EXTERNAL POSITIONS AND POLICIES

Overview and Context

In 2023, external sectors of *External Sector Report* (ESR) countries turned relatively stable, following a highly volatile 2020–22 period, which was characterized by two key shocks: the COVID-19 pandemic beginning in 2020 and Russia's invasion of Ukraine in 2022. Commodity prices moderated toward historical trends and pandemic factors[1] continued to recede, contributing to the return of public and private saving, investment, and current account balances toward prepandemic trends, narrowing the global current account balance. Following a sharp global monetary policy tightening to address inflation in 2021–22, tight monetary policy conditions in key advanced economies were maintained in 2023, contributing to the continued strength of the US dollar and constraining capital flows to emerging markets.

The medium-term outlook indicates continued narrowing of the global current account balance, supported by fiscal consolidation efforts in current account deficit countries and a moderation in commodity prices. However, there is a high degree of uncertainty surrounding this outlook. Risks include delays in the implementation of projected fiscal consolidation and heightened uncertainty about the commodity market outlook in view of geopolitical tensions, as well as intensification of geoeconomic fragmentation and a prolonged real estate slowdown in China. Besides impacting the global current account balance, these risks could hamper the efficient flow of resources and undermine the relative external stability of postpandemic years.

[1]Throughout the chapter, "pandemic factors" refers to the direct effect of COVID-19 (that is, lockdowns) as well as the market implications of COVID-19 (for example, initial collapse of the oil price and GDP) and policies implemented in reaction to COVID-19.
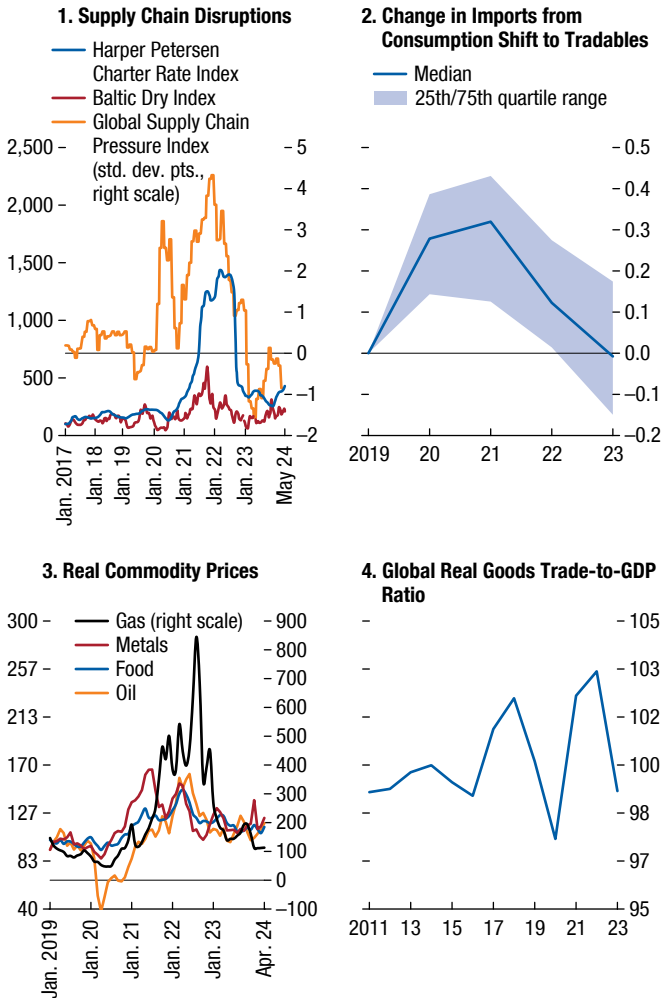
Recent Developments: Trade and Current Account Balances

Pandemic factors continued to normalize in 2023. Remaining supply chain disruptions dissipated, with the level of pressure falling below pre-COVID-19 levels and transport costs declining, relative to 2021–22 levels (Figure 1.1, panel 1). Following the lifting of COVID-19 restrictions in China in early 2023, the travel sector in Asia rebounded strongly in the first half of 2023 (UN World Tourism Organization 2024). Household consumption in advanced economies and emerging markets rotated back from tradable goods to services, with the composition in most countries returning to prepandemic levels (Figure 1.1, panel 2).

Commodity prices declined in 2023, reversing from 2022 peaks toward historical averages. Following a volatile 2022 with major negative supply shocks and elevated uncertainty about the commodity outlook, prices for all major commodity groups (food, energy, metals) have declined from the peaks reached during 2021–22 (Figure 1.1, panel 3). Both the easing of supply concerns and the slowdown in demand have contributed. The most notable reversal was observed for gas prices in Europe, which, after reaching very high levels in 2022, have fallen dramatically. As of the first quarter of 2024, real commodity prices remain elevated relative to prepandemic levels, in part due to continued global geopolitical tensions.

Global trade in goods slowed in 2023. Despite resilience in global economic activity, the volume of imports and exports declined globally by 0.9 percent, with global trade openness, measured as real goods trade-to-GDP ratio, falling sharply in 2023 (Figure 1.1, panel 4). The slowdown has equally affected emerging markets and advanced economies, reflecting restrictive global monetary policy and relatively tight financial conditions, especially in emerging markets, which tend to disproportionately impact traded goods. The postpandemic shift in demand back toward services (Figure 1.1, panel 2) has also had a dampening effect, while geopolitical fragmentation could be another contributing factor (Box 1.1 in the

Figure 1.1. COVID-19 Factors, Real Commodity Prices, and Global Trade Volume

1. Supply Chain Disruptions
- Harper Petersen Charter Rate Index
- Baltic Dry Index
- Global Supply Chain Pressure Index (std. dev. pts., right scale)

2. Change in Imports from Consumption Shift to Tradables
- Median
- 25th/75th quartile range

3. Real Commodity Prices
- Gas (right scale)
- Metals
- Food
- Oil

4. Global Real Goods Trade-to-GDP Ratio

Sources: CEIC, Global Economic Database; Haver Analytics; IMF, Primary Commodity Price System; IMF, April 2024 *World Economic Outlook*; and Joint Organizations Data Initiative.
Note: In panel 2, the impact on imports from the shift in consumption to durables and nondurables is plotted, in percent of country GDP. The impact on imports is estimated by applying the import content of durables, nondurables, and services from Hale and others 2019 for the United States, and scaling it by the percentage of foreign value added in domestic demand (OECD TiVA) for other countries, to the difference between the actual consumption of durables, nondurables, and services, and what they would have been based on their 2019 shares in private consumption. Countries included are Australia, Canada, Chile, China, Denmark, France, Germany, Indonesia, Israel, Italy, Japan, Korea, Mexico, New Zealand, Spain, South Africa, Sweden, Türkiye, the United Kingdom, and the United States. In panel 3, US consumer price index was used to derive real prices. In panel 4, index constructed as real goods trade-to-GDP ratio. Global foreign trade volumes are arithmetic averages of percent changes for individual countries weighted by the US dollar value of exports or imports as a share of world total (in the preceding year). Real GDP similarly constructed using US dollar GDP value share of world total.

Figure 1.2. Contributions to the Global Current Account Balance, 2000–23
(Percent of world GDP)

- Others
- China
- Oil exporters
- United States
- Global current account balance
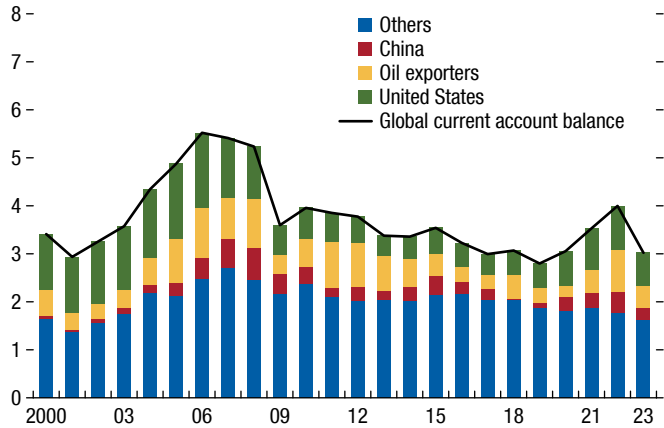
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: The absolute value of current accounts is shown, in percent of world GDP. The global current account balance is calculated as the sum of absolute values of current accounts across countries. The categories "oil exporters" and "others" are also the sum of absolute values of the current accounts of countries in those categories.

April 2024 *World Economic Outlook*; Gopinath and others 2024). Most recent data for early 2024 indicate that a limited recovery is under way.

These developments have contributed to significantly narrowing the global current account balance toward pre-COVID-19 levels.[2] Following a sustained expansion during 2020–22, the global balance in 2023 decreased by 1 percentage point of world GDP (Figure 1.2).

A continued recovery from the pandemic facilitated the narrowing. COVID-19 factors significantly expanded the global balance during 2020–21, with reversed effects in 2022–23 (Figure 1.3). In China, for example, COVID-19 travel restrictions tended to increase the current account surpluses by lowering its service deficit. In the United States, the increased demand for durables and disrupted business travel during the lockdown increased imports of goods and decreased exports of services, widening the current account deficit. In turn, the gradual recovery of

[2]Global current account balance is defined as the sum of absolute current account balances across all countries. This indicator is a convenient summary measure of the global configuration of current account balances but need not indicate an excess global current account balance.

Figure 1.3. Contributions of COVID-19 Factors to the Global Balance for ESR Sample Countries, 2020–23
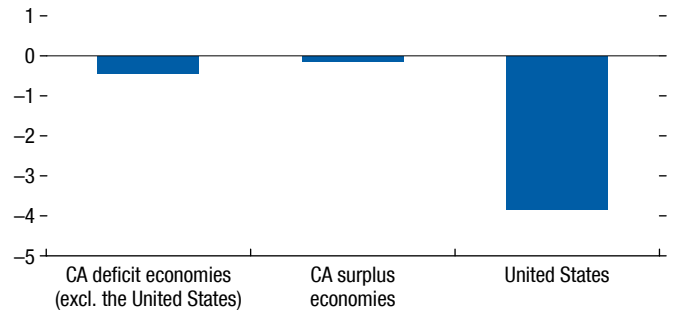*(Percent of world GDP)*
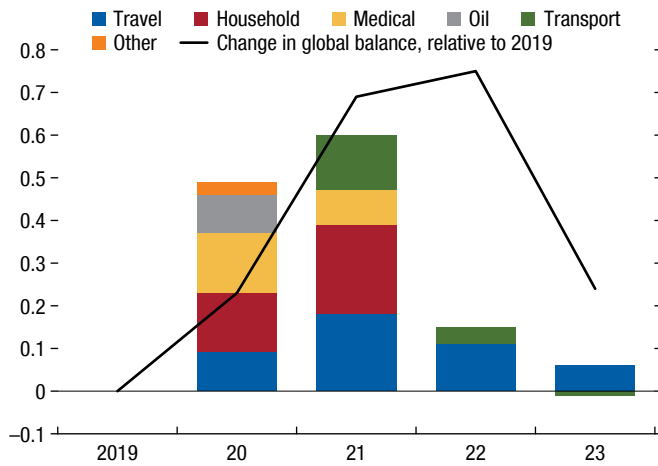
Source: IMF staff calculations.
Note: COVID-19 factor contributions derived from COVID-19 adjustors of external sector assessments. Change in global balance is measured relative to its 2019 level and differs from headline global balance because it is based on *External Sector Report* country sample, for which COVID-19 adjustors are available. "Travel" refers to restrictions on international travel; "Household" refers to shift in household consumption toward traded goods; "Medical" refers to a surge in trade of medical goods; "Transport" refers to a surge in transportation costs; "Oil" refers to extraordinary reduction in demand for oil in 2020, due to mobility restrictions; "Other" captures other country-specific COVID-19 factors for 2020. See Online Annex 1.1 of the 2021 *External Sector Report* for details on the adjustors. ESR = *External Sector Report*.

Figure 1.4. Fiscal Policy Changes, 2022–23
*(Cyclically adjusted fiscal balance, percentage points of potential GDP)*

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: CA = current account.

international travel and the rotation of consumption out of durables and back into services since 2022 have narrowed the global balance.[3] Other COVID-19 factors, such as elevated transportation costs and trade in medical goods, tended to similarly widen the global balance temporarily during the pandemic. Analysis of ESR sample economies shows that in 2021, COVID-19 factors could have contributed 0.63 percent of global GDP to the post-COVID-19 increase in the global balance. In 2023, the withdrawal of such factors is estimated to have contributed 0.1 percent of global GDP to the narrowing of the global balance relative to 2022.

A significant share of the narrowing of the global balance in 2023 can be linked to a reversal of peak current account surpluses in commodity-exporting countries in 2022 (see contribution of oil exporters in

Figure 1.2). Commodity exporters as a group reduced current account surpluses by 0.55 percent of world GDP, as saving declined to buffer the economic impact of declining commodity prices (see also Figure 1.5, panel 3). The terms-of-trade shifts implied by the commodity price adjustments have also significantly impacted external balances for commodity importers. Most notably, the outsized fall in gas prices in Europe in 2023 (see Box 2.1 in Chapter 2) decreased energy import bills and increased trade balances for the region's gas importers.

The narrowing of the global balance can be linked to sizable changes in private saving, more than offsetting the impact of public saving on the current account. Current account deficit countries (excluding the United States) expanded fiscal positions slightly, and the United States did so considerably relative to 2022. Current account surplus countries' fiscal positions remained broadly unchanged (Figure 1.4). These developments widened the global balance. However, changes in government saving in 2023 were surpassed by changes in private sector saving for key contributors to the global balance—China, the United States, and oil exporters. On the current account deficit side, the decrease in the US current account deficit despite considerable fiscal loosening implies an increase in private saving (Figure 1.5). The current account surplus declined with private saving in China, albeit from a high level, reflecting the end of COVID-19-era lockdowns. For oil exporters, the current account surplus and saving declined as they smoothed the impact of commodity price volatility.

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[3]Most recently, in 2023 lower travel service balance is estimated to have decreased the current account in China by 0.4 percent of GDP relative to 2022.

Figure 1.5. Decomposition of Changes in Current Account, 2019–23
(Percent of World GDP)
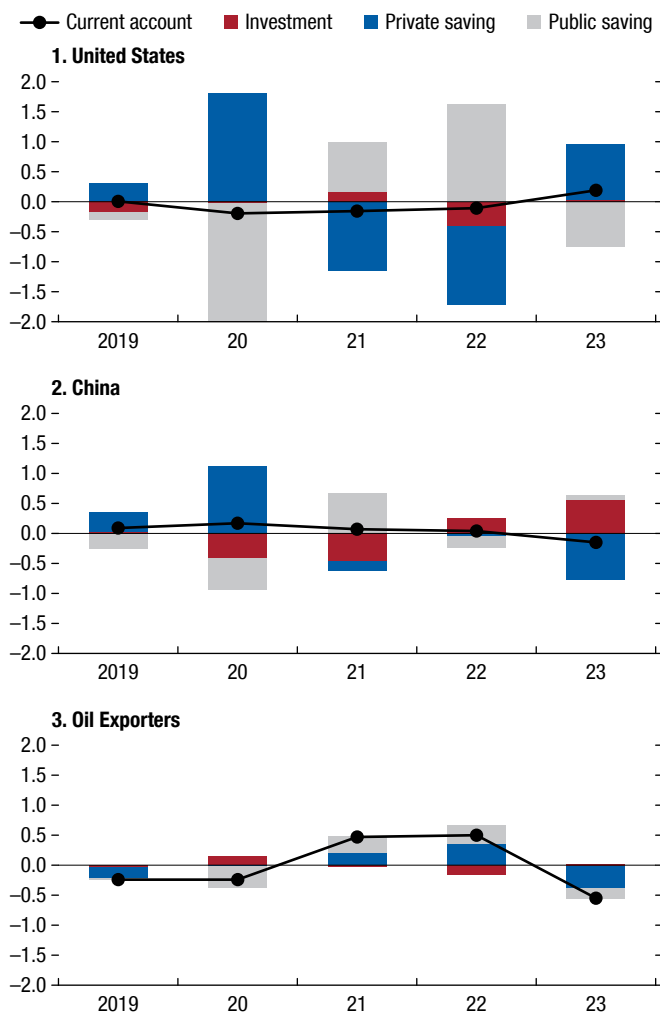
Sources: IMF, April 2024 *World Economic Outlook*; and IMF staff calculations.
Note: Investment is displayed as a negative value. The private saving rate is calculated as the residual from the current account balance, investment, and the public saving rate.

Recent Developments: Currencies, Financial Flows, Balance Sheets

Exchange Rates

Following a rapid US dollar appreciation in 2022, currency markets were more stable in 2023 and early 2024. Exchange rate movements in 2022 were dominated by the rapid monetary tightening in the United States, relative to other economies, which drove a sharp increase in the value of the US dollar. In 2023, tight monetary policy conditions prevailed globally but monetary policy divergence subsided, with additional tightening in major advanced economies staying limited.
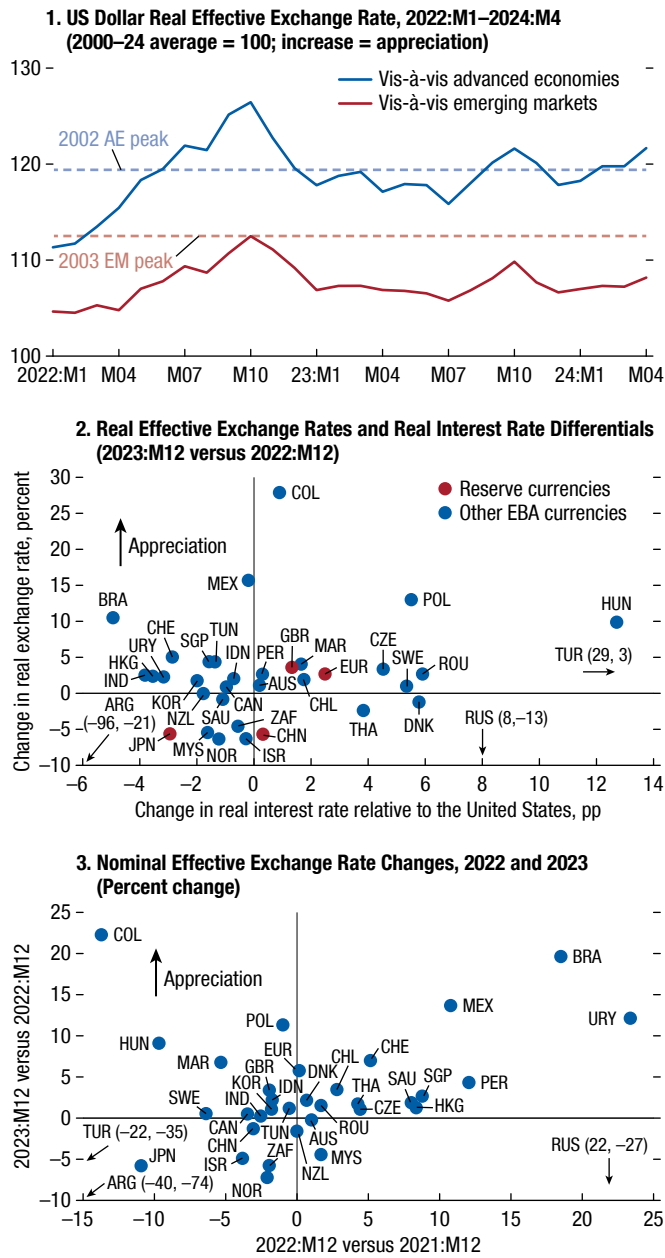
The strong US dollar persisted in 2023, with the currency remaining close to its post-2000 peak (Figure 1.6, panel 1), in part reflecting continued tight monetary policy and the relative resilience of the US economy in 2023. In the fourth quarter of 2023, the US dollar depreciated slightly, reflecting expectations of the beginning of the Federal Reserve cutting cycle. However, the more recent expectations of higher-for-longer policy rates in the United States have reversed this depreciation in early 2024.

Other reserve currency movements in 2023 and early 2024 have varied. The Chinese renminbi (–9.9 percent) and the Japanese yen (–10.2 percent) depreciated in real effective terms compared to their 2022 average. The depreciations partly reflected weaker market sentiment for the former and diverging monetary policy for the latter. The euro (0.3 percent) has remained broadly stable in real effective terms, while the pound sterling (4.9 percent) has appreciated, potentially driven by interest rate differentials (Figure 1.6, panel 2) and the speed of economic recovery.

Nominal effective exchange rate trends for other ESR countries in 2023 and early 2024 have displayed broadly similar patterns to their 2022 dynamics (Figure 1.6, panel 3). Some emerging market and developing economies (EMDEs), such as Brazil and Mexico, have appreciated again in 2023 and early 2024. Others, such as Argentina and Türkiye, have experienced significant depreciations. Country-specific factors such as interest rate differentials (see Figure 1.6, panel 2), speed of postpandemic economic recovery, preexisting vulnerabilities (such as lower perceived institutional quality), and success with disinflation efforts are reflected in these persistent differences in currency movements across EMDEs during 2022–23. The Russian ruble depreciated in 2023, largely due to declining export earnings.

The realized change in exchange rates is an imperfect measure of external pressures because interest rate changes and (active or passive) changes in foreign exchange (FX) reserves can also cushion pressures. Figure 1.7 plots an index summarizing this for 2023, incorporating realized exchange rate movements, policy rate changes by central banks, and adjusted changes in FX reserves, with positive values corresponding to exchange market pressure that would depreciate the

Figure 1.6. Currency Movements

1. US Dollar Real Effective Exchange Rate, 2022:M1–2024:M4
(2000–24 average = 100; increase = appreciation)

2. Real Effective Exchange Rates and Real Interest Rate Differentials
(2023:M12 versus 2022:M12)

3. Nominal Effective Exchange Rate Changes, 2022 and 2023
(Percent change)

Sources: Haver Analytics; IMF, Global Data Source; IMF, International Financial Statistics database; and IMF staff calculations.
Note: In panel 2, EBA currencies refers to the national currencies of the countries in the EBA model country sample. For scaling purposes, Argentina, Russia, and Türkiye were omitted from panel 2, and Argentina, Colombia, and Russia were omitted from panel 3. Omitted countries are listed with their coordinates. Data labels in the figure use International Organization for Standardization (ISO) country codes. AE = advanced economies; EBA = External Balance Assessment; EM = emerging markets; EUR = euro area; pp = percentage points.

Figure 1.7. Exchange Market Pressure and Its Components, 2023
(Percent change)

- Adjusted change in FX reserves
- Interest rate
- Nominal exchange rate
- ○ Total Exchange Market Pressure 2022
- ● Total Exchange Market Pressure 2023

1. Emerging Market and Developing Economies

2. Advanced Economies
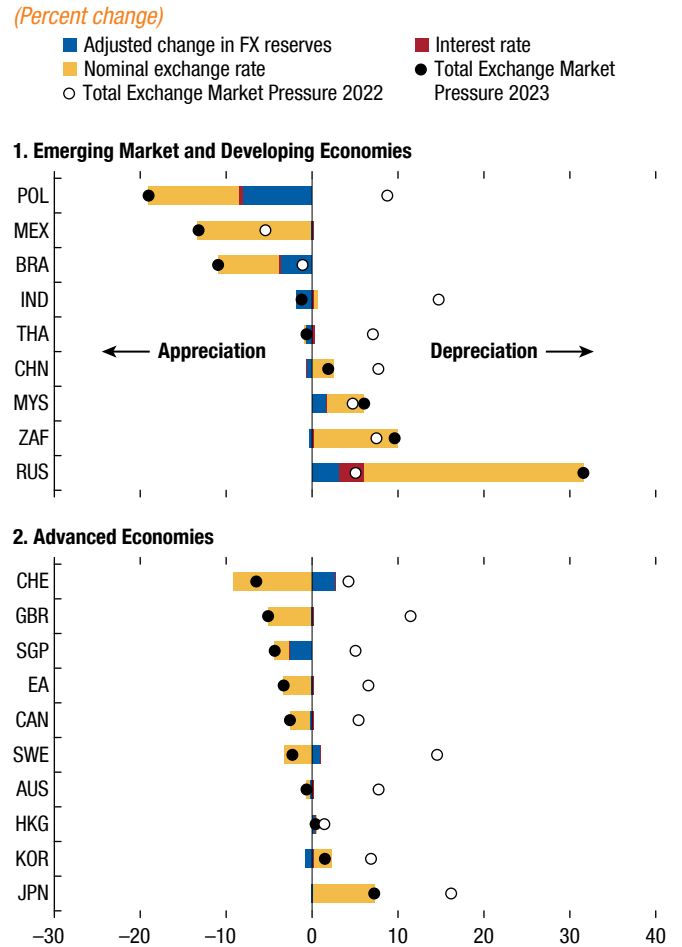
Sources: Adler and others (2024); Goldberg and Krogstrup (2023); IMF, International Financial Statistics database; and IMF staff calculations.
Note: The Exchange Market Pressure Index is based on Goldberg and Krogstrup (2023, updated). It is defined as the weighted and scaled sums of ER depreciation, adjusted changes in FX reserves, and policy rate changes. It combines pressures observed in exchange rate adjustments with model-based estimates of incipient pressures that are masked by changes in reserves and policy rate adjustments. Positive values correspond to exchange market pressure that would depreciate the nominal exchange rate. A country's total exchange market pressure in 2023 is the sum of scaled and weighted observed adjusted changes in FX reserves, short-term interest rate changes, and nominal exchange rate movements. Values of adjusted changes in FX reserves and interest rate changes are expressed in terms of counterfactual exchange rate adjustments that would have occurred if no changes in FX reserves or policy rates had occurred. Changes in FX reserves are adjusted for valuation changes, income flows, and changes in other foreign currency balance sheet positions by Adler and others (2024, updated). Figure includes all ESR economies covered by Goldberg and Krogstrup (2023). Missing economies are Argentina, Indonesia, and Türkiye. The United States is not reported as the reference currency is the US dollar. Data labels in the figure use International Organization for Standardization (ISO) country codes. EA = euro area; ER = exchange rate; ESR = *External Sector Report*; FX = foreign exchange.

nominal exchange rate. Using the adjusted changes in FX reserves constructed by Adler and others (2024, updated),[4] Goldberg and Krogstrup (2023) estimated the counterfactual adjustment in the exchange rate that would have occurred in the absence of the adjusted changes in FX reserves or policy rate changes.

External pressure was considerably weaker and less one-sided in 2023, compared to 2022, as monetary policy divergence subsided, with tight conditions persisting globally. Twelve External Balance Assessment (EBA) economies (including Poland, Mexico and Brazil) faced appreciating pressure in 2023—a significant increase from 2022.[5] This potentially reflects resilience of emerging markets to the ongoing tightening cycle, including improved policy frameworks in some economies, as indicated by the progress made in their fight against inflation and in reducing currency volatility, capital outflows, and other external pressures (see the April 2024 *Global Financial Stability Report*). As in 2022, change in inflation during 2023 was positively linked to the Exchange Market Pressure index, with lower pressure for depreciation in economies that have reduced inflation by more.

Exchange rate changes were the main policy outlet for addressing exchange market pressures, especially where the pressures were more sizable. In some emerging markets, as well as advanced economies, adjusted reserves changed. These changes occurred in both directions, with the adjusted change in reserves decreasing the appreciation pressure in Brazil, India, Poland, and Singapore, while the change absorbed depreciation pressure in Malaysia and Russia. With inflation abating in major emerging markets, some central banks have commenced cutting interest rates. During 2023, interest rate differentials vis-à-vis the United States—which has yet to cut rates—have declined (among ESR countries) for Brazil and Poland, as reflected in a negative interest rate component in Figure 1.7.

[4]Adler and others (2024) adjust changes in FX reserves for estimated valuation changes, income flows, and changes in other foreign-currency balance sheet positions. This measure often reflects FX intervention, but it can sometimes be dominated by other changes in the central bank's foreign currency position. Central banks can also intervene through derivatives, which have been increasingly used in some economies. See country pages in Chapter 3 for country-specific details on foreign exchange intervention in 2023.

[5]Average depreciation pressure was 1.9 percent, with 12 out of 32 EBA currencies experiencing depreciating pressure in 2023; in 2022 the average depreciation pressure was 12.8 percent, with 29 currencies having depreciating (positive) pressure.

Figure 1.8. Aggregate Net Capital Inflows in Emerging Market and Developing Economies, 2014–23
(Percent of group GDP)
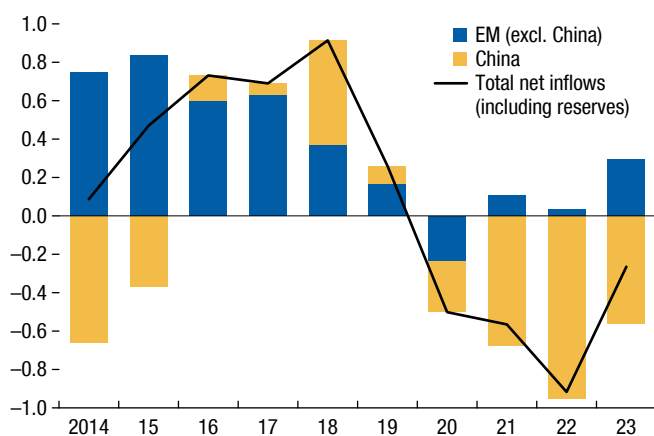
Sources: Haver Analytics; IMF, International Financial Statistics database; and IMF staff calculations.
Note: Net capital inflows are calculated as gross inflow minus gross outflow. Positive values indicate a net inflow. Total includes reserve accumulation with a negative sign. Sample includes economies covered in the *External Sector Report* and the External Balance Assessment regression model, subject to data availability. Derivatives are excluded. EM = emerging market economies.

Global Financial Flows

Net capital inflows to emerging markets recovered slightly from 2022 lows but remained negative in 2023, showing uphill capital flows (Figure 1.8).[6] This aggregate emerging market trend hides important heterogeneity across countries. While China continued to account for a large share of negative net capital inflows during 2023, inflows to other emerging markets as a group were positive and increased. Turning to subcomponents of the financial account (Figure 1.9):

- Net foreign direct investment (FDI) inflows in 2023 declined relative to historical averages but remained positive across emerging market groups. China was an exception, where net FDI inflows stayed negative and fell further in 2023.
- In both groups (China and other emerging markets), the more volatile net portfolio inflows were less negative in 2023. At the same time, net other investment inflows were muted in 2023, with a turn to positive net inflows in other emerging markets and a decline in China relative to 2022.
- Reserve accumulation, presented in negative values in Figure 1.9, has declined in China, while it has increased in other emerging markets.

[6]The overall level of net capital inflows into EMDEs varies across country samples. The focus in this section is on economies covered in the *External Sector Report* and the EBA regression model, subject to data availability.

Figure 1.9. Net Capital Inflows to Emerging Market and Developing Economies by Component, 2014–23
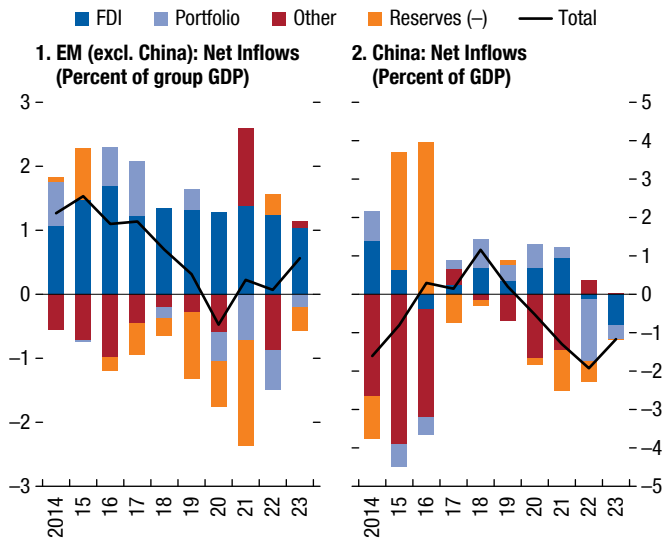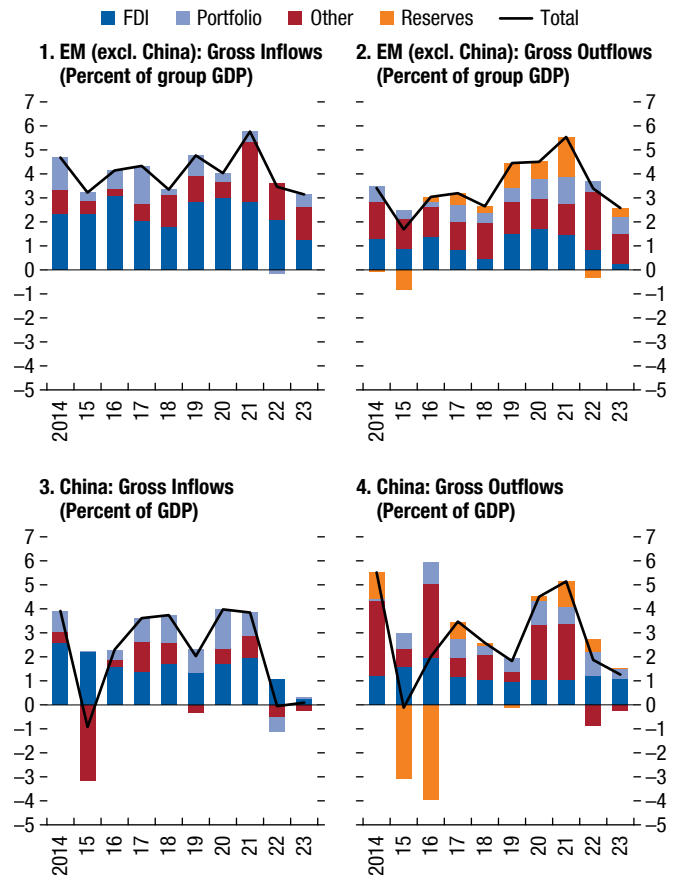

Sources: Haver Analytics; IMF, International Financial Statistics database; and IMF staff calculations.
Note: Net capital inflows are calculated as gross inflow minus gross outflow. Positive values indicate a net inflow. Total includes reserve accumulation with a negative sign. Sample includes economies covered in the *External Sector Report* and the External Balance Assessment regression model, subject to data availability. Derivatives are excluded. EM = emerging markets; FDI = foreign direct investment.

Figure 1.10. Gross Capital Flows in Emerging Market and Developing Economies, 2014–23

Sources: Haver Analytics; IMF, International Financial Statistics database; and IMF staff calculations.
Note: Sample includes economies covered in the *External Sector Report* and the External Balance Assessment regression model, subject to data availability. Derivatives are excluded. EM = emerging markets; FDI = foreign direct investment.

These patterns in net inflows mask a decline in both gross inflows (nonresident investment in EMDEs) and gross outflows (EMDE residents' investment abroad) (Figure 1.10).

- In China, gross inflows have declined since 2021, with gross other investment inflows staying negative in 2022–23. A sharp decline in gross FDI inflows stands out in historical context. On the gross outflow side, China—the largest overseas investor among emerging markets—saw comparable or even larger reductions during 2023 for portfolio flows and reserves, contributing to the relative recovery in overall net inflows (see Figure 1.9, panel 2). In contrast, China's gross FDI outflows have remained broadly stable and in line with historical trends, resulting in large negative net inflows for this capital flow component.

- In other emerging markets in 2023, gross capital inflows and outflows declined, with a more pronounced decline in the latter increasing the net flows (Figure 1.9, panel 1). The relative resilience of net FDI inflows is accounted for by a comparable decline in both gross FDI inflows and gross FDI outflows. Gross portfolio inflows and outflows increased in 2023. Other gross outflows moderated relative to 2022, contributing to a recovery of net

other capital inflows. However, there was significant heterogeneity across large emerging markets, with some gross inflow destinations recording sizable increases (both for FDI and non-FDI inflows) relative to prepandemic trends (see Box 1.1).

Observed shifts in capital flows during 2023 can be attributed to push (global) and pull (local) factors. Among global factors, continued disinflation efforts and tight monetary policy in advanced economies set a generally constraining capital flow environment, as evidenced by reduced gross capital inflows and outflows. Local factors, such as interest differentials and less robust growth, may have depressed inflows to some countries. Geopolitical uncertainties may have played a role in reducing FDI (see Box 1.1).

Figure 1.11. High-Frequency Gross Portfolio Inflows to Emerging Market and Developing Economies, January 2023–March 2024
(Three-month moving sum, billions of US dollars)
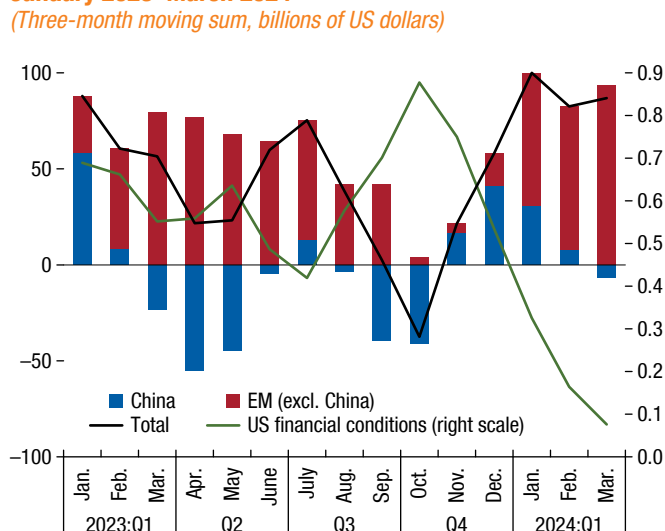
Sources: Ajello and others (2023); Institute of International Finance; and IMF staff calculations.
Note: US financial conditions measured by the Financial Conditions Impulse on Growth index, with positive values indicate financial tightening. Gross portfolio inflows are measure by nonresident portfolio inflows data from the International Institute of Finance, with positive values indicting an inflow. EM = emerging market economies.

Figure 1.12. Gross Assets and Liabilities, 2000–23
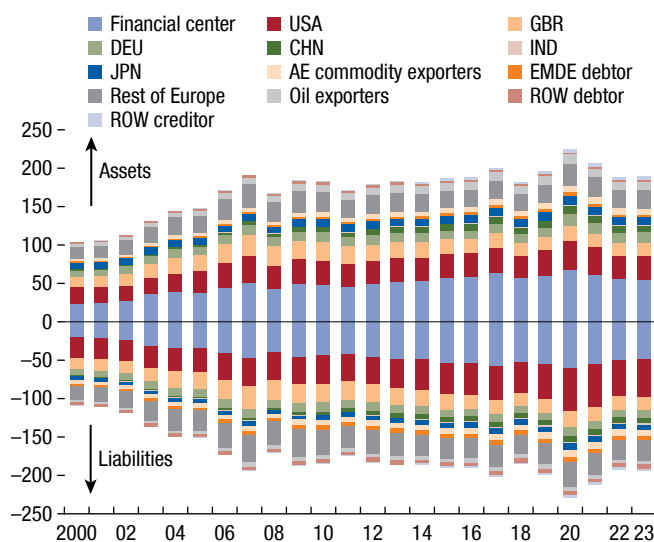*(Percent of world GDP)*

Sources: External Wealth of Nations database; IMF, April 2023 *World Economic Outlook*; and IMF staff calculations.
Note: Liabilities are shown on reverse scale. Data labels in the figure use International Organization for Standardization (ISO) country codes. Advanced economies (AE) commodity exporters: Australia, Canada, and New Zealand. Emerging market and developing economies (EMDE) debtors: Brazil, Chile, Indonesia, Mexico, Peru, South Africa, and Türkiye. Financial centers: The Bahamas, Barbados, Belgium, Cyprus, Hong Kong, Ireland, Luxembourg, Malta, Mauritius, The Netherlands, Panama, Singapore, Switzerland, and Taiwan. Oil exporters: Algeria, Angola, Azerbaijan, Bahrain, Brunei, Chad, Republic of Congo, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kazakhstan, Kuwait, Libya, Nigeria, Norway, Oman, Qatar, Russia, Saudi Arabia, South Sudan, Timor-Leste, Trinidad and Tobago, Turkmenistan, United Arab Emirates, Venezuela, and Yemen. ROW = rest of the world.

High-frequency gross portfolio inflows, a subset of the financial account, show an inflow to emerging markets other than China in the first few months of 2024, a continuation of the 2023 trend (Figure 1.11). China has seen a decline in inflows in early 2024, partly reversing the recovery in the fourth quarter of 2023 (also observed in aggregate gross portfolio inflows in Figure 1.10). These gross portfolio inflow dynamics can be linked to fluctuations in US financial conditions, with optimism in financial markets and the limited depreciation of the US dollar in the fourth quarter of 2023 helping rekindle capital inflows to emerging markets in the fourth quarter of 2023 and the first quarter of 2024. There have so far been fairly limited global spillovers in capital flows from increased tensions in the Middle East, as inflows to the region decreased in the second half of 2023 but have since recovered.

Global Balance Sheets and the Global Financial Safety Net

Global cross-border holdings of financial assets and liabilities are estimated to have remained broadly constant in 2023 relative to 2022 in percent of the global GDP (Figure 1.12). Such gross holdings have remained large from a historical perspective and have increased in US dollar terms. Financial centers, including the United Kingdom, continued to play an outsized role in global balance sheets, representing 36 percent of global assets and liabilities but only 7 percent of global GDP.

Despite the narrowing in the global current account balance, net foreign creditor and debtor positions are estimated to have expanded in 2023, with broad-based increases in positions across different country groups (Figure 1.13). The largest debtor economy remains the United States, whose net international investment position deteriorated from –61 percent of GDP in 2022 to –71 percent in 2023 (Table 1.2). Other large debtor economies include Brazil, France, and India, while the largest creditor economies remain China, Germany, Hong Kong Special Administrative Region, and Japan.

Figure 1.13. Net International Investment Positions, 1990–2023
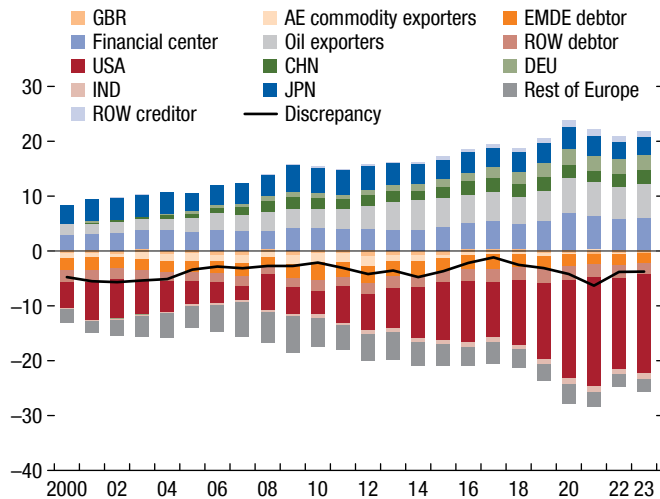*(Percent of world GDP)*

Sources: External Wealth of Nations database; IMF, April 2023 *World Economic Outlook*; and IMF staff calculations.
Note: Liabilities are shown on reverse scale. Data labels in the figure use International Organization for Standardization (ISO) country codes. Advanced economies (AE) commodity exporters: Australia, Canada, and New Zealand. Emerging market and developing economies (EMDE) debtors: Brazil, Chile, Indonesia, Mexico, Peru, South Africa, and Türkiye. Financial centers: Belgium, Bermuda, Bahrain, The Bahamas, Barbados, British Virgin Island, Cayman Islands, Curacao, Cyprus, Guernsey, Hong Kong, Ireland, Isle of Man, Jersey, Luxembourg, Malta, Mauritius, The Netherlands Antilles, Panama, Singapore, Switzerland, Taiwan, and Turks and Caicos. Oil exporters: Algeria, Angola, Azerbaijan, Bahrain, Brunei, Chad, Republic of Congo, Ecuador, Guinea Equatorial, Gabon, Iran, Iraq, Kazakhstan, Kuwait, Libya, Nigeria, Norway, Oman, Qatar, Russia, Saudi Arabia, South Sudan, Timor-Leste, Trinidad and Tobago, Turkmenistan, United Arab Emirates, Venezuela, and Yemen. ROW = rest of the world.

Financial centers have a large net creditor position as a group, around 6 percent of global GDP.

Persistent current account surpluses and deficits across creditors and debtors continued to shape the expanding net international investment positions during 2023. In addition, valuation changes have contributed to increasing stock imbalances, with creditor countries tending to have more positive valuation changes (with a notable exception of The Netherlands) while larger debtors tended to experience valuation losses (Figure 1.14). US equity prices, in particular, led to a deterioration of US debtor position and increases in net position of countries holding these assets. Currency-induced valuation changes tended to partly offset the shifts due to asset prices over this period. For instance, in the United States, the valuation loss due to higher domestic equity prices was only partially offset by a valuation

Figure 1.14. Valuation Changes and Net International Investment Position, 2023
(Percent of GDP)
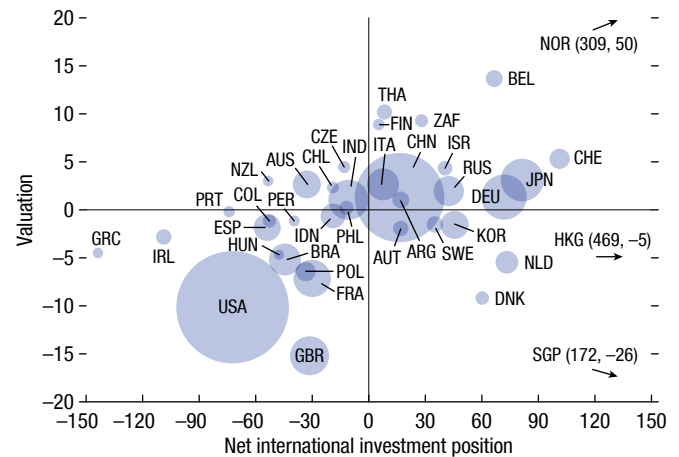
Sources: IMF, International Financial Statistics database; and IMF staff calculations.
Note: Valuation changes are calculated as the difference between the change in net international investment position over the 2022:Q4–23:Q4 period and current account balance, in percent of GDP. Sample includes economies covered in the External Balance Assessment regression model, subject to data availability. Bubble sizes are proportional to US dollar GDP. Data labels in the figure use International Organization for Standardization (ISO) country codes.

gain due to a US dollar depreciation over the first three quarters of 2023.

The global financial safety net continues to be a critical component of the international monetary system. It provides countries with insurance against shocks, financing to mitigate their impact, and incentives for sound macroeconomic policies (Aiyar and others 2023). The global financial safety net is composed of four layers: central banks' foreign exchange reserves, central banks' bilateral swap arrangements, regional financing arrangements, and the IMF. As of the end of 2023, it represented a combined firepower of around $17.8 trillion (Figure 1.15). In addition, the Federal Reserve's temporary bilateral swap lines or repurchase agreement facility for foreign and international monetary authorities played a key role in stabilizing global financial markets and capital flows to emerging market economies.[7] There has been a rapid growth in the People's Bank of China swap lines signed in the last 1½ decades (Bahaj, Fuchs, and Reis 2024), both on the intensive margin, with the value of these

[7]See Aizenman, Ito, and Pasricha (2022) and Goldberg and Ravazzolo (2022) for more details.

Figure 1.15. Evolution of the Global Financial Safety Net, 1995–2023
(Billions of US Dollars)

Figure 1.16. Bilateral Central Bank Swap Line Agreements with the People's Bank of China
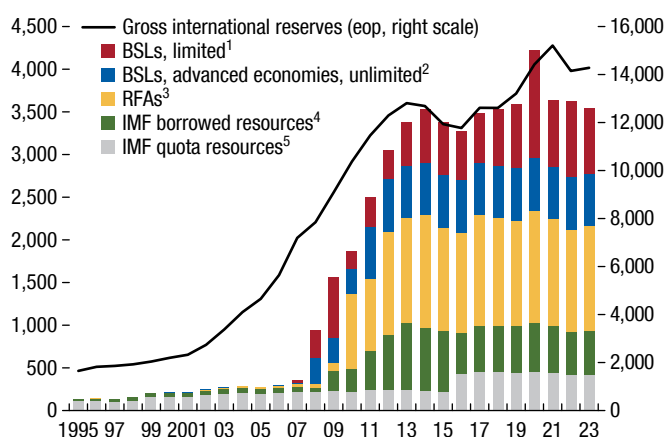
Sources: Central bank websites; Perks and others (2021); RFA annual reports; and IMF staff estimates.
Note: BSLs = bilateral swap lines; eop = end of period; RFAs = regional financing arrangements. Two-way arrangements are counted only once.
[1]Limited-amount swap lines include all arrangements with an explicit amount limit and exclude all the Chiang Mai Initiative Multilateralization arrangements, which are included under RFAs.
[2]Permanent swap lines among major advanced economy central banks (Federal Reserve, European Central Bank, Bank of England, Bank of Japan, Swiss National Bank, Bank of Canada). The estimated amount is based on known past usage or, if undrawn, on average past maximum drawings of the remaining central bank members in the network, following the methodology in Denbee, Jung, and Paternò 2016.
[3]Based on explicit lending capacity or limit (where available), committed resources, or estimated lending capacity based on country access limits and paid-in capital.
[4]After prudential balances.
[5]Quota for countries in the financial transaction plan after deducting prudential balance.

Sources: Bahaj, Fuchs, and Reis (2024); People's Bank of China; and IMF staff calculations.
Note: Number of countries and swap amounts based on data from Bahaj, Fuchs, and Reis (2024), which tracks public sources such as People's Bank of China press releases regarding swap line agreements. A swap line agreement is classified as active if the date of observation falls between the enactment and expiration dates of the agreement. In cases when an existing deal is replaced with another deal with a different amount during a given year, the amount of the later deal is used. BSL = bank swap line.

Methodology

The models in the EBA methodology produce medium-term current account and real exchange rate benchmarks (or norms) that are consistent with country fundamentals and desired policies (Figure 1.17).[9],[10] The norms are compared with realized current account and real exchange rate levels (after adjusting for cyclical and other short-term factors) to derive gaps, a measure of excess external balances. The model inputs are then combined with other external indicators, analytically grounded adjustments, and country-specific insights to reach a holistic IMF staff assessment of external sectors.

agreements increasing markedly, and on the extensive margin, with the People's Bank of China expanding the number of countries with active bilateral swap lines agreements to 31 by 2023 (Figure 1.16).

Assessment of External Positions in 2023

This report presents multilaterally consistent individual assessments of external positions for 30 of the world's largest economies (87.7 percent of global GDP).[8] Annex Tables 1.1.2, 1.1.3, and 1.1.4 summarize the IMF staff–assessed current account and real effective exchange rate gaps and external sector assessments for these economies.

[9]The EBA current account norms reflect fundamental features affecting economies' saving and investment decisions. Advanced economies with higher incomes, older populations, and lower growth prospects tend to have positive norms, while most EMDEs, which tend to be younger and are expected to import capital to invest and exploit their higher growth potential, have negative norms. Norms also depend on desirable medium-term policies—that is, policies deemed appropriate by IMF staff once cyclical factors are accounted for. For instance, economies for which IMF staff recommend a relatively loose fiscal policy will have lower norms than those evaluated as needing fiscal consolidation.
[10]See Allen and others (2023) for details on the current vintage of the EBA methodology. A detailed description of the external assessment process can also be found in an IMF blog entry (Obstfeld 2017).

[8]Although the ESR presents assessments for 30 systemic economies, the IMF staff conduct an assessment of the external sector of all members as part of bilateral surveillance.

Figure 1.17 External Balance Assessment Current Account Norms, 2023
(Percent of GDP)
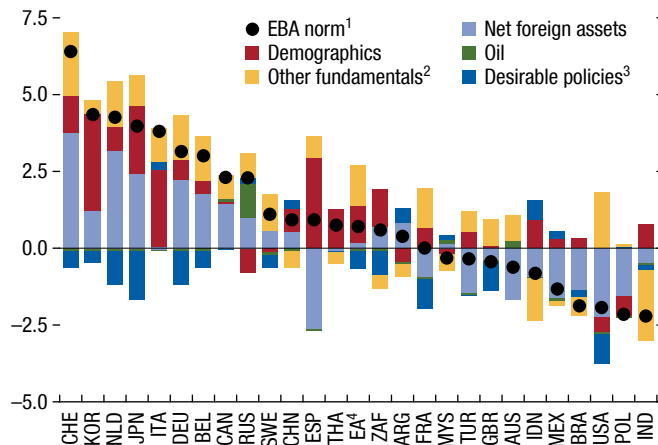
Source: IMF, External Balance Assessment estimates.
Note: Figure excludes Hong Kong SAR, Saudi Arabia, and Singapore, as they are not included in the EBA regression model. Data labels use International Organization for Standardization (ISO) country codes. EA = euro area; EBA = External Balance Assessment.
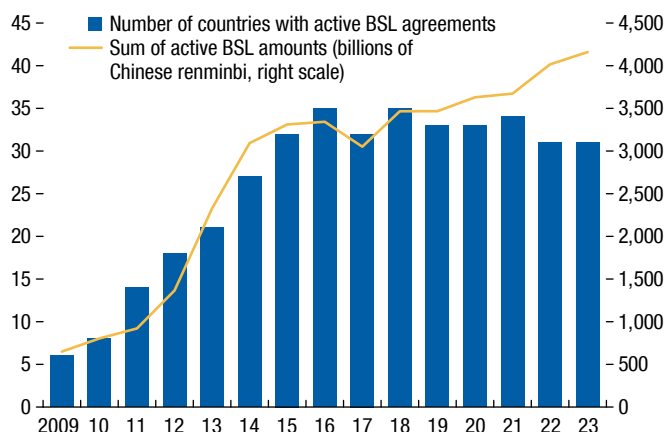[1]The EBA current account norm is multilaterally consistent and cyclically adjusted.
[2]Other fundamentals include output per worker, expected GDP growth, and *International Country Risk Guide.*
[3]Desirable policies include desirable credit gap, desirable fiscal balance, desirable foreign exchange intervention, desirable health, and constant and multilaterally consistent adjustment.
[4]The current account norm is corrected for reporting discrepancies in intra-area transactions, since the current account of the entire euro area is about 1.3 percent of GDP less than the sum of the individual 11 countries' balances (for which no such correction is available).

IMF staff judgment plays a critical role in the assessments, as the models may not capture all relevant country characteristics and potential policy distortions. Adjustors for country-specific factors, such as measurement issues, natural disasters, net international investment position considerations, and lingering but temporary effects of the pandemic, have been included. The size of such adjustors continued to shrink when compared to 2022 (see Figure 1.3). Annex Table 1.1.3 reports the overall set of IMF staff adjustments.

Assessment Results for 2023

External positions compared with the levels consistent with medium-term fundamentals and desirable policies in 2023 were as follows:

- *Moderately stronger, stronger, or substantially stronger than the level consistent with medium-term fundamentals and desirable policies:* The 10 economies with such positions were Germany, India, Malaysia, Mexico, Singapore, Sweden, and Thailand, along

with The Netherlands, Poland, and Spain, which entered the category in 2023.

- *Moderately weaker, weaker, or substantially weaker than the level consistent with medium-term fundamentals and desirable policies:* The nine economies with such positions were Argentina, Belgium, Canada, Italy, and Türkiye, along with Korea, Saudi Arabia, Switzerland, and the United Kingdom, which entered the category in 2023.
- *Broadly in line with the level consistent with medium-term fundamentals and desirable policies:* The 11 economies with such positions were Australia, Brazil, China, the euro area, Hong Kong Special Administrative Region, Indonesia, and Japan, along with France, Russia, South Africa, and the United States, which entered this category in 2023.

Compared with those for 2022, assessments for 2023 changed for about half of the 30 ESR economies (Figure 1.18), largely driven by changes in headline current accounts. About half of the economies that changed assessment moved farther away from the "broadly in line" category. However, notable cases of economies that moved into the "broadly in line" category include France, Russia, South Africa, and the United States. At the aggregate level, the sum of the absolute values of IMF staff–assessed current account gaps remained broadly unchanged relative to 2022—close to 1 percent of ESR economy GDP (Figure 1.19, panel 1)—as a decrease in staff gaps for the largest economies (China and the United States) was offset by increases in some of the smaller ESR economies (Figure 1.19, panel 2).

Compared in terms of the sum of absolute values, headline current account balances decreased sizably in contrast to IMF staff–assessed current account gaps. For the ESR sample, the sum of the absolute values of current account balances (akin to the global current account balance of Figure 1.2) decreased by about 0.6 percentage point to about 2.4 percent of ESR GDP in 2023 compared to 2022 (see Figure 1.19, panel 1). Cyclical factors played a major role in the large headline current account fluctuations.[11] The summed absolute value of current account norms was stable at 1.6 percent of GDP in 2023.

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[11]IMF staff–assessed current account gaps are constructed once cyclical and short-term considerations are factored out and incorporate staff adjustments for temporary factors; they therefore are less volatile.

Figure 1.18. Evolution of External Sector Assessments, 2012–23
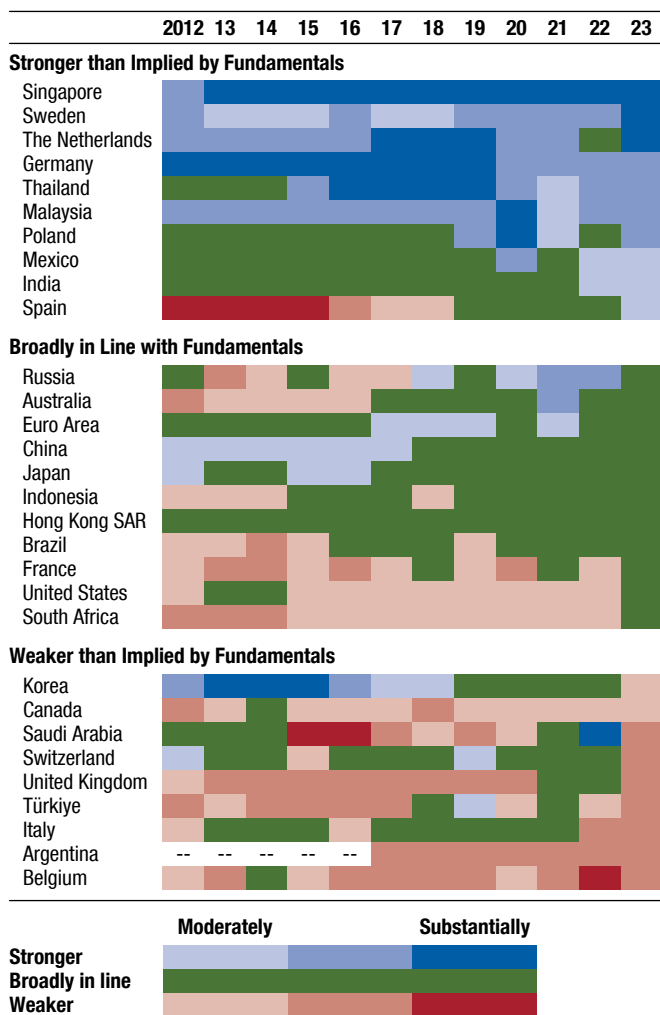
Source: IMF staff assessments.
Note: Grouping and ordering are based on economies' excess imbalance during 2023. Coverage of Argentina in the *External Sector Report* started in 2018.

Figure 1.19. Evolution of Headline Current Account Balance and IMF Staff Gaps
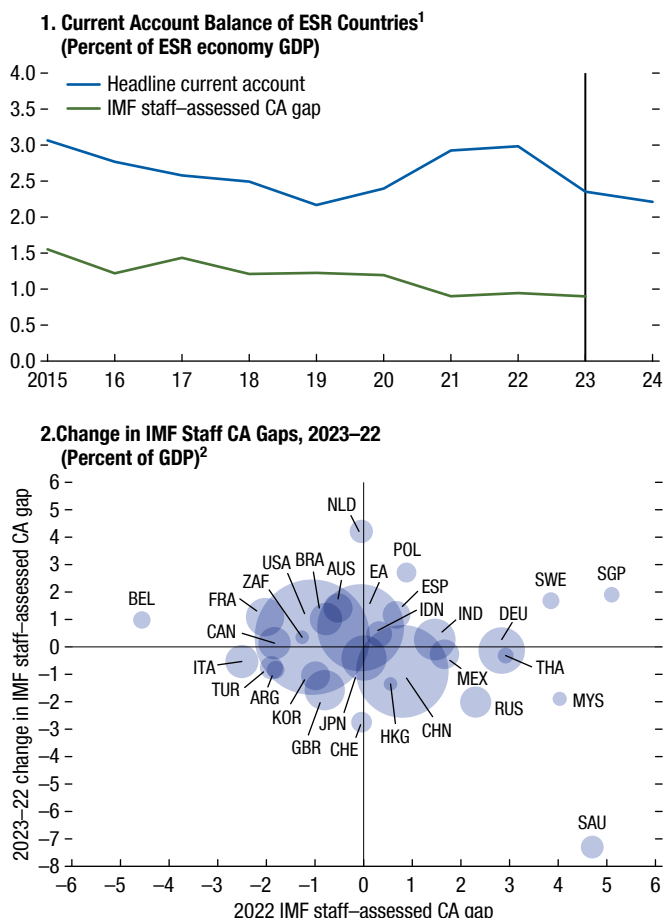
1. Current Account Balance of ESR Countries[1]
(Percent of ESR economy GDP)

2. Change in IMF Staff CA Gaps, 2023–22
(Percent of GDP)[2]

Source: IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. CA = current account; EA = euro area; ESR = *External Sector Report*.
[1]The headline CA for 2024 is a projection.
[2]Bubble sizes are proportional to 2023 GDP in US dollars.

Most of the excess balance in 2023 (measured by the sum of absolute values of IMF staff–assessed current account gaps) pertained to advanced economies. Among economies in the "weaker-than-warranted" categories, the largest contributors to lower-than-warranted current account balances as a share of ESR economy GDP were, in descending order, the United Kingdom, Italy, and Canada. Among economies in the "stronger-than-warranted" categories, the largest contributors to larger-than-warranted current account balances as a share of ESR economy GDP were (again, in descending order) Germany, India, and The Netherlands.

Outlook and Risks

Outlook

The global balance is projected to narrow further over the medium term, with some heterogeneity across countries (Figure 1.20, Table 1.1). Current account surpluses in China and oil exporters are projected to continue to decline as imports of services continue to grow in China and as energy prices continue to moderate. The current account deficit of the United States is also projected to contribute to the narrowing of the global balance as the trade deficit continues to decline toward prepandemic levels.

Figure 1.20. Global Current Account Balance, 2000–29
(Percent of world GDP)
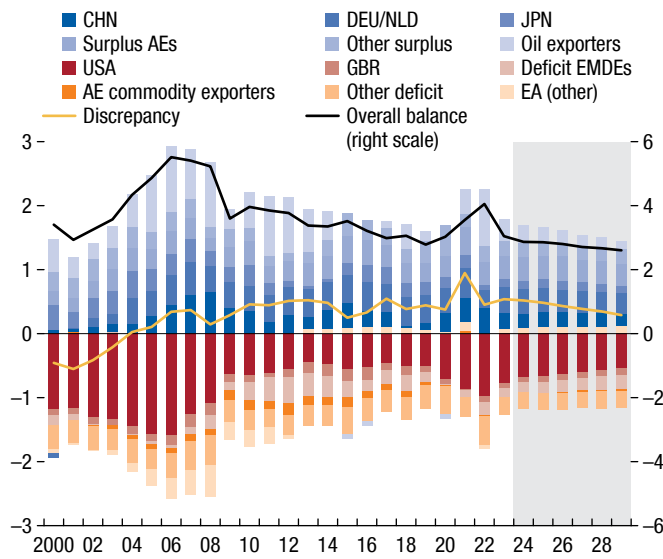
Sources: IMF, International Financial Statistics database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; EA = euro area; EMDEs = emerging market and developing economies.

Figure 1.21. Fiscal Policy and Global Current Account Balance, 2024–28
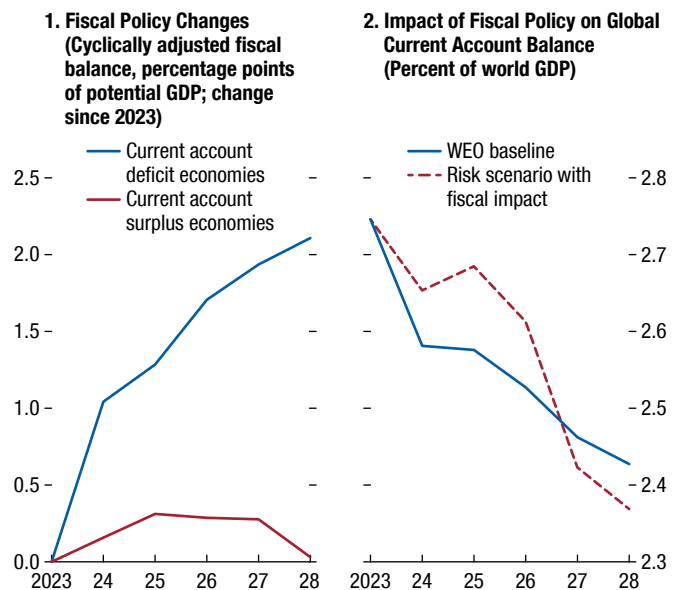
Sources: IMF, World Economic Outlook (WEO) database; and IMF staff estimates (Group of Twenty model simulations).

The decline in the global balance is dampened by the projected widening of the current account deficit in several deficit emerging markets, including Brazil, India, Indonesia, and Mexico. In terms of macroeconomic factors, the narrowing of the medium-term global balance is supported by moderating commodity prices and projected medium-term fiscal consolidation in current account deficit countries, including the United States (Figure 1.21), outweighing a projected gradual recovery in global trade volumes. The medium-term global balance has decreased by 0.2 percent of world GDP relative to the path reported in the 2023 *External Sector Report*.

Creditor and debtor stock positions are projected to continue to expand moderately over the medium term. As projections of exchange rates and asset prices are highly uncertain, global stock balances could deviate substantially from baseline projections. Nevertheless, the debtor position of European economies is projected to improve over the medium term on the back of persistent current account surpluses and declining deficits. Risks of external stress persist for economies where gross external liabilities are historically high (see Chapter 2 of the 2020 *External Sector Report*).

Risks Surrounding the Outlook

Several key assumptions underpin the baseline projection for current account balances, including the implementation of sizable medium-term fiscal consolidation in current account deficit countries, no further escalation of geoeconomic tensions, moderating commodity prices, and continued global financial stability. Risks to the outlook are sizable and tiled toward a widening global balance, linked to potential delays in fiscal consolidation in current account deficit countries, external sector spillovers from continued real estate slowdown and rebalancing in China, and rising commodity prices. Risks that could narrow the global balance include intensifying geoeconomic fragmentation and tightening of global financial conditions. Several of the risks surrounding the outlook, including delayed fiscal consolidation and intensifying geoeconomic fragmentation, have the potential to disrupt the relative stability in external sector that has returned after the pandemic years.

Divergence from projected medium-term fiscal consolidation plans: Current account deficit countries provided outsized fiscal support during the pandemic (see the 2021 *External Sector Report*). After sustaining elevated expenditure levels during 2022–23, partly due to new global geoeconomic shocks, these

Figure 1.22. Number of Net Harmful Trade Restrictions by Policy Instrument, 2009–23
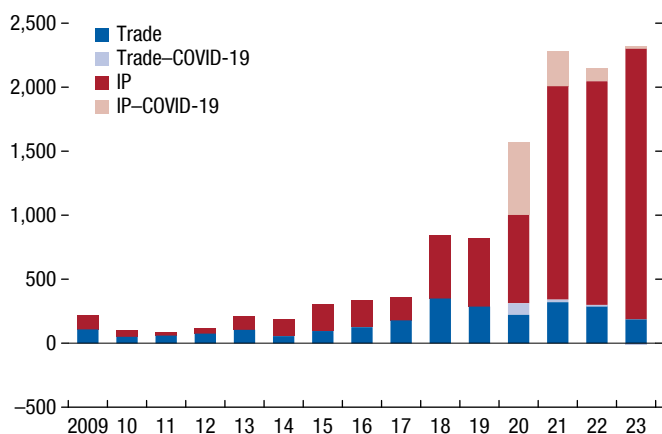
Sources: Global Trade Alert database; and IMF staff calculations.
Note: Industrial policy (IP) and trade interventions are based on the reported policy instrument used. COVID-19 interventions are defined as those with explicit mention of COVID-19 or related words in the intervention's state act title. The reported time series is adjusted for time-series comparison. This adjustment consists of only reporting the interventions announced by the government and documented in the data set within the same year. The reported net interventions are only those catalogued as harmful ("Red") minus those reported as liberalizing ("Green") in the published Global Trade Alert database. Results are based on data published on May 16, 2024.

economies are projected to embark on a gradual fiscal consolidation of 2 percent of GDP over the medium-term horizon (Figure 1.21, panel 1). No systematic consolidation relative to 2023 is projected for current account surplus countries. However, implementing the consolidation could prove challenging, for example, due to elections or political pressure to increase subsidies and reduce taxes (see Chapter 1 of the April 2024 *World Economic Outlook*). To examine such risks, an alternative scenario assumes that fiscal consolidation envisaged for 2024–25 is postponed until 2026 (see Box 1.2 of the April 2024 *World Economic Outlook* for further details).[12] Under this risk scenario, analyzed using the IMF's Group of Twenty model, current account deficit countries run higher deficits in fiscal and current accounts initially and then engage in sharper fiscal consolidation after 2026 than under the baseline. As a result, the global

current account balance expands relative to the baseline until 2026 and thereafter shrinks faster and lower than the baseline (Figure 1.21, panel 2). Beyond the examined risk scenario, delayed fiscal consolidation could magnify fiscal vulnerabilities by increasing sovereign spreads and public debt, more so in countries with current account deficits. Heightened fiscal vulnerabilities, in turn, increase the risk of external stress events, which have been shown to lead to larger output losses and sharper current account adjustments (see Chapter 2 and Box 2.1 in the 2020 *External Sector Report*). Given the global scale of the projected fiscal consolidation, a widespread delay could also deteriorate global risk sentiment and elevate global financial stress, which can further heighten economic costs to debtor as well as creditor countries, with the latter experiencing substantial valuation losses.

Intensifying geoeconomic fragmentation hampering global trade and finance: Geoeconomic fragmentation remains a major concern, aggravated by the recent geopolitical tensions stemming from US–China trade relations and Russia's war in Ukraine. In an extreme scenario, the world could splinter into geoeconomic blocs, with profound effects on cross-border trade and the international monetary system (Aiyar and others 2023). Policy measures that restrict global trade have continued to accumulate in terms of trade interventions, as well as increasingly in the form of industrial policies targeting national security, economic resilience, de-risking of supply chains, and climate objectives (Figure 1.22). Recent empirical evidence suggests that fragmentation of trade and investment along geopolitical lines following Russia's invasion of Ukraine has already materialized, albeit to a relatively small extent (Gopinath and others 2024). Model-based scenarios of trade and financial fragmentation suggest that an intensification of geoeconomic fragmentation could reduce trade flows and narrow the global balance over the medium term (see Box 1.2).[13] Geoeconomic fragmentation adversely impacts effective productivity by distorting trade in intermediate goods, more so for those countries closely integrated in global value chains across un-friendly blocs. Importantly, the negative economic consequences of the intensifying fragmentation could extend beyond the politically more distant blocs. Output, investment, and trade openness decline also in the systemically important group of

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[12]The April 2024 *World Economic Outlook* scenario focuses on fiscal consolidation efforts in advanced economies, which, for the purpose of external sector analysis of this section, have been recast in terms of current account deficit and surplus countries, with advanced economies, and the United States in particular, accounting for a disproportionate share of global current account deficits. No deviations from the fiscal baseline are assumed for China.

[13]See also Box 1.3 in the 2023 *External Sector Report* for a related analysis of trade costs and current account imbalances.

non-aligned emerging and developing economies. Further geoeconomic fragmentation would unambiguously reduce welfare, including through its effects on FDIs, the diffusion of technology, and flows of goods and capital (Aiyar and others 2023; April 2023 *World Economic Outlook*, Chapter 4; April 2023 *Global Financial Stability Report*, Chapter 4). Increased fragmentation would also weaken international policy coordination on vital global public goods, such as climate change mitigation and pandemic resilience (see Chapter 2 of the 2022 *External Sector Report*).

Global spillovers from a prolonged real estate slowdown in China: A depreciation of China's housing value—a dominant store of wealth for households—and the subsequent rebuilding of the stock of wealth in China could contribute to a saving glut with global spillovers. Such a scenario would likely drive up China's current account surpluses vis-à-vis the rest of the world and widen the global current account balance (Box 1.3). Increased production in goods sectors, due to increased subsidies or rapid productivity gains, could also generate international spillovers, widening the global balance. This highlights the importance of domestic rebalancing and broad-based structural reform efforts in China, including efforts to boost productivity growth and strengthen social safety nets to reduce precautionary saving.

An abrupt tightening of financial conditions: Given very low financial volatility concurrent with elevated macroeconomic uncertainty, a sudden repricing of risk could lead to a sharp tightening of financial conditions. Additionally, correlations across asset classes are historically high, increasing the risk of contagion (see the April 2024 *Global Financial Stability Report*). This could trigger capital outflows, sharp exchange rate adjustments, and balance-of-payments crises for countries with weak buffers and high foreign currency debt. A particular financial risk stems from higher-for-longer policy rates in the United States, which could reduce policy rate differentials in emerging markets (see the April 2024 *Global Financial Stability Report*). Resulting global spillovers could include disruptive exchange market pressures, capital outflows, and reduced trade flows, likely translating into a lower global balance. In IMF staff estimates of capital flows at risk, three-quarter-ahead portfolio debt outflows across emerging markets (excluding China) at the fifth percentile will be 2.3 percent of GDP, with a probability of outflows at about 27 percent (Figure 1.23). This represents a marginal improvement from last year, related to a more positive investor sentiment.

Figure 1.23. Capital Flows at Risk for Emerging Markets
(Conditional probability distribution)
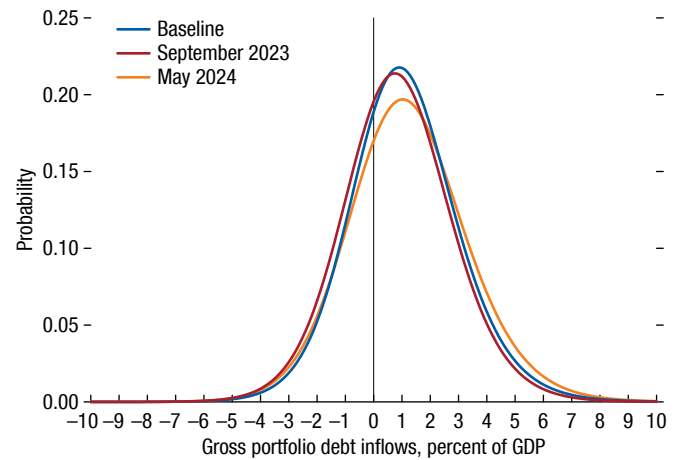
Source: IMF staff calculations.
Note: The *x*-axis represents the expected average of gross portfolio debt inflows to GDP over the next three quarters into 18 emerging market economies (Brazil, Bulgaria, Chile, Colombia, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Romania, Russia, Thailand, Türkiye, South Africa). Probability densities are estimated for different sets of data with the baseline representing the average across time. Please see Gelos and others (2022) for more detail.

Rising commodity prices: Energy price hikes could be triggered by renewed supply chain pressures precipitated by the war in Ukraine, the Middle East conflict, terrorism disruptions to trade, or climate disasters. EMDEs that are energy importers and have low buffers are particularly vulnerable to a prolonged elevation in commodity prices, which could lead to capital outflows, exchange rate depreciations, fiscal pressures, and debt distress. Rising commodity prices have historically been linked to a widening global balance, but risks such as intensification of regional conflicts could also depress trade in goods and services as well as financial flows.

Climate change and clean energy transition: As risks of climate change are materializing, natural disasters could become more widespread, increasingly affecting larger countries, especially in the long term. Empirical estimates for disaster-prone economies show a deterioration of the current account after a climate disaster (see Box 1.3 of the 2022 *External Sector Report*). Moreover, the global balance could be significantly impacted by implementation of climate mitigation policies (see Chapter 2 of the 2022 *External Sector Report*). The transition to clean energy could also reshape commodity prices and trade flows, with potentially diverging impacts on current accounts between exporters of fossil fuels and green metals (see Chapter 2 and Box 2.4).

Table 1.1. Selected Economies: Current Account Balance, 2021–24

	Billions of US Dollars				Percent of World GDP				Percent of GDP			
	2021	2022	2023	2024 Projection	2021	2022	2023	2024 Projection	2021	2022	2023	2024 Projection
Advanced Economies												
Australia	48	18	21	9	0.05	0.02	0.02	0.01	2.9	1.1	1.2	0.5
Belgium	8	−6	−6	−3	0.01	−0.01	−0.01	0.00	1.3	−1.0	−1.0	−0.5
Canada	0	−8	−16	7	0.00	−0.01	−0.01	0.01	0.0	−0.4	−0.7	0.3
France	11	−57	−23	−9	0.01	−0.06	−0.02	−0.01	0.4	−2.0	−0.7	−0.3
Germany	330	172	263	322	0.34	0.17	0.25	0.30	7.7	4.2	5.9	7.0
Hong Kong SAR	44	37	35	36	0.04	0.04	0.03	0.03	11.8	10.2	9.2	8.8
Italy	52	−33	11	18	0.05	−0.03	0.01	0.02	2.4	−1.6	0.5	0.8
Japan	196	90	150	143	0.20	0.09	0.14	0.13	3.9	2.1	3.6	3.5
Korea	85	26	35	50	0.09	0.03	0.03	0.05	4.7	1.5	2.1	2.9
The Netherlands	125	94	113	104	0.13	0.09	0.11	0.10	12.1	9.3	10.1	9.1
Singapore	86	90	99	95	0.09	0.09	0.09	0.09	19.8	18.0	19.8	18.0
Spain	11	9	41	42	0.01	0.01	0.04	0.04	0.8	0.6	2.6	2.5
Sweden	45	32	40	37	0.05	0.03	0.04	0.03	7.1	5.4	6.8	6.0
Switzerland	56	77	68	77	0.06	0.08	0.06	0.07	6.9	9.4	7.6	8.2
United Kingdom	−15	−96	−110	−91	−0.02	−0.10	−0.11	−0.08	−0.5	−3.1	−3.3	−2.6
United States	−831	−972	−819	−852	−0.86	−0.97	−0.78	−0.78	−3.5	−3.8	−3.0	−3.0
Emerging Market and Developing Economies												
Argentina	7	−4	−22	4	0.01	0.00	−0.02	0.00	1.4	−0.7	−3.4	0.6
Brazil	−46	−48	−30	−32	−0.05	−0.05	−0.03	−0.03	−2.8	−2.5	−1.4	−1.4
China	353	402	253	236	0.36	0.40	0.24	0.22	2.0	2.3	1.4	1.3
India[1]	−39	−67	−29	−55	−0.04	−0.07	−0.03	−0.05	−1.2	−2.0	−0.8	−1.4
Indonesia	4	13	−2	−13	0.00	0.01	0.00	−0.01	0.3	1.0	−0.1	−0.9
Malaysia	15	13	6	11	0.02	0.01	0.01	0.01	3.9	3.1	1.5	2.4
Mexico	−4	−18	−6	−15	0.00	−0.02	−0.01	−0.01	−0.3	−1.2	−0.3	−0.8
Poland	−9	−17	13	6	−0.01	−0.02	0.01	0.01	−1.2	−2.4	1.6	0.7
Russia	122	238	51	56	0.13	0.24	0.05	0.05	6.6	10.5	2.5	2.7
Saudi Arabia	42	152	34	5	0.04	0.15	0.03	0.00	4.8	13.7	3.2	0.5
South Africa	15	−2	−6	−7	0.02	0.00	−0.01	−0.01	3.7	−0.5	−1.6	−1.8
Thailand	−10	−16	7	9	−0.01	−0.02	0.01	0.01	−2.0	−3.2	1.4	1.7
Türkiye	−6	−46	−45	−31	−0.01	−0.05	−0.04	−0.03	−0.8	−5.1	−4.0	−2.8
Memorandum Items:[2]												
Euro Area	417	−85	260	368	0.4	−0.1	0.2	0.3	2.8	−0.6	1.7	2.3
Global Current Account Balance	3,448	4,079	3,192	3142	3.6	4.1	3.1	2.9	. . .	. . .	. . .	. . .
Statistical Discrepancy	917	445	551	453	0.9	0.4	0.5	0.4	. . .	. . .	. . .	. . .
Overall Surpluses	2,183	2,260	1,874	1852	2.3	2.2	1.8	1.7	. . .	. . .	. . .	. . .
Of which: Advanced Economies	1,436	1,060	1,238	1311	1.5	1.1	1.2	1.2	. . .	. . .	. . .	. . .
Overall Deficits	−1,265	−1,816	−1,324	−1399	−1.3	−1.8	−1.3	−1.3	. . .	. . .	. . .	. . .
Of which: Advanced Economies	−894	−1,265	−974	−1002	−0.9	−1.3	−0.9	−0.9	. . .	. . .	. . .	. . .

Sources: IMF, April 2024 *World Economic Outlook*; and IMF staff calculations.
Note: ". . ." indicates that data are not available or not applicable; SAR = Special Administrative Region.
[1]For India, data are presented on a fiscal year basis.
[2]The global current account balance is the sum of absolute deficits and surpluses. Overall surpluses and deficits (and the "of which" advanced economies) include non–*External Sector Report* economies.

Table 1.2. Selected Economies: Net International Investment Position, 2020–23

	Billions of US Dollars				Percent of World GDP				Percent of GDP			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
Advanced Economies												
Australia	−786	−600	−655	−556	−0.9	−0.6	−0.7	−0.5	−57.6	−36.2	−38.0	−31.9
Belgium	262	389	338	410	0.3	0.4	0.3	0.4	49.9	64.7	57.9	65.0
Canada	887	1,103	841	1,236	1.0	1.1	0.8	1.2	53.6	55.0	38.9	57.7
France	−831	−874	−659	−885	−1.0	−0.9	−0.7	−0.8	−31.4	−29.5	−23.7	−29.2
Germany	2,640	2,782	2,881	3,120	3.1	2.9	2.9	3.0	68.0	65.0	70.5	70.0
Hong Kong SAR	2,122	2,111	1,765	1,757	2.5	2.2	1.8	1.7	615.2	572.2	492.0	468.0
Italy	18	162	96	167	0.0	0.2	0.1	0.2	0.9	7.5	4.7	7.4
Japan	3,465	3,678	3,091	3,372	4.1	3.8	3.1	3.2	68.5	73.1	72.6	80.0
Korea	487	685	771	780	0.6	0.7	0.8	0.7	29.6	37.7	46.1	45.5
The Netherlands	1,095	919	760	802	1.3	0.9	0.8	0.8	120.5	89.1	75.2	71.8
Singapore	1,093	1,005	890	859	1.3	1.0	0.9	0.8	312.8	231.5	178.4	171.4
Spain	−1,084	−1,027	−851	−835	−1.3	−1.1	−0.8	−0.8	−84.9	−71.0	−60.0	−52.8
Sweden	45	115	183	197	0.1	0.1	0.2	0.2	8.2	17.9	31.0	33.2
Switzerland	906	832	756	838	1.1	0.9	0.8	0.8	122.2	102.4	92.3	94.7
United Kingdom	−250	−440	−443	−1,037	−0.3	−0.5	−0.4	−1.0	−9.3	−14.0	−14.3	−31.0
United States	−14,721	−18,783	−16,172	−19,768	−17.3	−19.4	−16.1	−18.9	−66.8	−76.2	−61.2	−70.7
Emerging Market and Developing Economies												
Argentina	122	122	116	109	0.1	0.1	0.1	0.1	31.7	25.1	18.4	17.0
Brazil	−552	−601	−824	−976	−0.6	−0.6	−0.8	−0.9	−37.4	−36.0	−42.2	−44.9
China	2,287	2,186	2,427	2,914	2.7	2.3	2.4	2.8	15.4	12.3	13.6	16.5
India	−345	−353	−373	−370	−0.4	−0.4	−0.4	−0.4	−13.3	−11.4	−11.1	−10.6
Indonesia	−280	−277	−250	−260	−0.3	−0.3	−0.2	−0.2	−26.4	−23.4	−19.0	−19.0
Malaysia	20	22	12	27	0.0	0.0	0.0	0.0	5.7	5.8	3.0	6.8
Mexico	−552	−554	−615	−732	−0.6	−0.6	−0.6	−0.7	−49.2	−42.2	−42.0	−40.9
Poland	−273	−258	−233	−272	−0.3	−0.3	−0.2	−0.3	−45.5	−37.8	−33.7	−33.5
Russia	517	485	760	847	0.6	0.5	0.8	0.8	34.7	26.3	33.4	42.4
Saudi Arabia	701	709	786	785	0.8	0.7	0.8	0.7	95.4	81.2	70.9	73.5
South Africa	112	102	80	106	0.1	0.1	0.1	0.1	33.2	24.4	19.7	28.1
Thailand	40	32	−17	43	0.0	0.0	0.0	0.0	7.9	6.3	−3.4	8.3
Türkiye	−382	−249	−315	−285	−0.4	−0.3	−0.3	−0.3	−53.1	−30.4	−34.7	−25.5
Memorandum Items:												
Euro Area	−449	−22	470	637	−0.5	0.0	0.5	0.6	−3.4	−0.1	3.3	4.1
Statistical Discrepancy	−3,882	−6,926	−5,154	−6,810	−4.6	−7.2	−5.1	−6.5	. . .	. . .	. . .	
Overall Creditors[1]	20,170	21,006	20,095	22,197	23.7	21.7	20.0	21.2	. . .	. . .	. . .	
Of which: Advanced Economies	16,089	17,063	15,610	17,283	18.9	17.6	15.5	16.5	. . .	. . .	. . .	
Overall Debtors[1]	−24,052	−27,932	−25,249	−29,007	−28.3	−28.9	−25.1	−27.8	. . .	. . .	. . .	
Of which: Advanced Economies	−19,345	−23,241	−20,252	−23,838	−22.7	−24.0	−20.2	−22.8	. . .	. . .	. . .	

Sources: IMF, April 2024 *World Economic Outlook*; US Bureau of Economic Analysis; and IMF staff calculations.
Note: ". . ." indicates that data are not available or not applicable; SAR = Special Administrative Region.
[1]Overall creditors and debtors (and the "of which" advanced economies) include non–*External Sector Report* economies.

Policy Priorities for Promoting External Rebalancing

Current account surpluses and deficits are not an undesirable phenomenon to the extent that they reflect differences in countries' fundamentals and desirable medium-term policies. However, excess current account balances could reflect an inefficient allocation of resources and, when combined with negative net international investment positions, could exacerbate the risks of sudden stops and reversals in capital inflows. Moreover, excess balances could contribute to fuel discontent toward multilateralism, exacerbating geoeconomic fragmentation and raising trade barriers. Therefore, correcting excess balances can improve welfare, reduce the risk of disruptive capital flow reversals, and preserve the support for multilateralism.

Promoting external rebalancing requires both excess current account surplus and deficit economies to act collectively. As the April 2024 *World Economic Outlook* emphasizes, policymakers will need to calibrate policies to help deliver a smooth landing to the global economy. In this context, central banks will need to ensure right timing of monetary policy easing, ensuring that wage and price pressures are clearly dissipating before announcing moves to a less restrictive stance. Fiscal consolidation, where warranted, would help rebuild budgetary room to deal with future shocks and curb the rise of public debt as appropriate. In addition to being consistent with these objectives, the policy priorities set out in the April 2024 *World Economic Outlook* would also help rebalance excess external positions and contain risks to external balances, including via fiscal consolidation in several large economies with excessive deficits on fiscal and external accounts (such as Italy and the United Kingdom).

As central bank policies become less synchronous, divergences in interest rates across countries could spur capital flow movements and high volatility in foreign exchange markets. In this context, policy responses should be guided by the IMF's Integrated Policy Framework and the revised Institutional View on Capital Flows (IMF 2023), depending on country-specific circumstances. If those risks materialize, adjusting the policy rate and allowing exchange rate flexibility would be appropriate for economies with deep foreign exchange markets, low foreign currency mismatches, and well-anchored inflation expectations. On the other hand, in economies where foreign exchange markets are shallow, FX mismatches are large, or a sudden exchange rate depreciation may de-anchor inflation expectations, it may be appropriate to resort to temporary FX interventions or loosen capital flow management measures on inflows to keep the FX market functioning smoothly while keeping monetary and fiscal policy at their appropriate settings. Macroprudential policies, including pre-emptive capital flow management measures/macroprudential measures where appropriate, should help reduce financial vulnerabilities from large exposure to foreign currency denominated debt. Temporary FX interventions and capital flow management measures should not substitute for warranted macroeconomic adjustments or the development of domestic macroprudential policies.

Coordinated policy efforts and multilateral cooperation will help address a host of complex challenges facing the world and preserve the benefits of multilateralism. As discussed in the April 2024 *World Economic Outlook*, geoeconomic fragmentation, which is already affecting international trade, could intensify. In this context, cross-border cooperation will be paramount to mitigate fragmentation and strengthen the resilience of the international monetary system. Policymakers should maintain stable and transparent trade policies and avoid discriminatory policies that induce trade and investment distortions, including by safeguarding the transportation of critical minerals, restoring the World Trade Organization's ability to settle trade disputes, and ensuring the responsible use of potentially disruptive new technologies such as artificial intelligence. International coordination and dialogue will also be beneficial to help ensure an appropriate use and design of industrial polices—including by identifying their unintended consequences across borders, facilitating an orderly resolution of debt problems in an increasingly complex creditor landscape, and mitigating the effects of climate change and facilitate the green energy transition.

Maintaining liquidity in the global financial system will be essential to manage risks related to less synchronous monetary policies and geoeconomic fragmentation of the financial system. This will help ensure that economies at risk of external shocks can make full use of the global financial safety net, including through IMF precautionary financial arrangements. In this context, the IMF Board of Governors' conclusion of the 16th Review of Quotas is a welcome step that needs to be followed up by members providing their consent to their respective quota increase. Once implemented, the quota increase will increase IMF liquidity, ensure the primary role of quotas in IMF resources, reinforce the IMF's role at the center of the global financial safety net, and

strengthen the IMF's capacity to help safeguard global financial stability and respond to members' needs.

Policies to promote external rebalancing differ based on individual economies' positions and needs, as detailed in the individual economy assessments in Chapter 3 (and summarized in Annex Table 1.1.6).

- *Economies with weaker-than-warranted external positions* should focus on policies that boost saving and competitiveness. Where the assessment partly reflects the need to reduce high public debt levels (as in Belgium and Italy), policies in the near and medium terms should focus on a credible fiscal consolidation, which would also create space to support green and digital transformations. Fiscal consolidation would also help reduce vulnerabilities in economies with low reserves and elevated gross external financing needs (as in Türkiye) and should be implemented in a way that protects critical infrastructure investment and well-targeted social spending to help tackle poverty and inequality (for example, in Argentina). Countries with competitiveness challenges also need to address structural bottlenecks through labor market and other structural reforms to promote green, digital, and inclusive growth while boosting productivity.

- *Economies with stronger-than-warranted external positions* should prioritize policies aimed at promoting investment and diminishing excess saving to support external rebalancing while also pursuing domestic objectives. For example, in Germany, higher fiscal deficits than currently planned are likely to be required over the medium term to ensure adequate public investment in the green transition, digitalization, and transport infrastructure to achieve domestic climate, digital, and energy security goals, while also helping reduce the current account balance toward its norm. In Sweden, as inflation recedes, there is a need to increase private and public investment in the green transition and the health sector, thus lowering the external balance, helping the country meet its ambitious climate goals and prepare for demographic challenges. In some emerging markets (such as Malaysia, Mexico, and Thailand), reforms to tackle informality and expand social safety nets, including when appropriate through public health care, would encourage investment and—by supporting consumption—help reduce precautionary saving, thus also helping with external rebalancing.

- *Economies with external positions broadly in line with fundamentals* should continue to address domestic imbalances to prevent excessive external imbalances. Some economies (such as China) should address policy distortions, including through accelerating market-based structural reforms, shifting fiscal policy support toward strengthening social protection to reduce high household savings and rebalance toward private consumption, and gradually increasing exchange rate flexibility to help the economy better absorb external shocks. In the United States, fiscal consolidation over the medium term would broadly stabilize the public debt-to-GDP ratio and maintain an external position consistent with medium-term fundamentals and desirable policies. In economies with negative net international investment positions (such as Brazil), keeping current account balances in line with their norms will require efforts to raise national savings, which will also provide room for a sustainable expansion in investment. Reforms to boost productivity would also improve competitiveness while facilitating the green and digital transitions.

Box 1.1. Cross-Country Variation in Gross Capital Inflows to Large Emerging Market and Developing Economies

This box discusses cross-country heterogeneity behind the overall decline in gross capital inflows to emerging market and developing economies during 2022–23, highlighting its patterns and challenges with measurement.

Relative to a 2017–19 baseline, gross capital inflows in emerging markets declined during 2022–23 for aggregate capital flows as well as foreign direct investment (FDI; Figure 1.1.1). However, these aggregate trends hide large cross-country variation. Some of the larger emerging markets, including China, India, and Russia, drive the aggregate decline. Meanwhile, other emerging markets, such as Malaysia, Poland, and Türkiye, have seen increases in gross capital inflows for both FDI and non-FDI flows, relative to prepandemic trends.

The observed heterogeneity in gross capital flows could reflect recent geoeconomic fragmentation trends.[1] Data on outward bilateral FDI flows from three key source economies—the euro area, Japan, and the United States—reveal a systematic difference in FDIs to rival geopolitical blocs (Figure 1.1.2). For all three source countries, FDI to the Western bloc increased relative to a 2017–19 baseline. This increase is largely driven by FDI to Europe and the United States. Flows to the Eastern bloc declined or stagnated, driven by FDI into China and Russia. The results for the nonaligned countries are more mixed, with increases in Mexico as a destination for US investment, Türkiye for the euro area, and Malaysia and Vietnam for Japan. Notably, for the United States and Japan, the nonaligned group outperformed the Eastern bloc. These findings are consistent with previous work (Chapter 4 of April 2023 *World Economic Outlook*; Gopinath and others 2024) but extend the analysis to more comprehensive bilateral balance-of-payments data.

This box was prepared by Cian Allen.
[1]Other potential explanations include varying policy frameworks, changes in medium-term expected GDP growth, or delayed postpandemic recoveries in some economies.

Figure 1.1.1. Gross Capital and FDI Inflows
(Percent of GDP)
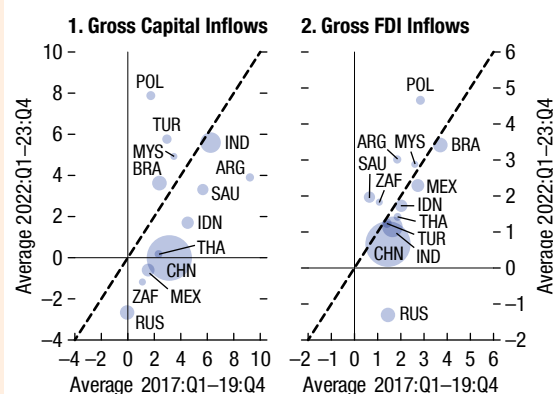
Source: IMF, Balance of Payments database.
Note: Sample includes emerging market economies covered in the *External Sector Report*, subject to data availability. Last observation for Malaysia is 2023:Q3. The line indicates the 45-degree line. Bubble size is based on GDP in US dollars. Data labels in the figure use International Organization for Standardization (ISO) country codes. FDI = foreign direct investment.

However, destination-based analysis of capital flows is severely hindered by the outsized role of financial centers in intermediating capital flows. The comprehensive nature of bilateral balance-of-payments data reveals that besides the geoeconomic trends for the destination of outward FDI flows, a significant share of FDI flows to financial centers and hence cannot be allocated to its ultimate destination (Figure 1.1.2, right bar).[2] These findings call for caution in interpreting available data on cross-country allocation of capital flows and the need to improve measurement of such flows.

[2]As previously documented in Lane and Milesi-Ferretti (2018) and Damgaard, Elkjaer, and Johannesen (2024), for instance. See also Coppola and others (2021) and Chapter 4 of the April 2024 *World Economic Outlook* for details on the role of financial centers in bilateral portfolio investment.

Box 1.1 *(continued)*

Figure 1.1.2. Bilateral FDI Abroad in the Balance of Payments
(Change 2022–23 versus 2017–19)

1. United States
(Billions of US dollars)

2. Euro Area
(Billions of euros)

3. Japan
(Billions of US dollars)

Eastern bloc / Nonaligned / Western bloc (excl. FC) / FC
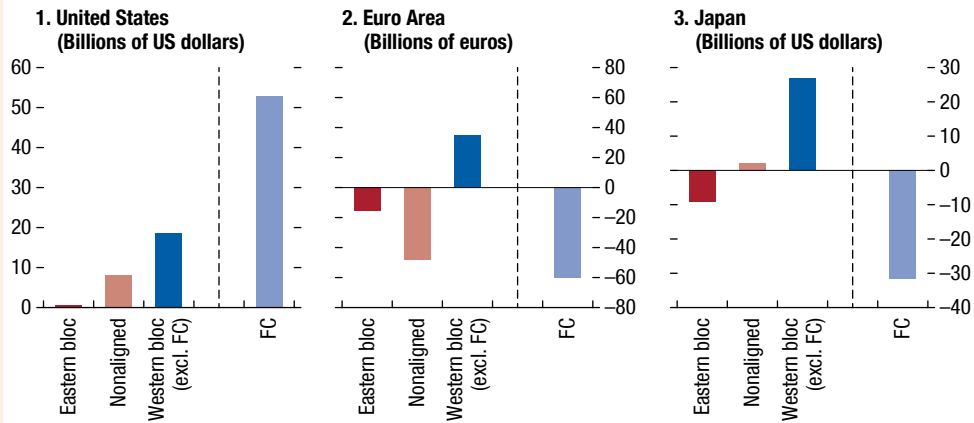
Sources: Bureau of Economic Analysis, US International Transactions; European Central Bank, Balance of Payments; and Japan, Ministry of Finance, Regional Balance of Payments.
Note: The bars correspond to the change between the average flow between 2022–23 and the average over the 2017–19 period. Geopolitical blocs correspond to a broad definition of geopolitical blocs in Gopinath and others (2024). Using the narrow definition yields very similar results. The list of FCs is based on Lane and Milesi-Ferretti (2018), along with data availability. For the United States, the aggregate category "Other Western Hemisphere," which includes the Cayman Islands, is included in FC. FC = financial centers.

Box 1.2. Geoeconomic Fragmentation and the Global Balance

Geoeconomic fragmentation poses a risk to decades of trade and financial integration. This box uses the IMF's Global Integrated Monetary and Fiscal (GIMF) model[1] to analyze trade and financial fragmentation scenarios between hypothetical US and China blocs, focusing on implications for the global current account balance.[2]

Trade Fragmentation

Trade fragmentation is modeled as an increase in symmetric nontariff trade barriers (NTBs) between the US bloc and the China bloc. NTBs capture the fallout from fragmentation that is more general than direct trade restrictions, extending to industrial policies targeting national security, economic resilience, and de-risking of supply chains. The shock is calibrated as a permanent 50 percent increase in NTBs over 10 years. NTBs act as a negative productivity shock, reducing investment, trade volumes, and output globally, while simultaneously increasing the price of imported goods, including consumption, investment, and intermediate goods.
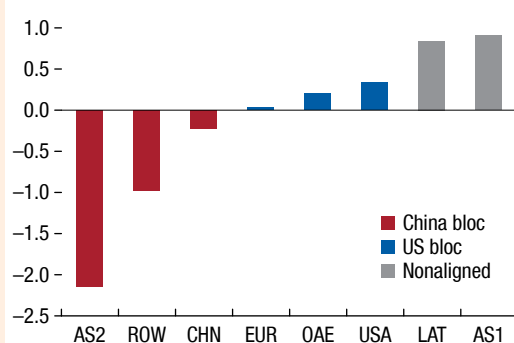
NTBs significantly impact medium-term current accounts across the blocs. If the two blocs were symmetric, reciprocal NTBs need not induce external sector adjustments. However, there are large structural asymmetries. Countries that are more open to trade and have major trading partners outside their blocs are disproportionately impacted by NTBs. The emerging Southeast Asia region is the most open to both the China bloc and the US bloc and more specialized in global value chain (GVC) goods. As fragmentation exacerbates (more than in other countries), import and consumption prices gradually increase and the real exchange rate appreciates, which, via the uncovered interest parity condition, temporarily lowers the region's real interest rate. Consequently, consumption declines less in the short to medium term (in anticipation of higher future price of consumption), reducing saving. In addition, the reduced output in the region's GVC sector lowers national income, which in the presence of rigidities in consumption induces

Figure 1.2.1. Trade Fragmentation Impact on the Current-Account-to-GDP Ratio
(Percentage point deviation from baseline)

Source: IMF staff calculations.
Note: The US bloc includes the US, European Union and Switzerland (EUR), and other advanced economies (OAE). The China bloc includes China, emerging Southeast Asia (AS2), and remaining countries (ROW). Latin American countries (LAT) and Indonesia and India (AS1) are not aligned. EUR, OAE, CHN, AS2, and ROW have current account surpluses. USA, AS1, and LAT have current account deficits. The percentage point deviation from the baseline plotted is for the fifth period of the shock. Data labels in the figure use International Organization for Standardization (ISO) country code.

a further decline in saving. On the investment side, any decline in volumes is largely compensated by the NTB-induced price increase, limiting the decline in investment rate. On balance, the current account decreases (Figure 1.2.1). Nonaligned countries are at the other end of the spectrum. They are only indirectly exposed to the NTB shock through input linkages, leading to a small decline in investment and income. In the absence of NTBs, their tradable goods become relatively abundant, leading to a real exchange rate depreciation in the short to medium term and a temporary increase in the real interest rate, which in turn increases saving and the current account. Current account responses for the model's other countries can be similarly explained through the asymmetric exposure to the NTBs. The United States runs a current account surplus because it is the least exposed to the NTBs across the two blocs, with prices increasing relatively less than in the emerging Southeast Asia region, its real exchange rate depreciating, its real interest rate rising temporarily, and saving increasing. China is less exposed than the emerging Southeast Asia region but more so than countries in the US bloc, leading to a moderate current account deficit.

This box was prepared by Rudolfs Bems, Benjamin Carton, and Racha Moussa.

[1] See Kumhof and others (2010) and Anderson and others (2013) for details on the GIMF model.

[2] See Chapter 4 of the April 2023 *World Economic Outlook* and Online Annex 4.4 for the version of the GIMF model used here. The scenarios discussed in this box are based on those in Box 2.2 of the April 2023 *World Economic Outlook*.

Box 1.2 *(continued)*

Figure 1.2.2. Impact of Trade Fragmentation on Global Balance
(Percent of global GDP)
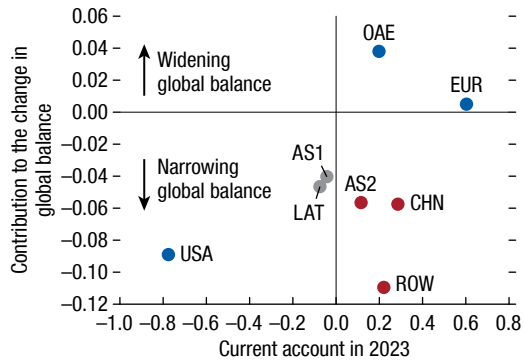
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: The contribution to the change in global balance is calculated as the difference between the absolute value of the current account after the trade fragmentation shock and the absolute value of the current account in 2023, all in percent of global GDP. The current account after the trade fragmentation shock is calculated as the current account to global GDP in 2023 plus the percentage point deviation of the current account to global GDP after the trade fragmentation shock. The medium term corresponds to the fifth period of the shock. Data labels in the figure use International Organization for Standardization (ISO) country codes. AS1 = India and Indonesia; AS2 = emerging Southeast Asia; EUR = the European Union and Switzerland; LAT = Latin America; OAE = other advanced economies; ROW = rest of the world.

How is the global balance impacted?[3] All regions contribute to narrowing the global balance except for OAE and EUR in the US bloc, since they are surplus regions where the current account increases (Figure 1.2.2). Overall, quantitative results show that a 50 percent increase in NTBs decreases the global balance by 0.36 percentage point of global GDP over the medium term. However, this narrowing comes at a high economic cost, as trade restrictions reduce output growth through efficiency losses and resource misallocation. Global medium-term real output declines by 3 percent relative to the baseline, with a fall in all regions. The fall in global trade volumes is even starker, with a decline of about 9 percent relative to the baseline.

Financial Fragmentation

In recent decades, capital market integration has allowed advanced economies—the United States in particular—to benefit from a saving glut in emerging markets, which has helped bring down the interest rate in the United States while lifting it in surplus countries in Asia and the Middle East and widening the global current account balance (Bernanke 2005; Caballero, Farhi, and Gourinchas 2008, 2016, 2017a, 2017b, 2021) (see dashed black lines in Figure 1.2.3).

[3]The global balance is calculated as the sum of the absolute values of the current-account-to-global-GDP ratio of regions. Medium term is defined as model responses five years out.

Figure 1.2.3. The Global Interest Rate after a Financial Fragmentation Shock
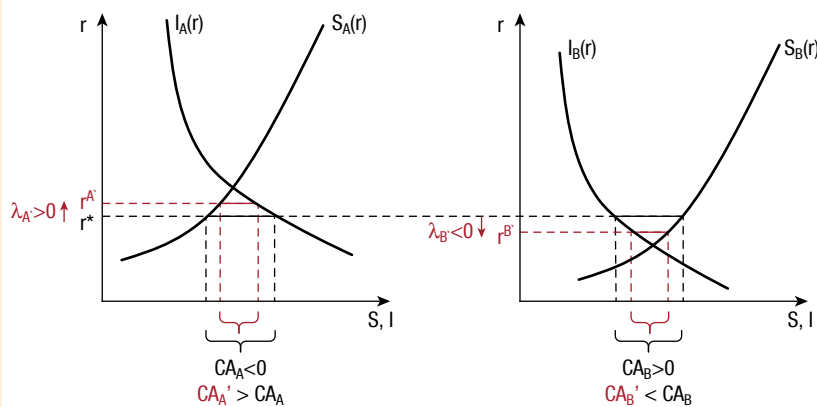
Source: Based on Metzler (1968).

Box 1.2 *(continued)*

Financial fragmentation could reverse this process and reduce the flow of capital between the China and US blocs (see the shift from dashed black to red lines in Figure 1.2.3, where financial fragmentation is captured with a wedge λ).

To quantify these potential outcomes and their impact on the global balance, financial fragmentation is modeled as a decline in the premium paid by the China bloc on US Treasuries by 50 basis points. Consistent with the illustrative Metzler diagram in Figure 1.2.3, the model simulation finds that financial fragmentation increases medium-term investment and decreases saving and the interest rate in the China bloc, leading to a decline in the current account. In the US bloc, the impact is the opposite with investment decreasing and the interest rate and saving increasing, and consequently the current account increasing. These effects are present in all regions within both blocs. Medium-term impacts on nonaligned regions are relatively minor.

Given the present global constellation of current account surpluses and deficits, these external sector responses imply that all regions in the China bloc contribute to narrowing the global balance, as does the declining current account deficit in the United States (Figure 1.2.4). The remaining current account surplus regions in the US bloc widen the global balance in the medium term. The contribution of the nonaligned regions is negligible. The overall medium-term impact on the global balance is a narrowing of 0.24 percent of global GDP, with the largest contributions from China and the United States.

To summarize, this box shows that fragmentation through trade and financial channels could narrow the global current account balance over the medium term. However, the magnitude of the narrowing and

Figure 1.2.4. Impact of Financial Fragmentation on Global Balance
(Percent of global GDP)
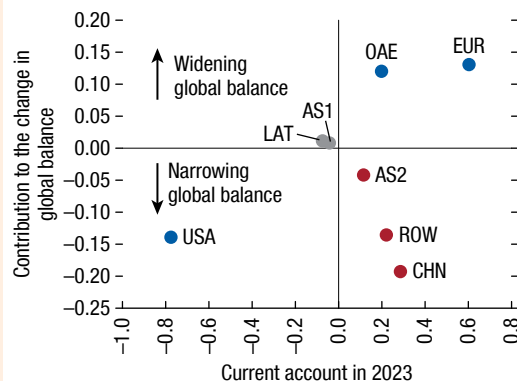
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: The contribution to the change in global balance is calculated as the difference between the absolute value of the current account after the financial fragmentation shock and the absolute value of the current account in 2023, all in percent of global GDP. The current account after the financial fragmentation shock is calculated as the current account to global GDP in 2023 plus the percentage point deviation of the current account to global GDP after the financial fragmentation shock. The medium term corresponds to the fifth period of the shock. Data labels in the figure use International Organization for Standardization (ISO) country codes. AS1 = India and Indonesia; AS2 = emerging Southeast Asia; EUR = the European Union and Switzerland; LAT = Latin America; OAE = other advanced economies; ROW = rest of the world.

the countries that contribute depend on the nature of the fragmentation process, with trade restrictions compressing trade flows and reducing the dispersion of external balances globally, while financial fragmentation generates more heterogeneous external sector responses.

Box 1.3. China Real Estate Slowdown and the Global Balance

Economic growth in China has slowed in the past five years, in large part due to an ongoing housing sector slowdown. This box uses the IMF Global Integrated Monetary and Fiscal Model to analyze a prolonged China real estate slowdown scenario and its impact on the global current account balance.[1] To capture a rebalancing of the real estate sector, an illustrative scenario is constructed based on three components. First, the existing stock of buildings is depreciated due to a large inventory overhang in the property market. Second, financial conditions (equity premium) tighten in the real estate sector, leading to a sharp decline in construction activity and a reduction of households' wealth. Third, households increase precautionary saving.[2] Additional households' saving aims at rebuilding their stock of wealth, which has been dominated by housing.

Following a near-term decline in private investment, private consumption, and GDP, the resulting macroeconomic adjustment in China entails a persistent medium-term surge in saving, which reduces domestic demand. Demand for imports falls and trade balance increases. Added saving decreases the real interest rate, which in turn increases the investment rate in the medium term. However, the adjustment in the investment rate is a fraction of the increase in saving, and China's current account surplus expands (Figure 1.3.1).

Given China's size, the scenario generates global spillovers. To accommodate the persistent surge in saving and China's current account surpluses, the medium-term real interest rate falls globally and China's real effective exchange rate depreciates. This relative price adjustment reflects income compression in China and facilitates external sector adjustment through expenditure switching at both import and export margins. The lower global interest rate increases investment and decreases saving in other regions, with corresponding declines in the current account (Figure 1.3.1).[3] The global current account balance

This box was prepared by Rudolfs Bems and Dirk Muir.
[1]See Carton and Muir (forthcoming) for more details.
[2]The illustrative calibration for the three shocks is as follows: (i) the economic value of existing buildings is depreciated by 10 percent, (ii) the equity premium in the real estate sector increases by 4 percentage points for five years, and (iii) households' precautionary saving increases by 2 percent of GDP for five years. There are other possible configurations of the shocks, but here the focus is on the impacts from a significant domestic slowdown.
[3]Given limited variability across model regions, responses have been aggregated into China, the euro area and the United States as a region, and the rest of the world.

Figure 1.3.1. Medium-Term Impact of China Real Estate Slowdown on the External Sector
(Deviations from baseline)
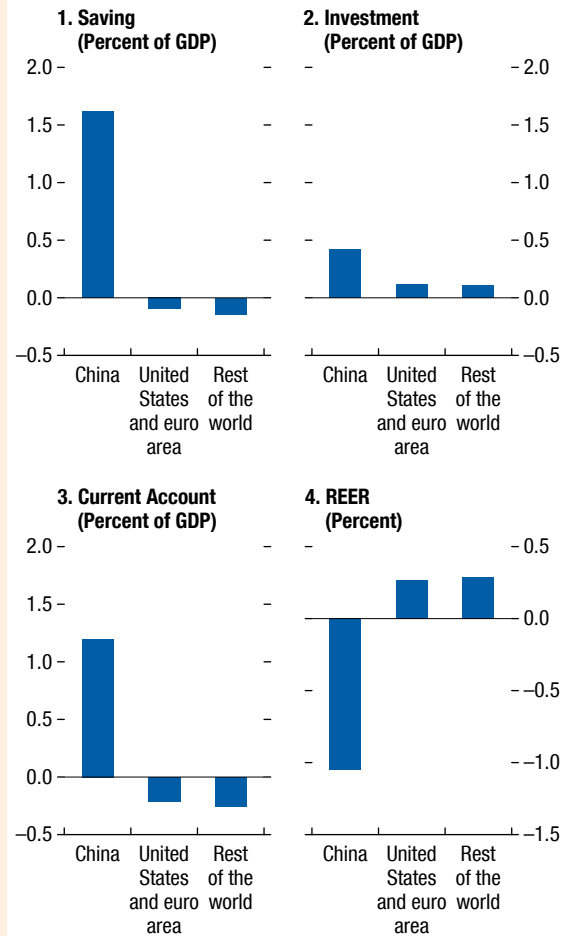
Source: IMF staff calculations.
Note: The figure shows medium-term responses for select macro variables, captured in the model at the five-year horizon. All responses are reported as percentage point deviations from baseline. Reported model responses are aggregated into three countries/regions: (1) China, (2) the euro area and the United States as a region, and (3) the rest of the world. REER = real effective exchange rate, with a decrease representing a depreciation.

widens, chiefly because of the widening current account surplus in China and the widening current account deficit in the United States (Figure 1.3.2). It is worth stressing that the surge in saving and the resulting global macroeconomic adjustment are distinct from the rise in goods' production, for example, in electric vehicle or solar energy sectors, due to increased subsidies and/or rapid productivity gains.

Box 1.3 *(continued)*

Figure 1.3.2. Medium-Term Impact on Global Balance
(Deviations from baseline, percent of world GDP)
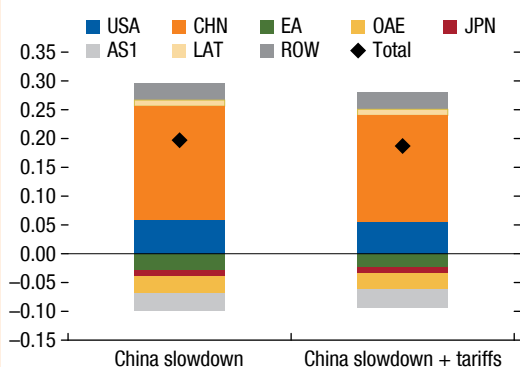
Source: IMF staff calculations.
Note: Medium term is captured in the model at a five-year horizon. EA includes Austria, Belgium, Cyprus, Germany, Estonia, Finland, France, Greece, Ireland, Italy, Lithuania, Luxembourg, Malta, The Netherlands, Portugal, Slovakia, Slovenia, and Spain. OAE includes Australia, Bulgaria, Canada, Czech Republic, Denmark, Iceland, Israel, New Zealand, Norway, Poland, Russia, Sweden, Switzerland, Taiwan, and the United Kingdom. AS1 includes Bangladesh, Brunei Darussalam, Cambodia, India, Indonesia, Korea, LAO P.D.R., Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. LAT includes Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru. Data labels use International Organization for Standardization (ISO) country codes. AS1 = other Asia; EA = euro area; LAT = Latin America; OAE = other advanced economies; ROW = rest of the world.

Figure 1.3.3. Real Effective Exchange Rate Response to China Real Estate Slowdown Scenarios
(Percent deviation from baseline)

Source: IMF staff calculations.
Note: Medium term is captured in the model at a five-year horizon. All responses are reported as percentage point deviations from baseline. Reported model responses are aggregated into three countries/regions: (1) China, (2) the euro area and the United States as a region, and (3) the rest of the world.

One often-discussed policy response to counter current account surpluses and the widening global balance would be to impose trade tariffs on China. The box next extends the scenario to analyze the impact of such a policy response. In particular, to counter the spillovers from China's real estate slowdown, the euro area and the United States are assumed to impose a 10 percent trade tariff on China.

The results of this expanded scenario reveal that tariffs have a limited impact on containing external sector spillovers. Saving, investment, and current accounts remain broadly unchanged, mainly because tariffs induce further relative price adjustments in the model (Figure 1.3.3). To accommodate the internal saving–investment imbalance, China's real effective exchange rate depreciates even further, with offsetting appreciations for the euro area and the United States. There is only a very limited reduction in the global balance, amounting to 0.01 percent of world GDP (Figure 1.3.2). At the same time, the imposed tariffs significantly reduce global growth and lower cross-border trade flows, as global production efficiency declines.

Broad-based domestic structural reforms could help address the saving–investment imbalance in China, including efforts to boost productivity growth and strengthen social safety nets to reduce precautionary saving. Separately, in the current context of heightened geopolitical tensions between China and the United States, a rising current account surplus in China could potentially be concurrent with a decline in demand for US assets. This could lead to a financial fragmentation, with real interest rates in China and the United States diverging toward their autarkic levels. Such a scenario, analyzed in Box 1.2, would attenuate global spillovers from a prolonged slowdown in China's housing sector.

Annex Table 1.1.1. Selected Economies: Foreign Reserves, 2020–23[1]

| | Gross Official Reserves[2] | | | | | | | | IMF Staff–Estimated Change in Official Reserves[3] | | | | Gross Official Reserves, 2023 (Percent of ARA metric)[4] | FXI Data Publication |
| | (Billions of US Dollars) | | | | (Percent of GDP) | | | | (Percent of GDP) | | | | | |
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023		
Advanced Economies														
Australia	43	58	57	62	3.1	3.5	3.3	3.5	0.1	1.0	−0.1	0.1	. . .	Yes, daily
Canada	90	107	107	118	5.5	5.3	4.9	5.5	0.1	1.0	0.5	0.0	. . .	Yes, monthly
Euro Area	1,078	1,196	1,185	1,267	8.2	8.1	8.3	8.1	0.1	1.1	0.3	−0.2	. . .	Yes, quarterly
Hong Kong SAR	492	497	424	418	142.6	134.7	118.2	111.0	9.8	−0.3	−13.1	−2.7	. . .	Yes, daily
Japan	1,395	1,406	1,100	1,295	27.6	27.9	25.8	30.7	0.3	1.1	−1.1	0.6	. . .	Yes, daily
Korea	443	463	423	420	27.0	25.5	25.3	24.5	1.0	0.4	−1.7	−0.5	. . .	Yes, quarterly
Singapore	362	418	289	351	103.6	96.3	58.1	70.0	32.0	4.6	−26.4	10.7	. . .	Yes, semiannually
Sweden	58	62	65	60	10.6	9.7	11.0	10.1	−0.1	0.9	1.3	0.1	. . .	Yes, weekly
Switzerland	1,083	1,110	947	805	146.2	136.6	115.7	90.9	15.6	7.2	−1.8	−15.4	. . .	Yes, quarterly
United Kingdom	180	194	176	178	6.7	6.2	5.7	5.3	−0.1	0.9	0.0	0.1	. . .	Yes, monthly
United States	627	712	707	777	2.8	2.9	2.7	2.8	0.0	0.5	0.0	0.0	. . .	Yes, quarterly
Emerging Market and Developing Economies														
Argentina	39	40	45	23	10.2	8.1	7.1	3.5	−3.1	0.7	−2.5	−2.2	37	Yes, daily
Brazil	356	362	325	355	24.1	21.7	16.6	16.3	−2.3	−0.8	−1.2	0.9	130	Yes, daily
China	3,357	3,428	3,307	3,450	22.6	19.3	18.5	19.5	0.2	1.1	0.6	−0.2	112	No
India	590	638	567	623	22.1	20.2	16.9	17.4	4.7	1.6	−1.6	1.6	109	Yes, monthly
Indonesia	136	145	137	146	12.8	12.2	10.4	10.7	0.5	1.3	−0.3	0.2	123	No
Malaysia	108	117	115	113	31.9	31.3	28.2	27.3	1.1	2.4	−1.7	−0.6	114	No
Mexico	199	208	201	214	17.8	15.8	13.7	12.0	1.1	0.8	−0.1	0.4	126	Yes, monthly
Poland	154	166	167	194	25.7	24.4	24.2	24.0	3.1	2.8	1.9	2.6	164	No
Russia	597	632	582	599	40.1	34.3	25.6	30.0	−1.0	3.5	−0.3	0.0	343	Yes, daily
Saudi Arabia	454	455	460	437	61.8	52.1	41.5	40.9	−6.3	0.2	0.4	−0.1	208	No
South Africa	55	58	61	63	14.5	14.7	15.5	16.6	0.0	0.7	0.8	0.5	97	No
Thailand	258	246	217	224	51.6	48.6	43.7	43.6	2.4	−0.4	−2.9	0.1	237	No
Türkiye	94	111	129	141	13.0	13.6	14.2	12.6	−10.0	2.7	0.4	−0.8	97	No
Memorandum Items:														
Aggregate[5]	12,248	12,827	11,791	12,332	14.4	13.2	11.7	11.8	0.4	0.9	−0.2	0.0	. . .	. . .
AEs	5,852	6,223	5,480	5,750	6.9	6.4	5.4	5.5	0.4	0.5	−0.2	−0.1	. . .	. . .
EMDEs	6,397	6,604	6,311	6,582	7.5	6.8	6.3	6.3	0.0	0.4	0.0	0.0	. . .	. . .

Sources: IMF, Assessing Reserve Adequacy data set; IMF, *International Financial Statistics*; IMF, International Reserves and Foreign Currency Liquidity; IMF, April 2024 *World Economic Outlook*; and IMF staff calculations.

Note: ". . ." indicates that data are not available or not applicable. AE = advanced economy; ARA = assessment of reserve adequacy; EMDE= emerging market and developing economy; FX = foreign exchange; FXI = foreign exchange intervention; SAR = Special Administrative Region.

[1]Sample includes *External Sector Report* economies excluding individual euro area economies. Euro area is reported as aggregate.

[2]Total reserves from *International Financial Statistics*; includes gold reserves valued at market prices.

[3]This item is not necessarily equal to actual FXI, but it is used as an FXI proxy in External Balance Assessment model estimates. The estimated change in official reserves is equivalent to the change in reserve assets in the financial account series from the *World Economic Outlook* (which excludes valuation effects but includes interest income on official reserves) plus the change in off-balance-sheet holdings (short and long FX derivative positions and other memorandum items) from International Reserves and Foreign Currency Liquidity minus net credit and loans from the IMF.

[4]The ARA metric reflects potential balance of payments FX liquidity needs in adverse circumstances and is used to assess the adequacy of FX reserves against potential FX liquidity drains (see IMF 2015). The ARA metric is estimated for selected EMDEs and includes adjustments for capital controls for China. For Argentina, the adjusted measure uses a four-year average to smooth the temporary effect of the sharp reductions in short-term debt and exports, and a collapse in the valuation of debt portfolio investments in the wake of the sovereign debt restructuring. Additional adjusted figures are available in the individual country pages in Chapter 3.

[5]The aggregate is calculated as the sum of *External Sector Report* economies only. The percent of GDP is calculated relative to total world GDP.

Annex Table 1.1.2. External Sector Report Economies: Summary of External Assessment Indicators, 2023

Economy	Overall Assessment	Current Account (Percent of GDP)		IMF Staff CA Gap (Percent of GDP)		IMF Staff REER Gap (Percent)		International Investment Position (Percent of GDP)			CA NFA Stabilizing (Percent of GDP)	SE of CA Norm (Percent)
		Actual	Cycl. Adj.	Midpoint	Range	Midpoint	Range	Net	Liabilities	Assets		
Argentina	Weaker	−3.4	−3.6	−2.6	±1	22.5	±2.5	17	51	68	1.1	0.5
Australia	Broadly in line	1.2	0.3	0.9	±0.6	−5.3	±3.4	−32	181	149	−1.8	0.6
Belgium	Weaker	−1.0	−0.6	−3.6	±0.4	5.2	±0.5	65	358	423	3.1	0.4
Brazil	Broadly in line	−1.4	−1.7	0.2	±0.5	−1.7	±4.2	−45	91	47	−2.4	0.5
Canada	Moderately weaker	−0.7	−1.0	−1.8	±0.4	6.7	±1.6	58	253	310	2.9	0.4
China	Broadly in line	1.4	1.2	−0.1	±0.6	0.7	±4.3	17	38	54	1.1	0.6
Euro Area[1]	Broadly in line	1.7	1.7	0.6	±0.6	−1.7	±1.7	4	239	243	0.2	0.6
France	Broadly in line	−0.7	−0.9	−0.9	±0.4	3.3	±1.6	−29	364	335	−1.4	0.4
Germany	Stronger	5.9	5.9	2.7	±0.5	−7.5	±1.4	70	232	302	3.0	0.5
Hong Kong SAR	Broadly in line	9.2	8.8	−0.9	±0.9	2.3	±2.3	468	1,152	1,620	. . .	. . .
India	Moderately stronger	−0.8	−0.5	1.7	±0.6	−9.4	±3.3	−11	39	28	−1.0	0.6
Indonesia	Broadly in line	−0.1	−0.3	0.8	±0.5	−5.0	±2.9	−19	54	35	−1.5	0.5
Italy	Weaker	0.5	0.8	−3.0	±0.7	11.5	±2.7	7	162	169	0.3	0.7
Japan	Broadly in line	3.6	3.7	−0.3	±1.1	1.7	±6.3	80	168	248	3.2	1.1
Korea	Moderately weaker	2.1	2.3	−2.0	±0.9	6.1	±2.7	46	88	134	2.5	0.9
Malaysia	Stronger	1.5	1.8	2.1	±0.5	−4.1	±1	7	125	132	0.5	0.5
Mexico	Moderately stronger	−0.3	0.1	1.4	±0.4	−4.5	±1.4	−41	84	44	−2.2	0.4
The Netherlands	Substantially stronger	10.1	10.3	4.3	±0.5	−6.6	±0.8	72	859	931	3.7	0.5
Poland	Stronger	1.6	1.4	3.6	±0.5	−8.4	±1.1	−34	93	60	−1.7	0.5
Russia	Broadly in line	2.5	2.6	0.3	±0.8	−1.8	±4.9	42	35	77	2.0	0.8
Saudi Arabia	Weaker	3.2	3.3	−2.6	±2	12.1	±9.2	74	60	134	. . .	. . .
Singapore	Substantially stronger	19.8	20.1	7.0	±1.8	−14.0	±3.6	171	951	1,122	. . .	. . .
South Africa	Broadly in line	−1.6	−2.2	−0.9	±0.9	3.6	±2.7	28	100	128	1.3	0.9
Spain	Moderately stronger	2.6	2.8	1.8	±0.8	−6.4	±2.8	−53	248	196	−2.6	0.8
Sweden	Substantially stronger	6.8	6.6	5.5	±0.4	−17.0	±6.5	33	281	314	1.8	0.4
Switzerland	Weaker	7.6	7.7	−2.8	±0.8	5.2	±1.4	95	537	631	4.9	0.8
Thailand	Stronger	1.4	1.3	2.6	±0.7	−5.3	±1.4	8	112	120	0.5	0.7
Türkiye	Weaker	−4.0	−3.0	−2.6	±0.6	9.6	±2.3	−25	55	29	−1.7	0.6
United Kingdom	Weaker	−3.3	−3.3	−2.4	±1	9.2	±3.8	−31	534	503	−1.5	0.3
United States	Broadly in line	−3.0	−2.6	−0.7	±0.7	5.8	±5.8	−71	194	124	−3.8	0.7

Sources: IMF, *International Financial Statistics*; IMF, April 2024 *World Economic Outlook*; US Bureau of Economic Analysis; and IMF staff assessments.

Note: ". . ." indicates that data are not available or not applicable. CA = current account; Cycl. Adj. = cyclically adjusted; NFA = net foreign assets; REER = real effective exchange rate; SAR = Special Administrative Region; SE = standard error.

[1]The IMF staff–assessed euro area CA gap is calculated as the GDP-weighted average of IMF staff–assessed CA gaps for the 11 largest euro area economies.

Annex Table 1.1.3. External Sector Report Economies: Summary of IMF Staff–Assessed Current Account Gaps and IMF Staff Adjustments, 2023 *(Percent of GDP)*

Economy	Actual CA Balance [A]	Cycl. Adj. CA Balance [B]	EBA CA Norm [C]	EBA CA Gap[1] [D = B − C]	IMF Staff–Assessed CA GAP[2] [E = D + F]	IMF Staff Adjustments[3] Total [F = G − H]	Other CA [G]	Norm [H]	Comments on Adjustments
Argentina	−3.4	−3.6	0.4	−3.9	−2.6	1.3	2.4	1.1	Drought (CA), weak reserve coverage/external sustainability (norm)
Australia	1.2	0.3	−0.6	0.9	0.9	0.0	0.0	0.0	
Belgium	−1.0	−0.6	3.0	−3.6	−3.6	0.0	0.0	0.0	
Brazil	−1.4	−1.7	−1.9	0.2	0.2	0.0	0.0	0.0	
Canada	−0.7	−1.0	2.3	−3.3	−1.8	1.5	1.5	0.0	Measurement biases
China	1.4	1.2	0.9	0.3	−0.1	−0.4	−0.4	0.0	Travel adjustor
Euro Area[4]	1.7	1.7	0.7	1.0	0.6	−0.4	−0.4	0.0	Country-specific measurement bias adjustments
France	−0.7	−0.9	0.0	−0.9	−0.9	0.0	0.0	0.0	
Germany	5.9	5.9	3.1	2.7	2.7	0.0	0.0	0.0	
India	−0.8	−0.5	−2.2	1.7	1.7	0.0	0.0	0.0	
Indonesia	−0.1	−0.3	−0.8	0.5	0.8	0.3	0.0	−0.3	Demographics (high mortality rate, norm)
Italy	0.5	0.8	3.8	−3.0	−3.0	0.0	0.0	0.0	
Japan	3.6	3.7	4.0	−0.3	−0.3	0.0	0.0	0.0	
Korea	2.1	2.3	4.4	−2.0	−2.0	0.0	0.0	0.0	
Malaysia	1.5	1.8	−0.3	2.1	2.1	0.0	0.0	0.0	
Mexico	−0.3	0.1	−1.3	1.4	1.4	0.0	0.0	0.0	
The Netherlands	10.1	10.3	4.3	6.1	4.3	−1.8	−1.8	0.0	Measurement biases
Poland	1.6	1.4	−2.2	3.6	3.6	0.0	0.0	0.0	
Russia	2.5	2.6	2.3	0.3	0.3	0.0	0.0	0.0	
South Africa	−1.6	−2.2	0.6	−2.8	−0.9	1.9	1.4	−0.5	Demographics (high mortality rate, norm), measurement biases, and SACU transfers
Spain	2.6	2.8	0.9	1.8	1.8	0.0	0.0	0.0	
Sweden	6.8	6.6	1.1	5.5	5.5	0.0	0.0	0.0	
Switzerland	7.6	7.7	6.4	1.3	−2.8	−4.1	−4.1	0.0	Measurement biases
Thailand	1.4	1.3	0.8	0.5	2.6	2.1	2.1	0.0	Travel and transport adjustors
Türkiye	−4.0	−3.0	−0.3	−2.6	−2.6	0.0	0.0	0.0	
United Kingdom	−3.3	−3.3	−0.4	−2.9	−2.4	0.5	0.5	0.0	Measurement biases
United States	−3.0	−2.6	−1.9	−0.7	−0.7	0.0	0.0	0.0	
Hong Kong SAR	9.2	8.8	. . .	. . .	−0.9	12.2	0.7	−11.5	
Singapore	19.8	20.1	. . .	. . .	7.0	2.5	−2.2	−4.7	Measurement biases, NFA composition, health spending
Saudi Arabia	3.2	3.3	. . .	. . .	−2.6	0.0	0.0	0.0	
Absolute sum of excess surpluses and deficits[5]	. . .	. . .	. . .	1.0	0.9	. . .	. . .	. . .	
Discrepancy[6]	. . .	. . .	. . .	. . .	−0.15	. . .	. . .	. . .	

Source: IMF staff estimates.

Note: ". . ." indicates that data are not available or not applicable; CA = current account; Cycl. Adj. = cyclically adjusted; EBA = external balance assessment; ESR = *External Sector Report*; NIIP = net international investment position; SACU = Southern African Customs Union.

[1]Minor discrepancies between constituent figures and totals are due to rounding.

[2]Refers to the midpoint of the IMF staff–assessed CA gap.

[3]Total IMF staff adjustments include rounding in some cases. The last column explains country-specific adjustments to the CA and norm.

[4]The EBA euro area CA norm is calculated as the GDP-weighted average of norms for the 11 largest euro area economies, adjusted for reporting discrepancies in intra-area transactions. The IMF staff–assessed CA gap is calculated as the GDP-weighted average of IMF staff–assessed gaps for the 11 largest euro area economies.

[5]Sum of absolute value of IMF staff–assessed CA gaps in percent of aggregate GDP for economies included in the ESR exercise.

[6]Sum of IMF staff–assessed CA gaps in percent of aggregate GDP for economies included in the EBA and/or ESR exercise.

Annex Table 1.1.4. External Sector Report Economies: Summary of IMF Staff–Assessed Real Effective Exchange Rate and External Balance Assessment Model Gaps, 2023

Economy	IMF Staff–Assessed REER Gap[1]	REER Gap Implied by IMF Staff–Assessed CA Gap[2]	EBA REER-Level Gap	EBA REER-Index Gap	CA/REER Elasticity[3]	REER (Percent change) Average 2023/ Average 2022	REER (Percent change) April 2024/ Average 2023
Argentina	22.5	21.7	5.0	19.9	0.12	0.5	−2.7
Australia	−5.3	−5.3	20.6	−10.6	0.17	−0.6	1.8
Belgium	5.2	5.2	20.6	8.8	0.69	1.3	0.8
Brazil	−1.7	−1.7	−11.2	−25.1	0.12	4.6	−0.5
Canada	6.7	6.7	−12.9	0.5	0.27	−3.6	−1.3
China	0.7	0.7	3.4	5.1	0.14	−8.2	−2.7
Euro Area	−1.7	−1.7	3.9	5.5	0.35	3.5	−0.4
France	3.3	3.3	2.9	−5.1	0.27	1.9	−0.5
Germany	−7.5	−7.5	−9.3	8.0	0.36	3.5	−0.5
India	−9.4	−9.4	5.2	5.9	0.18	−1.6	1.8
Indonesia	−5.0	−5.0	−15.9	0.8	0.16	−3.7	−2.4
Italy	11.5	11.5	10.8	8.9	0.26	2.8	−1.7
Japan	1.7	1.7	−31.7	−35.5	0.18	−4.9	−6.9
Korea	6.1	6.1	−3.1	−4.1	0.33	2.1	−2.0
Malaysia	−4.1	−4.1	−30.1	−27.2	0.51	−2.6	−2.7
Mexico	−4.5	−4.5	27.6	8.1	0.31	21.0	9.0
The Netherlands	−6.6	−6.6	2.8	18.9	0.65	0.8	0.6
Poland	−8.4	−8.4	−11.7	11.8	0.43	11.3	5.2
Russia	−1.8	−1.8	−18.6	3.3	0.17	−3.5	−3.7
South Africa	3.6	3.6	−15.8	−20.7	0.25	−8.3	1.8
Spain	−6.4	−6.4	18.6	3.8	0.28	0.3	1.0
Sweden	−17.0	−14.1	−23.9	−20.9	0.39	−1.9	0.2
Switzerland	5.2	5.2	17.7	12.8	0.54	3.4	−1.1
Thailand	−5.3	−5.3	−1.4	7.4	0.49	1.1	−5.0
Türkiye	9.6	9.6	−55.7	−45.7	0.27	2.4	7.0
United Kingdom	9.2	9.2	4.4	−5.9	0.26	2.5	2.8
United States	5.8	5.8	16.7	8.3	0.12	−0.5	2.0
Hong Kong SAR	2.3	2.3	. . .	. . .	0.40	2.6	2.6
Singapore	−14.0	−14.0	. . .	. . .	0.50	7.2	2.0
Saudi Arabia	12.1	12.1	. . .	. . .	0.20	0.7	0.7
Discrepancy[4]	1.7	. . .	. . .	. . .	. . .	. . .	. . .

Sources: IMF, Information Notice System; and IMF staff estimates.

Note: ". . ." indicates that data are not available or not applicable; CA = current account; EBA = External Balance Assessment; REER = real effective exchange rate.

[1] Refers to the midpoint of the IMF staff–assessed REER gap.

[2] Implied REER gap = −(IMF staff–assessed CA gap/CA-to-REER elasticity).

[3] CA-to-REER semielasticity used by IMF country teams.

[4] GDP-weighted average sum of IMF staff–assessed REER gaps.

Annex Table 1.1.5. Selected External Sector Report Economies: External Balance Assessment Current Account Regression Policy Gap Contributions, 2023
(Percent of GDP)

Economy	EBA Gap Total[1]	EBA Gap Identified	EBA Gap Dom[2]	EBA Gap Residual	Fiscal Gap Total[1]	Fiscal Dom[3]	Fiscal Coeff	Fiscal P	Fiscal P*	Public Health Total[1]	Public Health Dom[3]	Public Health Coeff	Public Health P	Public Health P*	Private Credit Total[1]	Private Credit Dom[3]	Private Credit Coeff	Private Credit P	Private Credit P*	FXI & KC Total[1]	FXI & KC Dom[3]	FXI & KC Coeff	FXI P	FXI P*	KC P	KC P*
Argentina	−3.9	−1.8	−2.5	−2.1	0.0	−1.3	0.3	−4.1	0.0	−0.1	0.0	−0.3	6.5	6.5	−0.4	0.1	−0.1	−0.7	0.0	−1.3	−1.3	0.6	−2.2	1.5	0.7	0.3
Australia	0.9	2.1	1.5	−1.2	0.9	−0.3	0.3	−1.1	0.0	−0.1	−0.1	−0.3	7.5	7.2	1.4	1.9	−0.1	−19.7	0.0	0.0	0.0	0.6	0.1	0.0	0.1	0.1
Belgium	−3.6	2.0	1.4	−5.6	0.0	−1.2	0.3	−5.0	−1.1	−0.1	0.0	−0.3	8.0	7.9	2.0	2.5	−0.1	−26.5	0.0	0.0	0.0	0.6	0.5	0.0	0.1	0.1
Brazil	0.2	−0.4	−1.1	0.6	−0.2	−1.4	0.3	−8.2	−3.5	0.1	0.2	−0.3	3.9	4.4	−0.6	−0.1	−0.1	0.6	0.0	0.3	0.3	0.6	0.9	0.0	0.5	0.3
Canada	−3.3	1.4	0.8	−4.7	1.2	−0.1	0.3	−0.6	−0.4	−0.5	−0.5	−0.3	8.6	7.0	0.8	1.3	−0.1	−13.3	0.0	0.0	0.0	0.6	0.0	0.0	0.1	0.1
China	0.3	−0.6	−1.3	0.9	−0.2	−1.4	0.3	−6.7	−2.2	0.0	0.0	−0.3	3.9	4.0	−0.3	0.2	−0.1	−1.6	0.0	−0.1	−0.1	0.6	−0.2	0.0	0.8	0.3
Euro Area[4]	1.0	0.5	−0.2	0.5	0.4	−0.8	0.3	−3.5	−0.9	−0.2	−0.2	−0.3	8.9	8.4	0.3	0.8	−0.1	−8.4	−0.3	0.0	0.0	0.6	−0.1	0.0	0.1	0.1
France	−0.9	0.1	−0.6	−1.0	0.0	−1.2	0.3	−5.0	−1.1	−0.3	−0.3	−0.3	10.2	9.3	0.4	0.9	−0.1	−9.2	0.0	0.0	0.0	0.6	−0.7	0.0	0.1	0.1
Germany	2.7	−0.2	−0.9	2.9	1.0	−0.2	0.3	−1.9	−1.3	−0.5	−0.4	−0.3	10.9	9.6	−0.8	−0.3	−0.1	3.3	0.0	0.0	0.0	0.6	0.0	0.0	0.3	0.3
India	1.7	0.6	−0.1	1.1	0.3	−0.9	0.3	−8.7	−5.8	0.1	0.1	−0.3	1.4	1.8	−0.6	−0.1	−0.1	0.8	0.0	0.8	0.8	0.6	1.6	0.0	0.8	0.3
Indonesia	0.5	1.7	1.0	−1.2	1.3	0.1	0.3	−1.6	−2.0	0.6	0.7	−0.3	0.8	3.0	−0.3	0.2	−0.1	−2.4	0.0	0.1	0.0	0.6	0.2	0.0	0.5	0.3
Italy	−3.0	−0.2	−0.9	−2.8	−1.2	−2.4	0.3	−7.5	0.5	0.0	0.0	−0.3	6.7	6.8	1.0	1.5	−0.1	−15.7	0.0	0.0	0.0	0.6	0.2	0.0	0.0	0.0
Japan	−0.3	−1.5	−2.2	1.2	−0.3	−1.5	0.3	−5.8	−1.0	−0.1	0.0	−0.3	9.3	9.1	−1.2	−0.7	−0.1	14.1	7.3	0.0	0.0	0.6	0.6	0.0	0.1	0.1
Korea	−2.0	0.6	−0.1	−2.6	0.9	−0.3	0.3	−0.9	0.0	0.7	0.8	−0.3	5.9	8.5	−1.1	−0.6	−0.1	5.8	0.0	0.0	0.0	0.6	−0.5	0.0	0.1	0.1
Malaysia	2.1	0.9	0.3	1.2	0.6	−0.6	0.3	−4.5	−2.5	0.6	0.6	−0.3	2.0	4.1	−0.1	0.4	−0.1	−4.6	0.0	−0.2	−0.2	0.6	−0.6	0.0	0.6	0.3
Mexico	1.4	0.6	0.0	0.8	0.7	−0.5	0.3	−4.5	−2.7	0.0	0.1	−0.3	3.2	3.6	−0.2	0.3	−0.1	−3.0	0.0	0.1	0.1	0.6	0.4	0.0	0.4	0.3
The Netherlands	6.1	3.7	3.1	2.3	1.4	0.2	0.3	−1.4	−2.0	0.1	0.1	−0.3	8.4	8.8	2.2	2.7	−0.1	−28.5	0.0	0.0	0.0	0.6	0.5	0.0	0.0	0.0
Poland	3.6	1.8	1.1	1.8	0.3	−1.0	0.3	−5.1	−2.0	0.1	0.2	−0.3	5.9	6.6	0.7	1.2	−0.1	−17.6	−5.0	0.7	0.7	0.6	2.6	0.0	0.4	0.3
Russia	0.3	1.5	0.9	−1.2	0.8	−0.4	0.3	−2.5	−1.0	0.2	0.3	−0.3	4.6	5.5	0.5	1.0	−0.1	−10.9	0.0	0.0	0.0	0.6	0.0	0.0	0.4	0.3
South Africa	−2.8	0.7	0.0	−3.5	0.2	−1.0	0.3	−6.4	−3.1	0.7	0.8	−0.3	4.0	6.6	−0.1	0.4	−0.1	−3.7	0.0	−0.1	−0.1	0.6	−0.3	0.0	0.6	0.3
Spain	1.8	0.3	−0.3	1.5	0.4	−0.8	0.3	−3.7	−1.0	−0.3	−0.2	−0.3	7.2	6.5	0.2	0.7	−0.1	−7.9	−1.0	0.0	0.0	0.6	0.4	0.0	0.2	0.2
Sweden	5.5	3.0	2.3	2.6	1.1	−0.1	0.3	0.0	0.3	−0.1	0.0	−0.3	9.2	9.0	2.0	2.4	−0.1	−25.5	0.0	0.0	0.0	0.6	0.1	0.0	0.2	0.2
Switzerland	1.3	−1.0	−1.7	2.3	1.7	0.5	0.3	0.5	−1.0	−0.1	−0.1	−0.3	8.3	8.0	−0.7	−0.2	−0.1	2.3	0.0	−1.8	−1.8	0.6	−15.4	0.0	0.2	0.2
Thailand	0.5	0.3	−0.4	0.3	1.2	0.0	0.3	−2.9	−2.8	0.2	0.2	−0.3	3.6	4.4	−1.1	−0.7	−0.1	6.8	0.0	0.0	0.0	0.6	0.1	0.0	0.5	0.3
Türkiye	−2.6	1.5	0.8	−4.1	0.6	−0.6	0.3	−6.3	−4.3	0.1	0.1	−0.3	3.1	3.6	1.2	1.7	−0.1	−18.0	0.0	−0.4	−0.4	0.6	−0.8	1.2	0.4	0.3
United Kingdom	−2.9	1.9	1.2	−4.7	0.0	−1.2	0.3	−6.3	−2.4	0.2	0.2	−0.3	7.1	7.9	1.7	2.1	−0.1	−22.4	0.0	0.0	0.0	0.6	0.1	0.0	0.1	0.1
United States	−0.7	−0.7	−1.4	0.0	−0.8	−2.0	0.3	−8.5	−2.0	0.1	0.1	−0.3	8.0	8.4	0.0	0.5	−0.1	−4.9	0.0	0.0	0.0	0.6	0.0	0.0	0.2	0.2

Source: IMF staff estimates.

Note: Coeff = coefficient; Dom = domestic; EBA = External Balance Assessment; FXI = foreign exchange intervention; KC = capital controls; P = actual level; P* = desired level.

[1] Total contribution after adjusting for multilateral consistency. Total foreign exchange intervention and capital controls contribution = Coeff * [(FXI × KC) − (desirable FXI × desirable KC)].

[2] Includes the contribution of domestic policy gaps to the identified gap. The total foreign policy gap contribution is constant and equal to 0.7 percent for all countries. Foreign contributions are estimated as follows (in percent of GDP): fiscal = 1.2; public health = −0.1; private credit = −0.5; foreign exchange intervention = 0.0.

[3] Total domestic contribution is equivalent to coefficient * (P − P*).

[4] The euro area EBA current account gap and policy gap contributions are calculated as the GDP-weighted averages of EBA current account gaps and policy gap contributions for the 11 largest euro area economies.

Annex Table 1.1.6. 2023 Individual Economy Assessments: Summary of Policy Recommendations

Economy	Overall 2023 Assessment	Policy Recommendations
Argentina	Weaker	Continue the implementation of the ambitious stabilization plan, centered on a strong fiscal anchor and relative price corrections. Implement structural reforms to boost Argentina's competitiveness and export capacity. As stability and confidence are reestablished, a gradual conditions-based easing of CFM measures will be needed, while any remaining MCPs and exchange restrictions should be phased out as early as possible.
Australia	Broadly in line	Maintain fiscal and monetary restraint; implement structural policies that boost investment by rebalancing taxes from direct to indirect taxes, executing planned infrastructure investment, streamlining product market regulation, and promoting R&D and innovation investment.
Belgium	Weaker	Strengthen competitiveness through significant structural reforms, including of the wage indexation system, pension and social benefits, tax, and the labor and product markets. Rebuild fiscal buffers through a credible, expenditure-led consolidation, while preserving public investment.
Brazil	Broadly in line	Implement efforts to raise national savings, providing room for a sustainable expansion in investment. Fiscal consolidation should continue contributing to increase net public savings. Structural reforms that improve efficiency and reduce the cost of doing business would help strengthen competitiveness.
Canada	Moderately weaker	Tighter near-term fiscal policies as well as a medium-term fiscal consolidation plan would help in stabilizing debt and supporting external rebalancing; boost services exports and nonfuel goods exports through improved labor productivity, removal of nontariff trade barriers, promotion of FDI, and investment in R&D, physical capital, and green transformation.
China	Broadly in line	Accelerate market-based structural reforms—a further opening up of domestic markets, ensuring competitive neutrality between state-owned and private firms, scaling back wasteful and distorting industrial policies; shift fiscal policy support toward strengthening social protection to reduce high household savings and rebalance toward private consumption; gradually increase exchange rate flexibility to help the economy better absorb external shocks.
Euro Area	Broadly in line	Improve productivity through increased public investment, reskilling and upskilling of the labor force, and encouraging private investment and technology diffusion; strengthen the EU Single Market by harmonizing regulations, reducing administrative barriers, and streamlining trade procedures; avoid trade-distorting measures; see additional member country–specific recommendations on reducing internal and external imbalances.
France	Broadly in line	Maintaining the external position in line with medium-term fundamentals and desirable policies will require sustained fiscal consolidation efforts as well as structural reforms to support productivity and attract higher private investment to facilitate the green and digital transitions.
Germany	Stronger	Implement policies aimed at promoting investment and diminishing excess saving, including through higher fiscal deficits than currently planned in the medium term to ensure adequate public investment in the green transition, digitalization, and transport infrastructure. Implement structural reforms to foster innovation and enhance employability of older workers, which could also extend working lives and reduce the need for excess saving.
Hong Kong SAR	Broadly in line	Implement a gradual fiscal consolidation in the near term while taking measures to ensure fiscal sustainability over the medium to long term; maintain policies that support wage and price flexibility; continue to implement robust and proactive financial supervision and regulation.
India	Moderately stronger	Focus on raising investment by continuing to increase public investment and incentivize private investment. Reforms should include further liberalization of the investment regime; reductions in import tariffs, especially on intermediate goods; and implementation of measures to improve the business climate.
Indonesia	Broadly in line	Implement structural reforms to enhance productivity and facilitate post-COVID-19 sectoral adjustments, including higher infrastructure investment and higher social spending to foster human capital development and strengthen the social safety net, a reduction of restrictions on inward FDI and external trade, and promotion of greater labor market flexibility. Maintain flexibility of the exchange rate.
Italy	Weaker	Implement comprehensive structural reforms to encourage an increase in private investment; increase public sector saving, supported by a front-loaded fiscal adjustment program and improved budget efficiency, containing social benefit spending, undertaking comprehensive and progressive tax reform and fully implementing the National Recovery and Resilience Plan.
Japan	Broadly in line	Policies should focus on structural reforms and fiscal sustainability—a credible and specific medium-term fiscal consolidation plan. Priority should be given to labor market and fiscal reforms that support private demand, raise potential growth, and promote digital and green investment.
Korea	Moderately weaker	Implement restrictive monetary and fiscal policy stance in the short term. Over the medium term, implement policies to encourage an increase in aging-related precautionary savings and orderly deleveraging of private debt, and to mitigate risks arising from geopolitical tensions. Exchange rate flexibility, with intervention limited to preventing disorderly market conditions, would help the economy absorb external shocks.
Malaysia	Stronger	Implement medium-term policies to strengthen social safety nets and public health care; implement structural policies to encourage private investment and improve productivity growth; preserve exchange rate flexibility.

Annex Table 1.1.6 *(continued)*

Economy	Overall 2023 Assessment	Policy Recommendations
Mexico	Moderately stronger	Implement structural reforms to address investment obstacles, including by encouraging female labor force participation and promoting financial deepening. Maintain a prudent fiscal stance. The floating exchange rate should continue to serve as a shock absorber, with FX interventions employed only in exceptional circumstances. The IMF's Flexible Credit Line with Mexico continues to provide an added buffer against global tail risks.
The Netherlands	Substantially stronger	Foster investment in physical and human capital, including by facilitating access to finance for small and medium-sized enterprises. Continue structural policies to safeguard energy security, allay housing market shortages, reinforce the education system, advance the climate transition, and further promote digitalization.
Poland	Stronger	Boost investment by easing regulatory hurdles to private investments in the energy sector. Strengthen the pension system in a financially sustainable manner to reduce pressures on precautionary savings for households.
Russia	Broadly in line	. . .
Saudi Arabia	Weaker	Implement additional fiscal consolidation over the medium term, including through enhanced revenue mobilization and energy price reforms. Implement a structural reform agenda to diversify the economy, lift productivity, and boost the non-oil tradable sector.
Singapore	Substantially stronger	Execute the planned major green infrastructure projects; strengthen social safety nets; implement higher public investment over the medium term, including spending on health care, green and other physical infrastructures, and human capital.
South Africa	Broadly in line	Implement bold structural reforms and ambitious fiscal consolidation. Structural reform should focus on addressing the energy and logistics crises; improving governance, product market efficiency, and the functioning of labor markets; and bolstering worker skills. Fiscal consolidation should be expenditure based, while providing space for critical infrastructure investment and well-targeted social spending. A flexible rand exchange rate should remain the main shock absorber.
Spain	Moderately stronger	Implement sustained fiscal consolidation to rebuild fiscal space and raise aggregate saving. Implement structural reforms and investment in strategic areas to boost growth and raise aggregate investment. Continue efforts to enhance education outcomes, encourage innovation, and reduce energy dependence from abroad, including through adequate implementation of the Recovery, Transformation and Resilience Plan.
Sweden	Substantially stronger	Once inflation recedes, increase private and public investment in the green transition and the health sector.
Switzerland	Weaker	Fiscal policy should balance the need to avoid creating headwinds to growth, while creating fiscal space to address accumulating spending pressures. A comprehensive medium-term plan will be needed to address mounting structural spending needs on aging, climate, and defense. Monetary policy should remain data-dependent and avoid the risk of inflation settling at very low rates. Commitment to free trade and cooperation, as shown by abolition of industrial tariffs in 2024 and efforts to expand trade relations, should continue in order to build resilience.
Thailand	Stronger	Implement policies aimed at promoting investment, diminishing precautionary savings, and supporting domestic demand. Focus public expenditures on targeted social transfers to continue to support the most vulnerable, as well as infrastructure investment to support a green recovery and reorientation of affected sectors. Continue efforts to reform and expand social safety nets and address widespread informality.
Türkiye	Weaker	Tighten the monetary and fiscal policy stance; accelerate financial liberalization to reduce market distortions and improve monetary policy transmission. Enhance competition through open trade policies, including by removing discretionary credit allocation that favors exports. Collectively, these policies would improve confidence and help sustain capital inflows which would allow for a much-needed accumulation of international reserves.
United Kingdom	Weaker	Implement gradual fiscal consolidation while preserving key public services and protecting the vulnerable. Implement structural reforms to boost competitiveness, including by upgrading the labor skill base to support labor reallocation to fast-growing sectors. Continue to support an open trade environment, including by addressing remaining barriers to trade with the European Union.
United States	Broadly in line	Implement medium-term fiscal consolidation. Implement structural policies to increase competitiveness while maintaining full employment, including by upgrading infrastructure; enhancing the schooling, training, apprenticeship, and mobility of workers; supporting the working poor; and implementing policies to increase growth in the labor force. Roll back tariff barriers and resolve trade and investment disagreements supporting an open, stable, and transparent global trading system.

Source: IMF, 2023 Individual External Balance Assessments.
Note: ". . ." indicates that data are not available or not applicable. CFM = capital flow management measure; FDI = foreign direct investment; FX = foreign exchange; MCP = macroprudential measure; R&D = research and development.

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