CHAPTER 1

EXTERNAL POSITIONS AND POLICIES

Uneven Crisis Impact on External Positions

The COVID-19 pandemic has moved trade, currencies, capital flows, and current accounts widely and unevenly across economies. After declining steadily since 2015, global current account balances—the sum of absolute deficits and surpluses—increased in 2020 and are set to widen further in 2021. Numerous uncertainties surround the outlook.

Goods Trade Recovery, Subdued Trade in Services

The COVID-19 crisis has had a sharp but generally short-lived impact on trade in goods (Figure 1.1). After contracting by 4.7 percent in 2020, global goods trade has recovered to above pre-pandemic levels, reflecting pent-up consumer demand and exceptional policy support, especially in advanced economies. The July 2021 *World Economic Outlook* (WEO) *Update* forecasts goods trade volume to grow by 9.9 percent in 2021. The rapid manufacturing-based recovery, in conjunction with supply shortages, including of containers, has resulted in rising shipping rates, rising input prices, and higher costs of oil and other commodities, such as metals. In addition, as WTO (2021) notes, the positive outlook for goods trade is marred by regional disparities.

Trade in services—especially travel-related services, such as tourism—remains subdued, reflecting the ongoing pandemic. International tourism arrivals were about 86 percent below their 2019 level in April 2021. Overall services trade, which comprises about one-fifth of global trade, contracted by 17.7 percent in 2020, and the July 2021 WEO *Update* forecasts only 5.8 percent growth in 2021, implying a wide shortfall compared with the pre-pandemic path. The external travel shock has sharply reduced the trade balances of hard-hit tourism-dependent economies (Box 1.1).

Fluctuations in Currencies, Capital Flows, and Currency Reserves

Currency movements have mirrored shifts in global financial conditions during the COVID-19 crisis (Figure 1.2). Reserve currencies appreciated during the flight to safety at the onset of the crisis, but most have depreciated since mid-March 2020 amid exceptional policy support, including significant expansions in liquidity by central banks (including via unconventional monetary policies) and expansionary fiscal packages, which, together with positive vaccine news, lifted global risk sentiment overall. Emerging market and developing economy currencies that depreciated early in the crisis during the sudden stop in capital flows have, in many cases, rebounded. Some emerging markets with external vulnerabilities saw pressures on their currencies continue in 2020 with declining foreign exchange reserves, including, for example, Argentina and Turkey, although reserves have in some cases increased somewhat thus far in 2021. Some advanced economies, such as Singapore and Switzerland, have had reserve accumulation in the context of appreciation pressures (Figure 1.3).

Foreign direct investment flows to emerging markets have been less affected than other types of flows—especially in comparison with nonresident portfolio flows—during the COVID-19 crisis, mainly reflecting inflows to Asia (Figure 1.4). By contrast, in advanced economies, foreign direct investment flows declined in 2020, reflecting drops in intra-firm flows and corporate restructuring (UNCTAD 2021). Several emerging market and developing economies sold foreign currency reserves during the sudden stop in early 2020 but rebuilt buffers later when capital flow pressures subsided. Other investment net flows have more recently declined, with this development driven by Chinese banks increasing overseas deposits and lending operations.

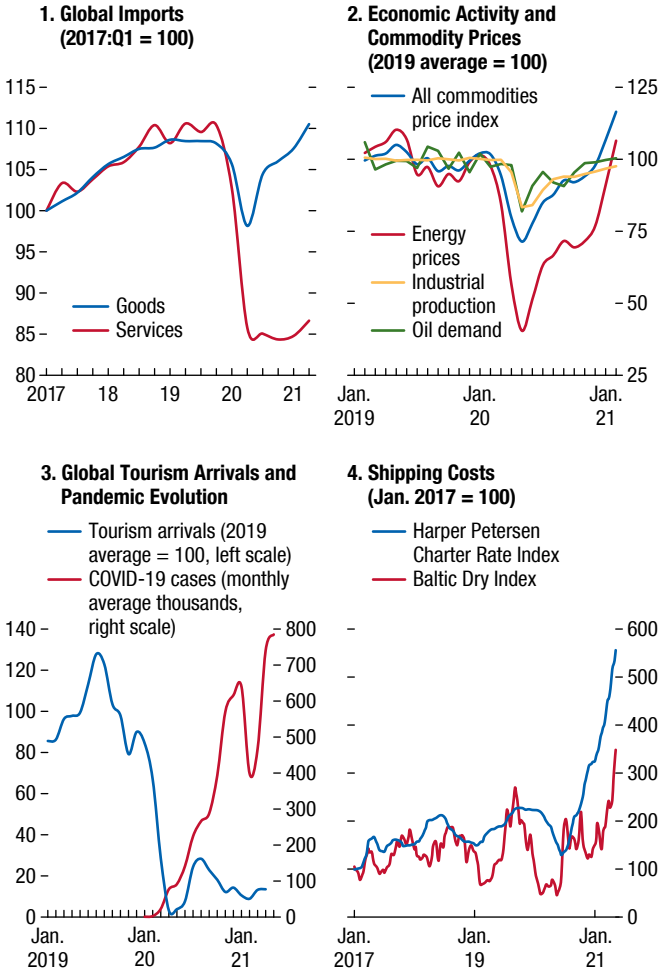
Fluctuations in Current Account Balances

Current account deficits and surpluses exhibited wider fluctuations in 2020 than in recent years (Figure 1.5). Exceptional sectoral shocks have driven these movements, with asymmetric effects across economies.

- *Role of travel shock:* The pandemic has led to a sharp decline in tourism arrivals, with significantly lower travel services and current account balances for Spain, Thailand, and Turkey and even larger declines for smaller tourism-dependent economies (Box 1.1).

Figure 1.1. Global Trade and the COVID-19 Crisis

Global trade in goods has recovered to pre-pandemic levels amid rising economic activity and commodity prices. Services trade, including tourism, remains subdued, reflecting the evolution of the COVID-19 pandemic. Shipping costs have increased since mid-2020, particularly for containers.

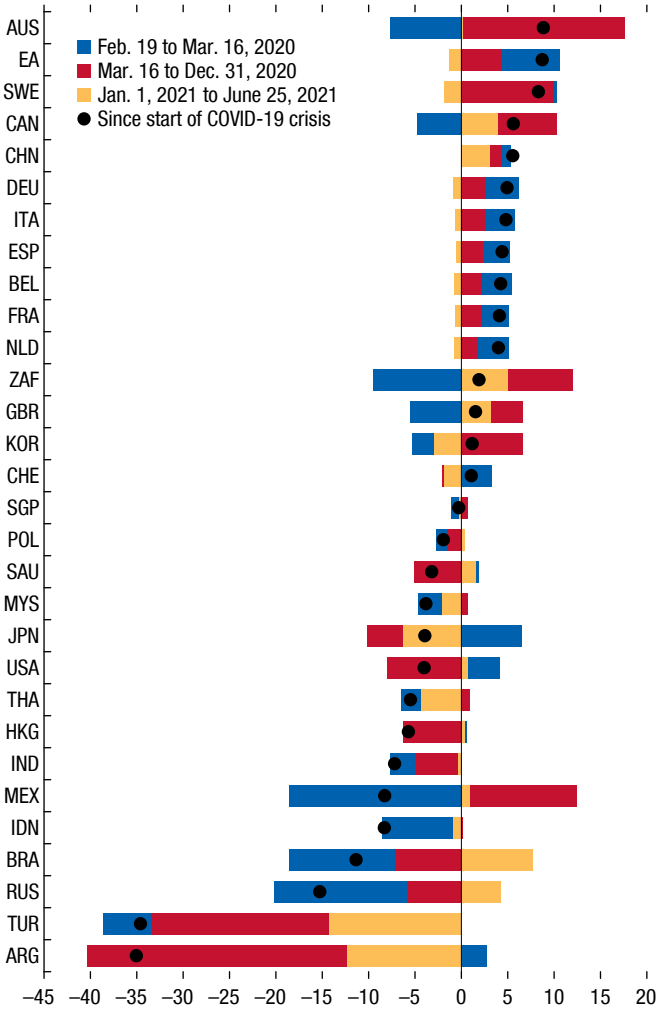


Sources: CEIC, Global Economic Data, Indicators, Charts & Forecasts; IMF, Primary Commodity Price System; Joint Organisations Data Initiative; World Tourism Organization; and *Our World in Data*, national government reports.
Note: Global imports in volumes.

Figure 1.2. Currency Movements: Nominal Effective Exchange Rate

(Percent change)

Reserve currencies appreciated at the onset of the COVID-19 crisis, while several emerging market currencies depreciated. These movements were partially unwound in most cases, although some emerging market currencies kept depreciating during the remainder of 2020 and early 2021.



Sources: IMF, Global Data Source; and IMF staff calculations.
Note: EA = euro area. Data labels use International Organization for Standardization (ISO) country codes.

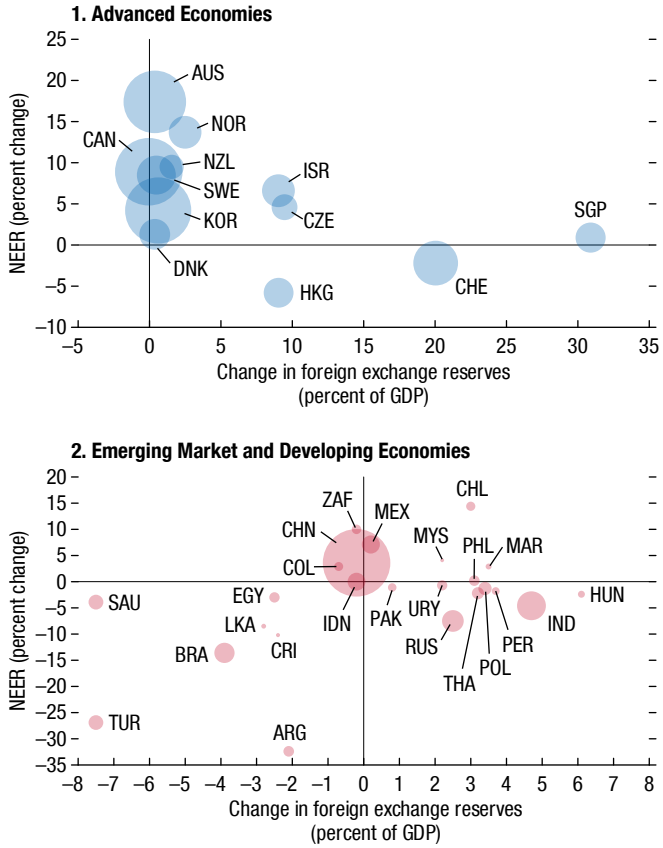
The counterpart to these declines has been a smaller rise in travel services balances spread across numerous economies that are net importers of travel services (for example, China, Germany, and Russia, among major economies).

- *Role of oil trade shock:* The collapse in oil demand and energy prices early in the crisis was relatively short-lived, with oil prices recovering in the second half of 2020. Nonetheless, oil-exporting economies saw their current account balances decline sharply (Russia and Saudi Arabia, among major economies, also due to production cuts), with corresponding increases in oil trade balances spread across many net oil-importing economies.
- *Role of trade in medical products:* The COVID-19 medical emergency has triggered demand for medical products, including medicine, medical supplies and equipment, and personal protective equipment, with implications for imports and exports, including

Figure 1.3. Estimated Change in Foreign Exchange Reserves[1] and Nominal Effective Exchange Rate Change

(March 2020–April 2021)

Some emerging market and developing economies with currency depreciation have had substantial declines in foreign exchange reserves. Some advanced economies with currency appreciation pressures have had substantial increases in foreign exchange reserves.



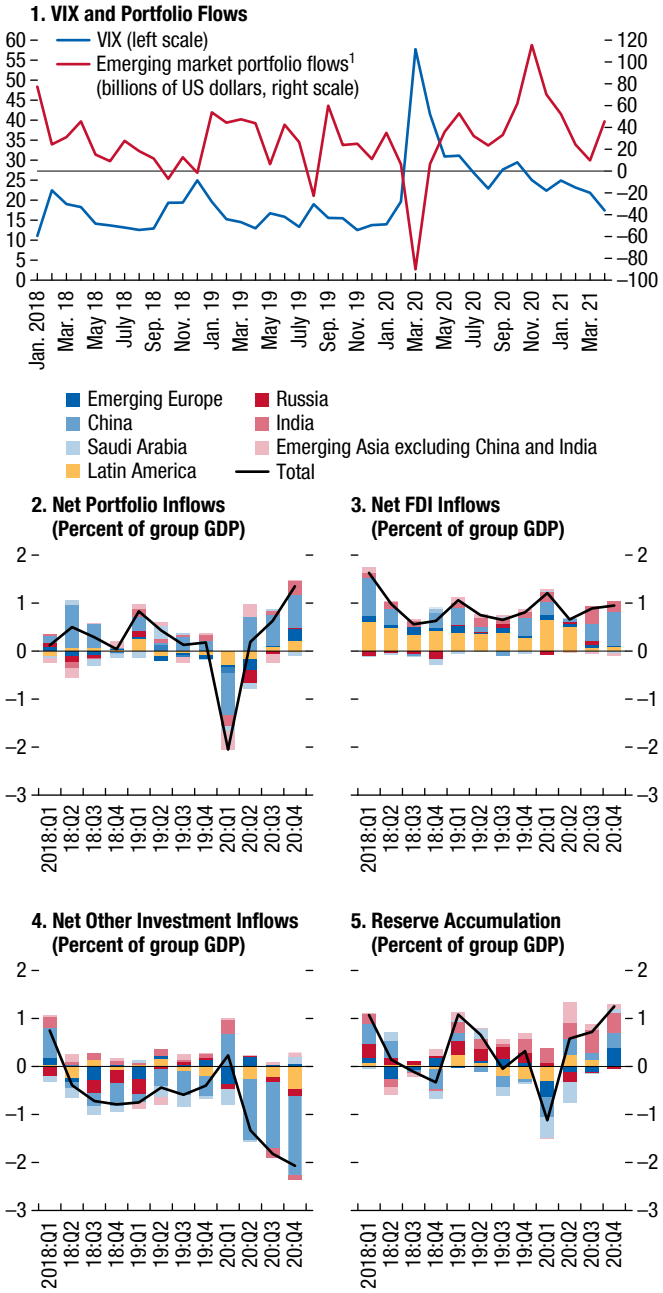
Sources: Adler and others (2021); IMF, *International Financial Statistics*; IMF, Information Notice System; and IMF staff calculations.
Note: NEER = nominal effective exchange rate. Data labels use International Organization for Standardization (ISO) country codes.
[1]The change in foreign exchange reserves is based on the change in the stock of reserves, adjusted for valuation changes, reserve income flows, and changes in foreign exchange assets and liabilities vis-à-vis residents and nonresidents, and operations with foreign exchange derivatives. It may differ from actual foreign currency market transactions data when available.

of intermediate inputs used in the production of medical goods.

- *Role of shift in household consumption composition:* The pandemic has shifted the composition of household consumption from services toward consumer goods. In advanced economies, the composition shift has been toward both durable and nondurable goods (Figure 1.6). For durable goods, the shift involves an increased preference for such items as cars and electrical appliances, including to accommodate the shift

Figure 1.4. Capital Flows to Emerging Market and Developing Economies and the VIX

Portfolio flows to emerging market and developing economies have rebounded since the spike in the VIX in March 2020. Foreign direct investment flows have been relatively stable throughout the pandemic. International reserves declined in early 2020 but have generally rebounded since then.

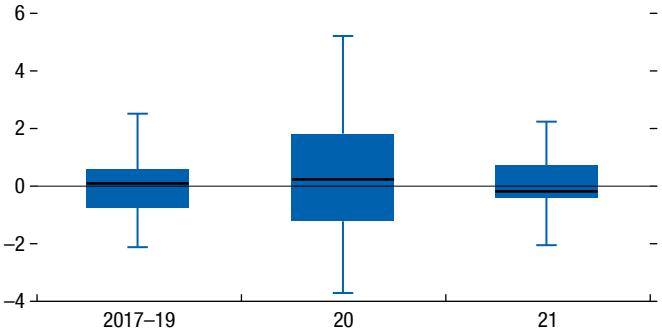


Sources: IMF, *International Financial Statistics*; Institute of International Finance; and IMF staff calculations.
Note: For panels 2–4, positive numbers represent net inflow of capital. FDI = foreign direct investment; VIX = Chicago Board Options Exchange Volatility Index.
[1]Net nonresident purchases of emerging market stocks ("portfolio equity flows") and bonds ("portfolio debt flows") in billions of US dollars, proxy for portfolio flows as measured in the balance of payments.

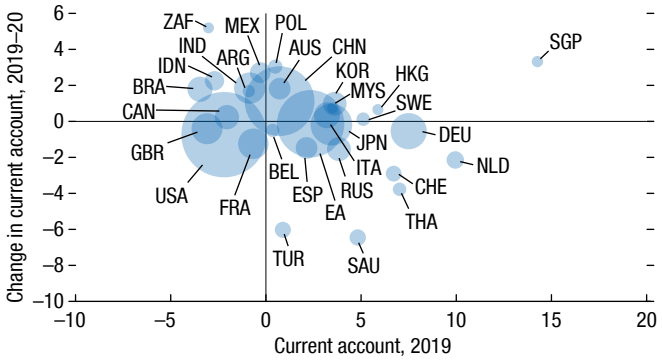
Figure 1.5. Current Account Movements
(Percent of GDP)

Current account movements were larger in 2020 than in recent years and are expected to moderate in 2021. A large share of the changes in current account balances between 2019 and 2020 can be explained by sectoral shocks associated with the COVID-19 crisis.

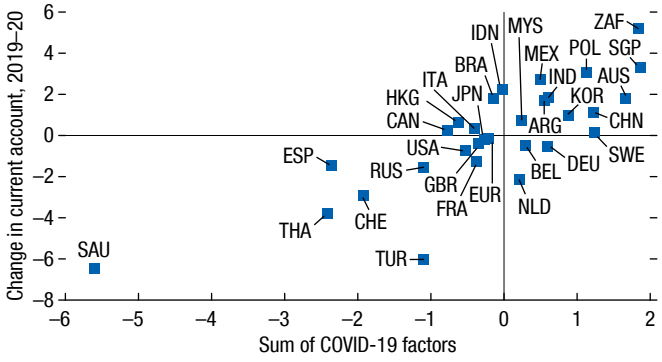
1. Change in Current Account Balances in 2017–21



2. Change in Current Account Balances in 2019–20



3. Change in Current Account Balances versus Sum of COVID-19 Factors

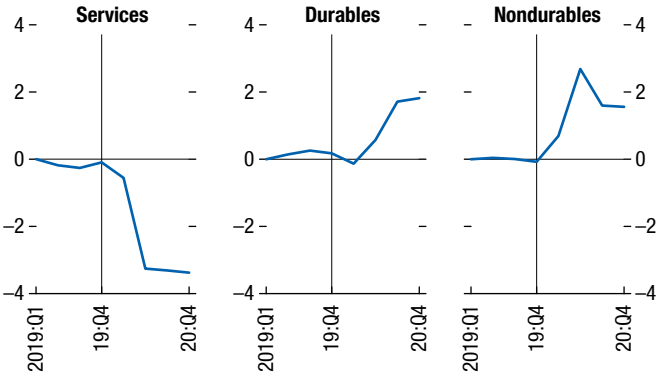


Sources: IMF, *International Financial Statistics*; IMF, *World Economic Outlook*; and IMF staff calculations.
Note: Bubble size is relative to 2019 nominal GDP in US dollars. Sample includes IMF, *External Sector Report* sample economies. Data labels use International Organization for Standardization (ISO) country codes. See the chapter text for the definition of sectoral shocks associated with the COVID-19 crisis.

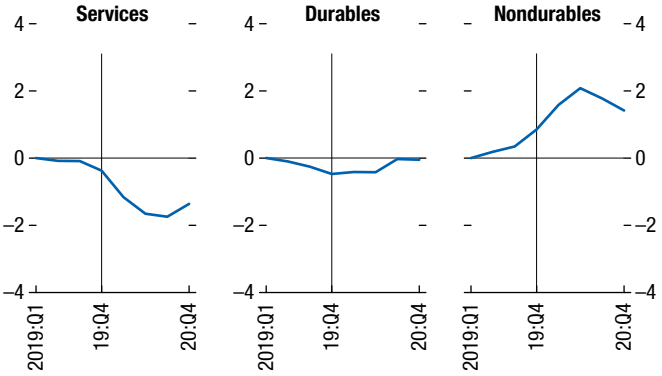
Figure 1.6. Household Consumption Composition Shift
(Percent of household consumption)

Consumption has shifted from services toward consumer goods in real terms during the pandemic, especially in advanced economies. This pattern contrasts sharply with previous recessions, during which consumption shifted away from durable goods. In emerging market and developing economies, the shift has been less pronounced.

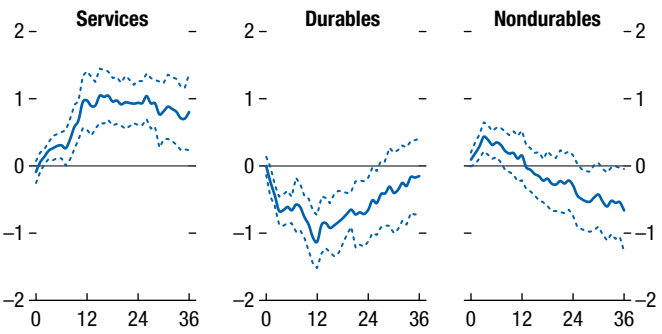
1. Advanced Economies, 2019–20[1]



2. Emerging Market and Developing Economies, 2019–20[2]



3. United States, Past Recessions[2]



Sources: Haver Analytics; National Bureau of Economic Research (NBER); US Bureau of Economic Analysis; and IMF staff estimates.
Note: Data labels use International Organization for Standardization (ISO) country codes.
[1]Change in consumption shares from 2019:Q1, quarterly data. The panel shows the GDP-weighted average for 14 advanced economies (AUS, CAN, DEU, DNK, ESP, FRA, GBR, ISR, ITA, JPN, KOR, NZL, SWE and USA) and 7 emerging market and developing economies (CHN, CHL, IDN, MEX, THA, TUR and ZAF).
[2]Estimates of Jordà (2005) and local projections for NBER-dated US recessions since 1958, excluding the COVID-19 crisis; monthly data. Dashes indicate 90 percent confidence bands. Units on the *x*-axis are months.

toward teleworking and virtual learning (see Box 1.1 in the April 2021 WEO). This development contrasts with past recessions, during which the consumption share of durable goods has typically declined. In emerging market and developing economies, the shift away from services also occurred but was not as pronounced and was mainly offset by an increased consumption share of nondurables. The shift is currently expected to be a transitory development, driven by the pandemic and associated lockdowns and involving some purchases—such as home office equipment—that depreciate slowly.

Additional country-specific factors have also contributed to the sharp movements in current accounts. For instance, some economies with large foreign direct investment liabilities experienced sharp increases in their income balances and current accounts due to lower dividend payments to foreign investors (for Australia, Poland, and South Africa, for example). In other cases, increased global demand for gold, a traditional safe asset in times of heightened global risk aversion, led to sharp increases in gold imports (for Switzerland, for example) and exports for gold producers (South Africa, for example). Remittance flows declined sharply in early 2020, affecting emerging market and developing economies such as India and Mexico, as well as numerous smaller ones (Figure 1.7).

However, remittances have since recovered faster than anticipated and have become an important consumption smoothing mechanism for the recipient households, forming a significant (private) element of global social protection systems (World Bank 2021). Kpodar and others (2021) find that remittances were greater in migrants' home economies with higher COVID-19 infection rates.

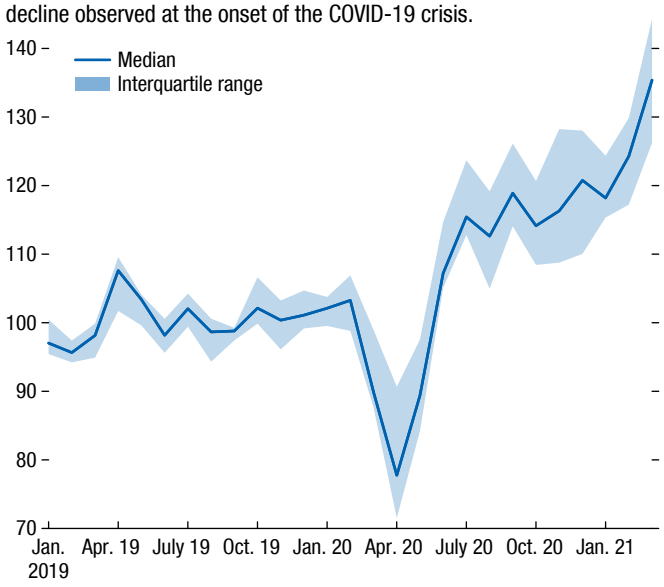
Overall, these special COVID-19–related factors explain a substantial share of the movement in current account balances in 2020 (Figure 1.5). Online Annex 1.1[1] provides a quantification of the impact of these factors on current account balances. About 66 percent of the movement of current account balances for major economies is explained by the sum of these factors (Figure 1.5).[2]

[1]All annexes are available at www.imf.org/en/Publications/ESR.

[2]The relationship depicted in Figure 1.15, $\Delta CA_i = \alpha + \beta \text{Sum of COVID-19 Factors}_i + \varepsilon_i$, where ΔCA_i is the change in the current account-to-GDP ratio for economy i in 2020 has, for the 30 economies with ESR assessments, an R-squared of 66 percent.

Figure 1.7. Remittances during the COVID-19 Crisis
(US dollars; 2019 = 100)

Flows of remittances to emerging market and developing economies were resilient in 2020 and early 2021, with most economies having experienced a sustained increase since May 2020, which reversed the decline observed at the onset of the COVID-19 crisis.



Sources: National authorities; and IMF staff calculations.
Note: Country sample: Bangladesh, Colombia, Dominican Republic, El Salvador, Georgia, Guatemala, Kenya, Lebanon, Mexico, Morocco, Pakistan, Paraguay, Philippines, Sri Lanka, Thailand.

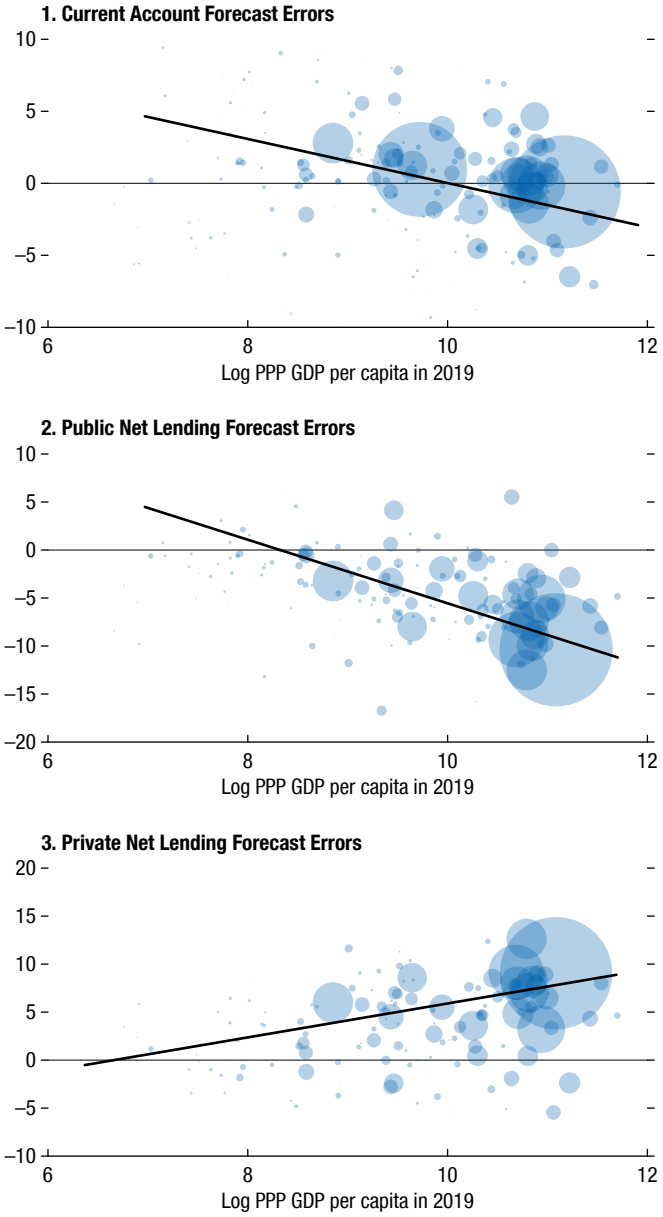
In addition, as the analysis in Chapter 2 suggests, the unprecedented fiscal expansion is having significant effects on current account balances, although what happens to the current account depends on a country's relative fiscal policy stance compared with that of its trading partners. For economies with relatively limited fiscal expansions during the COVID-19 crisis compared with those of their trading partners, consequences include a rise in their current account balances (such as in Mexico).

Impact on "Downhill" Flow of Capital, Saving, and Investment

In 2020 poorer economies saw, on average, larger unexpected increases in their current account balances than did richer economies, compared with pre-pandemic forecasts (Figure 1.8), highlighting the unequal impact of the pandemic and potentially exacerbating the divergent speeds of recovery across income groups. A doubling in income per capita is associated with more than a 1 percentage point of GDP

Figure 1.8. Income Levels and Current Account Forecast Errors, 2020
(Percent of GDP)

Current account forecast errors in 2020 are negatively associated with income levels, implying an "uphill" flow of capital from poorer to richer economies relative to previous forecasts. This reflects mainly larger negative forecast errors in public net lending in richer economies.



Sources: IMF, *International Financial Statistics*; IMF, *World Economic Outlook* (WEO); and IMF staff calculations.
Note: Forecast errors are defined as outcomes minus the January 2020 WEO forecast. Bubble sizes are proportional to US dollar GDP. The vertical axis for chart 1 is cut off at ±10 percent of GDP. Current account balances outside this range sum to less than 0.1 percent of world GDP. PPP = purchasing power parity.

reduction in the current account balance compared with pre-pandemic forecasts (see Online Annex 1.2).[3] The relationship suggests that the COVID-19 crisis may have slowed the downhill flow of capital from richer to poorer economies that occurred during the decade following the global financial crisis. After that crisis, deleveraging and associated investment declines led to lower net inflows into richer economies, and the global flow of loanable funds supported investment in poorer economies (Boz, Cubeddu, and Obstfeld 2017).

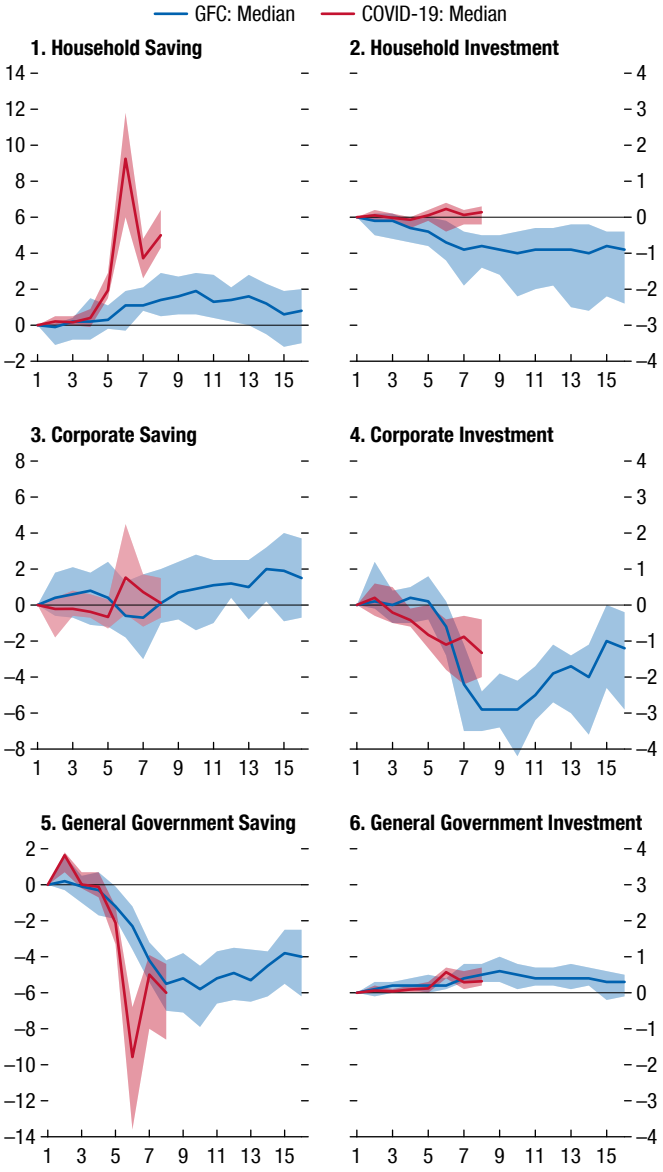
This development regarding the direction of capital flows, which is expected to gradually unwind over the coming years, reflects larger declines in public saving–investment balances in richer economies associated with their larger fiscal expansions (see the April 2021 *Fiscal Monitor* and Online Annex 1.2). The fall in public saving–investment balances has been partly offset by higher private saving–investment balances, which have increased in most economies but by more in richer ones. Despite this average result, for a number of lower- and middle-income economies, there were sharp declines in current account balances, especially for those with significant exports of travel services or oil, as already mentioned (Box 1.1).

Sectoral data for advanced economies suggest that the rise in private saving–investment balances mainly reflects record household saving rates (Figure 1.9) due to lockdown-induced consumption reductions, the saving of government transfers, and precautionary motives (Box 1.2). The increase in household saving and the fall in government saving have been much larger than during the global financial crisis. Corporate saving movements have been relatively modest, reflecting offsetting effects of falling profits and government support to companies. Household and corporate

[3]As Figure 1.8 indicates (and Online Annex 1.2 documents in further detail), the forecast error for the current account balance in percentage of GDP in 2020 compared with the January 2020 WEO forecast is negatively correlated with the initial (2019) log of purchasing-power-parity (PPP) GDP per capita for a global sample of economies. The slope coefficient (–1.05) implies that a doubling in income per capita is associated with a 1.05 percentage point of GDP reduction in the current account balance compared with pre-pandemic forecasts. Excluding China and the United States from the analysis decreases the coefficient modestly (in absolute terms) to –0.99. This result is both statistically and economically significant. Additional analysis (Online Annex 1.2) confirms that countries with lower per capita income had, on average, lower current account balances during 2010–19: a doubling in per capita income for that decade is associated with a 1.02 percentage point of GDP *rise* in the current account balance.

Figure 1.9. Private and Public Sector Saving Rates in Advanced Economies
(Percent of GDP, quarters on x-axis)

Compared with the global financial crisis, the COVID-19 crisis led to larger (and offsetting) shifts in household and public saving, with a smaller impact on corporate saving and investment.



Sources: Eurostat; national authorities; Refinitiv Datastream; and IMF staff calculations.
Note: Countries are Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, The Netherlands, Norway, Poland, Portugal, Romania, Slovenia, Spain, Sweden, the United Kingdom, the United States. The global financial crisis (GFC) and COVID-19 series are rebased to zero in 2007:Q3 and 2019:Q1, respectively. In both cases, Q = 6 corresponds to the peak of the crisis.

investment has been relatively resilient, which differs from past recessions, with private investment typically contracting, especially following credit booms (Box 1.3), as was the case following the global financial crisis, which came after real-estate booms in a number of economies.

Widening Global Current Account Balances

Global current account deficits and surpluses widened in 2020 compared with 2019 and are set to widen further in 2021 (Figure 1.10 and Table 1.1). The aforementioned sectoral COVID-19 factors explain the entire widening in global current account balances in 2020 (Figure 1.11). Net of these factors, the global current account balance in 2020 is slightly *lower* than in 2019 (Figure 1.11).

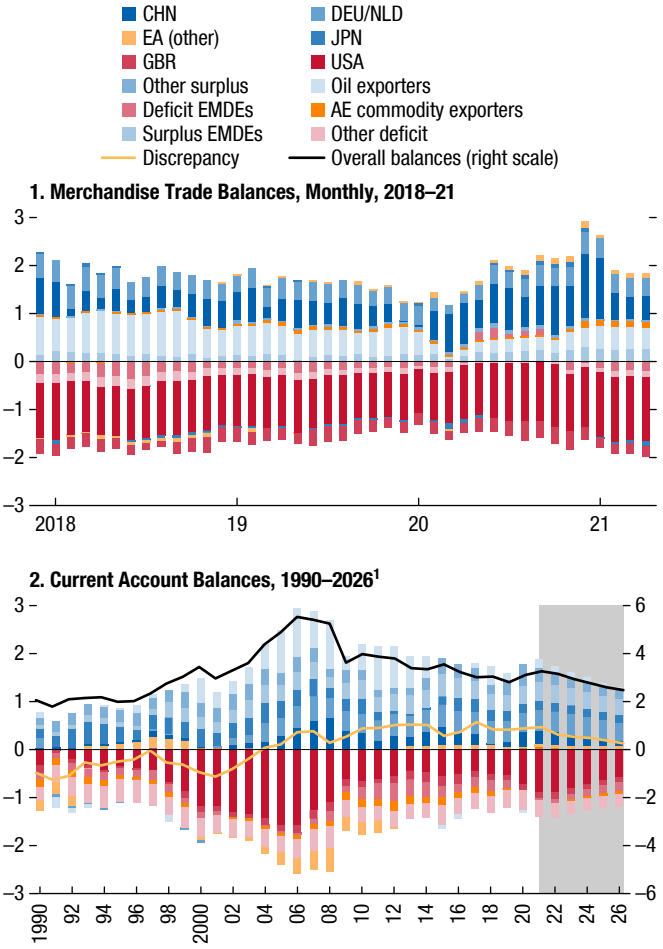
The widening of global balances in 2020–21, which is expected to be temporary, contrasts with developments in the aftermath of the global financial crisis and earlier global downturns, during which global balances narrowed. Factors that explain the different dynamics observed this time include, in addition to the aforementioned sectoral shocks, the highly synchronized nature of the pandemic recession and relatively limited precrisis domestic and external imbalances, with relatively few associated financial crises (Box 1.3). In addition, the ongoing fiscal expansions, which tend to raise current account deficits, are especially large for economies with current account deficits, such as the United States, and this distribution of fiscal expansions across economies contributes to further widening global balances in 2021 (Chapter 2). Overall, forecasts of global current account balances for the coming years have been revised up (Figure 1.11) and their currently expected declining path over the medium term is subject to upside risks, as discussed in what follows, which would further add to the stock of external assets and liabilities.

Creditor and debtor stock positions remain historically high (Figure 1.12). The largest debtor economy remains the United States, whose net international investment position declined from −51 percent of GDP in 2019 to −67 percent of GDP in 2020 (Table 1.2). Other large debtor economies include Spain, the United Kingdom, and Australia, while the largest creditor economies remain Japan, Germany, Hong Kong SAR, and China. Foreign currency reserves remain adequate in most emerging

Figure 1.10. Global Current Account Balances, 1990–2026

(Percent of world GDP)

Global current account deficits and surpluses, which had been on a declining trend for a number of years, increased in 2020 and are set to widen further in 2021.

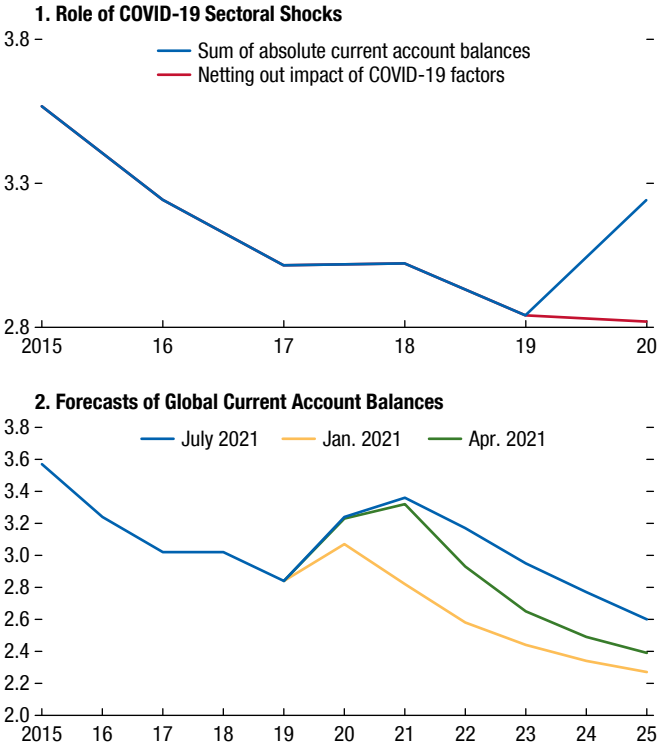


Sources: IMF, *International Financial Statistics*; IMF, *World Economic Outlook* (WEO); and IMF staff calculations.
Note: The shaded area indicates forecasts. AE = advanced economies; EA = euro area; EMDEs = emerging market and developing economies. Data labels use International Organization for Standardization (ISO) country codes.
[1]Overall balance is the absolute sum of global surpluses and deficits. AE commodity exporters comprise Australia, Canada, and New Zealand; deficit EMDEs comprise Brazil, Chile, India, Indonesia, Mexico, Peru, South Africa, and Turkey; oil exporters comprise WEO definition plus Norway; surplus AEs comprise Hong Kong SAR, Korea, Singapore, Sweden, Switzerland, and Taiwan Province of China. Other deficit (surplus) comprise all other economies running current account deficits (surpluses).

Figure 1.11. Global Current Account Balances and COVID-19 Factors

(Percent of world GDP)

Sectoral shocks associated with the COVID-19 crisis explain the increase in global current account balances—the sum of absolute deficits and surpluses—in 2020. Forecasts of global current account balances for the coming years have been revised up.



Sources: Census and Economic Information Center; IMF, Information Notice System; IMF, *International Financial Statistics*; IMF, *World Economic Outlook*; and IMF staff calculations.
Note: See the chapter text for the definition of sectoral shocks associated with the COVID-19 crisis. Forecast dates refer to vintages of the IMF, *World Economic Outlook*.

market and developing economies (Annex Table 1.1.1). Valuation effects drove changes in the net international investment position of major advanced and emerging market economies. The United States experienced the largest valuation losses in percent of GDP, which are mainly explained by asset price valuation losses as a result of the increase in domestic stock prices, which affects the value of US external equity liabilities. Currency-induced valuation effects for the United States are relatively small. Among emerging markets, Turkey experienced large currency-induced valuation losses, particularly on debt, driven by the large depreciation of the Turkish lira. These valuation losses were only partially offset by asset price valuation gains. Brazil had currency-induced valuation losses on external debt positions, but these losses were offset by gains on equity positions and asset prices. By contrast, South Africa experienced large net foreign valuation gains (in terms of smaller net foreign liabilities) due to declining asset price valuations (see Online Annex 1.3 for the methodology on computing valuation effects).

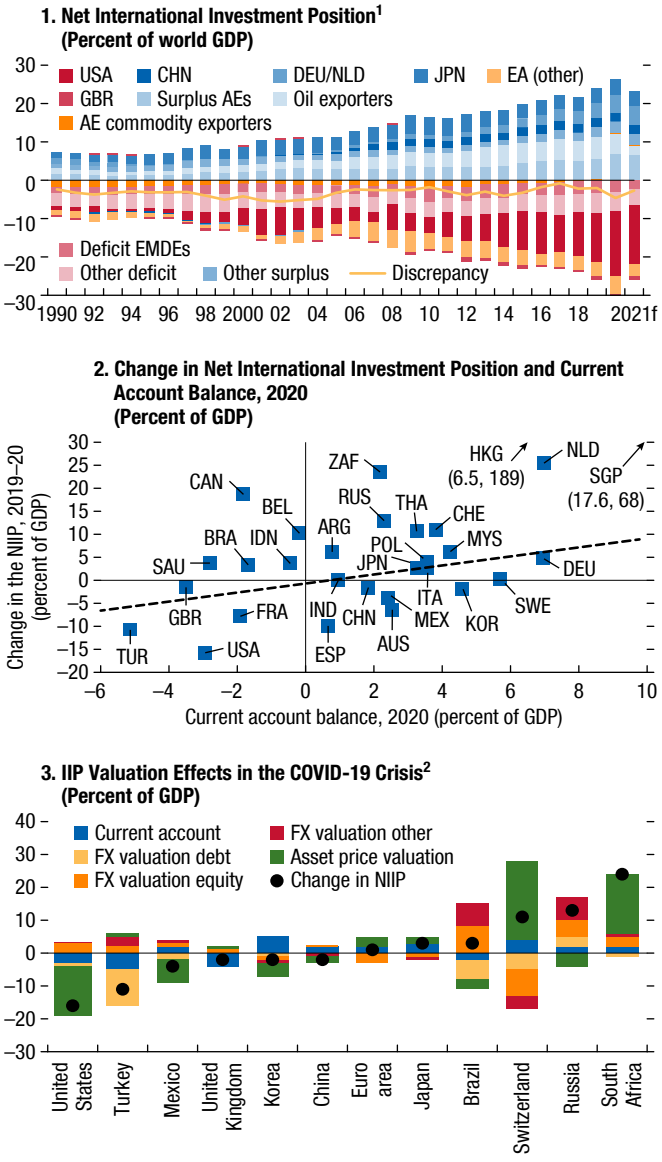
Table 1.1. Selected Economies: Current Account Balance, 2018–21

	Billions of US Dollars				Percent of World GDP				Percent of GDP			
	2018	2019	2020	2021 Projection	2018	2019	2020	2021 Projection	2018	2019	2020	2021 Projection
Advanced Economies												
Australia	–30	9	35	38	0.0	0.0	0.0	0.0	–2.1	0.7	2.5	2.4
Belgium	–4	2	–1	–5	0.0	0.0	0.0	0.0	–0.8	0.3	–0.2	–0.9
Canada	–40	–36	–30	–15	0.0	0.0	0.0	0.0	–2.3	–2.1	–1.8	–0.8
France	–16	–18	–50	–62	0.0	0.0	–0.1	–0.1	–0.6	–0.7	–1.9	–2.1
Germany	292	274	265	327	0.3	0.3	0.3	0.4	7.4	7.1	7.0	7.6
Hong Kong SAR	14	21	23	20	0.0	0.0	0.0	0.0	3.7	5.7	6.5	5.5
Italy	52	60	67	74	0.1	0.1	0.1	0.1	2.5	3.0	3.5	3.5
Japan	177	188	165	195	0.2	0.2	0.2	0.2	3.5	3.7	3.3	3.6
Korea	77	60	75	77	0.1	0.1	0.1	0.1	4.5	3.6	4.6	4.2
The Netherlands	99	90	63	91	0.1	0.1	0.1	0.1	10.8	9.9	7.0	9.0
Singapore	58	53	60	55	0.1	0.1	0.1	0.1	15.4	14.3	17.6	14.6
Spain	27	30	8	14	0.0	0.0	0.0	0.0	1.9	2.1	0.7	1.0
Sweden	15	27	31	31	0.0	0.0	0.0	0.0	2.6	5.1	5.7	5.0
Switzerland	49	49	28	56	0.1	0.1	0.0	0.1	6.7	6.7	3.8	6.7
United Kingdom	–105	–88	–95	–121	–0.1	–0.1	–0.1	–0.1	–3.7	–3.1	–3.5	–3.9
United States	–450	–480	–616	–876	–0.5	–0.6	–0.7	–0.9	–2.2	–2.2	–2.9	–3.9
Emerging Market and Developing Economies												
Argentina	–27	–4	3	10	0.0	0.0	0.0	0.0	–5.2	–0.9	0.8	2.3
Brazil	–42	–51	–24	–9	0.0	–0.1	0.0	0.0	–2.2	–2.7	–1.7	–0.6
China	24	103	271	274	0.0	0.1	0.3	0.3	0.2	0.7	1.8	1.6
India[1]	–57	–25	26	–36	–0.1	0.0	0.0	0.0	–2.1	–0.9	1.0	–1.2
Indonesia	–31	–30	–5	–15	0.0	0.0	0.0	0.0	–2.9	–2.7	–0.4	–1.3
Malaysia	8	12	14	15	0.0	0.0	0.0	0.0	2.2	3.4	4.2	3.8
Mexico	–25	–4	26	22	0.0	0.0	0.0	0.0	–2.1	–0.3	2.4	1.8
Poland	–8	3	21	13	0.0	0.0	0.0	0.0	–1.3	0.5	3.5	2.0
Russia	116	65	34	67	0.1	0.1	0.0	0.1	7.0	3.8	2.3	3.9
Saudi Arabia	72	38	–20	23	0.1	0.0	0.0	0.0	9.2	4.8	–2.8	2.8
South Africa	–13	–11	7	3	0.0	0.0	0.0	0.0	–3.5	–3.0	2.2	1.0
Thailand	28	38	16	2	0.0	0.0	0.0	0.0	5.6	7.0	3.3	0.5
Turkey	–22	7	–37	–21	0.0	0.0	0.0	0.0	–2.8	0.9	–5.1	–2.7
Memorandum item:[2]												
Euro Area	393	307	285	401	0.5	0.4	0.3	0.4	2.9	2.3	2.2	2.8
Global Current Account Balance	2,590	2,477	2,736	3,141	3.0	2.8	3.2	3.4	…	…	…	…
Statistical Discrepancy	317	339	362	348	0.4	0.4	0.4	0.4	…	…	…	…
Overall Surpluses	1,453	1,388	1,497	1,742	1.7	1.6	1.8	1.9	…	…	…	…
Of which: Advanced Economies	1,041	1,007	1,022	1,225	1.2	1.2	1.2	1.3	…	…	…	…
Overall Deficits	–1,136	–1,049	–1,135	–1,394	–1.3	–1.2	–1.3	–1.5	…	…	…	…
Of which: Advanced Economies	–670	–684	–813	–1,104	–0.8	–0.8	–1.0	–1.2	…	…	…	…

Sources: IMF, *World Economic Outlook;* and IMF staff calculations.
Note: "…" indicates that data are not available or not applicable.
[1]For India, data are presented on a fiscal year basis.
[2]Overall surpluses and deficits (and the "of which" advanced economies) include non-*External Sector Report* economies.

Figure 1.12. Net International Investment Positions, 1990–2021

Stocks of foreign assets and liabilities remain at historically high levels. In 2020 changes in the net foreign asset position were larger than explained by current account balances in a number of cases, reflecting large valuation changes, including those driven by asset price and currency movements.



Sources: Bénétrix and others (2019); External Wealth of Nations database; Hale and Juvenal (2020); IMF, *International Financial Statistics*; IMF, *World Economic Outlook* (WEO); and IMF staff calculations.
Note: AEs = advanced economies; EA = euro area; EMDEs = emerging market and developing economies; "f" = IMF staff forecasts; FX = foreign exchange; IIP = international investment position; NFA = net foreign assets; NIIP = net international investment position. Data labels use International Organization for Standardization (ISO) country codes.
[1]AE commodity exporters comprise Australia, Canada, New Zealand; creditor AEs comprise Hong Kong SAR, Korea, Singapore, Sweden, Switzerland, Taiwan Province of China; deficit EMDEs comprise Brazil, Chile, India, Indonesia, Mexico, Peru, South Africa, and Turkey; oil exporters comprise WEO definition plus Norway.
[2]Euro area comprises Austria, Belgium, France, Germany, Italy, The Netherlands, Finland, Greece, Ireland, Portugal, and Spain.

Normative Assessment of External Positions in 2020

IMF staff external sector assessments for 2020 provide an analysis of how the COVID-19 crisis has affected external positions. The assessment of external positions requires a multilateral approach that matches positive and negative excess external imbalances. The IMF's external assessment framework combines numerical inputs from the latest vintage of the External Balance Assessment (EBA) models with a series of external indicators and analytically grounded judgment and country-specific insights (see Box 1.4). The EBA methodology produces multilaterally consistent estimates for current account and real exchange rate norms (benchmarks), which depend on country fundamentals and desired policies.[4] The IMF staff estimates current account and real effective exchange rate gaps by comparing actual current accounts (stripped of temporary components) and real effective exchange rates with their IMF staff–assessed norms, using analytically grounded judgment and country-specific insights, where appropriate. The IMF staff arrives at a holistic overall external sector assessment for 30 of the world's largest economies based on the estimated gaps as well as consideration of other external sector indicators, such as the net international investment position, capital flows, and foreign exchange reserves. Annex Table 1.1.2 summarizes the IMF staff–assessed current account and real effective exchange rate gaps and the external sector assessments for the 30 economies.

To strip out factors associated with the COVID-19 crisis and allow the IMF staff to assess the underlying current account position, special adjustments to EBA model estimates are provided (see Online Annex 1.1). These adjustors estimate the impact of the crisis on (1) the travel services balance (reflecting mostly tourism) due to the drop in international travel, (2) oil balances, (3) trade in medical products triggered by the health emergency, and (4) shifts in household consumption composition due to the shift from services toward durables and other consumer goods. Additional, more idiosyncratic adjustments related to the COVID-19 crisis, such as those involving sharp shifts

[4]For instance, advanced economies with higher incomes, older populations, and lower growth prospects have positive current account norms. Conversely, current account norms are negative for most emerging market and developing economies, as they are expected to import capital to invest and exploit their higher growth potential.

Table 1.2. Selected Economies: Net International Investment Position, 2017–20

	Billions of US Dollars				Percent of World GDP				Percent of GDP			
	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
Advanced Economies												
Australia	–756	–738	–643	–714	–0.9	–0.9	–0.7	–0.8	–54.6	–51.9	–46.2	–52.6
Belgium	288	187	186	231	0.4	0.2	0.2	0.3	57.3	34.5	34.9	45.1
Canada	569	547	742	1,007	0.7	0.6	0.9	1.2	34.5	31.8	42.6	61.3
France	–547	–506	–507	–694	–0.7	–0.6	–0.6	–0.8	–21.1	–18.1	–18.6	–26.4
Germany	2,174	2,410	2,756	2,905	2.7	2.8	3.2	3.4	59.0	60.8	71.4	76.3
Hong Kong SAR	1,421	1,283	1,579	2,154	1.8	1.5	1.8	2.5	416.5	354.6	431.8	621.0
Italy	–158	–98	–18	34	–0.2	–0.1	0.0	0.0	–8.1	–4.7	–0.9	1.8
Japan	2,915	3,033	3,271	3,347	3.6	3.5	3.8	4.0	59.1	60.2	63.5	66.3
Korea	262	436	501	465	0.3	0.5	0.6	0.6	16.1	25.3	30.3	28.4
The Netherlands	523	633	810	1,038	0.6	0.7	0.9	1.2	62.7	69.2	89.3	113.9
Singapore	867	770	896	1,046	1.1	0.9	1.0	1.2	252.6	204.8	239.3	307.8
Spain	–1,114	–1,127	–1,037	–1,082	–1.4	–1.3	–1.2	–1.3	–84.9	–79.2	–74.4	–84.5
Sweden	–7	43	94	97	0.0	0.0	0.1	0.1	–1.2	7.7	17.7	18.0
Switzerland	676	751	609	705	0.8	0.9	0.7	0.8	95.9	102.0	83.2	94.2
United Kingdom	–372	–432	–814	–820	–0.5	–0.5	–0.9	–1.0	–13.9	–15.1	–28.7	–30.3
United States	–7,622	–9,674	–11,051	–14,090	–9.5	–11.3	–12.7	–16.7	–39.0	–46.9	–51.6	–67.3
Emerging Market and Developing Economies												
Argentina	17	65	115	122	0.0	0.1	0.1	0.1	2.7	12.6	25.8	32.0
Brazil	–645	–595	–786	–552	–0.8	–0.7	–0.9	–0.7	–31.3	–31.1	–41.9	–38.3
China	2,065	2,108	2,300	2,150	2.6	2.5	2.6	2.5	16.8	15.2	16.0	14.5
India	–424	–437	–375	–341	–0.5	–0.5	–0.4	–0.4	–16.0	–16.2	–13.1	–13.1
Indonesia	–323	–317	–338	–281	–0.4	–0.4	–0.4	–0.3	–31.8	–30.4	–30.2	–26.5
Malaysia	–8	–18	–5	16	0.0	0.0	0.0	0.0	–2.4	–4.9	–1.5	4.8
Mexico	–553	–584	–648	–590	–0.7	–0.7	–0.7	–0.7	–47.7	–47.8	–51.0	–54.9
Poland	–350	–315	–298	–273	–0.4	–0.4	–0.3	–0.3	–66.4	–53.7	–49.9	–45.9
Russia	280	374	359	504	0.3	0.4	0.4	0.6	17.8	22.6	21.2	34.2
Saudi Arabia	624	658	675	623	0.8	0.8	0.8	0.7	90.6	83.6	85.1	88.8
South Africa	35	45	31	98	0.0	0.1	0.0	0.1	9.9	12.3	8.9	32.4
Thailand	–31	–6	2	55	0.0	0.0	0.0	0.1	–6.7	–1.1	0.3	11.0
Turkey	–462	–370	–348	–404	–0.6	–0.4	–0.4	–0.5	–53.8	–47.5	–45.7	–56.4
Memorandum item:												
Euro Area	–1,097	–587	–35	111	–1.4	–0.7	0.0	0.1	–8.7	–4.3	–0.3	0.8
Statistical Discrepancy	–1,173	–2,556	–2,318	–3,407	–1.5	–3.0	–2.7	–4.0	…	…	…	…
Overall Creditors[1]	15,611	16,308	18,188	20,156	19.4	19.0	20.9	23.9	…	…	…	…
Of which: Advanced Economies	12,180	12,628	14,300	16,217	15.1	14.7	16.4	19.2	…	…	…	…
Overall Debtors[1]	–16,785	–18,863	–20,506	–23,563	–20.8	–22.0	–23.5	–27.9	…	…	…	…
Of which: Advanced Economies	–12,033	–14,153	–15,633	–19,074	–14.9	–16.5	–17.9	–22.6	…	…	…	…

Sources: IMF, World Economic Outlook; US Bureau of Economic Analysis; and IMF staff calculations.
Note: "…" indicates that data are not available or not applicable.
[1]Overall creditors and debtors (and the "of which" advanced economies) include non-External Sector Report economies.

in the income balance, gold balance, and remittances, are included. As already mentioned, these COVID-19–related factors explain a large share of the movement in current account balances in 2020, implying that, without their use, the 2020 external sector assessments would be distorted and harder to interpret. Annex Table 1.1.3 reports the overall set of IMF staff adjustments to reflect both the COVID-19 factors and other country-specific factors.

Current Account Norms in 2020

Current account norms in 2020 reflected, as in 2019, economic fundamentals and desirable policies (Figure 1.13, panel 1). IMF staff adjustments to norms include those for demographic characteristics not captured by the EBA models (Canada, Germany, Indonesia, South Africa) and to enhance external debt sustainability (Argentina and Spain).

Norm changes in 2020 compared with 2019 mainly reflect changes in medium-term desirable fiscal policy settings—the level of the general government cyclically adjusted fiscal balance in five years recommended by the IMF staff (Figure 1.13, panel 2). Changes in other desired policy settings contributed little to changes in current account norms. In the near term, departures from medium-term policy settings can be desirable, as in the case of the 2020 necessary fiscal expansions. In most cases, the IMF staff reduced the medium-term desirable fiscal policy settings compared with those for the 2020 *External Sector Report* (ESR) to avoid an excessively sharp adjustment over the subsequent five years. In some cases, the IMF staff increased the desirable fiscal medium-term fiscal policy setting, to ensure stabilization or decline in government debt to GDP by 2026. Additional analysis indicates that all normative medium-term fiscal policy is consistent with either debt stabilization or, more often, debt reduction by 2026.[5]

Changes in External Assessments in 2020

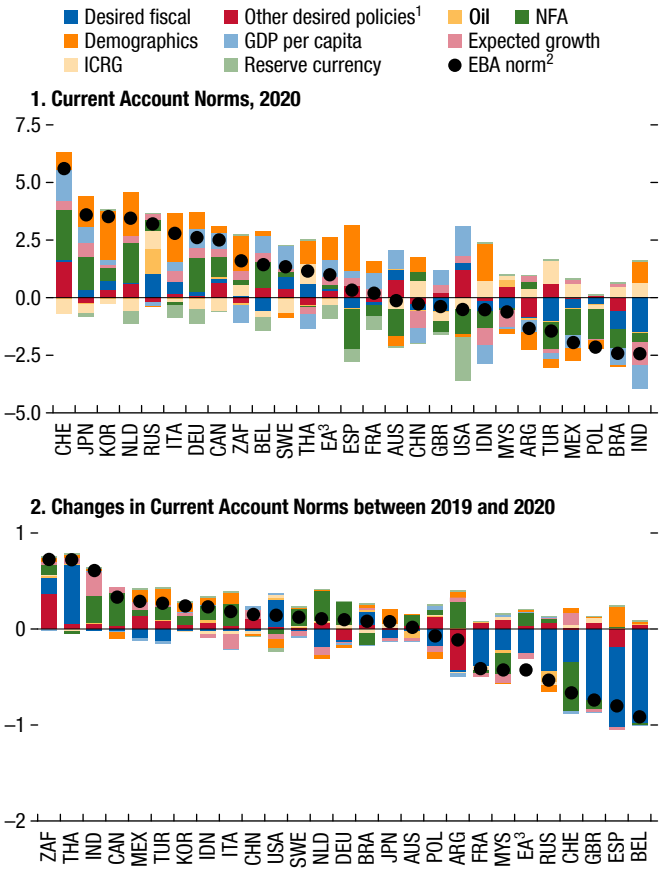
Almost half of the 30 economy assessments changed categories in 2020 compared with 2019 (Figure 1.14, Annex Table 1.1.2, and Annex Table 1.1.3). Economies with estimated excess current account surpluses (deficits) generally also had an undervalued (overvalued) real effective exchange rate, according to IMF staff estimates (Figure 1.15, panel 2, Annex Table 1.1.2, and

[5]In particular, the medium-term desirable policy settings (P*) for the fiscal balance in 2026 reported in Annex Table 1.1.5 are all at or above the level of fiscal balances compatible with a constant government-debt-to-GDP ratio in 2026.

Figure 1.13. External Balance Assessment Current Account Norms, 2020

(Percent of GDP)

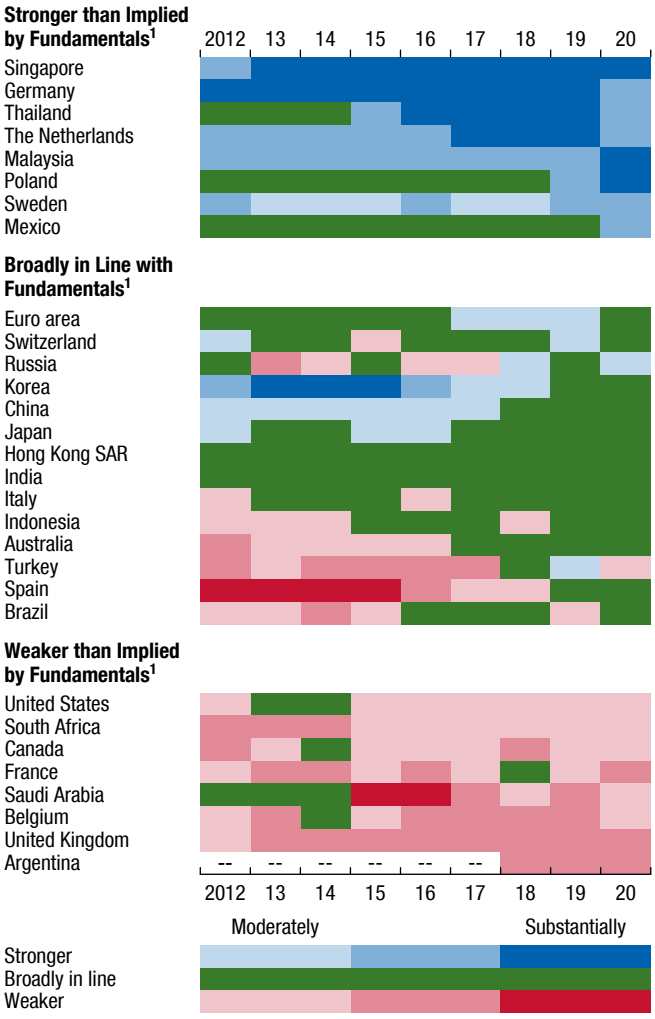
The External Balance Assessment methodology produces multilaterally consistent estimates for current account norms, which depend on country fundamentals and desirable policies. Current account norm changes in 2020 mainly reflected changes in medium-term fiscal policy settings.



Source: IMF, External Balance Assessment (EBA) estimates.
Note: The 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; ICRG = *International Country Risk Guide*; NFA = net foreign assets.
[1]Other desired policies also includes intercept and multilateral consistency adjustment.
[2]The EBA current account norm is multilaterally consistent and cyclically adjusted.
[3]The current account norm is corrected for reporting discrepancies in intra-area transactions, since the current account of the entire euro area is about 0.71 percent of GDP less than the sum of the individual 11 countries' balances (for which no such correction is available).

Figure 1.14. The Evolution of External Sector Assessments, 2012–20

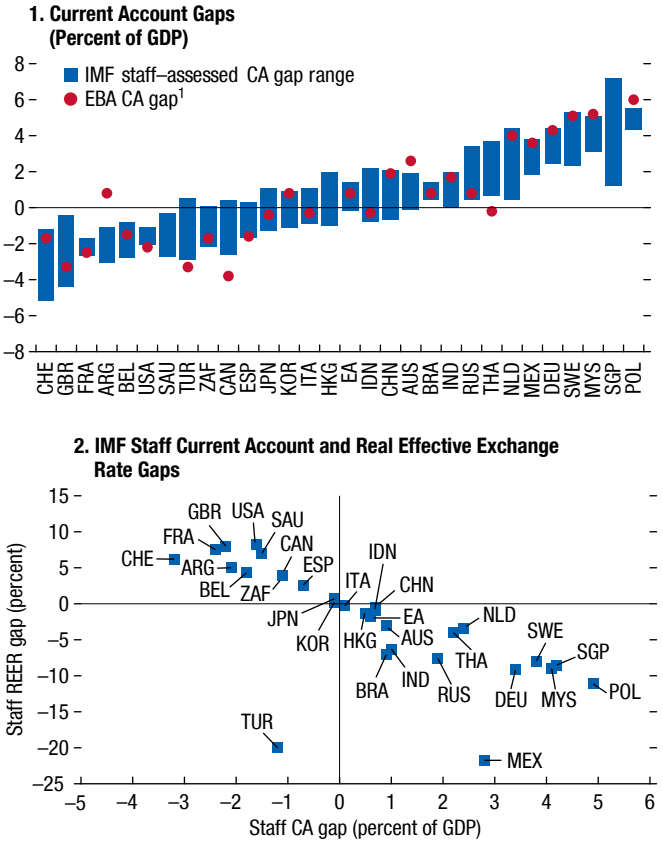
External sector assessments have generally persisted over time. In 2020, almost half of the 30 economy assessments changed categories compared with 2019.



Source: IMF staff assessments.
[1]Grouping and ordering based on economies' average excess imbalance during 2019–20. Coverage of Argentina in the *External Sector Report* started in the 2018 *External Sector Report*.

Figure 1.15. IMF Staff and External Balance Assessment Current Account and Real Exchange Rate Gaps, 2020

The IMF staff combines the numerical inputs from the External Balance Assessment methodology with country-specific judgment and other indicators to arrive at multilaterally consistent assessments of the 29 largest systemically important economies and the euro area.



Source: IMF staff assessments.
Note: REER gap is based on 2020 External Sector Report; CA = current account; EBA = IMF External Balance Assessment model; REER = real effective exchange rate. Data labels use International Organization for Standardization (ISO) country codes.
[1]There are no EBA estimates for Hong Kong SAR, Saudi Arabia, and Singapore.

Annex Table 1.1.4).[6] External positions compared with the levels consistent with medium-term fundamentals and desirable policies were as follows:

- *Moderately stronger, stronger, or substantially stronger than the level consistent with medium-term fundamentals and desirable policies:* The nine economies with such positions are Germany, Malaysia, The Netherlands, Poland, Sweden, Thailand, and Singapore, as well as Mexico and Russia, which entered this category in 2020, driven by increases in their current account gaps, reflecting, in part, a smaller fiscal policy expansion compared with those of major trading partners (see Annex Table 1.1.5). These results indicate how relatively large fiscal expansions in some economies affected their trading partners' external positions and assessments, such as in Mexico and Russia.

[6]Figure 1.14 reports the ranges for IMF staff–assessed current account gaps as well as the EBA model–based current account gap estimates. As reported in Annex Table 1.1.3, the EBA and staff-assessed current account gaps differ in a number of cases, reflecting the use of country-specific judgment and COVID-19 adjustors.

- *Moderately weaker or weaker than the level consistent with medium-term fundamentals and desirable policies:* The nine economies with such positions are Argentina, Belgium, Canada, France, Saudi Arabia, South Africa, the United Kingdom, the United States, and Turkey, which entered this category in 2020.
- *Broadly in line with the level consistent with medium-term fundamentals and desirable policies:* The 12 economies with such positions are Australia, China, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, and Spain, as well as Brazil, the euro area, and Switzerland, which entered this category in 2020.[7]

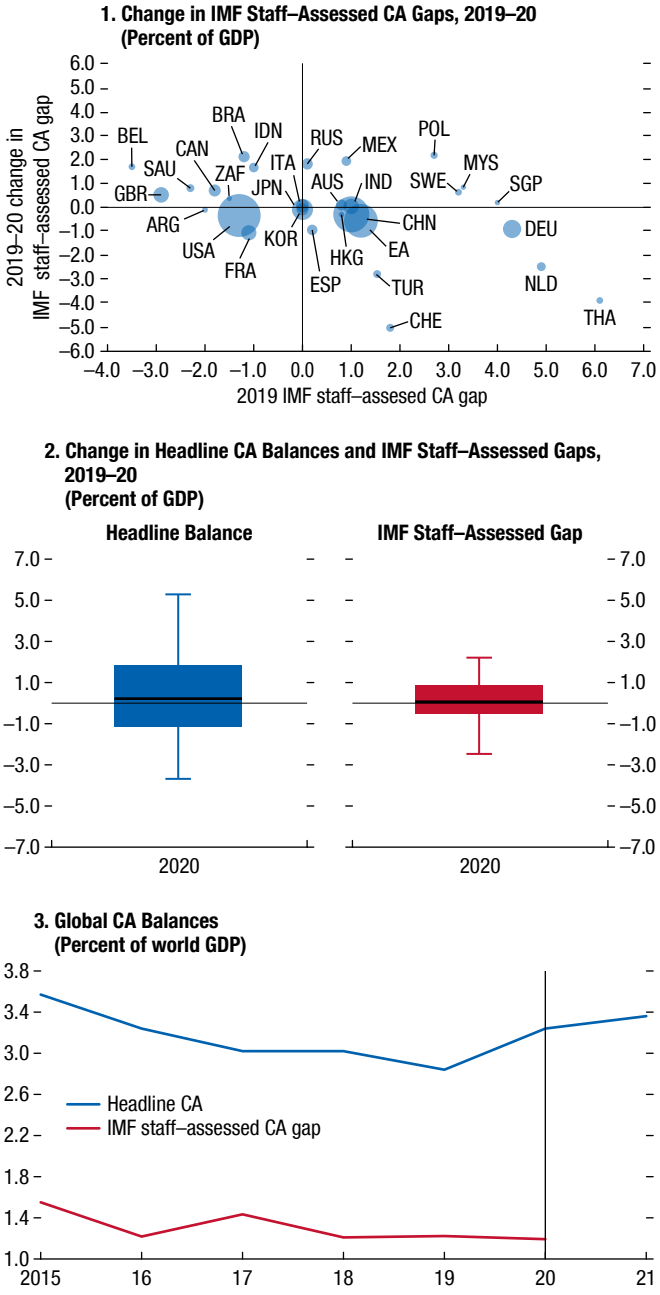
Multilateral consistency of the IMF staff–assessed current account gaps holds for 2020 when taking into account the shift in balances between economies covered in the ESR assessments and other (non-ESR) economies covered in the EBA exercise. Overall, ESR economies had an excess current account deficit of 0.1 percent of world GDP in 2020, lower than the 2019 near-zero excess, with the counterpart being an aggregate excess current account surplus of 0.1 percent of world GDP for non-ESR EBA economies (see Annex Table 1.1.3). IMF staff–assessed real effective exchange rate gaps were generally consistent with IMF staff–assessed current account gaps (Figure 1.15, panel 2; Annex Table 1.1.2 and Annex Table 1.1.4). For Turkey, a larger-than-expected negative exchange rate gap—implying undervaluation, based on the IMF staff–assessed current account gap—reflects the sharp lira depreciation in 2020, which is expected to support the current account adjustment over the coming years.

IMF staff–assessed current account gaps narrowed for several euro area economies, such as Belgium, Germany, and The Netherlands, as well as for the currency union as a whole, and for other advanced economies, such as Switzerland and the United Kingdom (Figure 1.15). These changes largely mirrored increased current account gaps for emerging market and developing economies, such as Malaysia, Mexico, and Poland. Overall, IMF staff–assessed current account gaps—which incorporate the IMF staff adjustments—changed substantially less in 2020 than did headline current account balances (Figure 1.16).

[7]The change in the assessment for Switzerland between 2019 and 2020 is subject to higher-than-usual uncertainty related to recent large downward statistical revisions to historical current account balances. The IMF staff–assessed current account gap for China reflects, as in 2019, offsetting policy gaps and structural distortions.

Figure 1.16. Evolution of IMF Staff–Assessed Current Account Gaps

IMF Staff–assessed current account gaps changed by less than headline current account balances in 2020. The global sum of absolute excessive current account imbalances compared with their desirable medium-term levels was broadly unchanged, while the sum of absolute headline current account balances increased by 0.4 percentage point of world GDP.



Source: IMF staff calculations.
Note: The box plots indicate median, interquartile range and adjacent values, with outside values excluded. CA = current account. Data labels use International Organization for Standardization (ISO) country codes.

Global *excessive* imbalances—the sum of absolute current account gaps compared with their desirable medium-term levels—were broadly unchanged in 2020 at about 1.2 percent of world GDP. By contrast, the sum of absolute headline current account balances rose by 0.4 percentage point of world GDP to 3.2 percent of world GDP. About 70 percent of the excess balances in 2020 pertained to advanced economies, up from 69 percent in 2019. The largest contributors to lower-than-warranted current account balances—as a share of world GDP—were, in order, the United States, France, the United Kingdom, and Canada. The largest contributors to larger-than-warranted current account balances were Germany, The Netherlands, Mexico, Poland, and Russia.

Outlook for Current Account Balances and Risks

Medium-Term Current Account Forecasts

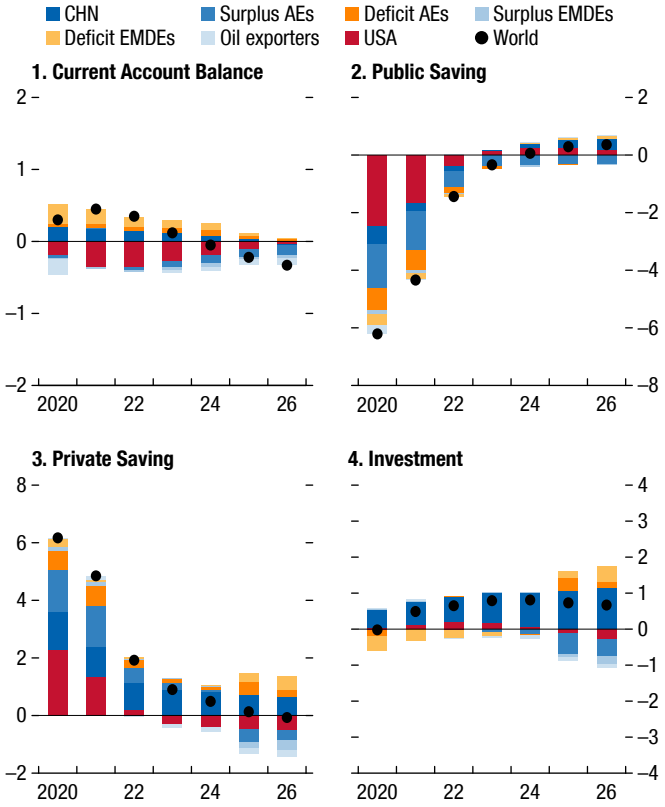
The latest IMF staff forecasts underpinning the July 2021 WEO *Update* imply a gradual decline in global current account balances during 2022–26, mainly reflecting a narrowing in the US deficit and the China surplus, to below pre-pandemic levels, reaching 2.5 percent of world GDP by 2026 (Figure 1.17). As the pandemic is brought under control, a substantial withdrawal of fiscal stimulus—with a corresponding rise in public saving—is projected, in particular in the United States, euro area member countries, and other advanced economies. Meanwhile, private saving is expected to decline in tandem as the conditions that led to more saving during the pandemic fade. The outlook for the investment-to-GDP ratio at the global level is more stable, with a modest rise in the medium term driven by emerging market and developing economies, especially China.

Within these aggregate trends, projected changes in current account balances for major economies vary widely (Table 1.1).

- *Advanced economies:* In the United States, continued fiscal expansion in response to the COVID-19 crisis in 2021 will more than offset the impact of higher private sector saving, resulting in a current account deficit of 3.7 percent of GDP, up from 2.2 percent of GDP in 2019. The US current account deficit is expected to start declining in 2023, falling below 3 percent of GDP in the medium term. The euro area current account surplus is projected to increase by 0.6 percent of GDP to 2.8 percent of GDP in 2021 and remain near that level in the medium term, reflecting high corporate and household saving and weak investment in some large creditor economies. Japan's current account surplus is projected to widen by 0.3 percent of GDP to 3.6 percent of GDP in 2021, before stabilizing at just above 3 percent in the medium term, reflecting a high saving-investment balance of the private sector and a sizable income balance owing to the large net foreign asset position.
- *Emerging market and developing economies:* China's current account surplus is projected to decline by 0.2 percentage point of GDP, to 1.6 percent of GDP in 2021, as the effects of the decline in outbound travel, lower commodity prices, and a surge in pandemic-related exports wane, and converge toward

Figure 1.17. Global Saving-Investment Balances, 2019–26
(Change from 2019, percent of World GDP)

After rising in 2020–21, global current account balances are expected to narrow over the medium term, with private and public saving returning toward their pre-pandemic levels.



Sources: IMF, World Economic Outlook; and IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes. AEs = advanced economies; EMDEs = emerging market and developing economies.

about 0.5 percent of GDP over the medium term, with continued rebalancing toward consumption-driven growth. Current account balances are projected to decline in other economies as domestic demand recovers (India, Indonesia, Mexico, Poland, South Africa) under current policies.

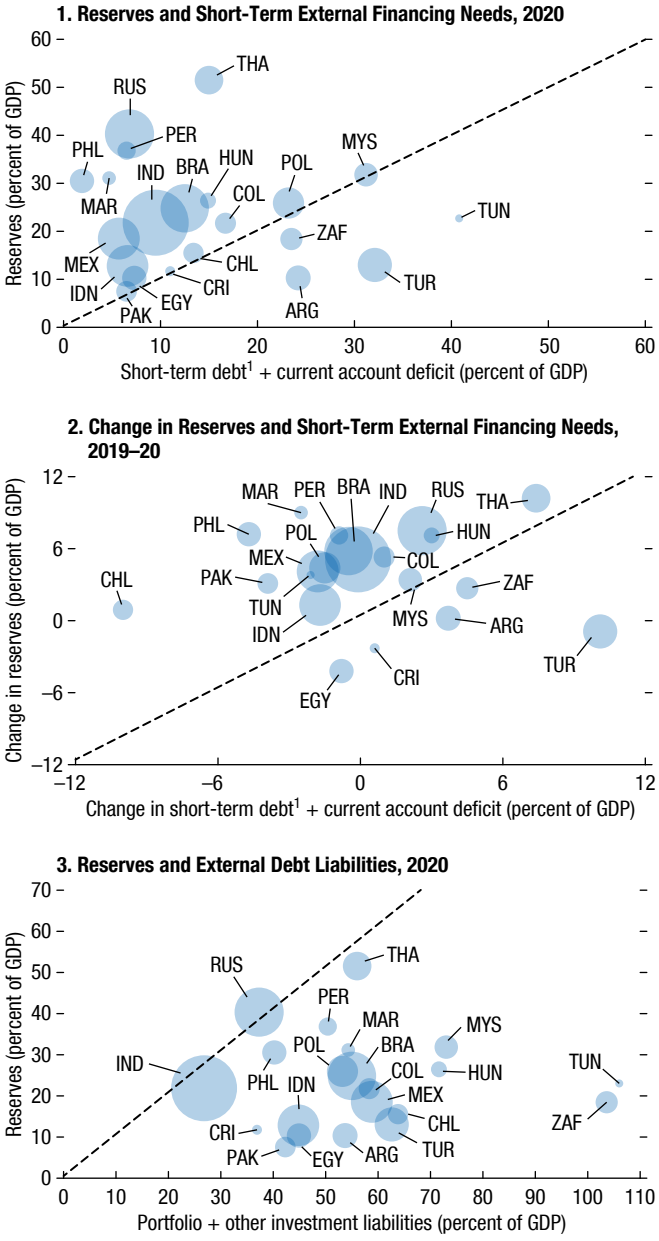
Numerous Uncertainties

The outlook for trade, currencies, and current account balances remains uncertain, with numerous risks, including in relation to the following broad areas.

- *Path and scarring impact of the pandemic:* A pandemic resurgence due to vaccine-resistant strains could result in a slower recovery of economic activity, global trade, and commodity prices than currently assumed. A more protracted pandemic could also extend or renew the aforementioned sectoral effects of the COVID-19 crisis on travel services, oil balances, medical goods, and household consumption composition, making them more persistent than currently expected. If the crisis has lasting negative (scarring) effects on growth in poorer economies, which the crisis has so far hit harder than richer ones (see the April 2021 WEO), this could dim their investment prospects, raise their current account balances toward surplus, and further weaken the downhill flow of capital from richer countries. Conversely, an expedited vaccine rollout, even in regions that are currently moving slowly, would improve investor and consumer sentiment, contribute to an unwinding of the crisis-induced changes in current account positions, and strengthen capital flows toward poorer countries.
- *Financial conditions:* A reassessment of market fundamentals in response to COVID-19 developments or an increase in sovereign yields or expected policy interest rates of major advanced economy central banks—including as a result of a faster-than-expected pickup in inflation—could cause financing difficulties, capital outflows, and currency depreciation for emerging market economies (see Chapter 4 of the April 2021 WEO on monetary policy spillovers during the recovery from the COVID-19 crisis). At the same time, most emerging market and developing economies have accumulated reserve buffers to withstand shocks (Figure 1.18), and the capital-flows-at-risk analysis

Figure 1.18. Emerging Market and Developing Economies: External Vulnerabilities

At the end of 2020, most emerging market and developing economies held sizable foreign exchange reserves, in excess of their short-term financing needs, measured by the sum of short-term debt and the current account deficit in 2020. Changes with respect to 2019 were mostly driven by increases in reserves. Vulnerabilities to capital flow reversals remained, given that the sum of portfolio and other investment liabilities exceeded reserves in most emerging market and developing economies.



Sources: IMF, International Financial Statistics; IMF, World Economic Outlook; and IMF staff calculations
Note: Bubble sizes are proportional to US dollar GDP. Data labels use International Organization for Standardization (ISO) country codes.
[1]Short-term debt on a residual maturity basis. 2019 portfolio positions are reported when 2020 data are unavailable.

of the April 2021 *Global Financial Stability Report* suggests that risks of portfolio outflows are lower for economies with stronger fundamentals.

- *Fiscal policy path:* As discussed in Chapter 2, additional deficit-financed fiscal expansions by current account deficit economies, or a faster-than-expected pace of fiscal consolidation among current account surplus economies, could prevent the predicted narrowing in global balances over the coming years.
- *Cross-border integration:* Risks in this area include, in the near term, a proliferation of export curbs on vaccines and vaccine ingredients (Evenett and others 2021). A broader retreat from trade integration remains a risk that could thwart efforts to agree on a more open, stable, and transparent rules-based international trade system, including through a greater increase in protectionist measures and increased trade and foreign direct investment restrictions. Consequences would include a weakening in the recovery of global trade and of growth in poorer economies integrated into supply chains.

Box 1.5 considers alternative (out-of-baseline) scenarios that combine some of these risks, based on simulations of the IMF's G20 Model.

Policies for Escaping the Crisis and Promoting External Rebalancing

Ending the Pandemic

Ending the pandemic is a precondition for ensuring a lasting recovery in global economic well-being. It is also essential in order to avoid further divergence of economic recovery and capital flows between richer and poorer economies and long-term damage to trade, especially in services, and to pave the way for external rebalancing.

Many governments have already taken unprecedented action to fight the pandemic, as have such institutions as the World Health Organization, World Bank, Global Alliance for Vaccines and Immunization, and African Union. At the same time, as the IMF staff's recent proposal to end the pandemic (Agarwal and Gopinath 2021) emphasizes, up-front financing and vaccine donations and investments to diversify and increase vaccine production remain essential for handling downside risks, including from the spread of new virus variants. Grants, national government resources, and concessional financing are needed to pay for such investments and to ensure widespread testing and tracing, maintain adequate stocks of therapeutics, and enforce public health measures in places where vaccine coverage is low.

Fiscal policy should remain supportive until the recovery is firmly in place, conditional on available space, with programs targeted at the most affected sectors, aided by monetary accommodation, where possible. Facilitating a synchronized global investment push—including by ensuring that financially constrained economies have adequate access to international liquidity—could hasten the recovery and convergence to higher levels of per capita income with, as Chapter 2 explains, limited effects on global current account balances. At a time when financially constrained economies face difficult choices between meeting essential health and social spending needs, supporting their economies more broadly, and fulfilling obligations on external borrowing, the IMF's proposal for a General Allocation of Special Drawing Rights (SDRs) equivalent to US$650 billion will ease some of the constraints and help them better manage the trade-offs. Implementing clear health and safety protocols will complement these efforts by promoting a seamless return to contact-intensive sectors, including travel and tourism. Ensuring the continued resilience of remittance flows will require collecting timely and granular data and efforts to lower costs by offering incentives (such as subsidies) to remittance service providers and supporting innovative technologies and market competition (World Bank 2021).

Managing External Shocks and Capital Flows

Facing the risk of further external shocks, such as an unexpected increase in global interest rates as a result of a faster-than-expected pickup in inflation, countries should take advantage of favorable financing conditions to improve the composition of their debt structure (for example, by extending maturities and locking in the currently historically low interest rates) and reverse any departures from sound public debt management that may have occurred during the pandemic (for example, by reducing reliance on the domestic banking system). In the event that such shocks materialize, economies with flexible exchange rates should allow them to adjust as needed, where feasible. For economies that have built buffers with adequate reserves (Annex Table 1.1.1), exchange rate

intervention can be appropriate to alleviate disorderly market conditions and limit financial stress, particularly where there are shallow foreign currency markets and large balance sheet mismatches. For some currencies, foreign exchange intervention may be used to partially mitigate appreciation pressure that would otherwise push the economy toward deflation, particularly during periods of economic weakness, but this should not preclude secular real appreciation.

Inflow capital flow management measures can be useful to manage surges in certain circumstances without substituting for warranted macroeconomic adjustments. Inflow measures can be useful, together with macroprudential tools, when the room for macroeconomic policy adjustment is limited, financial stability is at risk, or appropriate policy adjustments take time to be implemented and become effective. Capital flow management measures should be implemented in a transparent manner and should be temporary and targeted, while preferably avoiding discrimination by residency.

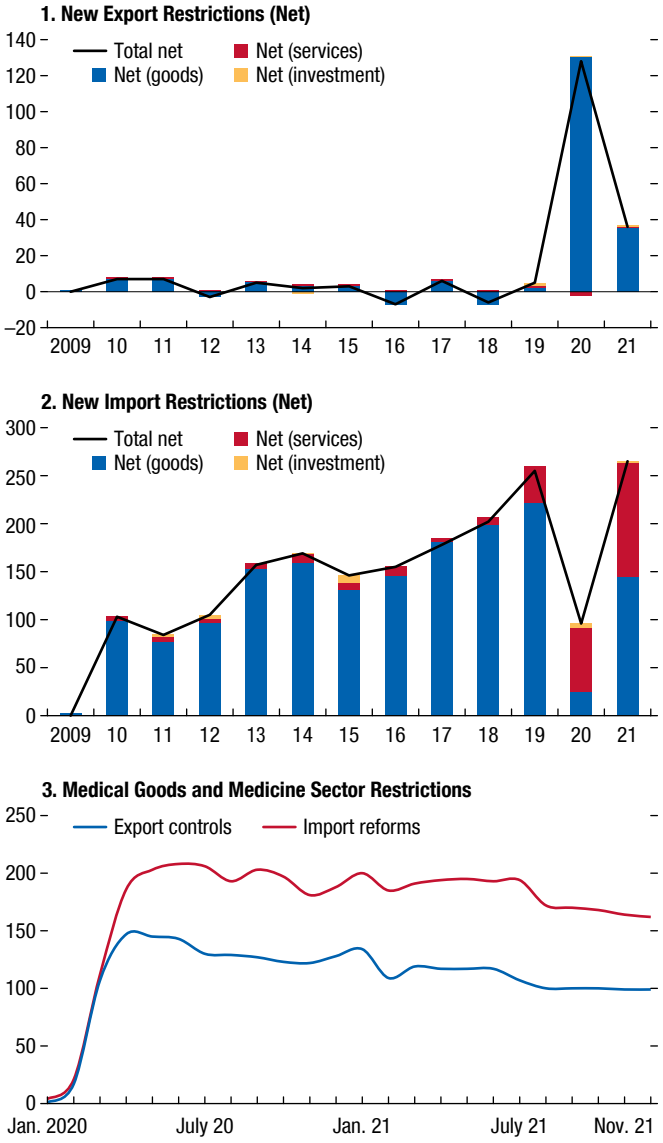
In imminent crisis circumstances, countries with limited reserves and facing reversals of external financing could use capital flow management measures on outflows as part of a broad package, provided they do not substitute for warranted macroeconomic and structural policy actions. In those cases, capital flow management measures would generally need to be broad-based and tightly enforced to effectively reduce capital outflows. If introduced, such measures should be implemented in a transparent manner, clearly communicated to the public, temporary, and eliminated once crisis conditions abate.

Resolving Trade Tensions

Countries have imposed numerous new export and import restrictions in 2020–21, data from the Global Trade Alert suggest, with a large share relating to medical products (Figure 1.19). WTO (2020) reports that the stock of new import restrictions in force has nearly tripled since 2016, now covering products representing nearly 10 percent of world imports. More than half of current export curbs in the medical goods and medicine sectors are scheduled to remain in place through the end of 2021, based on Global Trade Alert data. Such restrictions and policies, which encourage companies to repatriate their supply chains, could lead to retaliation in many countries across interlinked economic sectors and could slow the recovery. US-China trade distortions, including tariffs, introduced over the past four years, remain largely in place (Figure 1.20). The continued imposition of import tariffs and expanded preferences for domestic producers in procurement do not directly address the underlying drivers of external imbalances.

Figure 1.19. New Trade Restrictions, 2009–21

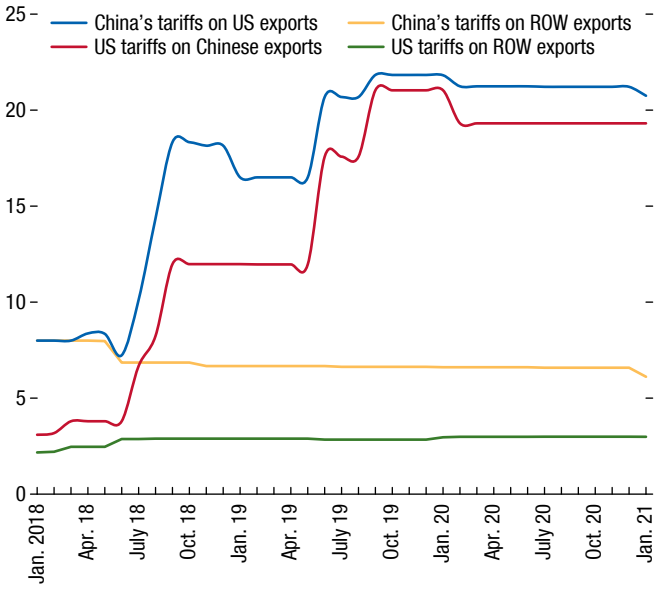
Countries have imposed numerous new export and import restrictions in 2020–21, with a large share relating to medical products. More than half of current export curbs in the medical goods and medicine sectors are scheduled to remain in place through the end of 2021.



Source: Global Trade Alert (https://www.globaltradealert.org/).
Note: "Net" is defined as the difference between harmful and liberalizing interventions. Annual totals refer to numbers reported by May 25 each year. Export controls includes export restricting measures, while import reforms includes import liberalizing measures in the medical goods and medicine sectors. See Evenett (2021) for details.

Figure 1.20. US and Chinese Tariffs
(Percent)

US-China tariff increases introduced during 2019 and 2020 remain largely in place.



Source: Data collected by Chad Bown of the Peterson Institute for International Economics using China's Ministry of Finance announcements and United States Trade Representative announcements, available at (https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart).
Note: Trade-weighted average tariffs are computed from product-level tariff and trade data, weighted by US exports to the world and China's exports to the world in 2017. ROW = rest of the world.

Avoiding export curbs on vaccines and vaccine ingredients, rolling back restrictions to trade, and strengthening the rules-based multilateral trade system would sustain the recovery and strengthen cross-border supply chains, including for the production and provision of vaccines and medical goods. Further collaboration on phasing out tariff and nontariff barriers to trade, including in medical equipment and supplies, would be useful for addressing the present pandemic and help prepare for future health emergencies by ensuring versatile, diversified, and resilient supply chains for vital medical supplies.

Strong multilateral cooperation is also needed to resolve underlying trade and technology tensions as well as gaps in the rules-based multilateral trading system. Countries should work together to modernize rules to address underlying sources of conflict, including in the areas of technology transfer policies and practices, farm and industrial subsidies, and digital trade, and to modernize international taxation and measures to limit cross-border profit-shifting. Ensuring a smoothly functioning international trade dispute settlement system, including by restoring effective WTO dispute settlement, would facilitate the resolution of such long-standing global trade and investment distortions.

Entangling trade and currency issues in international agreements and disputes poses significant risks to the multilateral trade and international monetary systems and should be avoided. In 2020, the previous US administration imposed currency-based countervailing duties on China and Vietnam. The adoption of currency-based countervailing duties is counterproductive for the country adopting such measures as, all else equal, it further appreciates its currency and can lead to retaliation by other countries. Furthermore, other countries might pursue a similar approach to link trade and currency, perhaps using their own standards and methodologies, with the potential for a broadening use of trade restrictions and a further increase in trade tensions. The threat of trade penalties could also impinge on monetary policy decisions and discourage exchange rate flexibility while complicating effective dialogue and analysis regarding the underlying structural and policy distortions affecting external positions, which is necessary to resolve trade tensions.

Promoting External Rebalancing

Following exceptional policy support to address the COVID-19 crisis in the near term, reforms can contribute to external rebalancing over the medium term in a number of ways in a manner conducive to sustained growth. Excessive current account imbalances can fuel trade tensions among countries, become targets for protectionist measures, and increase the likelihood of disruptive currency and asset price adjustments, with negative implications for global growth. Policies for fostering external rebalancing differ, based on individual economies' external positions and needs, as detailed in the Individual Economy Assessments in Chapter 3 and summarized in Annex Table 1.1.6. In particular,

- *Economies with weaker-than-warranted external positions:* Where excess current account deficits in 2020 partially reflected fiscal deficits above desirable medium-term levels (as in the United States) and where such imbalances persist, fiscal consolidation once the pandemic is over will be critical to support external rebalancing and bring the current account balance closer to its norm. It should, however, be

implemented in a way that prevents long-term scarring from the crisis, including by protecting spending for infrastructure, health care, and education. In a number of emerging market and developing economies with weaker-than-warranted external positions in 2020, fiscal consolidation once the pandemic is over (such as in Argentina and South Africa) and a strong commitment to a firm monetary policy stance to help durably lower inflation and increase monetary policy credibility (Turkey) would also support raising international reserves to more adequate levels. Structural policies to increase productivity—and, in the case of commodity exporters (such as Saudi Arabia), diversification—would further support rebalancing. Countries with lingering competitiveness challenges would also need to address structural challenges, including through labor, product market, and other reforms, to promote green, digital, and inclusive growth.

- *Economies with stronger-than-warranted external positions:* In economies where excess current account surpluses persist, intensifying reforms that encourage investment and discourage excessive private saving is warranted. In economies with remaining fiscal space (such as Germany and The Netherlands), policies should avoid a rush to consolidate, thereby supporting the recovery with a growth-oriented fiscal policy, including through greater public sector investment in digitalization, infrastructure, and green transition, which would crowd in private investment, make the economy more resilient, and help narrow the excess current account surplus. In some cases, fostering corporate investment and using active labor market policies to facilitate sectoral transitions, with structural reforms focused on raising potential growth (as in Poland, where public investment is expected to rise, supported in part by Next Generation EU funds, and in Mexico), would also help reduce external imbalances. In some cases, reforms to discourage excessive precautionary saving by expanding social safety nets (Malaysia, Thailand) and tackling widespread informality (Thailand) would also help reduce excess current account surpluses.
- *Economies with external positions broadly in line with fundamentals:* In such cases, policies should continue to address domestic imbalances to prevent excessive external imbalances. Former excess surplus countries should, where relevant, address domestic imbalances by gradually narrowing larger-than-desirable fiscal deficits while boosting domestic private investment, including through state-owned enterprise reform, opening markets to more competition, and creating a more market-based and robust financial system (as in China). Former excess deficit countries (including Spain) should, where relevant, carefully manage the public debt load, boost competitiveness, and facilitate post–COVID-19 sectoral adjustment, including through continued wage flexibility, reforms to address labor market duality, product and service market reforms, and measures to enhance education outcomes and innovation.

As more data become available to assess the recovery from the pandemic, comprehensive and multilaterally consistent analysis will remain necessary to promote a shared understanding of underlying distortions and reforms needed to continue rebalancing the global economy.

Box 1.1. The Travel Shock

From March 2020 onward, government restrictions on cross-border travel and behavioral changes triggered by the COVID-19 pandemic have resulted in a collapse in world travel activity. Tourism revenues from overseas (and the corresponding expenditures overseas by domestic residents) declined by about two-thirds on average compared with the previous year, and by close to 75 percent in the last three quarters of the year. Cross-border travel was more severely affected than domestic tourism, reflecting unprecedented travel restrictions and, in some cases, a strong preference for traveling domestically (see EC 2021).

The most severe economic losses were concentrated in countries that traditionally rely heavily on revenues from overseas travelers. Among the 31 economies with an average net travel trade surplus exceeding 5 percent of GDP between 2015 and 2019 and with detailed balance of payments data currently available for 2020, the median decline in the net travel balance as a share of GDP compared with its average over the previous five years was about 12 percentage points, and was reflected in sharp declines in real exports and the services balance (Figure 1.1.1). Tourism-dependent countries are mostly small island economies (the median economy had a GDP of roughly US$8 billion and about 600,000 inhabitants in 2019). However, the group also includes larger economies such as Thailand, Portugal, Greece, the Dominican Republic, Panama, and Croatia. Among the eight small island economies belonging to the Eastern Caribbean Currency Union, the aggregate surplus in travel services declined from US$3.1 billion in 2019 (40 percent of GDP) to US$1.1 billion in 2020 (17 percent of GDP). Pacific islands have also been severely hit, with net tourism revenues falling by 90 percent in Fiji in 2020 compared with 2019 (about 13 percentage points of GDP).

The repercussions of the travel shock for economic activity in these economies were very severe: as shown in Milesi-Ferretti (2021) countries with a higher share of tourism revenues in GDP experienced a much sharper GDP decline in 2020 when compared with pre-pandemic forecasts, after controlling for the severity of the domestic pandemic.[1]

With the collapse in travel revenues, economies more dependent on tourism also experienced a sharp current account deterioration. However, the net effect of the travel shock on the current account balance was partially offset by its induced repercussions on the domestic economy (Figure 1.1.2). In particular, the decline in domestic demand and the reduced spending of tourists on imported goods (particularly important for small island economies) led to a sharp improvement in the trade balance on goods. At the same time, net investment income payments overseas declined, reflecting in particular the much-reduced income of foreign-owned hotels, leading to an improvement in the investment income balance.

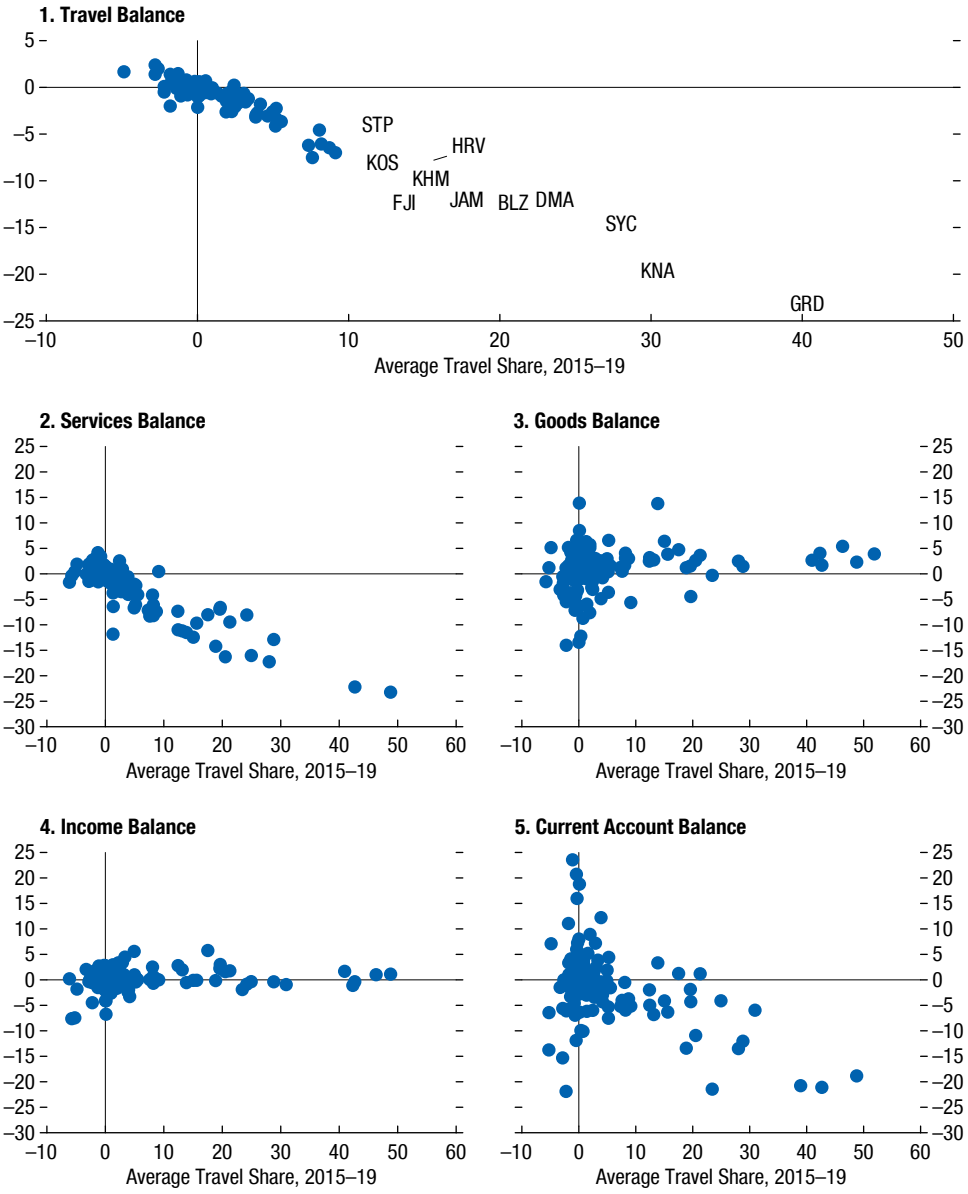
Projections for economic developments during the next few years are subject to particularly high uncertainty, as they crucially depend on health-related factors, including the evolution of the pandemic, the speed of vaccination outside advanced economies, and so on. The forecasts published in the July 2021 *World Economic Outlook Update* envisage a still-substantial impact of the travel shock in 2021, particularly in emerging market and developing economies (such as Fiji, Seychelles, Thailand) considering the expected slow normalization of cross-border travel. Over the medium term, as the pandemic fades and borders reopen, the external balances of tourism-dependent economies are expected to gradually recover. On average, their current account balances are expected to revert to their pre-COVID trend by 2025 (Figure 1.1.2, panel 6).

The authors of this box are Gian Maria Milesi-Ferretti and Charlotte Sandoz.

[1]Milesi-Ferretti (2021).

Box 1.1 *(continued)*

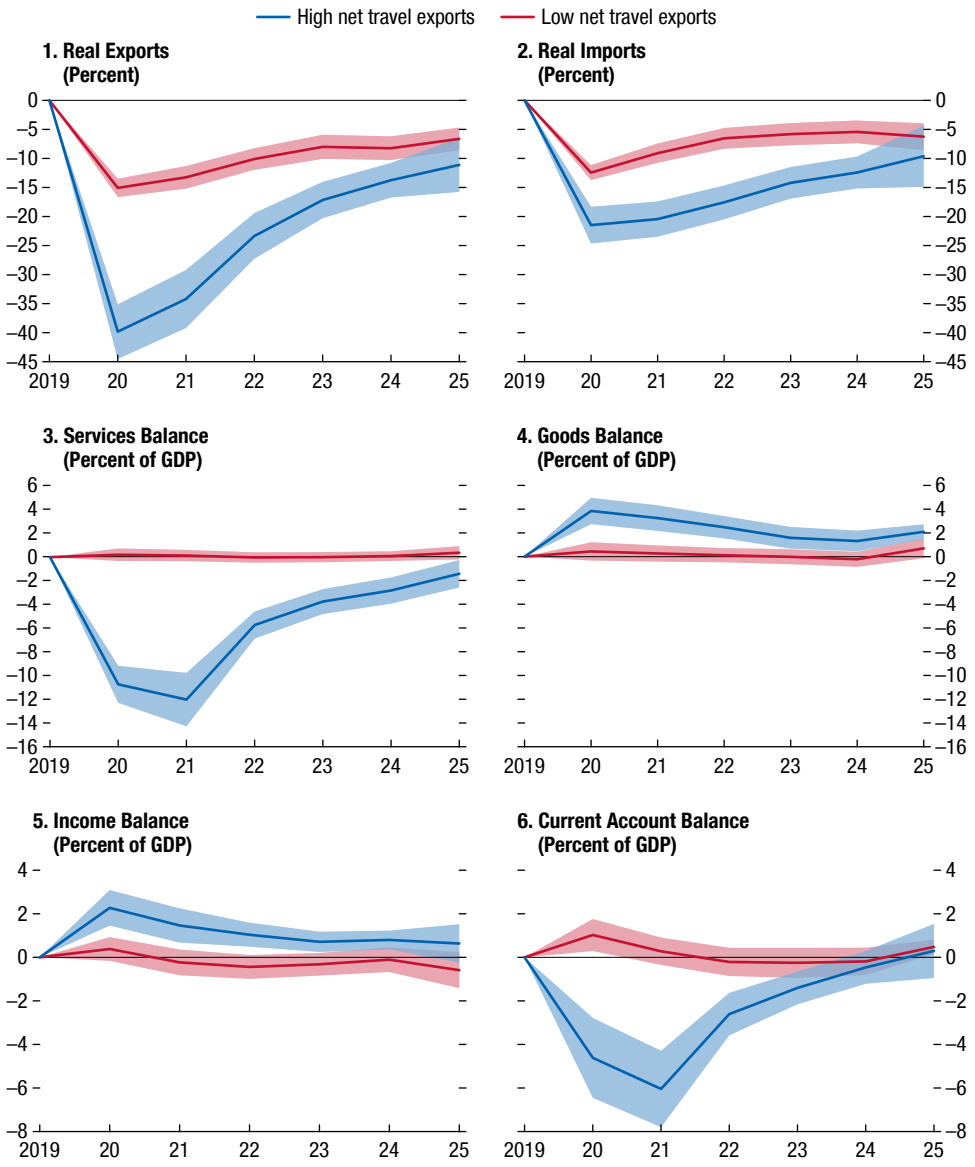
Figure 1.1.1. Change in Current Account Balance in 2020 vs. Pre-pandemic Travel Share
(Percent of GDP)



Sources: IMF, Balance of Payments Statistics; IMF, *World Economic Outlook*; and IMF staff calculations.
Note: Travel share is measured by the average net travel exports over GDP between 2015 and 2019. Change in balances in 2020 compared to 2019. Outliers are excluded based on Cook's distance. Data labels use International Organization for Standardization (ISO) country codes.

Box 1.1 *(continued)*

Figure 1.1.2. Predicted Level of Current Account Balances
(Deviation from precrisis trend)



Sources: Eurostat; national authorities; Refinitiv Datastream; and IMF staff calculations.
Note: The figure shows the revision of balances in the latest *World Economic Outlook* (WEO) compared with before the crisis (January 2020 WEO Update). High net travel exports: economies with average net travel exports above 5 percent of GDP between 2015 and 2019. Shading indicates mean and 90 percent confidence interval. Outliers are excluded based on Cook's distance.

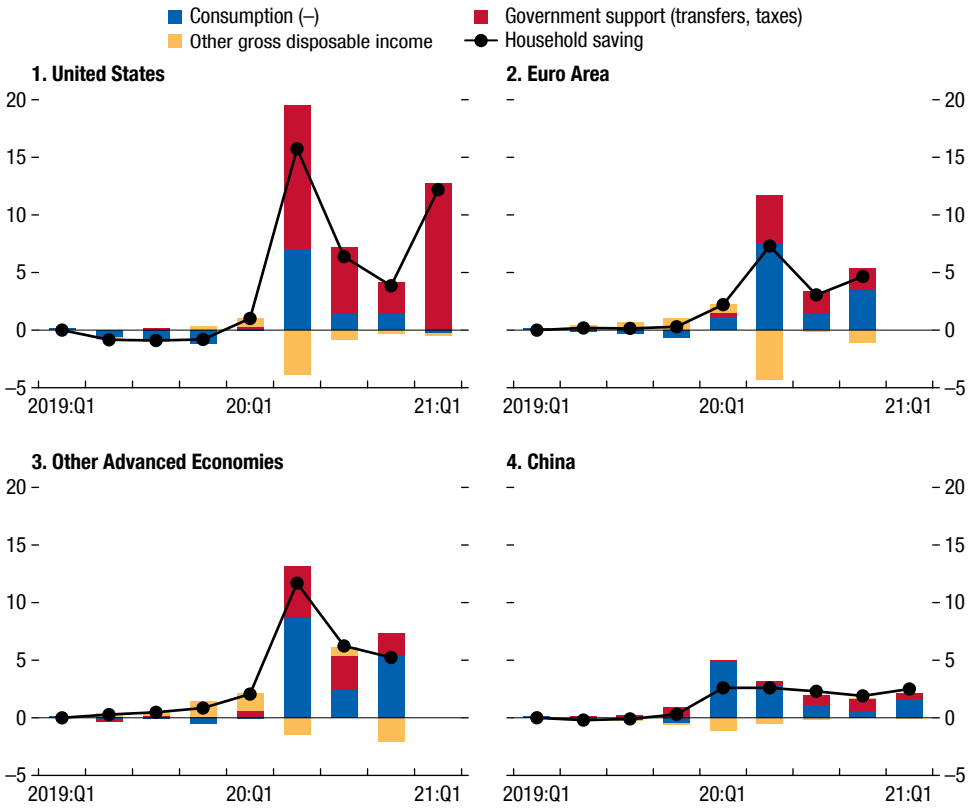
Box 1.2. The Household Saving Surge

Household saving increased sharply during the COVID-19 crisis, mainly in advanced economies, driven by lower consumption and increased disposable income from government transfers. It reflected both lockdown-induced saving and precautionary motives, with the effects differing markedly across countries and income groups.

Decomposition—income versus consumption: Household disposable income changed in response to two opposing forces. First, compensation of employees and other standard sources of income fell, reflecting the crisis and pandemic-related lockdowns. Second, government support to income increased, reflecting either higher social benefits or delayed payments of income taxes and social contributions, including via automatic stabilizers. Consumption cuts played an important role across countries in early 2020, but government transfer increases raised income by much more in the United States than elsewhere (Figure 1.2.1).

The authors of this box are Cian Allen and Cyril Rebillard.

Figure 1.2.1. Decomposing the Household Saving Surge: Disposable Income versus Consumption
(Percent of potential GDP)

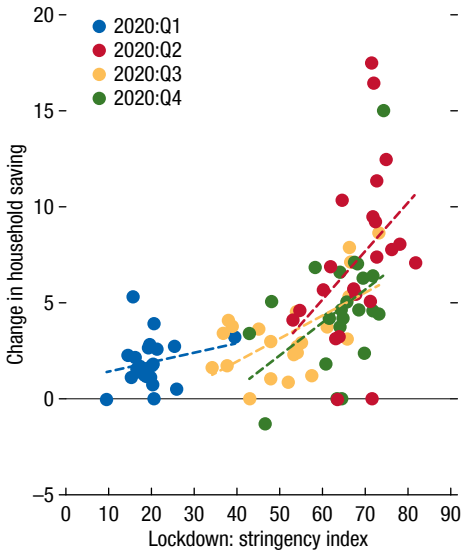


Sources: China, National Bureau of Statistics (household survey); Eurostat and national authorities (quarterly sector accounts);IMF, *World Economic Outlook*; and IMF staff calculations.
Note: Household saving and its components are shown as cumulated changes from 2019:Q1. Current taxes and transfers include taxes on income and wealth, social contributions, social benefits (especially government support), and other transfers. Other gross disposable income includes gross operating surplus and mixed income, compensation of employees, and net property income. Other advanced economies comprise Australia, Canada, the Czech Republic, Denmark, Norway, Slovenia, Sweden, and the United Kingdom. China's chart is based on household survey (rescaled to the whole economy), and may be less comparable to other charts based on national accounts.

Box 1.2 *(continued)*

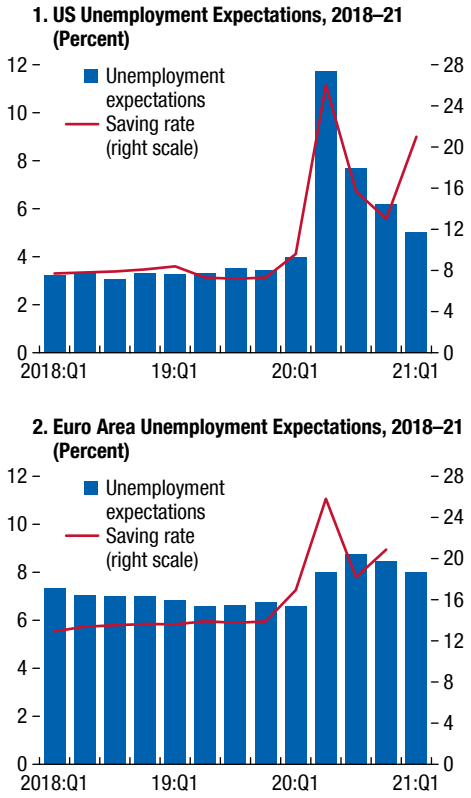
Figure 1.2.2. Lockdowns versus Household Saving

(Percent of potential GDP)



Sources: Eurostat; IMF, *World Economic Outlook*; national authorities (quarterly sector accounts); Stringency and Policy Indices, Oxford COVID-19 Government Response Tracker; and IMF staff calculations.
Note: Household saving is shown as cumulative changes from its 2019 average.

Figure 1.2.3. Unemployment Expectations versus Saving



Sources: IMF, *International Financial Statistics*; IMF, *World Economic Outlook*; national authorities (customs data); and IMF staff calculations.
Note: Unemployment expectations are constructed following Carroll, Slacalek, and Sommer (2019) using fitted values from the regression of the four-quarter-ahead change in unemployment rate on the answer in the respective surveys on future unemployment.

Lockdowns and forced saving: The stringency of lockdowns was positively associated with household saving throughout the crisis, but the relationship seems to have weakened over time (Figure 1.2.2). This is consistent with the notion of "lockdown fatigue," which could include decreasing compliance over time with lockdown rules, as well as changing social patterns due to the pandemic, including working from home and greater use of e-commerce.

Unemployment risk and saving: The increase in household saving can also be partly explained by an increase in uncertainty regarding future labor market outcomes or the state of the economy, leading households to save more for precautionary reasons (in line with Mody, Ohnsorge, and Sandri 2012; Carroll, Slacalek, and Sommer 2019; and Coibion and others 2021). Indeed, household expectations about future unemployment risk (over a 12-month horizon) spiked in tandem with saving rates in both the United States and the euro area (see Figure 1.2.3).[1] In addition, surveys suggest that financial concerns have weighed on consumption (Christelis and others 2021). This could have important implications for the future path

[1]The indictors of household expectations about future unemployment are taken from Carroll, Slacalek, and Sommer (2019), constructed using the University of Michigan's Surveys of Consumers and the European Consumer survey for the euro area. Both indicators are based on answers to a question about households' expected level of unemployment in the coming 12 months.

Box 1.2 *(continued)*

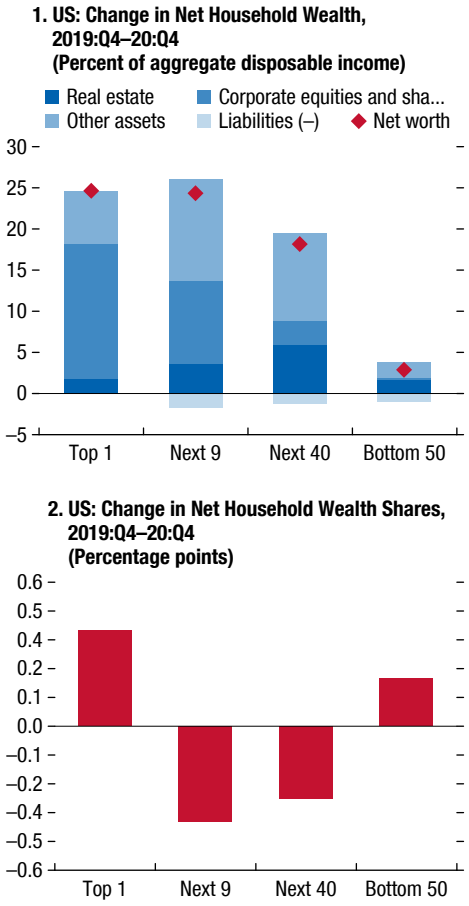
of the household saving rate, as elevated uncertainty could still weigh on consumption, even as restrictions in the economy are lifted. While it is difficult to disentangle precautionary from forced saving, preliminary analysis in EU countries suggests that most of the early increase in saving was due to forced saving (Dossche and Zlatanos 2020). Additional statistical analysis for the United States based on an extension of Carroll, Slacalek, and Sommer (2019) confirms that, while unfavorable unemployment expectations can explain some of the increase in household saving in 2020, the impact of the fiscal expansion had a stronger effect on private saving. Indeed, while unemployment expectations decreased further in the United States in the first quarter of 2021(Figure 1.2.3), the saving rate rebounded, reflecting additional fiscal transfers as part of the American Rescue Plan Act of 2021.

Distribution of saving: While very little is known about how the increase in saving is distributed across households, studies based on credit card data show that it is likely concentrated at the top of the income distribution in nominal terms (see for instance Bachas and others 2020; Landais and others 2020). For the United States, the change in household net wealth by percentile, published by the Federal Reserve, can be used as a proxy for the distribution of saving (even though it also includes valuation effects).[2] While there was an overall increase in net wealth in percent of disposable income relative to before the pandemic (between the end of 2019 and the end of 2020), much of the benefit has accrued to people at the top of the distribution (with a large increase in corporate equities and mutual fund shares).

However, very little change in the distribution of wealth across groups was observed, given that changes in net wealth were in line with the pre-pandemic shares in the wealth distribution (see Figure 1.2.4, panel 2). In addition, the government response to the crisis may have contributed to an increase in saving by households at the top of the income distribution. For instance, Chetty and others (2020) show that the January 2021 stimulus payments substantially increased spending among lower-income households but had little impact on spending among higher-income households, in contrast with the April 2020 stimulus payments. These results are consistent with higher-income households having (1) a relatively smaller marginal propensity to consume than lower-income households; and (2) a larger share of their traditional consumption basket affected by lockdowns, including on travel and restaurant meals.

[2]The change in net household wealth is equal to the flow of saving plus valuation changes, especially changes in financial asset and real estate prices.

Figure 1.2.4. US Household Saving Increase, by Household Wealth Level



Sources: Federal Reserve, Distributional Financial Accounts; IMF, *International Financial Statistics*; IMF, *World Economic Outlook*; national authorities (customs data); and IMF staff calculations.
Note: Other assets include pension entitlement, private businesses, consumer durables, and other assets.

Box 1.3. Recessions and Current Account Movements

Unlike past severe economic downturns, the COVID-19 crisis has not reduced global balances—the absolute sum of current account deficits and surpluses. Global balances narrowed by about 1.5 percent of world GDP after the 2007–08 global financial crisis and the 1973–74 oil shock, but *widened* by 0.4 percent of world GDP in 2020 (Figure 1.3.1). Differences in precrisis external and internal imbalances, the high degree of synchronization of economic downturns across economies, and factors related to the nature of health crises explain this difference.

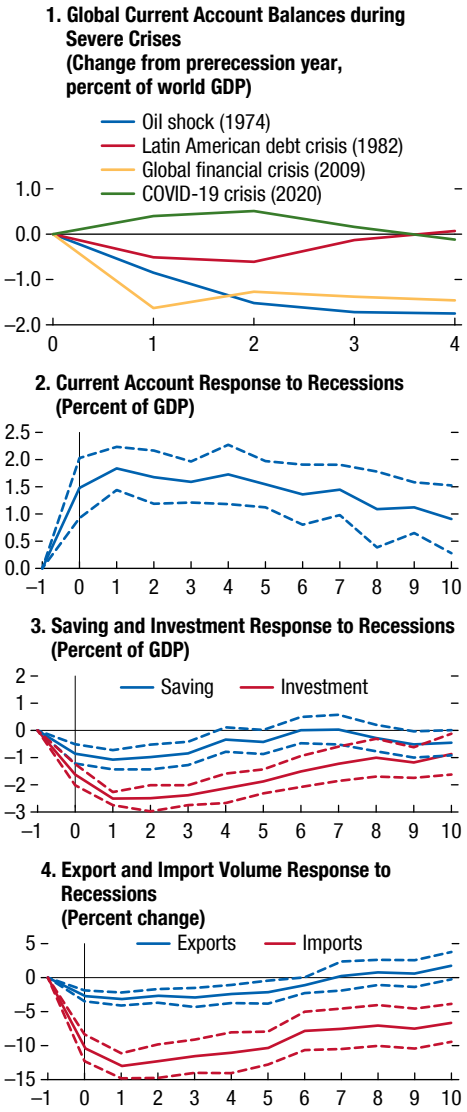
An analysis of 278 recessions in 49 advanced and emerging market and developing economies during 1960 to 2019 suggests that recessions typically raise an economy's current account balance by about 1.5 percent of GDP in a persistent manner, with lower investment and imports. Saving declines modestly, with government dissaving offsetting higher private saving (Figure 1.3.1, panels 2–4). But there are stark differences in the current account response, depending on underlying internal and external imbalances as well as the nature of the crisis.

Internal imbalances: Recessions associated with domestic imbalances, such as credit booms or higher public debt, come with sharper and more persistent current account adjustments than recessions in economies without such imbalances (Figure 1.3.2) and feature larger declines in investment and greater private saving. A similar finding holds for recessions associated with a financial crisis. Before the global financial crisis, private credit expansion and housing booms, including in the United States, and public borrowing in a number of European economies widened domestic imbalances, and the subsequent deleveraging fueled sustained narrowing in current account deficits. The COVID-19 shock, however, has not been accompanied by such financial sector turmoil and was not generally preceded by comparable levels of private or public sector borrowing in current account deficit economies. Accordingly, the investment response has

The author of this box is Christina Kolerus (with analysis based on Kolerus 2021).

Figure 1.3.1. External Accounts during Recessions

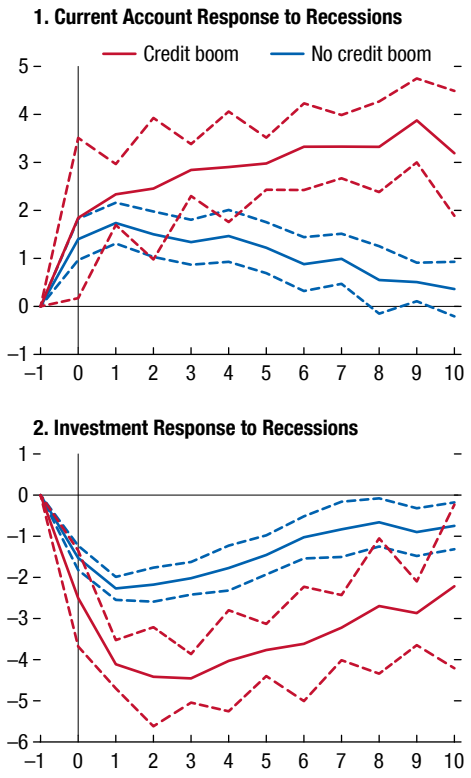
(Year on x-axis)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
Note: Global imbalances are the absolute sum of surpluses and deficits. The figure reports estimated responses and 90 percent confidence bands derived from Jordà (2005) local projections. Recessions are defined as negative real GDP growth years.

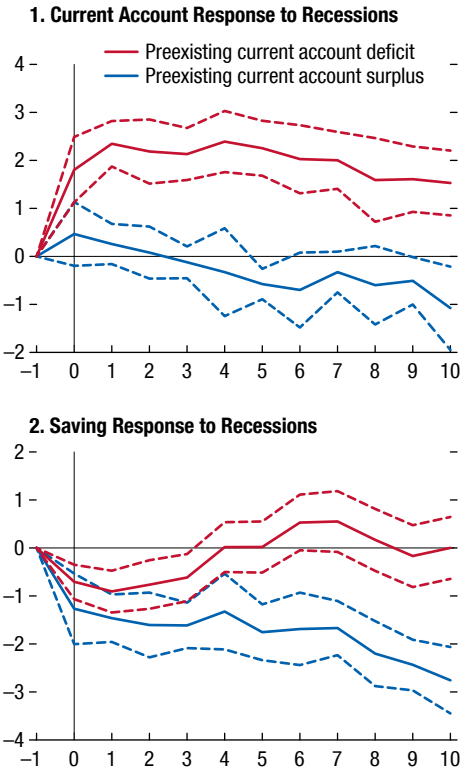
Box 1.3 *(continued)*

Figure 1.3.2. Recessions and Credit Booms
(Percent of GDP; years on x-axis)



Source: IMF staff calculations.
Note: The figure reports estimated responses and 90 percent confidence bands derived from Jordà (2005) local projections. Recessions are defined as negative real GDP growth years. Credit booms are based on Dell'Ariccia and others (2020).

Figure 1.3.3. Recessions and Preexisting Deficits and Surpluses
(Percent of GDP; years on x-axis)



Source: IMF staff calculations.
Note: The figure reports estimated responses and 90 percent confidence bands derived from Jordà (2005) local projections. Recessions are defined as negative real GDP growth years.

been relatively modest during the COVID-19 crisis compared with the global financial crisis.

External imbalances: Economies with larger prerecession current account deficits typically experience sharper external adjustments than those with prerecession current account surpluses (Figure 1.3.3). This finding reflects a striking difference in saving responses: current account surplus economies draw down existing buffers, with significant dissaving during the recession and smaller declines in investment. These asymmetries explain why recessions are typically accompanied by a narrowing of global current account imbalances, as observed during the global financial crisis and other severe downturns. Additional analysis suggests that economies with higher external debt before the recession also experience sharper and more persistent current account adjustments. A similar finding holds for economies experiencing a sudden stop in capital flows. Current account deficits in the United States increased significantly in the run-up to the global financial crisis, as well as in many economies in Latin America and the Caribbean before the Latin American debt crisis. By contrast, for major economies, current account deficits and surpluses were smaller before the COVID-19 crisis.

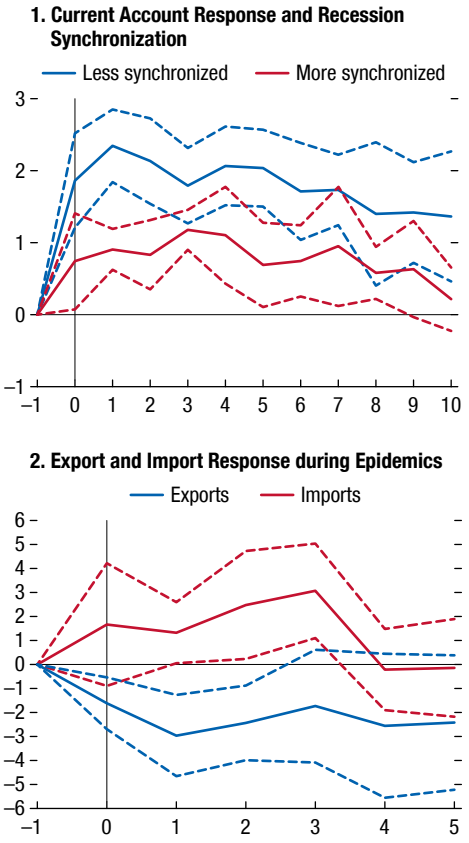
Globally synchronized downturns, natural disasters, and pandemics: During previous globally synchronized downturns (with more than 25 percent of economies in recession), such as those associated with the 1973–74 oil crisis, the 1979 oil crisis, the

Box 1.3 *(continued)*

1982 Latin American debt crisis, and the 2007–08 global financial crisis, an economy's current account balance increased significantly less than during less globally synchronized recessions as exports fall in tandem with imports given declining domestic and global demand (Figure 1.3.4, panel 1). Large natural disasters or epidemics, which tend to affect an economy's supply side, tend to be associated with a decline in the current account balance, with import needs growing and exports declining (Figure 1.3.4, panel 2).

Overall, the COVID-19 crisis has been one of the most globally synchronized recessions on record, with the overwhelming majority of economies experiencing recession. Economies generally entered the 2020 crisis with fewer internal and external imbalances, and the source of the recession was a pandemic with sharp sectoral effects on travel, oil, medical products, and consumer goods. Together, these factors help explain the rise in global balances in 2020 instead of the sizable narrowing as in past global downturns.

Figure 1.3.4. Globally Synchronized Downturns and Epidemics
(Percent of GDP; years on x-axis)



Source: IMF staff calculations.
Note: Less synchronized recessions correspond to episodes with <25 percent of countries in recession; more synchronized recessions correspond to >25 percent in recession. The figure reports estimated responses and 90 percent confidence bands derived from Jordà (2005) local projections. The sample period is 1870 to 2019; epidemics are those with high (90th percentile) impact. Responses are estimated using Cook's distance correction.

Box 1.4. External Assessments: Objectives and Concepts

Current account deficits and surpluses can be desirable from an individual country and global perspective. A country's ability to run current account deficits and surpluses at different times is important for absorbing country-specific shocks and facilitating a globally efficient allocation of capital. Some countries may need to save through current account surpluses (for example, because of an aging population); others may need to borrow via current account deficits (for example, to import capital and foster growth). Similarly, countries facing temporary positive (negative) terms-of-trade changes may benefit from saving (borrowing) to smooth out those income shocks. Thus, running a nonzero external current account balance is often desirable both from an individual country and a global standpoint.

To determine if current account balances are *excessive*, the IMF staff compares the actual current account (stripped of cyclical and temporary factors) to the level it assesses to be consistent with fundamentals and desirable policies. The resultant IMF staff–assessed gap reflects policy distortions vis-à-vis other economies identified using External Balance Assessment models as well as other policy and structural distortions not captured by the models.[1]

A current account balance that is *higher (lower)* than implied by fundamentals and desirable policies corresponds to a positive (negative) current account gap. Elimination of such a gap is desirable over the medium term, although there may be good reasons to have a temporary gap and to adjust gradually. These gaps can reflect domestic macroeconomic or structural policy distortions or similar policy distortions in the rest of the world (that is, foreign distortions).

Assessments also include a view of the real effective exchange rate (REER) that is normally consistent with the assessed current account gap. A positive (negative) REER gap implies an overvalued (undervalued) exchange rate. REER gaps do not necessarily predict future exchange rates and may occur in any economy, including in an economy with a floating exchange rate.

Although the overall assessment of a country's external position reflects the current account and real exchange rate in a given year, it also takes other indicators into consideration. These include the financial account balances, the international investment position, reserve adequacy, and other competitiveness measures, such as the unit-labor-cost-based REER. The overall external position is judged to be weaker (stronger) than warranted by fundamentals and desired policies depending on how low (high) the current account balance is compared with the IMF staff–assessed norm and how overvalued (undervalued) the REER is deemed to be. The external position is broadly in line with fundamentals and desired policies when the current account balance and the REER are at, or close to, their IMF staff–assessed norms. Assessments strive to be multilaterally consistent; negative IMF staff–assessed current account and REER gaps in some economies are matched by positive IMF staff–assessed gaps in others.

[1]See Cubeddu and others (2019) for a description of the External Balance Assessment models and complementary tools that help in applying analytically grounded judgment, as well as the external assessment process.

Box 1.5. Risk Scenarios: Implications for Trade and Current Account Balances

The IMF's G20 Model is used to illustrate the impact on trade and current account balances of two risk scenarios: (1) a new wave of COVID-19 in emerging market economies; and (2) faster vaccine distribution, particularly in emerging market economies. Results are presented in Figure 1.5.1 as deviations from the July 2021 WEO *Update* projections (the baseline) for advanced economies and emerging market economies.

Downside scenario—A new COVID-19 wave in emerging markets with additional financial tightening and scarring: The first scenario assumes that new, more infectious variants of COVID-19 generate an additional upsurge in infections in emerging market economies in late 2021. With vaccine supplies in many emerging markets increasing only gradually, mobility restrictions (mandated and voluntary) lead to slowing in growth in late 2021 and a more notable slowdown in 2022.

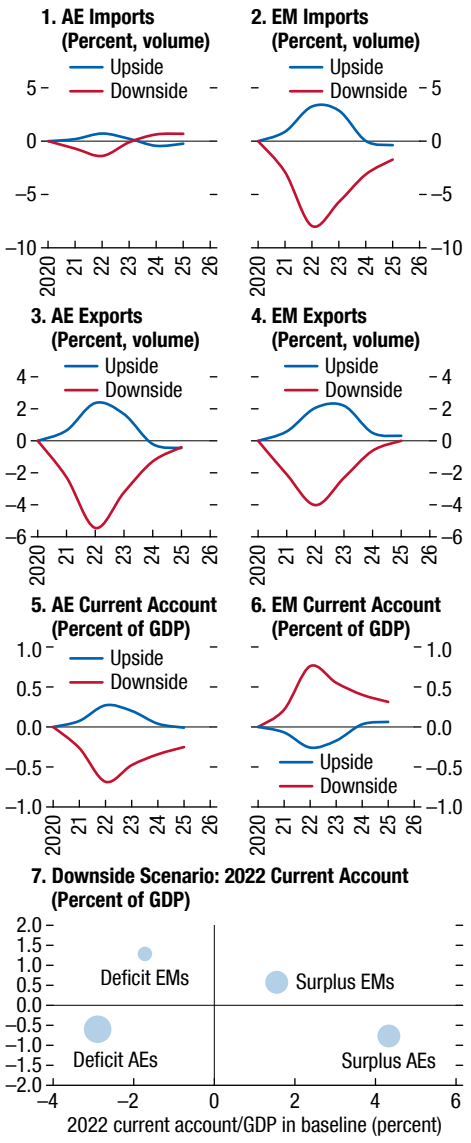
Although advanced economies experience some mild negative spillovers from the slower emerging market growth, inflation pressures prove to be more persistent than expected, and monetary policy normalization occurs faster than assumed in the baseline. This tightening, plus investor concern about emerging market prospects given the path of the virus, leads to a notable and persistent tightening in financial conditions in many emerging markets.

For emerging markets, the weaker growth and tighter financial conditions lead to more bankruptcies and additional persistent scarring on the supply side in many emerging market economies.

The combination of this negative supply-side impact and demand disruptions, as well as tighter global financial conditions, causes currency depreciation and a sharp contraction in imports peaking at –8 percent in 2022. Export capacity also contracts, but by less than imports, given the relatively resilient demand from advanced economies, resulting in an increase in the current account balance for emerging markets. For advanced economies, the negative spillovers from emerging markets depress exports, but, with relatively resilient overall demand, their current account balances decline.

Overall, the downside scenario exacerbates the increasingly unequal impact of the crisis, with a more divergent recovery and a further slowdown in capital flows from richer to poorer economies. At the same time, with a fall in current account balances occurring in both deficit and surplus advanced economies, there is little external rebalancing or widening in overall global current account balances.

Figure 1.5.1. Risk Scenarios: Implications for Trade and Current Account Balances
(Deviation from baseline)



Sources: IMF, *World Economic Outlook*; and IMF staff estimates (G20 Model simulations).
Note: Size of bubbles based on GDP in US dollars.
AEs = advanced economies; EMs = emerging market economies.

The authors of this box are Susanna Mursula and Daniel Leigh.

Box 1.5 *(continued)*

Upside scenario—Faster vaccine distribution, particularly in emerging market economies: In the second scenario, more concerted efforts to expand vaccine supply in emerging market economies leads to a faster normalization of mobility in late 2021 and into 2022, which allows for faster reopening of the high-contact sectors most affected by mobility restrictions. Growth rebounds above baseline mildly in 2021 and more notably in 2022. The faster recovery in emerging market economies helps unwind some of the scarring in the baseline in 2023 and beyond. Advanced economies experience positive trade spillovers from this faster recovery.

For emerging market economies, the faster recovery in domestic demand and easing of mobility restrictions, as well as the resulting increase in domestic interest rates and associated currency appreciation, raise import demand by about 3 percent by 2022. The faster recovery in supply in emerging markets, and the rise in global economic activity, raises exports in both emerging market and advanced economies by about 2 percent.

Overall, the faster recovery is associated with a decline in emerging market current account balances and a strengthening of capital flows from richer to poorer economies. At the same time, given the lack of correlation of emerging market economy status with current account surpluses or deficits, there is little impact on global current account balances.

Annex Table 1.1.1. Selected Economies: Foreign Reserves, 2017–20[1]

	Gross Official Reserves[2] (Billions of US Dollars)				Gross Official Reserves[2] (Percent of GDP)				IMF Staff–Estimated Change in Official Reserves[3] (Percent of GDP)				Gross Official Reserves in Percent of ARA Metric (2020)[4]	FXI Data Publication
	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020		
Advanced Economies														
Australia	67	54	59	43	4.8	3.8	4.2	3.2	–0.1	0.1	–0.1	0.0	…	Yes/Daily
Canada	87	84	85	90	5.3	4.9	4.9	5.5	0.0	–0.1	–0.1	0.0	…	Yes/Monthly
Euro Area	803	823	914	1,078	6.3	6.0	6.8	8.3	0.1	0.3	0.1	0.1	…	Yes/Quarterly
Hong Kong SAR	431	425	441	492	126.4	117.4	120.7	141.9	9.3	0.6	1.7	0.4	…	Yes/Daily
Japan	1,264	1,270	1,322	1,391	25.6	25.2	25.7	27.5	0.3	0.5	0.5	–0.1	…	Yes/Monthly
Korea	389	403	409	443	24.0	23.4	24.8	27.1	0.7	0.1	0.1	1.1	99.0	Yes/Quarterly
Singapore	285	293	285	362	83.0	77.9	79.0	106.6	14.6	5.0	0.6	28.8	…	Yes/Semiannually
Sweden	62	61	56	59	11.5	10.9	10.4	10.9	0.0	–0.1	–1.3	0.1	…	Yes/Weekly
Switzerland	811	787	855	1,083	115.1	106.9	114.0	135.9	8.8	1.9	2.2	16.6	…	Yes/Quarterly
United Kingdom	151	173	174	180	5.7	6.0	6.1	6.6	0.4	0.8	–0.1	–0.1	…	Yes/Monthly
United States	451	450	517	628	2.3	2.2	2.4	3.0	0.0	0.1	0.0	0.0	…	Yes/Quarterly
Emerging Market and Developing Economies														
Argentina	55	66	45	39	8.6	12.8	10.1	10.3	2.3	–3.3	–8.5	–2.0	60.4	Yes/Daily
Brazil	374	375	357	356	18.1	19.5	19.0	24.8	0.3	–2.2	0.4	–2.4	160.8	Yes/Daily
China	3,236	3,168	3,223	3,357	26.4	22.9	22.5	22.6	1.1	0.1	–0.1	0.2	120.0	No
India	413	399	465	586	15.6	14.8	16.2	22.5	2.6	–1.3	2.5	4.4	197.2	Yes/Monthly
Indonesia	130	121	129	136	12.8	11.6	11.5	12.8	1.7	–1.4	0.7	0.5	121.4	No
Malaysia	102	101	104	108	32.1	28.3	28.4	30.6	0.7	–2.5	2.5	0.9	118.1	No
Mexico	175	176	183	199	15.1	14.4	14.4	18.5	–0.4	0.0	0.2	1.1	128.4	Yes/Monthly
Poland	113	117	128	154	21.5	19.9	21.5	25.9	–1.5	1.2	1.7	3.1	140.5	No
Russia	433	469	555	596	27.5	28.4	32.8	40.3	1.7	2.0	3.9	–0.9	360.7	Yes/Daily
Saudi Arabia	509	509	500	455	74.0	64.8	63.0	64.8	–5.8	0.1	0.6	–6.0	…	No
South Africa	51	52	55	55	14.5	14.0	15.7	18.2	0.4	–0.1	0.4	–0.3	74.4	No
Thailand	203	206	224	258	44.4	40.6	41.2	51.4	8.1	0.8	2.7	1.3	241.4	No
Turkey	108	93	106	93	12.5	11.9	13.9	13.0	–1.0	–1.5	–1.2	–10.8	73.5	Yes/Daily
Memorandum item:														
Aggregate[5]	10,703	10,674	11,191	12,242	13.2	12.4	12.8	14.4	0.5	0.1	0.2	0.3	…	…
AEs	4,801	4,821	5,117	5,850	5.9	5.6	5.9	6.9	0.2	0.2	0.1	0.3	…	…
EMDEs	5,902	5,852	6,074	6,392	7.3	6.8	7.0	7.5	0.3	–0.1	0.1	0.0	…	…

Sources: IMF, Assessing Reserve Adequacy data set; IMF, *International Financial Statistics* (IFS); IMF, International Reserves and Foreign Currency Liquidity (IRFCL); IMF, *World Economic Outlook* (WEO); and IMF staff calculations.

Note: "…" indicates that data are not available or not applicable. AEs = advanced economies; ARA = assessment of reserve adequacy; EMDEs = emerging market and developing economies; FX = foreign exchange; FXI = foreign exchange intervention.

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

[2] Total reserves from IFS, 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 WEO (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 IRFCL 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 only for selected EMDEs and Korea, 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, 2020

		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)
Economy	Overall Assessment	Actual	Cycl. Adj.	Midpoint	Range	Midpoint	Range	Net	Liabilities	Assets		
Argentina	Weaker	0.8	–0.5	–2.1	±1	5.0	±7.5	32	73	105	1.5	0.9
Australia	Broadly in line	2.5	2.4	0.9	±1	–3.0	±5	–53	224	171	–2.9	1.1
Belgium	Moderately weaker	–0.2	–0.1	–1.8	±1	4.3	±2.5	45	422	467	1.9	0.6
Brazil	Broadly in line	–1.7	–1.6	0.9	±0.5	–7.1	±7.5	–38	102	64	–1.9	0.8
Canada	Moderately weaker	–1.8	–1.3	–1.1	±1.5	3.9	±5.5	61	238	299	2.7	1.0
China	Broadly in line	1.8	1.7	0.7	±1.4	–0.5	±10	14	44	59	1.1	1.4
Euro Area[1]	Broadly in line	2.2	1.8	0.6	±0.8	–1.8	±2	1	268	268	0.0	0.8
France	Weaker	–1.9	–2.3	–2.2	±0.5	8.0	±2	–26	378	352	–1.2	0.6
Germany	Stronger	7.0	6.9	3.4	±1	–9.2	±5	76	232	308	3.2	0.9
Hong Kong SAR	Broadly in line	6.5	5.2	0.5	±1.5	–1.3	±4	621	1193	1814	. . .	…
India	Broadly in line	1.0	–0.8	1.0	±1	–6.3	±6.5	–13	46	33	–1.1	1.3
Indonesia	Broadly in line	–0.4	–0.8	0.7	±1.5	–1.0	±5	–27	65	38	–2.1	1.5
Italy	Broadly in line	3.5	2.5	0.1	±1	–0.3	±4	2	185	187	0.1	0.9
Japan	Broadly in line	3.3	3.2	–0.1	±1.2	0.7	±9	66	147	213	2.4	1.2
Korea	Broadly in line	4.6	4.3	–0.1	±1	0.2	±2.5	28	91	120	1.5	0.9
Malaysia	Substantially stronger	4.2	4.6	4.1	±1	–9.0	±2	5	130	135	0.4	0.8
Mexico	Stronger	2.4	1.7	2.8	±1	–21.8	±8	–55	118	63	–2.7	1.2
The Netherlands	Stronger	7.0	7.5	2.4	±2	–3.5	±3	114	1052	1166	5.2	0.9
Poland	Substantially stronger	3.5	3.9	4.9	±0.6	–11.1	±1.5	–46	103	58	–2.6	0.6
Russia	Moderately stronger	2.3	4.0	1.9	±1.5	–7.6	±6	34	71	105	1.6	1.5
Saudi Arabia	Moderately weaker	–2.8	–1.3	–1.5	±1.2	7.0	±6	89	76	165	. . .	…
Singapore	Substantially stronger	17.6	16.9	4.2	±3	–8.5	±6	308	1053	1361	. . .	…
South Africa	Moderately weaker	2.2	–0.1	–1.1	±1	4.0	±4	32	132	165	1.4	1.2
Spain	Broadly in line	0.7	–1.3	–0.7	±1	2.6	±4	–85	290	206	–3.8	0.8
Sweden	Stronger	5.7	6.4	3.8	±1.5	–8.0	±5	18	275	293	0.9	1.2
Switzerland	Broadly in line	3.8	3.9	–3.2	±2	6.2	±4	94	664	758	4.0	1.2
Thailand	Stronger	3.3	1.0	2.2	±1.5	–4.0	±2.5	11	109	120	0.7	1.5
Turkey	Moderately weaker	–5.1	–4.7	–1.2	±1.7	–20.0	±5	–56	90	34	–3.5	1.8
United Kingdom	Weaker	–3.5	–3.7	–2.4	±2	7.5	±7.5	–30	618	588	–1.4	0.7
United States	Moderately weaker	–2.9	–2.7	–1.6	±0.5	8.2	±3	–67	221	154	–3.1	0.9

Sources: IMF, *International Financial Statistics*; IMF, *World Economic Outlook*; US Bureau of Economic Analysis; and IMF staff assessments.
Note: CA = current account; Cycl. Adj. = cyclically adjusted; NFA = net foreign assets; SE = standard error; REER = real effective exchange rate.
[1]The IMF staff–assessed euro area CA gap is calculated as the GDP-weighted averages 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, 2020

(Percent of GDP)

Economy	Assessment 2020	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]				Comments on Non–COVID-19-related Adjustments
							Total [F=G+H-I]	Covid-19 [G]	Other CA [H]	Other Norm [I]	
Argentina	Weaker	0.8	–0.5	–1.3	0.8	–2.1	–2.9	–0.5	0.0	2.4	NIIP/financing risk considerations
Australia	Broadly in line	2.5	2.4	–0.1	2.6	0.9	–1.7	–1.7	0.0	0.0	
Belgium	Moderately weaker	–0.2	–0.1	1.4	–1.5	–1.8	–0.3	–0.3	0.0	0.0	
Brazil	Broadly in line	–1.7	–1.6	–2.4	0.8	0.9	0.1	0.1	0.0	0.0	
Canada	Moderately weaker	–1.8	–1.3	2.5	–3.8	–1.1	2.7	0.8	1.5	–0.4	Measurement biases (CA); demographics (norm)
China	Broadly in line	1.8	1.7	–0.3	1.9	0.7	–1.2	–1.2	0.0	0.0	
Euro Area[4]	Broadly in line	2.2	1.8	1.0	0.8	0.6	–0.1	0.2	–0.1	0.3	Country-specific adjustments
France	Weaker	–1.9	–2.3	0.2	–2.5	–2.2	0.4	0.4	0.0	0.0	
Germany	Stronger	7.0	6.9	2.6	4.3	3.4	–0.9	–0.6	0.0	0.4	Demographics (uncertainty related to large and sudden immigration)
India	Broadly in line	1.0	–0.8	–2.4	1.7	1.0	–0.6	–0.6	0.0	0.0	
Indonesia	Broadly in line	–0.4	–0.8	–0.5	–0.3	0.7	0.9	0.0	0.0	–0.9	Demographics (high mortality risk)
Italy	Broadly in line	3.5	2.5	2.8	–0.3	0.1	0.4	0.4	0.0	0.0	
Japan	Broadly in line	3.3	3.2	3.6	–0.4	–0.1	0.3	0.3	0.0	0.0	
Korea	Broadly in line	4.6	4.3	3.5	0.8	–0.1	–0.9	–0.9	0.0	0.0	
Malaysia	Substantially stronger	4.2	4.6	–0.6	5.2	4.1	–1.0	–0.2	–0.8	0.0	One-off large transaction in the income balance
Mexico	Stronger	2.4	1.7	–1.9	3.6	2.8	–0.8	–0.5	–0.3	0.0	Effects of trade diversion
The Netherlands	Stronger	7.0	7.5	3.4	4.0	2.4	–1.6	–0.2	–1.4	0.0	Measurement biases
Poland	Substantially stronger	3.5	3.9	–2.1	6.0	4.9	–1.1	–1.1	0.0	0.0	
Russia	Moderately stronger	2.3	4.0	3.2	0.8	1.9	1.1	1.1	0.0	0.0	
South Africa	Moderately weaker	2.2	–0.1	1.6	–1.7	–1.1	0.6	–1.8	1.4	–1.0	SACU transfers and measurement biases (CA); demographics (high mortality risk, norm)
Spain	Broadly in line	0.7	–1.3	0.3	–1.6	–0.7	0.9	2.4	0.0	1.5	NIIP/financing risk considerations
Sweden	Stronger	5.7	6.4	1.3	5.1	3.8	–1.2	–1.2	0.0	0.0	
Switzerland	Broadly in line	3.8	3.9	5.6	–1.7	–3.2	–1.5	1.9	–3.4	0.0	Measurement biases
Thailand	Stronger	3.3	1.0	1.2	–0.2	2.2	2.4	2.4	0.0	0.0	
Turkey	Moderately weaker	–5.1	–4.7	–1.5	–3.3	–1.2	2.1	1.1	1.0	0.0	Temporarily high demand for gold imports (uncertainty)

(*Continued*)

Annex Table 1.1.3. *(continued)*

Economy	Assessment 2020	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]				Comments on non–COVID-19-related adjustments
							Total [F=G+H-I]	Other			
								Covid-19 [G]	CA [H]	Norm [I]	
United Kingdom	Weaker	–3.5	–3.7	–0.4	–3.3	–2.4	0.9	0.3	0.6	0.0	Measurement biases
United States	Moderately weaker	–2.9	–2.7	–0.5	–2.2	–1.6	0.5	0.5	0.0	0.0	
Hong Kong SAR	Broadly in line	6.5	5.2	. . .	. . .	0.5	. . .	. . .	. . .	. . .	
Singapore	Substantially stronger	17.6	16.9	. . .	. . .	4.2	. . .	. . .	. . .	. . .	
Saudi Arabia	Weaker	–2.8	–1.3	. . .	. . .	–1.5	. . .	. . .	. . .	. . .	
Absolute sum of excess surpluses and deficits[5]		. . .	. . .	. . .	1.7	1.2	. . .	. . .	. . .	. . .	
Discrepancy for all EBA/ESR economies[6]		. . .	. . .	. . .	. . .	0.0	. . .	. . .	. . .	. . .	
Of which: ESR economies		. . .	. . .	. . .	. . .	–0.1	. . .	. . .	. . .	. . .	
Of which: Non-ESR economies		. . .	. . .	. . .	. . .	0.1	. . .	. . .	. . .	. . .	

Source: IMF staff estimates.

Note: 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. ". . ." indicates that data are not available or not applicable.

[1]Figures may not add up due to rounding effects.

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

[3]Total IMF staff adjustments include rounding in some cases. See Online Annex 1.1 for a description of COVID-19 adjustors.

[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 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, 2020

Economy	IMF Staff-Assessed REER Gap[1]	REER Gap Implied from IMF Staff-Assessed CA Gap[2]	EBA REER-Level Gap	EBA REER-Index Gap	CA/REER Elasticity[3]	REER (Percent Change)	
						Average 2020/ Average 2019	May 2021/ Average 2020
Argentina	5.0	15.3	. . .	–2.9	0.14	2.3	0.9
Australia	–3.0	–4.5	9.8	–2.1	0.20	–0.8	8.2
Belgium	4.3	4.3	18.2	9.6	0.42	1.4	0.3
Brazil	–7.1	–7.1	–21.3	–36.6	0.13	–20.6	–3.5
Canada	3.9	3.9	–6.5	2.6	0.28	–1.1	7.5
China	–0.5	–3.1	13.0	–0.3	0.23	2.1	3.0
Euro Area	–1.8	–1.8	–0.6	5.3	0.35	2.1	1.7
France	8.0	8.0	2.9	–2.3	0.27	1.0	0.3
Germany	–9.2	–9.2	–15.4	5.6	0.37	1.3	1.8
India	–6.3	–6.3	6.6	10.9	0.17	0.4	–1.8
Indonesia	–1.0	–3.9	–11.6	2.1	0.17	–1.3	–2.1
Italy	–0.3	–0.3	2.5	7.7	0.25	0.5	0.6
Japan	0.7	0.7	–12.0	–20.2	0.13	0.9	–8.7
Korea	0.2	0.2	–12.0	–3.7	0.36	–1.9	0.8
Malaysia	–9.0	–9.0	–42.0	–31.5	0.46	–3.6	–1.0
Mexico	–21.8	–21.8	–10.0	–20.9	0.13	–7.6	7.0
The Netherlands	–3.5	–3.5	4.2	17.8	0.70	2.0	0.6
Poland	–11.1	–11.1	–19.1	–2.7	0.44	0.7	1.0
Russia	–7.6	–7.6	–20.8	–12.3	0.25	–7.4	–3.8
South Africa	4.0	4.0	–10.5	–20.9	0.28	–9.2	13.2
Spain	2.6	2.6	4.0	6.2	0.28	0.5	1.4
Sweden	–8.0	–10.9	–16.8	–18.4	0.35	2.4	3.4
Switzerland	6.2	6.2	26.4	15.4	0.52	3.8	–2.9
Thailand	–4.0	–4.0	–5.2	10.8	0.56	–2.6	–3.7
Turkey	–20.0	4.9	–30.8	–34.5	0.24	–10.0	–9.0
United Kingdom	7.5	10.0	–3.8	–12.2	0.24	0.2	4.1
United States	8.2	8.2	12.4	8.3	0.20	1.4	–3.9
Hong Kong SAR	–1.3	–1.3	. . .	. . .	0.40	–0.6	–5.0
Singapore	–8.5	–8.4	. . .	. . .	0.50	–2.6	–0.3
Saudi Arabia	7.0	. . .	. . .	. . .	0.20	2.5	–2.3
Discrepancy[4]	1.1	. . .	. . .	. . .	. . .	. . .	. . .

Sources: IMF, Information Notice System; and IMF staff estimates.
Note: CA = current account; EBA = External Balance Assessment; REER = real effective exchange rate. ". . ." indicates that data are not available or not applicable.
[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 semi-elasticity 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, 2020

(Percent of GDP)

	EBA Gap				Fiscal Gap					Public Health Expenditure Gap					Private Credit Gap					Foreign Exchange Intervention Gap					Other (K-Controls)	
						Domestic					Domestic					Domestic					Domestic					
Economy	Total[1]	Identified	Dom[2]	Residual	Total[1]	Dom[3]	Coeff	P	P*	Total[1]	Dom[3]	Coeff	P	P*	Total[1]	Dom[3]	Coeff	P	P*	Total[1]	Dom[3]	Coeff	P	P*	Total[1]	Dom[3]
Argentina	0.8	0.2	–2.0	0.6	2.1	–0.3	0.3	–2.5	–1.5	–0.1	0.0	–0.4	6.5	6.5	0.1	0.1	–0.1	–0.5	0.0	–1.5	–1.5	0.8	–2.0	1.0	–0.4	–0.3
Australia	2.6	–0.6	–2.8	3.1	–0.6	–3.0	0.3	–9.1	0.0	–0.1	0.0	–0.4	7.0	6.9	0.3	0.2	–0.1	–2.3	0.0	0.0	0.0	0.8	0.0	0.0	–0.1	0.0
Belgium	–1.5	–0.6	–2.8	–0.9	0.3	–2.1	0.3	–9.4	–2.9	–0.2	–0.1	–0.4	7.9	7.7	–0.6	–0.6	–0.1	6.2	0.0	0.0	0.0	0.8	–0.1	0.0	–0.1	0.0
Brazil	0.8	–0.5	–2.7	1.3	–0.6	–3.0	0.3	–12.6	–3.5	0.1	0.2	–0.4	3.9	4.4	0.4	0.4	–0.1	–3.5	0.0	–0.5	–0.5	0.8	–2.4	0.0	0.0	0.1
Canada	–3.8	–1.3	–3.5	–2.5	–0.5	–2.9	0.3	–9.5	–0.7	–0.5	–0.4	–0.4	8.1	7.0	–0.1	–0.1	–0.1	1.4	0.0	0.0	0.0	0.8	0.0	0.0	–0.1	0.0
China	1.9	0.0	–2.2	2.0	–0.2	–2.6	0.3	–9.9	–2.0	0.2	0.2	–0.4	3.4	4.0	–0.3	–0.4	–0.1	3.9	0.0	0.0	0.1	0.8	0.2	0.0	0.3	0.4
Euro Area[4]	0.8	0.6	–1.6	0.2	1.1	–1.4	0.3	–5.0	–0.9	–0.1	0.0	–0.4	8.2	8.2	–0.2	–0.2	–0.1	1.2	–0.8	0.0	0.0	0.8	0.0	0.0	–0.1	0.0
France	–2.5	–0.3	–2.5	–2.2	0.7	–1.7	0.3	–6.6	–1.5	–0.2	–0.1	–0.4	9.3	9.1	–0.7	–0.8	–0.1	7.4	0.0	0.0	0.0	0.8	0.2	0.0	–0.1	0.0
Germany	4.3	0.6	–1.6	3.8	1.6	–0.8	0.3	–2.9	–0.5	–0.2	–0.1	–0.4	9.8	9.6	–0.7	–0.8	–0.1	6.4	–1.0	0.0	0.0	0.8	0.0	0.0	–0.1	0.0
India	1.7	3.7	1.5	–2.0	1.1	–1.3	0.3	–9.7	–5.8	–0.1	0.0	–0.4	1.5	1.6	0.5	0.4	–0.1	–4.1	0.0	1.6	1.6	0.8	4.4	0.0	0.5	0.7
Indonesia	–0.3	2.4	0.2	–2.6	1.6	–0.8	0.3	–5.0	–2.5	0.5	0.6	–0.4	1.6	3.0	0.0	–0.1	–0.1	0.7	0.0	0.1	0.1	0.8	0.5	0.0	0.2	0.3
Italy	–0.3	0.8	–1.4	–1.1	0.1	–2.3	0.3	–6.4	0.5	0.0	0.1	–0.4	6.6	6.8	0.8	0.8	–0.1	–7.5	0.0	0.0	0.0	0.8	0.2	0.0	–0.1	0.0
Japan	–0.4	–2.0	–4.2	1.6	–0.8	–3.2	0.3	–9.8	–0.1	–0.1	0.0	–0.4	9.1	9.1	–0.9	–1.0	–0.1	9.5	0.0	0.0	0.0	0.8	–0.1	0.0	–0.1	0.0
Korea	0.8	1.5	–0.7	–0.7	1.9	–0.5	0.3	–1.5	0.0	0.3	0.4	–0.4	4.9	5.8	–0.5	–0.6	–0.1	5.5	0.0	0.0	0.0	0.8	1.1	0.0	–0.1	0.0
Malaysia	5.2	2.5	0.3	2.7	1.7	–0.7	0.3	–4.6	–2.6	0.7	0.8	–0.4	2.0	4.1	–0.1	–0.2	–0.1	1.9	0.0	0.2	0.3	0.8	0.9	0.0	–0.1	0.1
Mexico	3.6	2.6	0.4	1.0	2.2	–0.3	0.3	–3.3	–2.5	0.3	0.3	–0.4	2.7	3.6	–0.2	–0.2	–0.1	2.3	0.0	0.3	0.3	0.8	1.1	0.0	0.1	0.2
The Netherlands	4.0	2.9	0.7	1.1	1.7	–0.7	0.3	–3.2	–1.0	0.1	0.2	–0.4	8.2	8.8	1.3	1.2	–0.1	–12.0	0.0	0.0	0.0	0.8	–0.1	0.0	–0.1	0.0
Poland	6.0	2.2	–0.1	3.9	1.1	–1.3	0.3	–5.9	–2.0	0.1	0.2	–0.4	4.9	5.4	0.5	0.4	–0.1	–4.1	0.0	0.5	0.6	0.8	3.1	0.0	–0.1	0.0
Russia	0.8	1.4	–0.8	–0.6	0.3	–2.1	0.3	–4.5	2.0	0.7	0.8	–0.4	3.5	5.5	0.8	0.7	–0.1	–6.7	0.0	–0.2	–0.2	0.8	–0.9	0.0	–0.1	0.0
South Africa	–1.7	0.2	–2.0	–1.9	0.6	–1.8	0.3	–6.6	–1.0	–0.1	0.0	–0.4	4.2	4.1	0.2	0.1	–0.1	–1.3	0.0	–0.4	–0.4	0.8	–0.3	3.0	0.0	0.2
Spain	–1.6	0.8	–1.4	–2.4	1.3	–1.1	0.3	–5.8	–2.5	–0.1	0.0	–0.4	6.3	6.3	–0.3	–0.3	–0.1	1.0	–2.0	0.0	0.0	0.8	0.0	0.0	–0.1	0.0
Sweden	5.1	0.7	–1.5	4.4	1.0	–1.4	0.3	–4.0	0.3	–0.2	–0.1	–0.4	9.3	9.0	0.1	0.0	–0.1	0.0	0.0	0.0	0.0	0.8	0.1	0.0	–0.1	0.0
Switzerland	–1.7	1.1	–1.1	–2.8	2.1	–0.3	0.3	–1.9	–1.0	–0.2	–0.1	–0.4	7.8	7.5	–0.7	–0.7	–0.1	7.1	0.0	0.0	0.0	0.8	16.6	0.0	–0.1	0.0
Thailand	–0.2	1.3	–0.9	–1.5	1.2	–1.3	0.3	–3.1	0.7	0.0	0.1	–0.4	3.8	4.1	–0.3	–0.4	–0.1	3.9	0.0	0.3	0.4	0.8	1.3	0.0	0.1	0.3
Turkey	–3.3	–4.1	–6.3	0.8	2.3	–0.1	0.3	–4.7	–4.3	0.0	0.0	–0.4	3.5	3.6	–3.0	–3.1	–0.1	30.0	0.0	–3.2	–3.2	0.8	–10.8	1.2	0.0	0.1
United Kingdom	–3.3	1.6	–0.6	–4.8	–0.3	–2.7	0.3	–11.3	–3.0	–0.1	0.0	–0.4	7.8	7.8	2.2	2.1	–0.1	–20.3	0.0	0.0	0.0	0.8	–0.1	0.0	–0.1	0.0
United States	–2.2	–1.2	–3.4	–1.0	–1.2	–3.6	0.3	–11.0	–0.2	–0.1	0.0	–0.4	8.4	8.4	0.2	0.2	–0.1	–1.8	0.0	0.0	0.0	0.8	0.0	0.0	–0.1	0.0

Source: IMF staff estimates.

Note: EBA = External Balance Assessment; K-controls = capital controls; Dom = domestic; Coeff = coefficient.

[1]Total contribution after adjusting for multilateral consistency.

[2]Includes the contribution of domestic policy gaps to the identified gap. The total foreign policy gap contribution is constant and equal to 2.4 percent for all countries. Foreign contributions are estimated as follows: fiscal = 2.6 percent of GDP; public health = –0.1 percent of GDP; private credit = –0.1 percent of GDP; foreign exchange intervention = 0.0 percent of GDP.

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

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

Annex Table 1.1.6. 2020 Individual Economy Assessments: Summary of Policy Recommendations

Economy	Overall 2020 Assessment	Policy Recommendations
Argentina	Weaker	Implement growth-friendly fiscal consolidation and prudent monetary policies to maintain strong trade surplus, rebuild international reserves, and regain market access; introduce reforms to strengthen competitiveness and export capacity.
Australia	Broadly in line	Maintain adequate monetary and fiscal policy support, including scaling up public investment, to promote domestic demand and keep the external position in line with fundamentals.
Belgium	Moderately weaker	Strengthen competitiveness by addressing structural challenges, including labor and product market reforms, to foster green, digital, and inclusive growth. Rebuild fiscal space.
Brazil	Broadly in line	Implement fiscal consolidation accompanied by measures to support public and private investment and structural reforms to reduce cost of doing business and strengthen competitiveness. Stand ready for prudent FX interventions to alleviate possible disorderly market conditions.
Canada	Moderately weaker	Develop credible medium-term fiscal consolidation plan; boost nonenergy exports through improved labor productivity, investment in R&D and public infrastructure.
China	Broadly in line	Accelerate structural reforms (by further opening domestic markets, reforming SOEs, and ensuring competitive neutrality with private firms), reduce high household savings (by strengthening the social safety net), and promote green investment to accelerate the transition to more balanced, inclusive, and green growth. Further increase exchange rate flexibility to facilitate the adjustment to economic shocks.
Euro Area	Broadly in line	Implement area-wide initiatives (banking and capital markets union and fiscal capacity for macro-stabilization) to further reinvigorate investment and reduce the aggregate CA surplus; see member country-specific recommendations to reduce internal and external imbalances.
France	Weaker	Improve competitiveness by reinvigorating structural reforms and rebuilding fiscal space over the medium term.
Germany	Stronger	Pursue growth-oriented fiscal policy with greater public sector investment in digitalization, infrastructure, and climate mitigation; implement structural reforms to foster entrepreneurship that would also stimulate investment; introduce additional tax relief for lower-income households; adopt pension reforms prolonging working lives.
Hong Kong SAR	Broadly in line	Ensure fiscal sustainability given rapidly aging population and maintain policies that support wage and price flexibility to preserve competitiveness.
India	Broadly in line	Implement fiscal consolidation in the medium term and step up efforts to improve the business climate, ease domestic supply bottlenecks, and liberalize trade and investment to attract FDI and improve the CA financing mix. Continue ER flexibility as the main shock absorber, with interventions limited to addressing disorderly market conditions.
Indonesia	Broadly in line	Pursue planned fiscal consolidation while boosting competitiveness and allowing for higher infrastructure and social spending to foster human capital development; facilitate sectoral adjustment; ease non-tarriff trade barriers and FDI restrictions; improve labor market flexibility. Continue ER flexibility with FX interventions limited to disorderly market conditions.
Italy	Broadly in line	Raise productivity and improve the business climate through higher investment and structural reforms, including by upskilling the workforce and increasing the quality of infrastructure and the effectiveness of the public administration. Improve budget efficiency to lower vulnerabilities associated with the rollover of external debt.
Japan	Broadly in line	Implement gradual fiscal consolidation within a well-specified medium-term fiscal framework, accommodative monetary policy, and structural reforms to mobilize investment, reduce debt, and support reflation and growth. Focus on reforms to increase labor supply, boost productivity and wages, reduce barriers to entry, and accelerate agricultural and professional services sector deregulation.
Korea	Broadly in line	Continue accommodative fiscal and monetary policies. Implement structural policies to stimulate investment and facilitate rebalancing of the economy toward services and other new growth drivers, by reducing barriers to entry and deregulating the nonmanufacturing sector; strengthen the social safety net. ER should remain market determined, with intervention limited to preventing disorderly market conditions.

(*Continued*)

Annex Table 1.1.6. *(continued)*

Economy	Overall 2020 Assessment	Policy Recommendations
Malaysia	Substantially stronger	Strengthen the social safety net, encourage private investment, and boost productivity growth.
Mexico	Stronger	Implement structural reforms to deliver stronger investment and strong, durable, and inclusive growth. Implement credible medium-term tax reform. Continue using floating ER as the main shock absorber, with FX interventions used only to prevent disorderly market conditions.
The Netherlands	Stronger	Promote the recovery and support investment in physical and human capital to foster robust potential growth.
Poland	Substantially stronger	Boost public investment by deploying Next Generation EU funds to help tackle infrastructure gaps, digitalization, and climate change; use public policies to help foster corporate investment and productivity; implement active labor market policies to facilitate sectoral transition and structural reforms to raise potential growth.
Russia	Moderately stronger	Pursue structural reforms to improve the business climate and address inefficiencies in the state-owned enterprise sector; promote investment in infrastructure, health, and education, to lift potential growth and diversify the economy away from oil and gas exports.
Saudi Arabia	Moderately weaker	Implement further consolidation, including energy price reforms and restraint of current spending, as well as structural reforms to diversify the economy and boost the non-oil tradable sector.
Singapore	Substantially stronger	Increase public investment, including on health care, physical infrastructure, and human capital, to address structural transformations in light of a rapidly aging population, transition to digital economy, and climate change; introduce structural reforms to improve productivity.
South Africa	Moderately weaker	Implement structural reforms to ameliorate competitiveness and pursue gradual but substantial fiscal consolidation, once the pandemic is over, while providing space for infrastructure and social spending; focus on improving governance, efficiency of key product markets (by crowding in the private sector), and functioning of labor markets; seize opportunities to build up reserves.
Spain	Broadly in line	Support investment, including through leveraging Next Generation EU funds, and foster competitiveness to raise potential growth and support decarbonization and digitalization while carefully managing the public debt load. Achieve productivity gains through continued wage flexibility and reforms to address labor market duality, product and service market reforms, and actions to enhance education and innovation.
Sweden	Stronger	Support greener and growth-enhancing private and public investments to facilitate structural transformation and support domestic demand; implement structural reforms to boost potential output.
Switzerland	Broadly in line	Ensure balanced domestic and external contributions to growth and improve the public-private mix in financial outflows, easing pressures on the franc; continue supportive fiscal policy and enhance efforts to foster green, digital transformation and productivity gains to address competitveness and aging.
Thailand	Stronger	Embark on fiscal expansion to revitalize domestic demand, through targeted social transfers as well as infrastructure investment; continue reforming social safety nets and addressing widespread informality to reduce precautionary saving and support consumption. Ensure ER flexibility as the key shock absorber, with intervention limited to disorderly market conditions.
Turkey	Moderately weaker	Further reining in of credit growth and strong commitment to and delivery of a firm monetary policy stance; enhance the fiscal anchor with a credible commitment to future consolidation; and take additional steps to build policy credibility to encourage capital inflows, support de-dollarization, and buildup of reserves.
United Kingdom	Weaker	Implement structural reforms to boost productivity and international competitiveness, including supporting reallocation to fast-growing sectors by upgrading the skill base and ensuring appropriate access to finance, as well as encouraging firm digitalization and innovation.
United States	Moderately weaker	Use fiscal space to increase infrastructure investment and facilitate the transition to a lower-carbon economy in the near term and embark on fiscal consolidation in the medium term, to put the debt-GDP ratio on a downward path; implement structural policies to increase competitiveness, including enhancing schooling, training, and mobility of workers, and labor force participation. Roll back tariff barriers, and resolve trade and investment disagreements supporting a global trading system.

Source: 2020 Individual External Balance Assessments.
Note: CA = current account; ER = exchange rate; FDI = foreign direct investment; FX = foreign exchange; R&D = research and development; SOE = state-owned enterprise.

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