMF staff and has benefited from comments and suggestions by Executive Directors following their discussion of the report on July 22, 2022. The views expressed in this publication are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Directors or their national authorities.

Recommended citation: International Monetary Fund. 2022. *External Sector Report: Pandemic, War, and Global Imbalances*. Washington, DC, August.

Publication orders may be placed online, by fax, or through the mail:

International Monetary Fund, Publications Services

P.O. Box 92780, Washington, DC 20090, USA

Tel.: (202) 623-7430 Fax: (202) 623-7201

E-mail: publications@imf.org

www.bookstore.imf.org

www.elibrary.imf.org

CONTENTS

Further Information	vii
Preface	viii
Executive Summary	ix
IMF Executive Board Discussion Summary	xi
Chapter 1. External Positions and Policies	1
War and Lingering Pandemic	1
Outlook for Current Account Balances and Risks	14
Box 1.1. Saving and Wealth Dynamics in the Aftermath of COVID-19	19
Box 1.2. Current Account Rebalancing: At What Speed? Assessment of Current Account Gaps Historical Persistence	23
Box 1.3. External Sector Impact of Disaster Shocks	26
Box 1.4. The Worst of Both Worlds: Trade Restrictions Hurt Growth with No Benefit for External Positions	28
References	38
Online Annex 1.1. EBA Methodology 2022 Refinements	
Online Annex 1.2. COVID-19–Related External Balance Assessment Adjustments	
Chapter 2. Climate Policies and External Adjustment	39
Introduction	39
The Approach: The Model-Based Mitigation Scenario	41
External Sector Impact	44
Alternative Scenarios	50
Global Implications	53
Conclusion	54
Box 2.1. Oil Discoveries and the External Sector	56
Box 2.2. Understanding the Carbon Tax Effects in the G-Cubed Model	57
Box 2.3. The Green Energy Transition and Its Impact on Metal Mining	59
References	61
Chapter 3. 2021 Individual Economy Assessments	63
Methodology and Process	63
Selection of Economies	63
Box 3.1. Assessing Imbalances: The Role of Policies—An Example	64
Abbreviations and Acronyms	65
Technical Endnotes by Economy	96
References	99
Figures	
Figure 1.1. The COVID-19 Crisis and the War in Ukraine	2
Figure 1.2. Movements in Oil Trade Balance and Current Account for Oil Exporters and Importers	2

Figure 1.3. Current Account Projections for 2022 before and after the War in Ukraine	3
Figure 1.4. Household Consumption Composition Shift, AEs and EMDEs, 2019–21	3
Figure 1.5. Trade in Goods and Services Compared with Pre-pandemic Trends	3
Figure 1.6. Private and Public Sector Saving Rates in Advanced Economies	5
Figure 1.7. Global Current Account Balances, 1990–2027	5
Figure 1.8. Global Current Account Balances and COVID-19 Factors	7
Figure 1.9. Fiscal Policy Changes, 2019–2026	7
Figure 1.10. Currency Movements	7
Figure 1.11. Estimated Change in Foreign Exchange Reserves and Nominal Effective Exchange Rate Change	8
Figure 1.12. Capital Flows to Emerging Market and Developing Economies and the VIX	8
Figure 1.13. Net International Investment Positions, 1990–2022	9
Figure 1.14. Evolution of the Global Financial Safety Net, 1995–2021	11
Figure 1.15. Evolution of Bilateral Swap Line Networks, 2021	11
Figure 1.16. External Balance Assessment Current Account Norms, 2021	12
Figure 1.17. The Evolution of External Sector Assessments, 2012–21	12
Figure 1.18. IMF Staff and External Balance Assessment Current Account and Real Exchange Rate Gaps, 2021	13
Figure 1.19. Evolution of Headline Current Account Balances and IMF Staff Gaps	13
Figure 1.20. Global Saving-Investment Balances, 2020–27	14
Figure 1.21. New Trade Restrictions, 2009–22	15
Figure 1.22. China: Major Import Sources, 2017–21	16
Figure 1.23. Emerging Market and Developing Economies: External Vulnerabilities	17
Figure 1.1.1. Decomposing Excess Household Saving and Public Dissaving in the European Union	19
Figure 1.1.2. Cumulative Change in the Current Account	20
Figure 1.1.3. Change in Financial Wealth	20
Figure 1.1.4. United States: Change in Household Net Wealth, by Wealth Percentile, COVID-19 versus Normal Times	21
Figure 1.1.5. Europe: Unequal Distribution of Saving, by Income Percentile	22
Figure 1.2.1. IMF Staff and EBA CA Gaps Adjustment: Half-Lives	24
Figure 1.3.1. Effects of a Disaster Shock on the Current Account	26
Figure 1.3.2. Impact of Natural Disaster	27
Figure 1.4.1. Nontariff Barriers Index	28
Figure 1.4.2. Effect of an Increase in NTBs	29
Figure 2.1. Structural Asymmetries	42
Figure 2.2. Policy Package	44
Figure 2.3. Impact of a Coordinated Carbon Tax on the External Sector	45
Figure 2.4. Country Characteristics and External Sector Impact of the Carbon Tax	47
Figure 2.5. Impact of the Green Subsidy on the External Sector	48
Figure 2.6. Country Characteristics and External Sector Impact of the Green Subsidy	48
Figure 2.7. Impact of Mitigation Policy Package on the External Sector	49
Figure 2.8. Impact of Partially Implemented Mitigation Policies on the External Sector	50
Figure 2.9. Impact of Larger Emission Reductions in Advanced Economies	52
Figure 2.10. Mitigation Policies and Global Balances	53
Figure 2.11. Mitigation Policies and Cross-Border Capital Flows	54
Figure 2.12. Mitigation Policies and Global Interest Rates	54
Figure 2.1.1. Evolution of the Current Account and Investment Following an Oil Discovery	56
Figure 2.2.1. The Carbon Tax Impact—Case of Coordinated Implementation	57

Figure 2.2.2. The Carbon Tax Impact—Case of Partial Implementation	58
Figure 2.3.1. Projected Increase in Revenue for Metal Producers	59
Figure 2.3.2. Comparison of the Geographic Concentration of Production and Reserves for “Green” Metals versus Crude Oil	60

Tables

Table 1.1. Selected Economies: Current Account Balance, 2019–22	6
Table 1.2. Selected Economies: Net International Investment Position, 2018–21	10
Table 1.2.1. EBA Gaps Adjustment: Changes in CA Balances or Norm Creeping?	25
Table 1.2.2. EBA Gaps Adjustment: Contribution of Policy Gaps and Residuals	25
Annex Table 1.1.1. Selected Economies: Foreign Reserves, 2018–21	30
Annex Table 1.1.2. External Sector Report Economies: Summary of External Assessment Indicators, 2021	31
Annex Table 1.1.3. <i>External Sector Report</i> Economies: Summary of IMF Staff–Assessed Current Account Gaps and IMF Staff Adjustments, 2021	32
Annex Table 1.1.4. <i>External Sector Report</i> Economies: Summary of IMF Staff–Assessed Real Effective Exchange Rate and External Balance Assessment Model Gaps, 2021	34
Annex Table 1.1.5. Selected <i>External Sector Report</i> Economies: External Balance Assessment Current Account Regression Policy Gap Contributions, 2021	35
Annex Table 1.1.6. 2021 Individual Economy Assessments: Summary of Policy Recommendations	36
Table 2.1. Regions in the G-Cubed Model	41
Table 2.2. Sectors in the G-Cubed Model	41
Table 3.A. Description in <i>External Sector Report</i> Overall Assessment	64
Table 3.B. Economies Covered in the <i>External Sector Report</i>	64
Table 3.1. Argentina: Economy Assessment	66
Table 3.2. Australia: Economy Assessment	67
Table 3.3. Belgium: Economy Assessment	68
Table 3.4. Brazil: Economy Assessment	69
Table 3.5. Canada: Economy Assessment	70
Table 3.6. China: Economy Assessment	71
Table 3.7. Euro Area: Economy Assessment	72
Table 3.8. France: Economy Assessment	73
Table 3.9. Germany: Economy Assessment	74
Table 3.10. Hong Kong SAR: Economy Assessment	75
Table 3.11. India: Economy Assessment	76
Table 3.12. Indonesia: Economy Assessment	77
Table 3.13. Italy: Economy Assessment	78
Table 3.14. Japan: Economy Assessment	79
Table 3.15. Korea: Economy Assessment	80
Table 3.16. Malaysia: Economy Assessment	81
Table 3.17. Mexico: Economy Assessment	82
Table 3.18. The Netherlands: Economy Assessment	83
Table 3.19. Poland: Economy Assessment	84
Table 3.20. Russia: Economy Assessment	85
Table 3.21. Saudi Arabia: Economy Assessment	86
Table 3.22. Singapore: Economy Assessment	87
Table 3.23. South Africa: Economy Assessment	88
Table 3.24. Spain: Economy Assessment	89

Table 3.25. Sweden: Economy Assessment	90
Table 3.26. Switzerland: Economy Assessment	91
Table 3.27. Thailand: Economy Assessment	92
Table 3.28. Türkiye: Economy Assessment	93
Table 3.29. United Kingdom: Economy Assessment	94
Table 3.30. United States: Economy Assessment	95

FURTHER INFORMATION

Corrections and Revisions

The data and analysis appearing in the *External Sector Report* are compiled by the IMF staff at the time of publication. Every effort is made to ensure their timeliness, accuracy, and completeness. When errors are discovered, corrections and revisions are incorporated into the digital editions available from the IMF website and on the IMF eLibrary. All substantive changes are listed in the online table of contents.

Print and Digital Editions

Print

Print copies of this *External Sector Report* can be ordered from the IMF Bookstore at imfbk.st/520410

Digital

Multiple digital editions of the *External Sector Report*, including ePub, enhanced PDF, Mobi, and HTML, are available on the IMF eLibrary at www.elibrary.imf.org/ESR22

Download a free PDF of the report and data sets for each of the charts therein from the IMF website at www.imf.org/publications/ESR or scan the QR code below to access the *External Sector Report* web page directly:



Copyright and Reuse

Information on the terms and conditions for reusing the contents of this publication is at www.imf.org/external/terms.htm

PREFACE

Produced since 2012, the IMF's annual *External Sector Report* analyzes global external developments and provides multilaterally consistent assessments of external positions, including current accounts, real exchange rates, external balance sheets, capital flows, and international reserves, of the world's largest economies, representing more than 90 percent of global GDP. Together with the *World Economic Outlook* and Article IV consultations, this report is part of a continuous effort to assess and address the possible effects of spillovers from members' policies on global stability and to monitor the stability of members' external positions in a comprehensive manner.

Chapter 1, "External Positions and Policies," discusses the evolution of global external positions in 2021, external developments throughout the lingering COVID-19 pandemic and the war in Ukraine, and policy priorities for reducing excess imbalances over the medium term. Chapter 2, "Climate Policies and External Adjustment," analyzes the economic effects of climate mitigation policies on external positions. It finds that the external sector effects depend crucially on country characteristics, such as initial carbon intensity and net fossil exports, on the degree of international policy coordination, and on credibility. Chapter 3, "2021 Individual Economy Assessments," provides details on various aspects of the overall external assessment and associated policy recommendations for 30 economies. This year's report and associated external assessments are based on the latest version of the IMF's External Balance Assessment (EBA) methodology and on data and IMF staff projections as of June 30, 2022.

This report was prepared under the overall guidance of Pierre-Olivier Gourinchas, IMF Economic Counsellor and Director of Research, and under the direction of the External Sector Coordinating Group, comprising staff from the IMF's area departments (African, Asia and Pacific, European, Middle East and Central Asia, and Western Hemisphere), as well as the Fiscal Affairs Department; the Statistics Department; the Strategy, Policy, and Review Department; the Monetary and Capital Markets Department; and the Research Department—namely, Ali Al-Eyd, Vivek Arora, Serkan Arslanalp, Maria Borga, Nigel Chalk, Ana Lucia Coronel, Borys Cotto, Alfredo Cuevas, Jörg Decressin, Chris Erceg, Raphael Espinoza, Gaston Gelos, Sonali Jain-Chandra, Martin D. Kaufman, Vitaliy Kramarenko, Jaewoo Lee (Chair), Daniel Leigh (former Chair), Amine Mati, Paolo Mauro, Paulo Medas, Lev Ratnovski, Carlos Sánchez-Muñoz, Niamh Sheridan, Piyaporn Sodsriwiboon, Martin Sommer, Antonio Spilimbergo, and Jeromin Zettelmeyer.

Rudolfs Bems and Pau Rabanal led the preparation of the report, which draws on contributions from Zamid Aligishiev, Cian Allen, Mahir Binici, Camila Casas, Julia Estefania-Flores, Giovanni Ganelli, Adam Jakubik, Luciana Juvenal, Siddharth Kothari, Weifeng Liu (external consultant), Warwick McKibbin (external consultant), Racha Moussa, Cyril Rebillard, Cian Ruane, Niamh Sheridan, and João Tovar Jalles (external consultant). Important input was provided by country teams as well as by Russell Green, Yuko Hashimoto, Parisa Kamali, Robin Koepke, Dimitre Milkov, Marco Rodriguez Waldo, Silvia Sgherri, and Hui Tong. Excellent research and editorial assistance were provided by Rachele Blasco, Luisa Calixto, Mariela Caycho Arce, Jane Haizel, Eduard Laurito, Cristina Quintos, Jair Rodriguez, Xiaohan Shao, and Rongjin Zhang.

Cheryl Toksoz and Gemma Rose Diaz from the Communications Department led the editorial team for the report, with production and editorial support from David Einhorn, Sue Kovach, Harold Medina (and team), Lucy Scott Morales, Joe Procopio, and the Grauel Group.

The analysis benefited from comments and suggestions by staff members from other IMF departments, as well as by the IMF's Executive Directors following their discussion of the report on July 22, 2022. However, both projections and policy considerations are those of the IMF staff and should not be attributed to Executive Directors or to their national authorities.

EXECUTIVE SUMMARY

The *External Sector Report* presents a holistic assessment of external positions in 30 of the world's large economies, carried out by the IMF staff. While the assessment is centered on the comparison of current account balances with their norms (levels implied by fundamentals and desirable policy settings), it also considers other variables such as the exchange rate, reserves, capital flows, and international investment positions. The report also discusses recent trends, outlook, and risks for global current account balances, defined as the sum of the absolute values of current account deficits and surpluses, and policies to promote external rebalancing.

Global current account balances increased in 2020 and 2021 and are projected to widen further in 2022. They had been on a declining trend for several years before widening because of the COVID-19 pandemic in 2020. The widening of balances in 2021 was largely driven by the pandemic's continued impact and the increase in commodity prices that accompanied the economic recovery. In 2022, the war in Ukraine created a humanitarian crisis and is setting back the global recovery while increasing uncertainty and the risk of geoeconomic fragmentation. Fallouts from the war and the still-lingering pandemic are projected to widen global current account balances further in 2022. While the widening in global current account balances is not necessarily a negative development, excessive global imbalances can fuel trade tensions and protectionist measures or increase the risk of disruptive currency and capital flow movements.

The pandemic has continued to affect economies' current account balances through a fall in travel services, an increased demand for medical products, and a shift in household consumption toward goods rather than services. Transportation costs emerged as another important channel in 2021 because of the combination of high demand for tradable goods and supply bottlenecks associated with the pandemic. Energy and commodity prices recovered from the COVID-19 shock and started rising in 2021, a trend that the war is exacerbating in 2022, with opposite effects on the external positions of exporters and importers. Creditor and debtor stock

positions remained elevated at the end of 2021, though having moderated from their 2020 peaks, and the global financial safety net remained close to 20 percent of world GDP.

Currency movements during 2021 were relatively limited, despite considerable depreciation in several emerging market currencies vis-à-vis a broad set of trading partners. Monetary policy tightening is driving currency movements in 2022 as rising inflation is leading many central banks to accelerate the withdrawal of monetary stimulus. The revised expectation on the pace of the US monetary tightening brought about sizable currency realignment in early 2022, contributing to the projected widening of global current account balances.

Over the medium term, global current account balances are expected to resume their pre-pandemic downward trend as the COVID-19 pandemic's economic implications fade away, commodity prices normalize, and current account deficit economies implement fiscal consolidation faster than current account surplus economies. However, this outlook is subject to unusually high uncertainties at this juncture, which could well see global current account balances increasing. Risks to the outlook include a possible pandemic resurgence, slower-than-expected recovery in public savings (especially in current account deficit economies), the war's impact on commodity prices, a possible escalation of geopolitical conflicts and tensions, China's growth slowdown and zero-COVID-19 policy, the global pace of financial tightening, and trade and economic fragmentation.

The IMF's multilateral approach suggests that global excess current account balances—the sum of the absolute values of deviations of economies' current account balances from their norms—narrowed to 0.9 percent of world GDP in 2021 compared with 1.2 percent of world GDP in 2020. The largest contributors to lower-than-warranted current account balances as a share of world GDP were, in a descending order, the United States, Canada, and Belgium. The largest contributors to larger-than-warranted current account balances were, in a descending order, Germany, Australia, Russia, and Sweden.

Multilateral cooperation is key in dealing with the policy challenges generated by the pandemic and the war in Ukraine, including tackling the humanitarian crisis. Coordinated policy efforts will also be needed to counter the risks of global economic fragmentation, including by eschewing new barriers to trade. Maintaining liquidity in the global financial system, including via the global safety net, will help economies manage risks related to the tightening of global financial conditions and financial system fragmentation because of geopolitical tensions. Multilateral cooperation could greatly facilitate the green transition: in Chapter 2, a coordinated implementation of climate mitigation policies has been found to reduce global current account balances and help to bring forward net zero emissions.

Policies to promote external rebalancing differ with positions and needs of individual economies. Where excess current account deficits reflected fiscal deficits above desirable medium-term levels and where such imbalances persist, growth-friendly fiscal consolidation will be critical to support external rebalancing and bring the current account balance closer to its norm. Economies with lingering competitiveness challenges would need to address structural challenges—including through labor, product market, and other reforms—to promote green, digital, and inclusive growth while boosting productivity. In economies where excess current account surpluses persist, intensifying reforms that encourage public and private investment and discourage excessive private saving is warranted, including by expanding social safety nets in some emerging markets.

IMF EXECUTIVE BOARD DISCUSSION SUMMARY

The following remarks were made by the Acting Chair at the conclusion of the Executive Board's discussion of the External Sector Report on July 22, 2022.

Executive Directors generally agreed with the findings of the 2022 *External Sector Report* (ESR) and its policy recommendations. They noted that global current account balances continued to widen in 2021 and are projected to widen further in 2022. Directors expressed concern that, despite having moderated from their recent peaks, stocks of foreign assets and liabilities remain elevated amid persistent excess current account balances.

Directors observed that the pandemic has continued to affect current account balances unequally across countries, through a fall in travel services, an increased demand for medical products, a shift in household consumption from services to goods, and a rise in transportation costs. They noted that in 2021 energy and commodity prices recovered from the pandemic shock and started rising, and that this trend is being exacerbated in 2022 by the war in Ukraine, with opposite effects on the external positions of commodity exporters and importers. Directors observed that, while currency movements were relatively limited during 2021, monetary tightening is driving currency realignments in 2022 and contributing to the projected widening of global balances.

Directors noted the staff's view that global current account balances are expected to narrow over the medium term as the impact of the pandemic fades away and commodity prices normalize. They cautioned that this outlook is subject to unusually high uncertainties at this juncture, which could well see global current account balances increasing. Directors concurred that key risks to the outlook include slower-than-expected recovery in public saving in current account deficit economies, a resurgence of the pandemic, an escalation of geopolitical tensions, a further increase in commodity prices, the pace of global financial tightening, and trade and economic fragmentation.

Directors highlighted that cooperation is key in dealing with the policy challenges generated by the

pandemic and the war in Ukraine, and that coordinated policy efforts will be needed to counter the risks of global economic fragmentation, including by eschewing new barriers to trade. Maintaining liquidity in the global financial system will help economies manage risks related to the tightening of global financial conditions and financial system fragmentation due to geopolitical tensions. In this context, Directors stressed that ensuring an adequate global safety net, with the Fund at its core, remains critical at a time of heightened vulnerabilities in emerging markets with high external liabilities.

Directors welcomed the analysis of the impact of climate policies on current account balances, highlighting the role of heterogeneity in country characteristics for external sector outcomes. They supported the main conclusion that climate policies could lead to large external sector adjustments and stressed that coordinated implementation of climate mitigation policies, with due consideration of the disproportionate economic costs on developing economies, will be critical to address climate change while supporting external rebalancing.

Directors noted that excess current account imbalances remain concentrated in advanced economies. They reiterated that their reduction requires continued joint efforts on the part of both excess surplus and excess deficit economies.

Directors underlined that policies to promote external rebalancing differ with positions and needs of individual economies. They considered that in economies in which excess current account deficits reflect excessive fiscal deficits, fiscal consolidation that preserves space for infrastructure and social spending and prevents long-term scarring from the pandemic will be critical to support external rebalancing. Directors noted that economies with lingering competitiveness challenges will need to address structural challenges to promote green, digital, and inclusive growth while boosting productivity. They also noted that in economies where excess current account surpluses persist, intensifying reforms that

encourage public and private investment and discourage excessive private saving is warranted, including by expanding social safety nets in some emerging markets. Directors welcomed the staff's analysis of historical persistence of current account gaps and looked forward to possible refinements in policy recommendations to better support external rebalancing.

Directors appreciated the consideration of temporary pandemic-induced factors in external sector assessments,

while also calling for further analysis to assess potentially more permanent effects. They welcomed the refinements to the EBA methodologies, and reiterated the need to ensure transparency, consistency, and evenhandedness of external assessments across countries. Directors also stressed the need for continued caution in interpreting and communicating the assessment results. They called for greater analysis of vulnerabilities associated with large external stock positions.