INTERNATIONAL MONETARY FUND

EXTERNAL SECTOR REPORT

Imbalances Receding

2024

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PREFACE

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

Chapter 1, "External Positions and Policies," discusses the evolution of global external positions in 2023, key risks to external sector stability, and policy priorities for reducing excess imbalances over the medium term. Chapter 2, "Navigating the Tides of Commodity Prices," explores the external sector implications of energy price swings. It finds that energy-importing countries bear the brunt of negative oil supply shocks and can mitigate the impact through policies including greater exchange rate flexibility and more anchored inflation expectations. Chapter 3, "2022 Individual Economy Assessments," provides details on the overall external assessments for 30 economies and associated policy recommendations. This year's external assessments are based on the latest version of the IMF's External Balance Assessment methodology, external sector data as of May 20, 2024, and IMF staff projections in the April 2024 *World Economic Outlook*.

This report was prepared under the overall guidance of Pierre-Olivier Gourinchas, IMF Economic Counsellor and Director of Research, and under the direction of the External Sector Coordinating Group, comprising staff from the IMF's area departments (African, Asia and Pacific, European, Middle East and Central Asia, and Western Hemisphere) and several functional departments (Fiscal Affairs; Statistics; Strategy, Policy, and Review; Monetary and Capital Markets; and Research): Ali Jawad Al-Eyd, Rudolfs Bems, Pelin Berkmen, Emine Boz, Nigel Chalk, Jiaqian Chen, Mariana Colacelli, Borys Cotto, Christopher Erceg, Alexandra Aikaterini Fotiou, Kenneth Henry Kang, Purva Khera, Vitaliy Kramarenko, Jaewoo Lee (Chair), Amine Mati, Erin Nephew, Dragana Ostojic, Marcos Poplawski Ribeiro, Lev Ratnovski, Stephane Roudet, Christian Saborowski, Ranil Salgado, Mika Saito, Carlos Sánchez-Muñoz, Martin Sommer, Antonio Spilimbergo, Anita Tuladhar, and Sebastian Weber.

Rudolfs Bems and Jiaqian Chen led the preparation of the report, which draws on contributions from Cian Allen, Christiane Baumeister (external consultant), Lukas Boer, Benjamin Carton, Geoffroy Dolphin, Giovanni Ganelli, Keiko Honjo, Ting Lan, Roman Merga, Racha Moussa, Dirk Muir, Rafael Portillo, Cyril Rebillard, and Pedro Rodriguez. Important input was provided by country teams as well as David Coble, Majdi Debbich, Bada Han, David Florián Hoyle, Parisa Kamali, Robin Koepke, Svitlana Maslova, Hui Tong, and Marco Rodriguez Waldo. Excellent research and editorial assistance were provided by Mustafa Oguz Caylan, Santiago Gomez, Jane Haizel, DavidGuio Rodriguez, Jair Rodriguez, Xiaohan Shao, and Brian Hyunjo Shin.

Cheryl Toksoz from the Communications Department led the editorial team for the report, with production and editorial support from Absolute Services and the Grauel Group.

The analysis benefited from comments and suggestions by staff members from other IMF departments, as well as by the IMF's Executive Directors following their discussion of the report on July 1, 2024. However, both projections and policy considerations are those of the IMF staff and should not be attributed to Executive Directors or to their national authorities.

EXECUTIVE SUMMARY

Following a sharp global monetary policy tightening to address inflation in 2021–22, tight monetary policy conditions in key advanced economies were maintained in 2023, contributing to the continued strength of the US dollar in 2023 and early 2024. Other reserve currency movements have been mixed in real terms, with notable depreciations of the Chinese renminbi and the Japanese yen partly reflecting weaker market sentiment and diverging monetary policy, respectively. Emerging market and developing economies generally experienced less depreciation pressure in 2023 than in the previous year, as monetary policy divergence subsided. Net capital inflows to emerging market and developing economies recovered slightly from the lows experienced in 2022 but remained negative in 2023. This is the result of various push (global) and pull (local) factors, including tight monetary policy in advanced economies, geopolitical uncertainties, compressed interest rate differentials, and subdued growth prospects. These patterns in net flows mask a decline in both gross inflows and gross outflows in emerging market and developing economies.

The global current account balance—the cross-country sum of absolute values of current account—narrowed significantly in 2023, moderating toward pre-COVID levels after a sustained expansion during 2020–22. The narrowing reflects a reversal of large current account surpluses in commodity exporting countries. Continued recovery from the COVID-19 pandemic and a slowdown in global trade in goods during 2023 also contributed.

The excess global current account balance—the sum of absolute values of current account surpluses and deficits in excess of their norms—has remained broadly unchanged relative to 2022, as a decrease in excess balances in several large economies was offset by increases in smaller economies. While part of current account surpluses and deficits reflects differences in fundamentals and desirable medium-term policies, excess global current account balances could exacerbate the risks of sudden stops and disruptive currency and capital flow movements, while contributing to increasing geoeconomic fragmentation and raising trade barriers. Narrowing excess global current account balances would reduce the risk of financial crisis, improve resource allocation, and help preserve support for multilateralism.

Over the medium term, the global current account balance is projected to continue narrowing, as current account deficit countries embark on fiscal consolidation and commodity prices moderate. Risks to the outlook are sizable and tilted toward a widening global balance. They include a divergence from projected medium-term fiscal consolidation plans, increasing geopolitical fragmentation, global spillovers from a prolonged real estate slowdown in China, and renewed commodity price spikes amid regional conflicts.

Policy efforts, in both excess surplus and deficit economies, are required to promote external rebalancing. Where excess current account deficits in 2023 partly reflected the need to reduce high public debt levels, policies in the near and medium term should focus on a credible fiscal consolidation. Economies with competitiveness challenges would also benefit from structural reforms, including to address bottlenecks in the labor market. In economies where excess current account surpluses persist, the priority should be on policies aimed at promoting investment and diminishing excess saving, including through public saving. Reforms to expand social safety nets and reduce informality would also help.

Coordinated policy efforts and multilateral cooperation will help deal with complex challenges facing the world economy and preserve the benefits of multilateralism, including by maintaining stable and transparent trade policies. Following the completion of the 16th General Review of Quota, the provision of consent by member countries to their respective quota increases would ensure that the IMF is adequately resourced to serve as an anchor of the global financial safety net.

IMF EXECUTIVE BOARD DISCUSSION SUMMARY

The following remarks were made by the Acting Chair at the conclusion of the Executive Board's discussion of the External Sector Report *on July 1, 2024.*

Executive Directors broadly agreed with the findings of the 2024 External Sector Report (ESR) and its policy recommendations. They welcomed that global current account balances narrowed significantly in 2023 after a sustained expansion during 2020–22. Nonetheless, Directors observed that the excess global current account balance has remained broadly unchanged relative to 2022, as a decrease in excess balances in several large economies was offset by increases in smaller economies. Concurrently, global cross-border holdings of financial assets and liabilities remained at historically high levels in 2023, with net foreign creditor and debtor positions widening, largely owing to valuation changes.

Directors noted that lower commodity prices, and the related reversal of large current account surpluses in commodity exporting countries, significantly contributed to the narrowing of global balances in 2023. Other factors included the continued recovery of international travel from the pandemic disruptions, as well as a slowdown in global trade in goods. Directors observed that tight monetary policy conditions in key advanced economies were maintained, contributing to continued strength of the US dollar and more stable currency markets in 2023 and early 2024, relative to 2022. Net capital inflows to emerging market and developing economies, while recovering slightly, remained negative in 2023.

Directors generally welcomed the analysis of the external sector implications of energy price swings for the global and individual economies, differentiating among drivers behind the price swings, as well as accounting for countries' energy importer or exporter status. They concurred that, while energy-importing countries bear the brunt of negative oil supply shocks, these countries can resort to several policy tools to mitigate the adverse effects, including greater exchange rate flexibility, lower government debt, and having stronger external buffers. Moving forward, Directors called for further analysis of the two newly emerging challenges arising from the clean energy transition and the possible shift in the now positive correlation between the oil price and the US dollar.

Directors noted that global current account balances are expected to continue narrowing over the medium term, underpinned by a projected sizable medium-term fiscal consolidation in current account deficit economies and continued moderation in commodity prices. They cautioned that significant risks surround this outlook, including a divergence from projected medium-term fiscal consolidation plans, increasing geopolitical fragmentation, or renewed commodity price spikes amid regional conflicts.

Directors reiterated that excess global current account balances could exacerbate the risks of sudden stops and disruptive currency and capital flow movements, while possibly contributing to increasing geoeconomic fragmentation and raising trade barriers. They consequently encouraged both excess surplus and deficit economies to take steps to promote external rebalancing, in order to reduce the risk of financial crisis, improve resource allocation, and help preserve support for multilateralism.

Directors underscored that policies to promote external rebalancing differ with positions and needs of individual economies. They considered that in economies in which excess current account deficits partly reflect the need to reduce high public debt levels, policies should focus on a credible and growth-friendly fiscal consolidation. Directors stressed that economies with lingering competitiveness challenges would also benefit from structural reforms, including to address bottlenecks in the labor market. In economies where excess current account surpluses persist, prioritizing policies aimed at promoting investment and diminishing excess savings, including through expanded social safety nets or higher fiscal deficits—where feasible—is warranted. Directors also emphasized that economies

with external positions broadly in line with fundamentals should continue to implement policies to address domestic imbalances and prevent excessive external imbalances; structural reforms to boost productivity would also improve competitiveness while facilitating the green and digital transition. Directors also noted that careful calibration of monetary easing and clear communication will be crucial to guard against unwarranted financial and capital market volatility and disruptive exchange market pressures. The policy responses to potentially disruptive capital flow movements should continue to be guided by the Integrated Policy Framework and the revised Institutional View on Capital Flows, depending on country circumstances. Strong macroeconomic policies and fundamentals continue to remain the first line of defense to protect against excessive capital volatility.

Directors underscored that coordinated policy efforts and multilateral cooperation will be key to deal with complex challenges facing the world economy and preserve the benefits of multilateralism. This includes maintaining stable and transparent trade policies, ensuring the responsible use of industrial policies and of potentially disruptive new technologies such as artificial intelligence, and mitigating the effects of climate change. Directors stressed that ensuring an adequate global financial safety net, with the Fund at its core, remains critical. Timely consent by members to their respective quota increases under the 16th General Review of Quotas is crucial in this regard.

Directors reiterated the need to ensure transparency, consistency, and evenhandedness of external assessments across countries. They stressed the importance of continued caution in interpreting and communicating the assessment results. Directors encouraged further exploration of possible improvements to enhance the EBA methodologies, and continued efforts to ensure consistency across work streams.

CHAPTER 1

EXTERNAL POSITIONS AND POLICIES

Overview and Context

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

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

The authors of this chapter are Cian Allen, Rudolfs Bems (lead), Giovanni Ganelli, and Racha Moussa, in collaboration with Benjamin Carton and Dirk Muir, and under the guidance of Jaewoo Lee. Mustafa Oguz Caylan, Santiago Gomez, David Guio Rodriguez, Jair Rodriguez, Xiaohan Shao, and Brian Hyunjo Shin provided research support, and Jane Haizel provided editorial assistance.

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

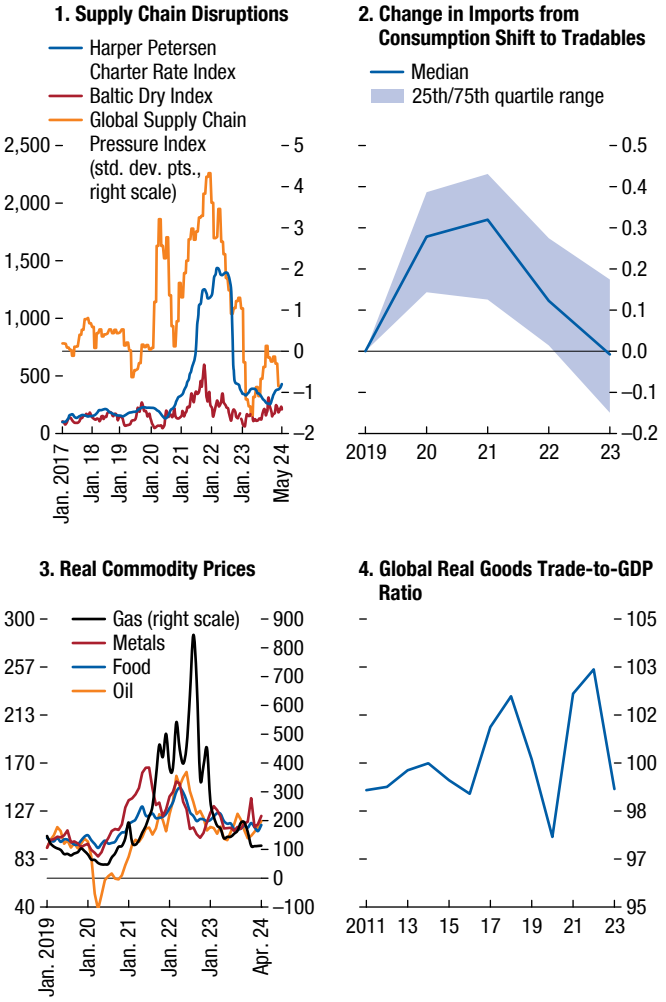
Recent Developments: Trade and Current Account Balances

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

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

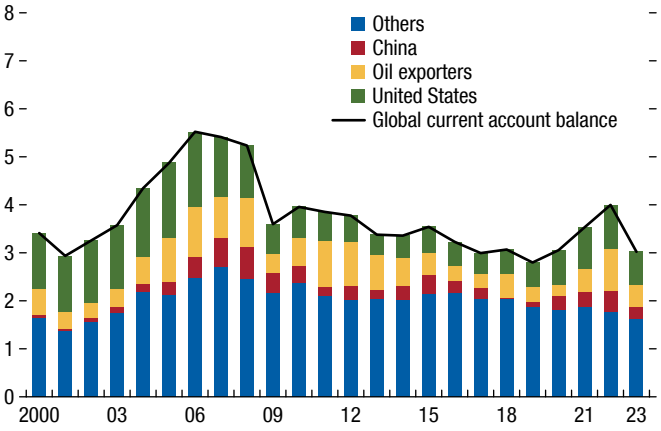
Global trade in goods slowed in 2023. Despite resilience in global economic activity, the volume of imports and exports declined globally by 0.9 percent, with global trade openness, measured as real goods trade-to-GDP ratio, falling sharply in 2023 (Figure 1.1, panel 4). The slowdown has equally affected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

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



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

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



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

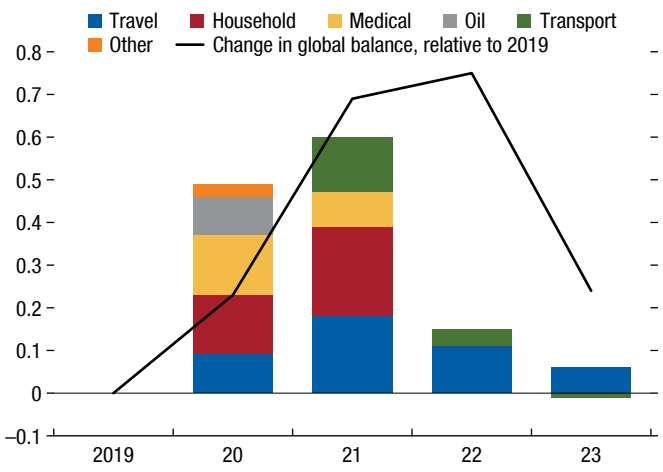
April 2024 *World Economic Outlook*; Gopinath and others 2024). Most recent data for early 2024 indicate that a limited recovery is under way.

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

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

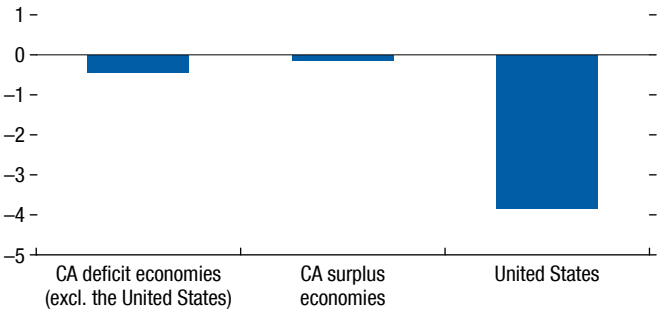
[2]Global current account balance is defined as the sum of absolute current account balances across all countries. This indicator is a convenient summary measure of the global configuration of current account balances but need not indicate an excess global current account balance.

Figure 1.3. Contributions of COVID-19 Factors to the Global Balance for ESR Sample Countries, 2020–23
(Percent of world GDP)



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

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



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

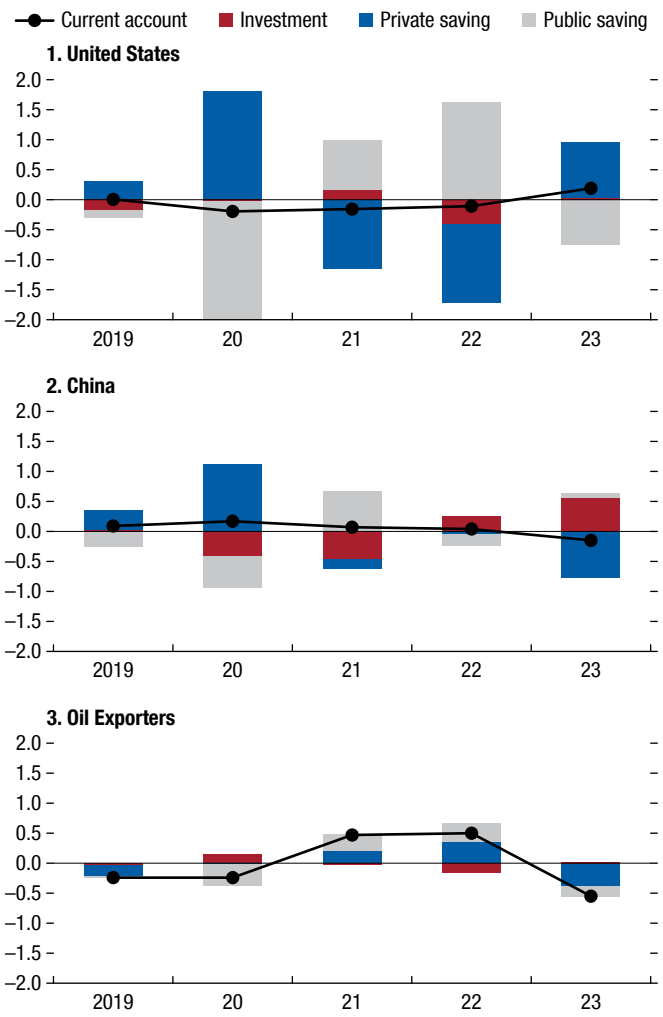
international travel and the rotation of consumption out of durables and back into services since 2022 have narrowed the global balance.[3] Other COVID-19 factors, such as elevated transportation costs and trade in medical goods, tended to similarly widen the global balance temporarily during the pandemic.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

A significant share of the narrowing of the global balance in 2023 can be linked to a reversal of peak current account surpluses in commodity-exporting countries in 2022 (see contribution of oil exporters in Figure 1.2). Commodity exporters as a group reduced current account surpluses by 0.55 percent of world GDP, as saving declined to buffer the economic impact of declining commodity prices (see also Figure 1.5, panel 3). The terms-of-trade shifts implied by the commodity price adjustments have also significantly impacted external balances for commodity importers. Most notably, the outsized fall in gas prices in Europe in 2023 (see Box 2.1 in Chapter 2) decreased energy import bills and increased trade balances for the region's gas importers.

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

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

Figure 1.5. Decomposition of Changes in Current Account, 2019–23
(Percent of World GDP)



Sources: IMF, April 2024 *World Economic Outlook*; and IMF staff calculations.
Note: Investment is displayed as a negative value. The private saving rate is calculated as the residual from the current account balance, investment, and the public saving rate.

Recent Developments: Currencies, Financial Flows, Balance Sheets

Exchange Rates

Following a rapid US dollar appreciation in 2022, currency markets were more stable in 2023 and early 2024. Exchange rate movements in 2022 were dominated by the rapid monetary tightening in the United States, relative to other economies, which drove a sharp increase in the value of the US dollar. In 2023, tight monetary policy conditions prevailed globally but monetary policy divergence subsided, with additional tightening in major advanced economies staying limited.

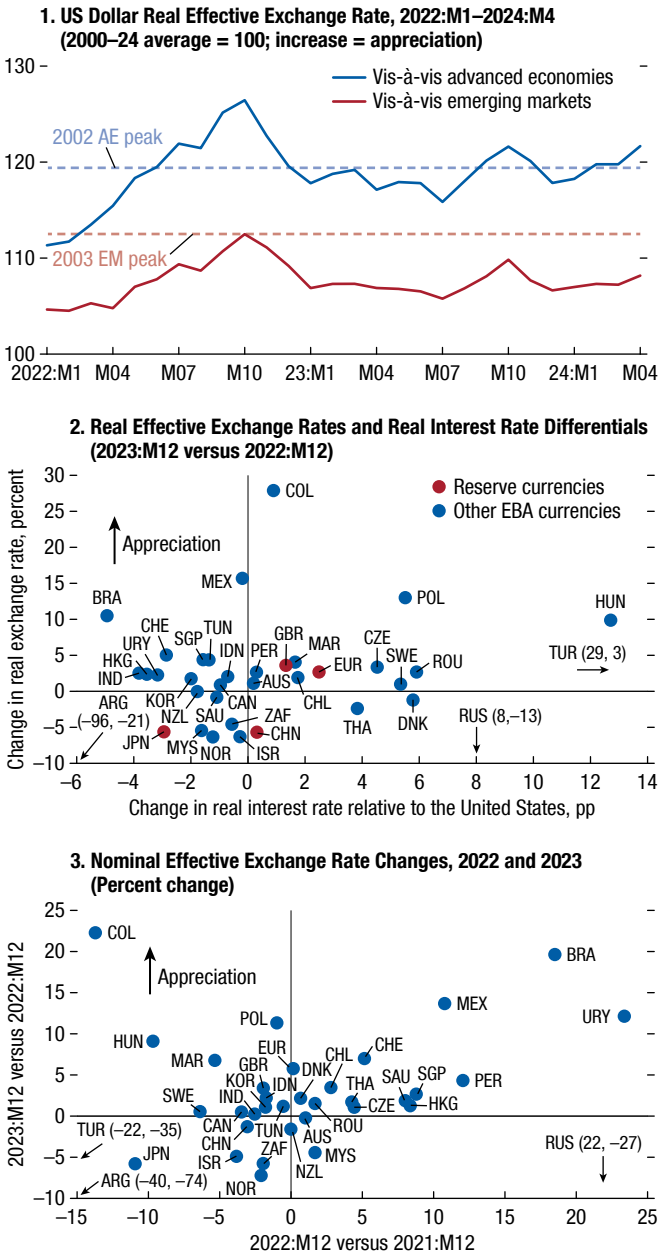
The strong US dollar persisted in 2023, with the currency remaining close to its post-2000 peak (Figure 1.6, panel 1), in part reflecting continued tight monetary policy and the relative resilience of the US economy in 2023. In the fourth quarter of 2023, the US dollar depreciated slightly, reflecting expectations of the beginning of the Federal Reserve cutting cycle. However, the more recent expectations of higher-for-longer policy rates in the United States have reversed this depreciation in early 2024.

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

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

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

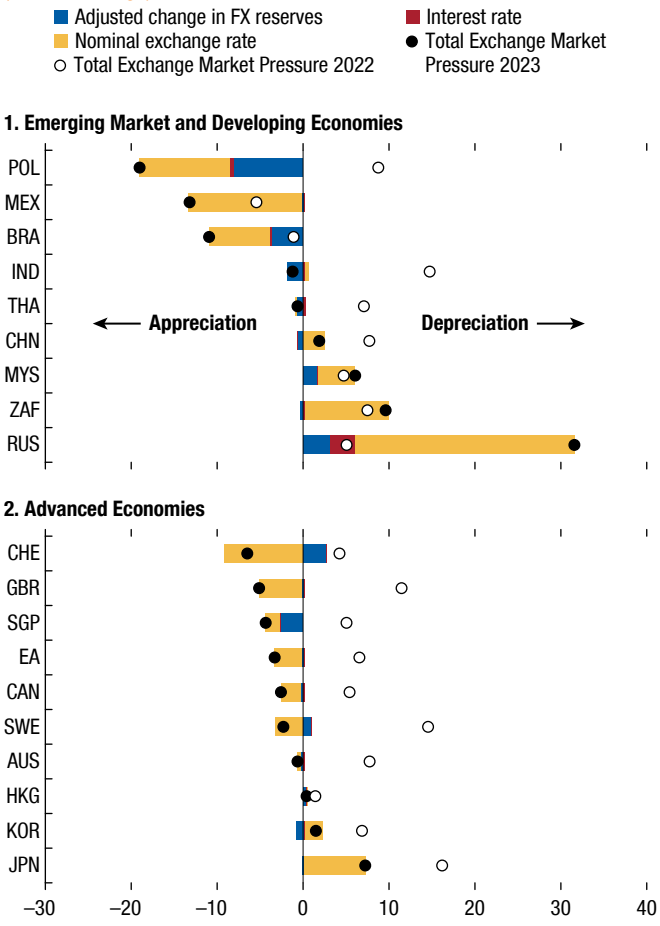
Figure 1.6. Currency Movements



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

Figure 1.7. Exchange Market Pressure and Its Components, 2023

(Percent change)



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

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

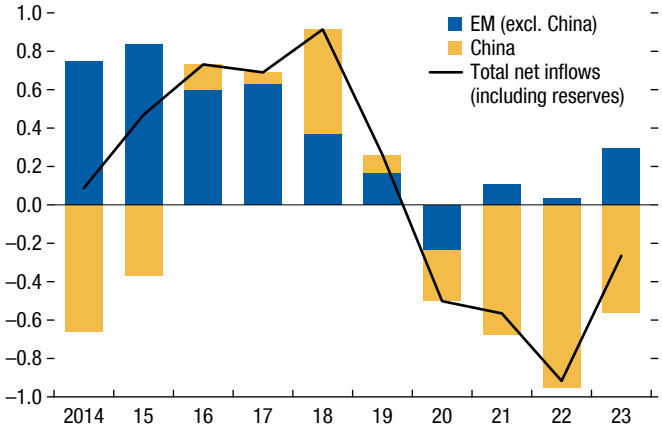
External pressure was considerably weaker and less one-sided in 2023, compared to 2022, as monetary policy divergence subsided, with tight conditions persisting globally. Twelve External Balance Assessment (EBA) economies (including Poland, Mexico and Brazil) faced appreciating pressure in 2023—a significant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

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

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

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

Figure 1.8. Aggregate Net Capital Inflows in Emerging Market and Developing Economies, 2014–23
(Percent of group GDP)



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

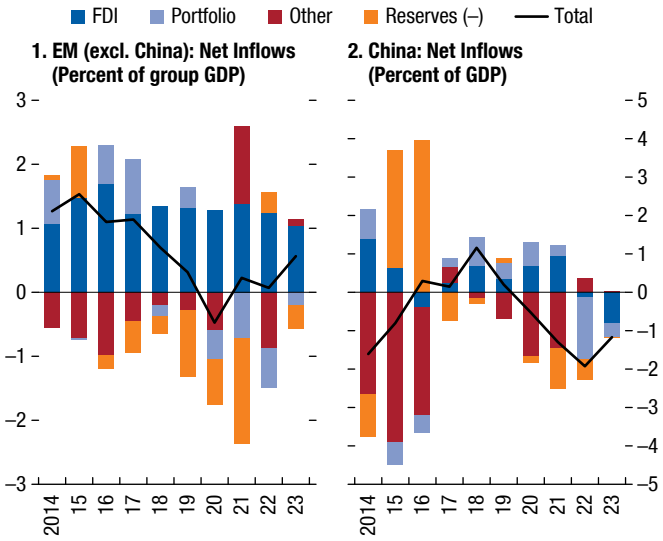
Global Financial Flows

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

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

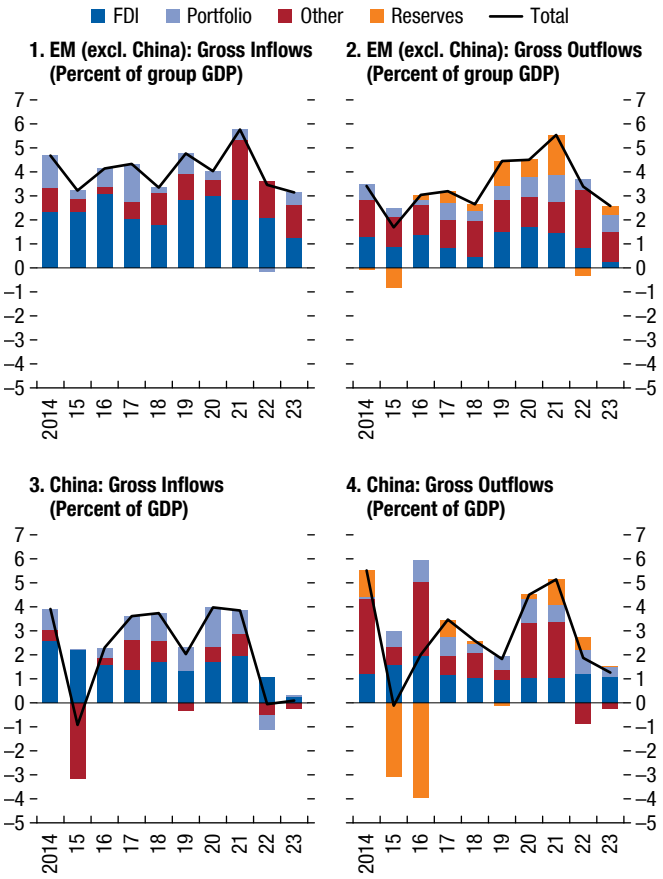
[6]The overall level of net capital inflows into EMDEs varies across country samples. The focus in this section is on economies covered in the *External Sector Report* and the EBA regression model, subject to data availability.

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



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

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



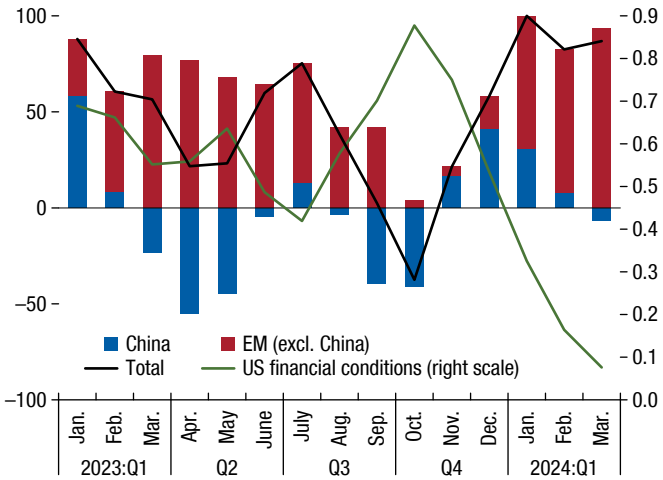
Sources: Haver Analytics; IMF, International Financial Statistics database; and IMF staff calculations.
Note: Sample includes economies covered in the *External Sector Report* and the External Balance Assessment regression model, subject to data availability. Derivatives are excluded. EM = emerging markets;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

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

- In China, gross inflows have declined since 2021, with gross other investment inflows staying negative in 2022–23. A sharp decline in gross FDI inflows stands out in historical context. On the gross outflow side, China—the largest overseas investor among emerging markets—saw comparable or even larger reductions during 2023 for portfolio flows and reserves, contributing to the relative recovery in overall net inflows (see Figure 1.9, panel 2). In contrast, China's gross FDI outflows have remained broadly stable and in line with historical trends, resulting in large negative net inflows for this capital flow component.
- In other emerging markets in 2023, gross capital inflows and outflows declined, with a more pronounced decline in the latter increasing the net flows (Figure 1.9, panel 1). The relative resilience of net FDI inflows is accounted for by a comparable decline in both gross FDI inflows and gross FDI outflows. Gross portfolio inflows and outflows increased in 2023. Other gross outflows moderated relative to 2022, contributing to a recovery of net other capital inflows. However, there was significant heterogeneity across large emerging markets, with some gross inflow destinations recording sizable increases (both for FDI and non-FDI inflows) relative to prepandemic trends (see Box 1.1).

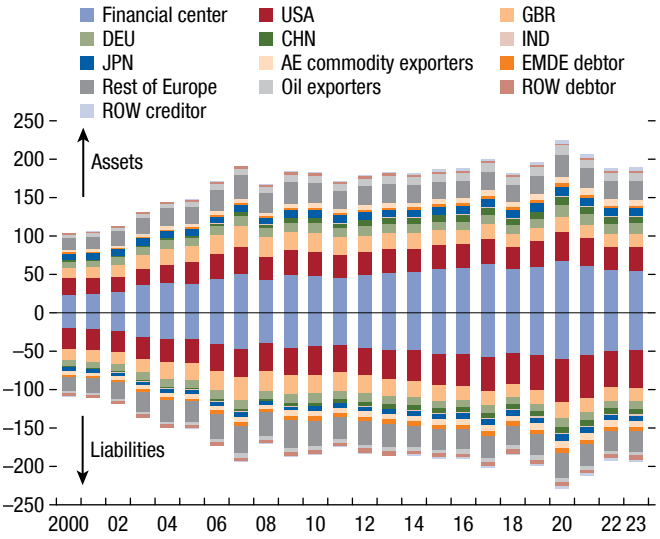
Observed shifts in capital flows during 2023 can be attributed to push (global) and pull (local) factors. Among global factors, continued disinflation efforts and tight monetary policy in advanced economies set a generally constraining capital flow environment, as evidenced by reduced gross capital inflows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

Figure 1.11. High-Frequency Gross Portfolio Inflows to Emerging Market and Developing Economies, January 2023–March 2024
(Three-month moving sum, billions of US dollars)



Sources: Ajello and others (2023); Institute of International Finance; and IMF staff calculations.
Note: US financial conditions measured by the Financial Conditions Impulse on Growth index, with positive values indicate financial tightening. Gross portfolio inflows are measure by nonresident portfolio inflows data from the International Institute of Finance, with positive values indicting an inflow. EM = emerging market economies.

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



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

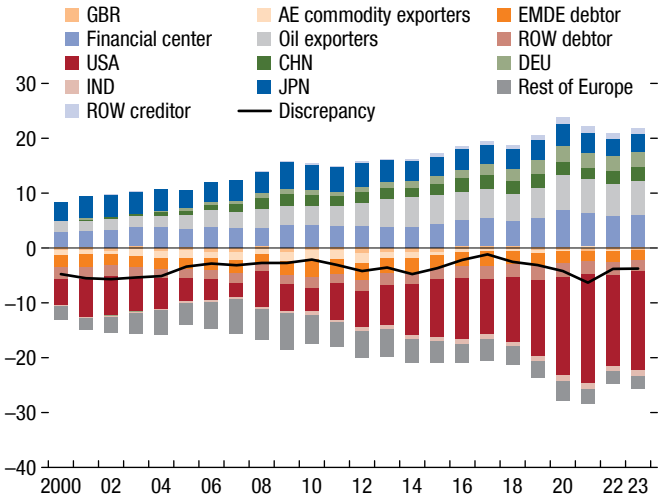
High-frequency gross portfolio inflows, a subset of the financial account, show an inflow to emerging markets other than China in the first few months of 2024, a continuation of the 2023 trend (Figure 1.11). China has seen a decline in inflows in early 2024, partly reversing the recovery in the fourth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

Global Balance Sheets and the Global Financial Safety Net

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

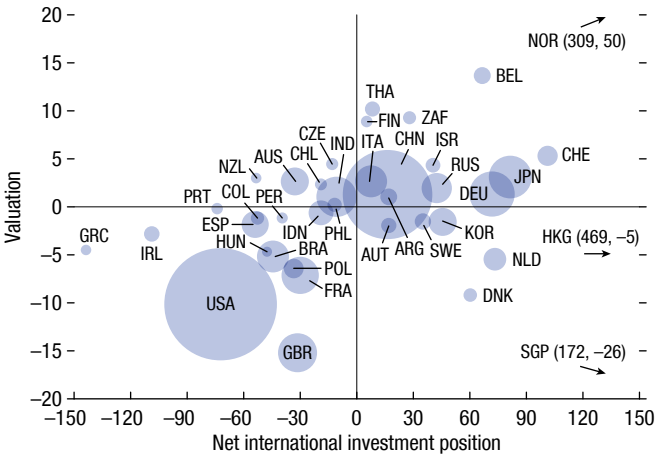
Despite the narrowing in the global current account balance, net foreign creditor and debtor positions are estimated to have expanded in 2023, with broad-based increases in positions across different country groups (Figure 1.13). The largest debtor economy remains the United States, whose net international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

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



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

Figure 1.14. Valuation Changes and Net International Investment Position, 2023
(Percent of GDP)



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

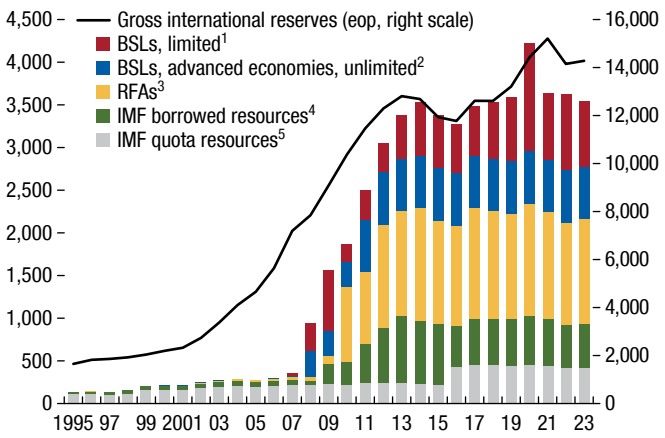
Financial centers have a large net creditor position as a group, around 6 percent of global GDP.

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

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

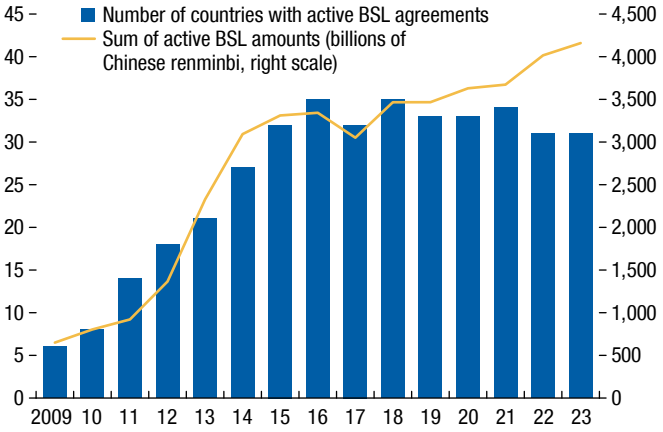
[7]See Aizenman, Ito, and Pasricha (2022) and Goldberg and Ravazzolo (2022) for more details.

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



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

Figure 1.16. Bilateral Central Bank Swap Line Agreements with the People's Bank of China



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

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

Assessment of External Positions in 2023

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

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

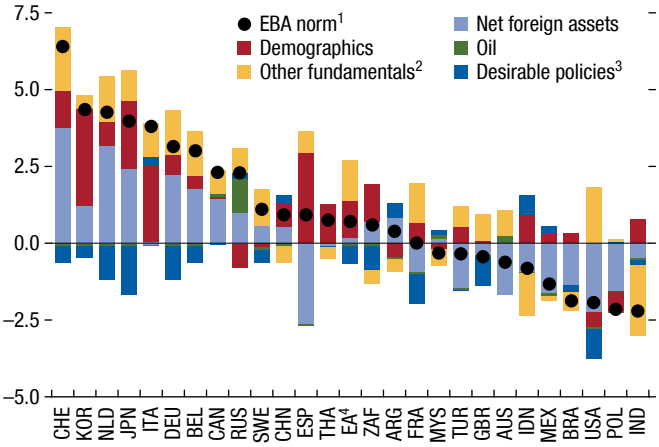
Methodology

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

[9]The EBA current account norms reflect fundamental features affecting economies' saving and investment decisions. Advanced economies with higher incomes, older populations, and lower growth prospects tend to have positive norms, while most EMDEs, which tend to be younger and are expected to import capital to invest and exploit their higher growth potential, have negative norms. Norms also depend on desirable medium-term policies—that is, policies deemed appropriate by IMF staff once cyclical factors are accounted for. For instance, economies for which IMF staff recommend a relatively loose fiscal policy will have lower norms than those evaluated as needing fiscal consolidation.

[10]See Allen and others (2023) for details on the current vintage of the EBA methodology. A detailed description of the external assessment process can also be found in an IMF blog entry (Obstfeld 2017).

Figure 1.17 External Balance Assessment Current Account Norms, 2023
(Percent of GDP)



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

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

Assessment Results for 2023

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

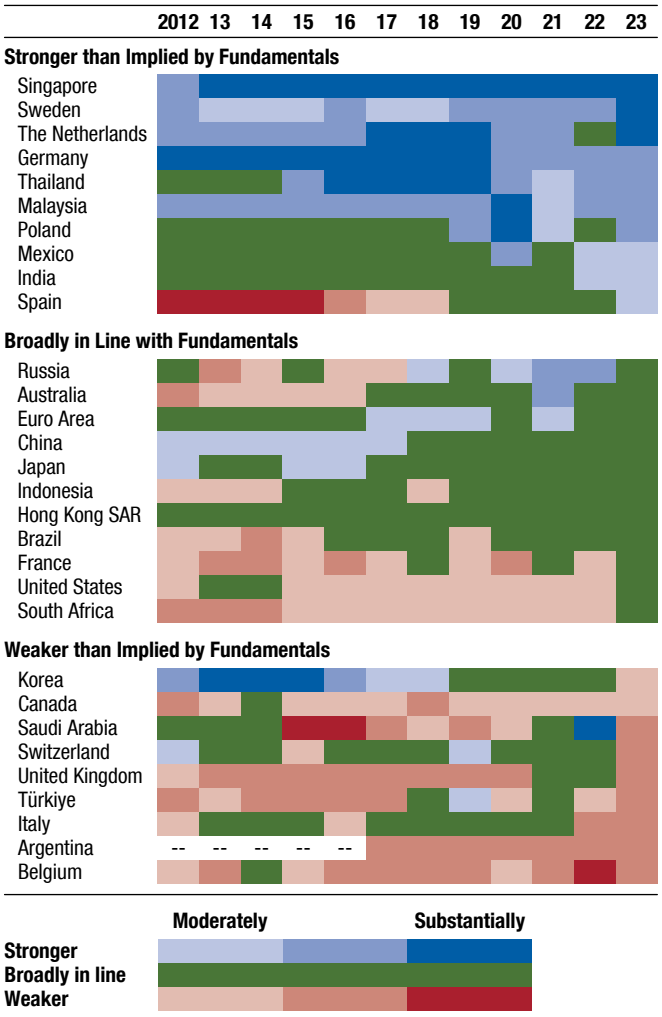
- *Moderately stronger, stronger, or substantially stronger than the level consistent with medium-term fundamentals and desirable policies:* The 10 economies with such positions were Germany, India, Malaysia, Mexico, Singapore, Sweden, and Thailand, along with The Netherlands, Poland, and Spain, which entered the category in 2023.
- *Moderately weaker, weaker, or substantially weaker than the level consistent with medium-term fundamentals and desirable policies:* The nine economies with such positions were Argentina, Belgium, Canada, Italy, and Türkiye, along with Korea, Saudi Arabia, Switzerland, and the United Kingdom, which entered the category in 2023.
- *Broadly in line with the level consistent with medium-term fundamentals and desirable policies:* The 11 economies with such positions were Australia, Brazil, China, the euro area, Hong Kong Special Administrative Region, Indonesia, and Japan, along with France, Russia, South Africa, and the United States, which entered this category in 2023.

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

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

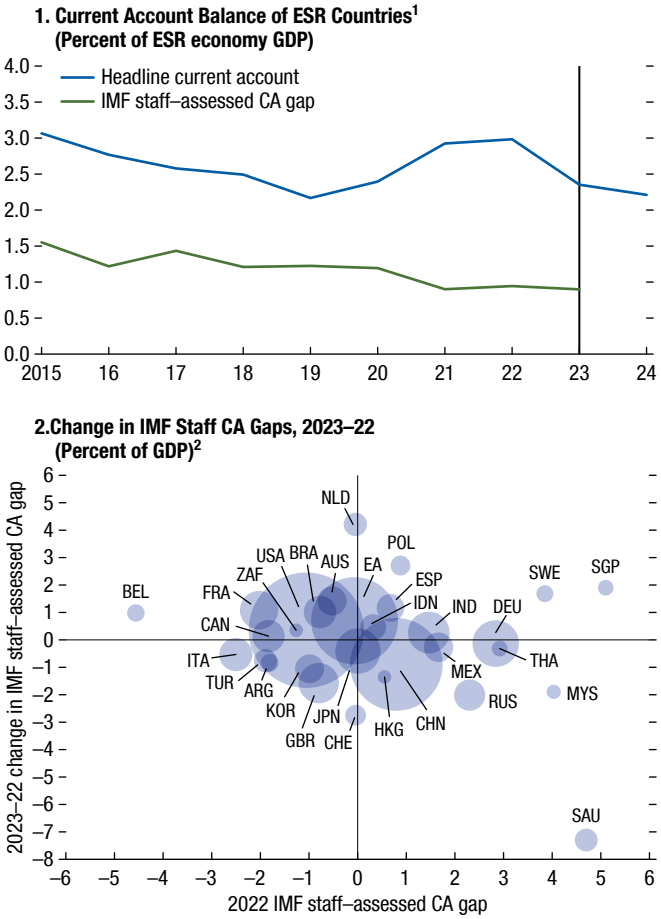
[11]IMF staff–assessed current account gaps are constructed once cyclical and short-term considerations are factored out and incorporate staff adjustments for temporary factors; they therefore are less volatile.

Figure 1.18. Evolution of External Sector Assessments, 2012–23



Source: IMF staff assessments.
Note: Grouping and ordering are based on economies' excess imbalance during 2023. Coverage of Argentina in the *External Sector Report* started in 2018.

Figure 1.19. Evolution of Headline Current Account Balance and IMF Staff Gaps



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

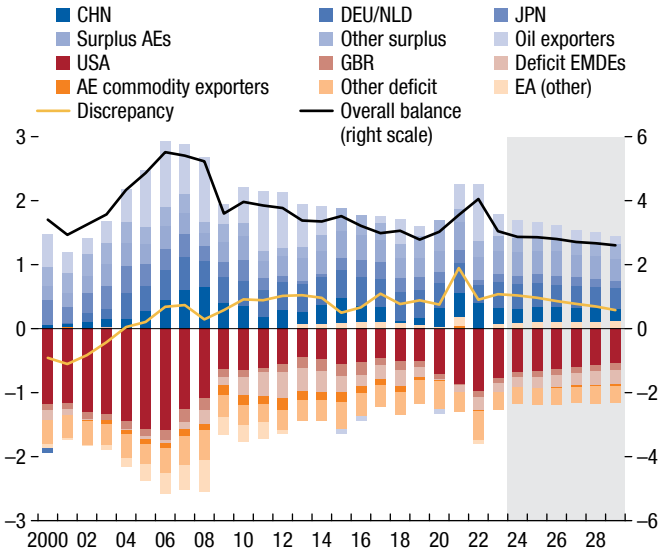
Most of the excess balance in 2023 (measured by the sum of absolute values of IMF staff–assessed current account gaps) pertained to advanced economies. Among economies in the "weaker-than-warranted" categories, the largest contributors to lower-than-warranted current account balances as a share of ESR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

Outlook and Risks

Outlook

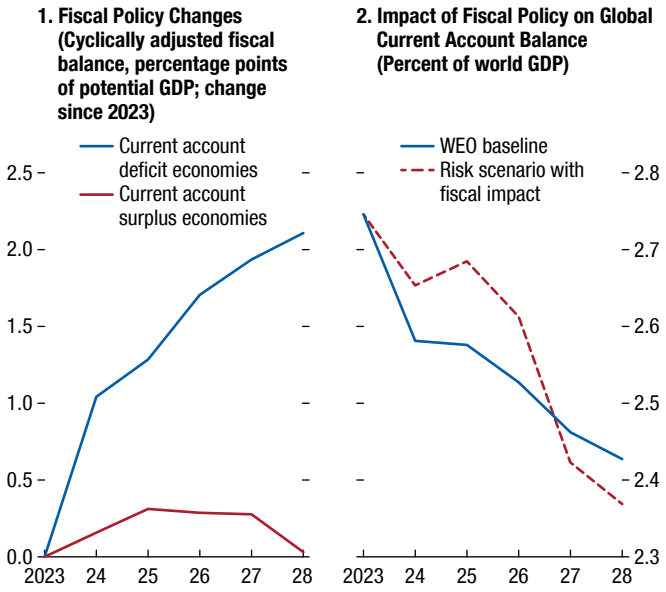
The global balance is projected to narrow further over the medium term, with some heterogeneity across countries (Figure 1.20, Table 1.1). Current account surpluses in China and oil exporters are projected to continue to decline as imports of services continue to grow in China and as energy prices continue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

Figure 1.20. Global Current Account Balance, 2000–29
(Percent of world GDP)



Sources: IMF, International Financial Statistics database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; EA = euro area; EMDEs = emerging market and developing economies.

Figure 1.21. Fiscal Policy and Global Current Account Balance, 2024–28



Sources: IMF, World Economic Outlook (WEO) database; and IMF staff estimates (Group of Twenty model simulations).

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

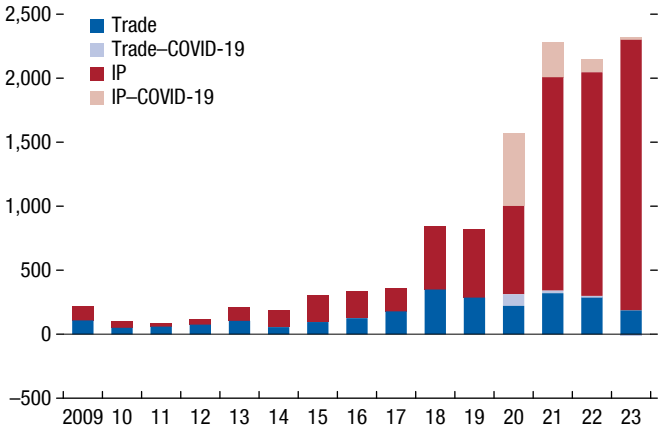
Creditor and debtor stock positions are projected to continue to expand moderately over the medium term. As projections of exchange rates and asset prices are highly uncertain, global stock balances could deviate substantially from baseline projections. Nevertheless, the debtor position of European economies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

Risks Surrounding the Outlook

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

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

Figure 1.22. Number of Net Harmful Trade Restrictions by Policy Instrument, 2009–23



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

economies are projected to embark on a gradual fiscal consolidation of 2 percent of GDP over the medium-term horizon (Figure 1.21, panel 1). No systematic consolidation relative to 2023 is projected for current account surplus countries. However, implementing the consolidation could prove challenging, for example, due to elections or political pressure to increase subsidies and reduce taxes (see Chapter 1 of the April 2024 *World Economic Outlook*). To examine such risks, an alternative scenario assumes that fiscal consolidation envisaged for 2024–25 is postponed until 2026 (see Box 1.2 of the April 2024 *World Economic Outlook* for further details).[12] Under this risk scenario, analyzed using the IMF's Group of Twenty model, current account deficit countries run higher deficits in fiscal and current accounts initially and then engage in sharper fiscal consolidation after 2026 than under the baseline. As a result, the global current account balance expands relative to the baseline until 2026 and thereafter shrinks faster and lower than the baseline (Figure 1.21, panel 2). Beyond the examined risk scenario, delayed fiscal consolidation could magnify fiscal vulnerabilities by increasing sovereign spreads and public debt, more so in countries with current account deficits. Heightened fiscal vulnerabilities, in turn, increase the risk of external stress events, which have been shown to lead to larger output losses and sharper current account adjustments (see Chapter 2 and Box 2.1 in the 2020 *External Sector Report*). Given the global scale of the projected fiscal consolidation, a widespread delay could also deteriorate global risk sentiment and elevate global financial stress, which can further heighten economic costs to debtor as well as creditor countries, with the latter experiencing substantial valuation losses.

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

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

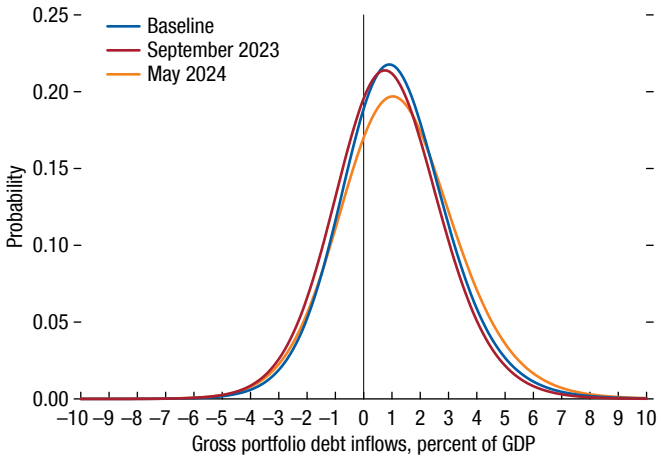
[13]See also Box 1.3 in the 2023 *External Sector Report* for a related analysis of trade costs and current account imbalances.

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

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

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

Figure 1.23. Capital Flows at Risk for Emerging Markets
(Conditional probability distribution)



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

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

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

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

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

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

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

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

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

Policy Priorities for Promoting External Rebalancing

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

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

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

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

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

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

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

- *Economies with weaker-than-warranted external positions* should focus on policies that boost saving and competitiveness. Where the assessment partly reflects the need to reduce high public debt levels (as in Belgium and Italy), policies in the near and medium terms should focus on a credible fiscal consolidation, which would also create space to support green and digital transformations. Fiscal consolidation would also help reduce vulnerabilities in economies with low reserves and elevated gross external financing needs (as in Türkiye) and should be implemented in a way that protects critical infrastructure investment and well-targeted social spending to help tackle poverty and inequality (for example, in Argentina). Countries with competitiveness challenges also need to address structural bottlenecks through labor market and other structural reforms to promote green, digital, and inclusive growth while boosting productivity.
- *Economies with stronger-than-warranted external positions* should prioritize policies aimed at promoting investment and diminishing excess saving to support external rebalancing while also pursuing domestic objectives. For example, in Germany, higher fiscal deficits than currently planned are likely to be required over the medium term to ensure adequate public investment in the green transition, digitalization, and transport infrastructure to achieve domestic climate, digital, and energy security goals, while also helping reduce the current account balance toward its norm. In Sweden, as inflation recedes, there is a need to increase private and public investment in the green transition and the health sector, thus lowering the external balance, helping the country meet its ambitious climate goals and prepare for demographic challenges. In some emerging markets (such as Malaysia, Mexico, and Thailand), reforms to tackle informality and expand social safety nets, including when appropriate through public health care, would encourage investment and—by supporting consumption—help reduce precautionary saving, thus also helping with external rebalancing.
- *Economies with external positions broadly in line with fundamentals* should continue to address domestic imbalances to prevent excessive external imbalances. Some economies (such as China) should address policy distortions, including through accelerating market-based structural reforms, shifting fiscal policy support toward strengthening social protection to reduce high household savings and rebalance toward private consumption, and gradually increasing exchange rate flexibility to help the economy better absorb external shocks. In the United States, fiscal consolidation over the medium term would broadly stabilize the public debt-to-GDP ratio and maintain an external position consistent with medium-term fundamentals and desirable policies. In economies with negative net international investment positions (such as Brazil), keeping current account balances in line with their norms will require efforts to raise national savings, which will also provide room for a sustainable expansion in investment. Reforms to boost productivity would also improve competitiveness while facilitating the green and digital transitions.

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

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

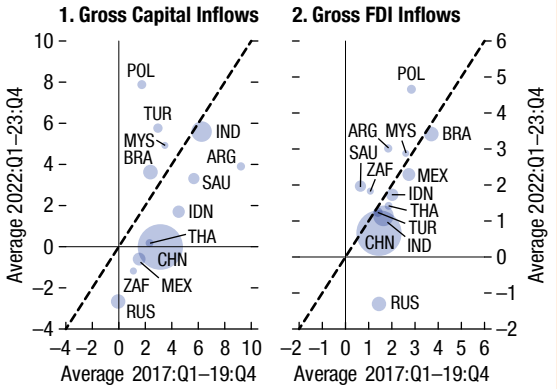
Relative to a 2017–19 baseline, gross capital inflows in emerging markets declined during 2022–23 for aggregate capital flows as well as foreign direct investment (FDI; Figure 1.1.1). However, these aggregate trends hide large cross-country variation. Some of the larger emerging markets, including China,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

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

This box was prepared by Cian Allen.

[1]Other potential explanations include varying policy frameworks, changes in medium-term expected GDP growth, or delayed postpandemic recoveries in some economies.

Figure 1.1.1. Gross Capital and FDI Inflows
(Percent of GDP)



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

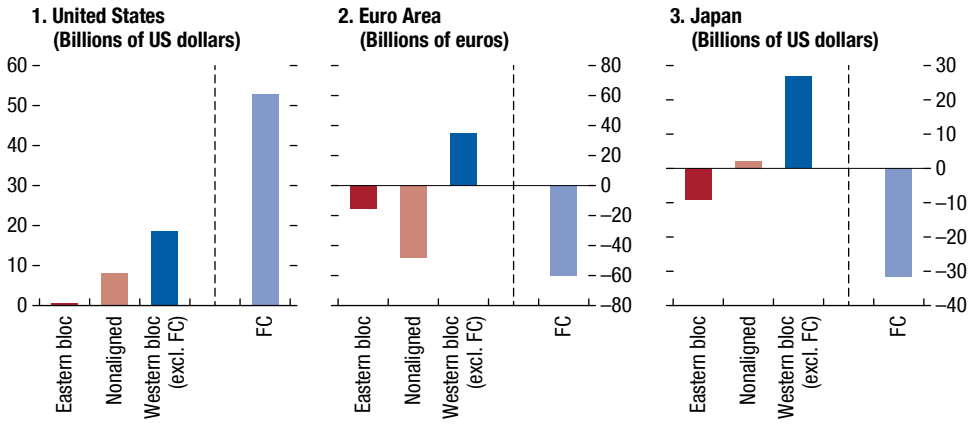
However, destination-based analysis of capital flows is severely hindered by the outsized role of financial centers in intermediating capital flows. The comprehensive nature of bilateral balance-of-payments data reveals that besides the geoeconomic trends for the destination of outward FDI flows, a significant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

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

Box 1.1 *(continued)*

Figure 1.1.2. Bilateral FDI Abroad in the Balance of Payments

(Change 2022–23 versus 2017–19)



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

Box 1.2. Geoeconomic Fragmentation and the Global Balance

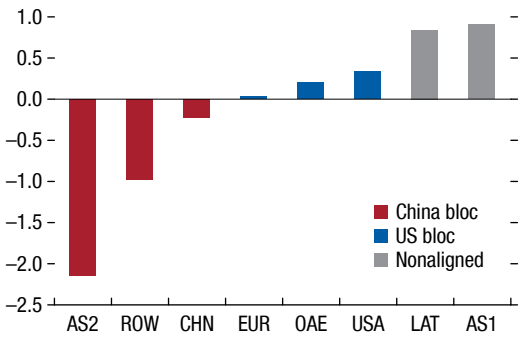
Geoeconomic fragmentation poses a risk to decades of trade and financial integration. This box uses the IMF's Global Integrated Monetary and Fiscal (GIMF) model[1] to analyze trade and financial fragmentation scenarios between hypothetical US and China blocs, focusing on implications for the global current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

Trade Fragmentation

Trade fragmentation is modeled as an increase in symmetric nontariff trade barriers (NTBs) between the US bloc and the China bloc. NTBs capture the fallout from fragmentation that is more general than direct trade restrictions, extending to industrial policies targeting national security, economic resilience, and de-risking of supply chains. The shock is calibrated as a permanent 50 percent increase in NTBs over 10 years. NTBs act as a negative productivity shock, reducing investment, trade volumes, and output globally, while simultaneously increasing the price of imported goods, including consumption, investment, and intermediate goods.

NTBs significantly impact medium-term current accounts across the blocs. If the two blocs were symmetric, reciprocal NTBs need not induce external sector adjustments. However, there are large structural asymmetries. Countries that are more open to trade and have major trading partners outside their blocs are disproportionately impacted by NTBs. The emerging Southeast Asia region is the most open to both the China bloc and the US bloc and more specialized in global value chain (GVC) goods. As fragmentation exacerbates (more than in other countries), import and consumption prices gradually increase and the real exchange rate appreciates, which, via the uncovered interest parity condition, temporarily lowers the region's real interest rate. Consequently, consumption declines less in the short to medium term (in anticipation of higher future price of consumption), reducing saving. In addition, the reduced output in the region's GVC sector lowers national income, which in the presence of rigidities in consumption induces a further decline in saving. On the investment side, any decline in volumes is largely compensated by the NTB-induced price increase, limiting the decline in investment rate. On balance, the current account decreases (Figure 1.2.1). Nonaligned countries are at the other end of the spectrum. They are only indirectly exposed to the NTB shock through input linkages, leading to a small decline in investment and income. In the absence of NTBs, their tradable goods become relatively abundant, leading to a real exchange rate depreciation in the short to medium term and a temporary increase in the real interest rate, which in turn increases saving and the current account. Current account responses for the model's other countries can be similarly explained through the asymmetric exposure to the NTBs. The United States runs a current account surplus because it is the least exposed to the NTBs across the two blocs, with prices increasing relatively less than in the emerging Southeast Asia region, its real exchange rate depreciating, its real interest rate rising temporarily, and saving increasing. China is less exposed than the emerging Southeast Asia region but more so than countries in the US bloc, leading to a moderate current account deficit.

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



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

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

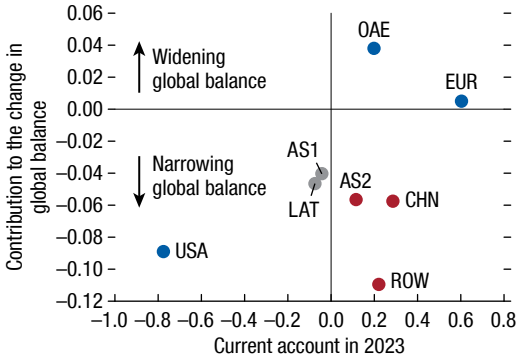
[1]See Kumhof and others (2010) and Anderson and others (2013) for details on the GIMF model.

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

Box 1.2 *(continued)*

Figure 1.2.2. Impact of Trade Fragmentation on Global Balance

(Percent of global GDP)



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

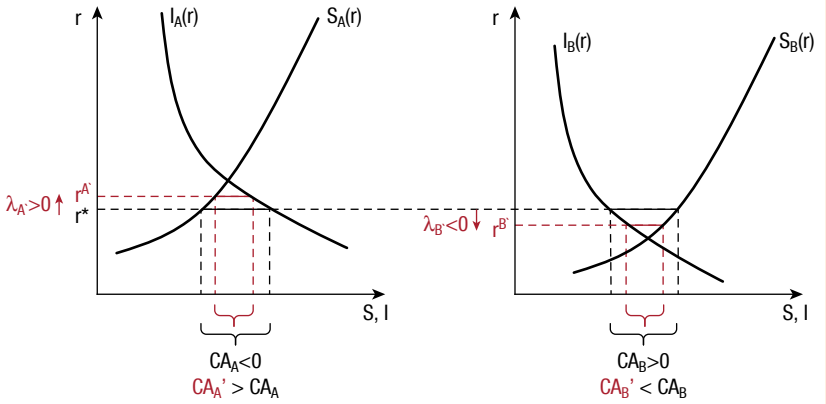
How is the global balance impacted?[3] All regions contribute to narrowing the global balance except for OAE and EUR in the US bloc, since they are surplus regions where the current account increases (Figure 1.2.2). Overall, quantitative results show that a 50 percent increase in NTBs decreases the global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

Financial Fragmentation

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

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

Figure 1.2.3. The Global Interest Rate after a Financial Fragmentation Shock



Source: Based on Metzler (1968).

Box 1.2 *(continued)*

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

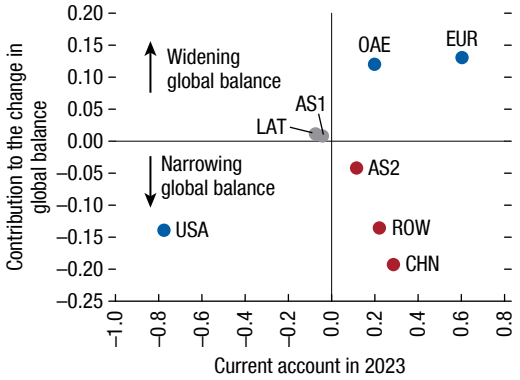
To quantify these potential outcomes and their impact on the global balance, financial fragmentation is modeled as a decline in the premium paid by the China bloc on US Treasuries by 50 basis points. Consistent with the illustrative Metzler diagram in Figure 1.2.3, the model simulation finds that financial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

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

To summarize, this box shows that fragmentation through trade and financial channels could narrow the global current account balance over the medium term. However, the magnitude of the narrowing and the countries that contribute depend on the nature of the fragmentation process, with trade restrictions compressing trade flows and reducing the dispersion of external balances globally, while financial fragmentation generates more heterogeneous external sector responses.

Figure 1.2.4. Impact of Financial Fragmentation on Global Balance

(Percent of global GDP)



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

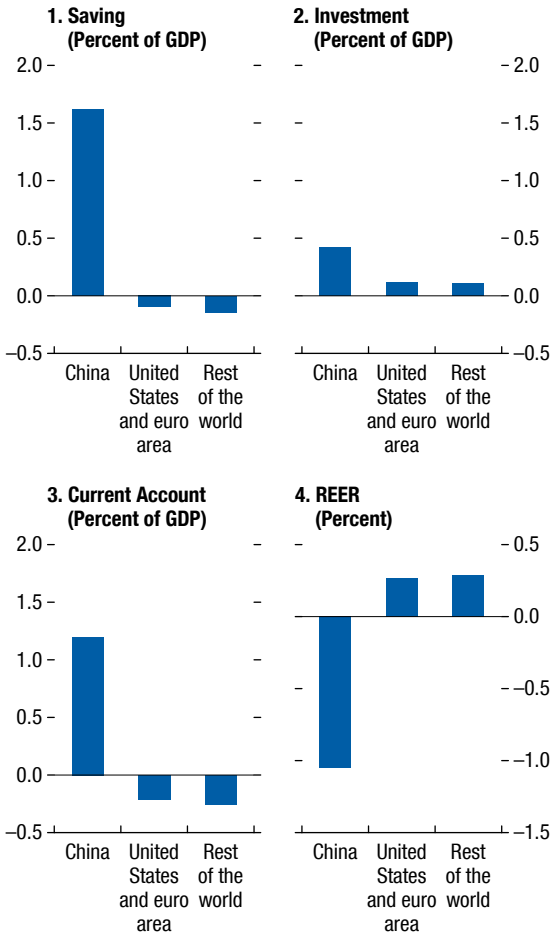
Box 1.3. China Real Estate Slowdown and the Global Balance

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

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

Given China's size, the scenario generates global spillovers. To accommodate the persistent surge in saving and China's current account surpluses, the medium-term real interest rate falls globally and China's real effective exchange rate depreciates. This relative price adjustment reflects income compression in China and facilitates external sector adjustment through expenditure switching at both import and export margins. The lower global interest rate increases investment and decreases saving in other regions, with corresponding declines in the current account (Figure 1.3.1).[3] The global current account balance widens, chiefly because of the widening current account surplus in China and the widening current account deficit in the United States (Figure 1.3.2). It is worth stressing that the surge in saving and the resulting global macroeconomic adjustment are distinct from the rise in goods' production, for example, in electric vehicle or solar energy sectors, due to increased subsidies and/or rapid productivity gains.

Figure 1.3.1. Medium-Term Impact of China Real Estate Slowdown on the External Sector
(Deviations from baseline)



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

This box was prepared by Rudolfs Bems and Dirk Muir.

[1]See Carton and Muir (forthcoming) for more details.

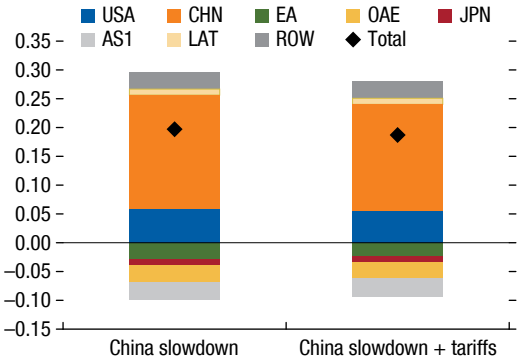
[2]The illustrative calibration for the three shocks is as follows: (i) the economic value of existing buildings is depreciated by 10 percent, (ii) the equity premium in the real estate sector increases by 4 percentage points for five years, and (iii) households' precautionary saving increases by 2 percent of GDP for five years. There are other possible configurations of the shocks, but here the focus is on the impacts from a significant domestic slowdown.

[3]Given limited variability across model regions, responses have been aggregated into China, the euro area and the United States as a region, and the rest of the world.

Box 1.3 *(continued)*

Figure 1.3.2. Medium-Term Impact on Global Balance

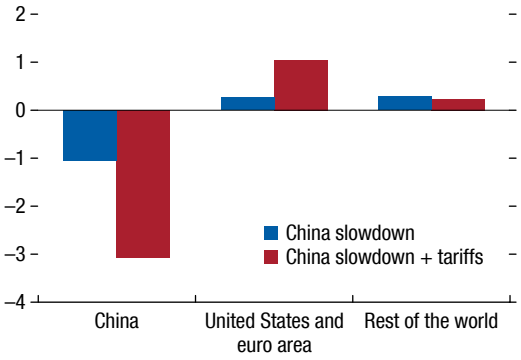
(Deviations from baseline, percent of world GDP)



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

Figure 1.3.3. Real Effective Exchange Rate Response to China Real Estate Slowdown Scenarios

(Percent deviation from baseline)



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sources: IMF, *International Financial Statistics*; IMF, April 2024 *World Economic Outlook*; US Bureau of Economic Analysis; and IMF staff assessments.
Note: ". . ." indicates that data are not available or not applicable. CA = current account; Cycl. Adj. = cyclically adjusted; NFA = net foreign assets; REER = real effective exchange rate; SAR = Special Administrative Region; SE = standard error.
[1]The IMF staff–assessed euro area CA gap is calculated as the GDP-weighted average of IMF staff–assessed CA gaps for the 11 largest euro area economies.

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

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

Source: IMF staff estimates.

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

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

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

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

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

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

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

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

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

Sources: IMF, Information Notice System; and IMF staff estimates.
Note: ". . ." indicates that data are not available or not applicable; CA = current account; EBA = External Balance Assessment; REER = real effective exchange rate.
[1]Refers to the midpoint of the IMF staff–assessed REER gap.
[2]Implied REER gap = –(IMF staff–assessed CA gap/CA-to-REER elasticity).
[3]CA-to-REER semielasticity used by IMF country teams.
[4]GDP-weighted average sum of IMF staff–assessed REER gaps.

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

(Percent of GDP)

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

Source: IMF staff estimates.

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

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

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

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

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

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

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

Annex Table 1.1.6 *(continued)*

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

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

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CHAPTER 2

NAVIGATING THE TIDES OF COMMODITY PRICES

Commodity prices are subject to large and recurrent volatility. This chapter explores the external sector implications of energy price swings for the global economy and individual countries, differentiating among drivers behind the price swings as well as accounting for countries' energy importer or exporter status. Energy-importing countries bear the brunt of negative oil supply shocks. Nonetheless, they can resort to several policy tools to mitigate the adverse effects. Two newly emerging challenges arise from the clean energy transition and the possible shift in the correlation between the oil price and the US dollar.

Introduction

Commodity prices are one of the most volatile. Since 2000, real aggregate commodity prices have undergone three episodes of continuous rising by more than 30 percent.[1] Most recently, real commodity prices rose by about 150 percent between April 2020 and August 2022, led by a fivefold increase in the average price of energy commodities (oil, natural gas, coal).[2] This surge in energy prices was driven by the robust post-pandemic recovery and disruptions caused by Russia's invasion of Ukraine.

Commodity price swings carry broad implications for the global economy. Commodities, most notably energy commodities, account for a significant share of global trade, reflecting the fact that they are universally used and demanded while their production is geographically concentrated. Their price swings often exhibit a negative correlation with the US dollar (Figure 2.1). They are also key drivers of individual countries' terms of trade, which play a critical role for external adjustment as well as economic growth and business cycle fluctuations.[3]

Looking ahead, commodity-trading countries and the global economy will face two new challenges. The first is the clean energy transition, which requires a major transformation of the energy system with a shift away from fossil fuels to an increasing use of some critical metals, such as copper. The transition is expected to bring about permanent changes in the price of fossil fuels and critical metals and reshape trade flows, as the concentration in the production of most metals is even higher than that of fossil fuels. Second, the negative correlation between the oil price and the dollar has turned positive since 2020. If persistent, this shift in the correlation could carry substantial macroeconomic implications for the global economy and individual commodity-trading countries.

A better understanding of the causes and consequences of commodity price developments would improve the diagnosis of and responses to future volatile commodity price movements (see Chapter 1). With that aim, this chapter first documents the key characteristics of the price swings of 42 commodities. It then zooms in on energy price swings, the most volatile and prominent internationally traded group of commodities. Reflecting the prominence of oil among energy commodities, the chapter focuses on two key drivers of oil prices: global economic activity and oil supply shocks. The chapter examines their effects on the global economy and individual countries that are grouped into energy importers and exporters. For energy importers that face adjustment challenges due to limited international risk sharing, the chapter analyzes how their policies and country characteristics could mitigate

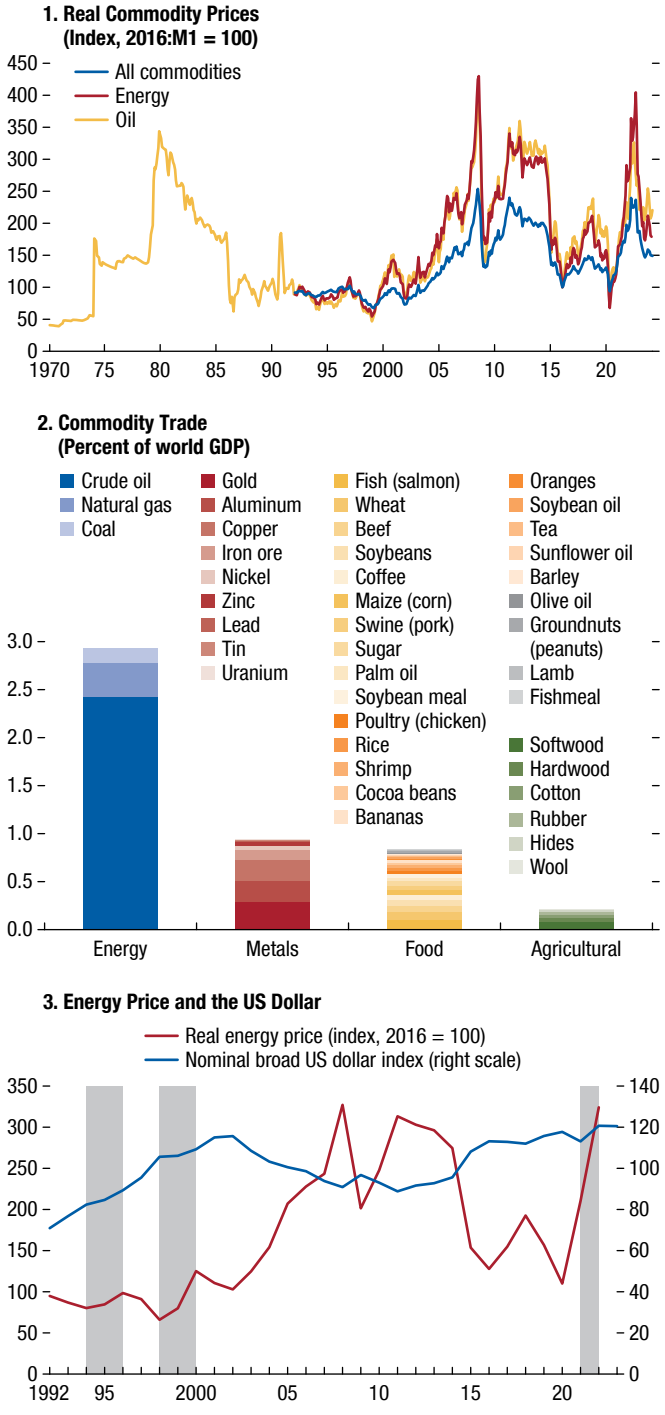
The authors of the chapter are Lukas Boer, Jiaqian Chen (lead), Keiko Honjo, Ting Lan, Roman Merga, and Cyril Rebillard, with contributions by Geoffroy Dolphin, Rafael Portillo, and Pedro Rodriguez, under the guidance of Jaewoo Lee. Santiago Gomez, Jair Rodriguez, Xiaohan Shao, and Brian Hyunjo Shin provided research support and Jane Haizel provided editorial assistance. Christiane Baumeister was the external consultant. The chapter has also benefited from comments by Gian-Maria Milesi-Ferretti, Andrea Pescatori, Martin Stuermer, internal seminar participants, and reviewers.

[1]Following the literature, real commodity prices are calculated by deflating the nominal price series from the IMF Primary Commodity Price System by the US consumer price index.

[2]See Box 2.1 for a discussion on the impact of the recent energy price shock on the EU manufacturing sector.

[3]For the impact of terms-of-trade shocks on growth, see Dehn (2000) and Collier and Goderis (2012). On business cycle fluctuations, see Mendoza (1995); Kose (2002); Aghion and others (2010); Fernández, Schmitt-Grohé, and Uribe (2017); and Schmitt-Grohé and Uribe (2018). On real exchange rate movements, see Chen and Rogoff (2003); Cashin, Céspedes, and Sahay (2004); and Ricci, Milesi-Ferretti, and Lee (2013). On international reserves, see Aizenman, Edwards, and Riera-Crichton (2012).

Figure 2.1. Commodity and the US Dollar



Source: IMF staff calculations.
Note: The real price index for a commodity group is the trade-weighted average of the global US dollar prices of the commodities in the group deflated by the US consumer price index. Energy commodity group includes oil, natural gas, and coal. Oil price refers to crude oil (petroleum), Brent, in US dollar. Commodity trade is the average of global gross commodity exports and imports. For panel 2, legend only displays selected commodities for clarity. The grey areas in panel 3 denote years when the US dollar and the real energy prices are positively correlated.

the adverse effects of energy price swings. Moreover, the chapter discusses the potential implications of a permanent shift to a positive correlation between the oil price and the US dollar on exchange rate policies and discusses potential effects of the clean energy transition on the exporters of fossil fuels and critical metals.

The chapter's main findings are as follows:

- *Commodity prices exhibit substantial swings, most prominently for the group of energy commodities.* For 42 commodities, the chapter identifies about 360 upswings and downswings since 1960. While price swings have comparable durations across commodities, the energy commodity group exhibits the most pronounced price swings, with prices almost tripling during a typical upswing and falling by as much during a downswing.
- *The effects of energy price swings on individual economies vary both with an economy's importer/exporter status in energy trade and with the source of energy price changes.* Higher energy prices are accompanied by current account improvements for energy exporters and deteriorations for energy importers, regardless of the source of energy price changes. However, when energy prices rise owing to stronger global economic activity or higher demand for oil consumption or inventories, output and consumption rise for both exporters and importers, despite the negative terms-of-trade effect for importers. When energy prices rise owing to a negative oil supply shock, exporters' output increases but importers' output and consumption fall, although some risk sharing occurs including via valuation gains in importers' net foreign assets.[4]
- *Energy importers' exposure to shocks to energy prices varies with their economic characteristics, as well as with global financial conditions.* The adverse effects of negative oil supply shocks on energy importers are mitigated by greater exchange rate flexibility, lower government debt, more anchored inflation expectations, stronger external positions, lower intensity of energy imports, and looser global financial conditions, which allow a smaller decline in consumption and a larger external borrowing (i.e., decline in the current account). Foreign investments

[4]It is left for future research to investigate the external implications of supply and demand shocks to nonenergy commodities. See, for example, Di Pace, Juvenal, and Petrella (forthcoming) and De Winne and Peersman (2021) for the effects of nonenergy commodity price shocks on economic activity.

in major oil-exporting economies represent another mitigating factor, which enables importing economies to partake of the economic improvement in exporting economies.

- *Following two decades of negative correlations, the relationship between the US dollar and the oil price has turned positive since 2020.* This change coincided with the shift of the United States from a net oil importer to a modest oil exporter in early 2020. It also coincides with periods of high global risk aversion, as well as a shift in foreign investor behavior: following an increase in the oil price, foreign investors tend to increase their holdings of US assets, in contrast to periods with a negative correlation. If permanent, this shift to a positive US dollar–oil price correlation could have several important implications. It would bring about, everything else being equal, larger terms-of-trade shocks due to oil prices for net oil importers with a floating exchange rate and greater financial stability risks for importers with short (net) exposure to the US dollar.
- *The clean energy transition is likely to pose challenges for both fossil fuel and critical metal exporters.* A permanently lower price for fossil fuel commodities brings about weaker GDP growth and initial improvement in the current account for exporters. A permanently higher price for critical metals would trigger an initial investment boom in exporting countries that worsens their current accounts and gradually improves output.

These findings add to the literature on macroeconomic analyses of oil prices in several dimensions. First, empirical evidence on the impact of oil supply and global economic activity shocks on an extensive list of macro and external sector variables is provided. In particular, the empirical literature on external sector effect provides mixed results. For instance, Kilian, Rebucci, and Spatafora (2009) find oil supply shocks to have opposite effects on current account balances of oil importers and exporters which are statistically significant only after four years, while Allegret, Mignon, and Sallenave (2015) find the effect to be of opposite sign for two net oil importers, China and the euro area, and Lebrand, Vasishtha, and Yilmazkuday (2024) find effects of the same sign for both importers and exporters. This chapter provides empirical evidence that is in line with the more consensual results derived from the theoretical literature, such as Bodenstein, Erceg, and Guerrieri (2011), who analyze the repercussions of a negative oil supply shock on the United States (then a large net oil importer) using a two-country structural model. The chapter also illustrates the main transmission channels via multiregion model simulations for a set of key empirical findings. This chapter's econometric approach uses a large panel of exporters and importers to strengthen the estimation of the average impact of different drivers of oil prices. Last, this chapter explores how the impact varies across importers' structural characteristics and policy regimes in a comprehensive manner relative to the extant literature.

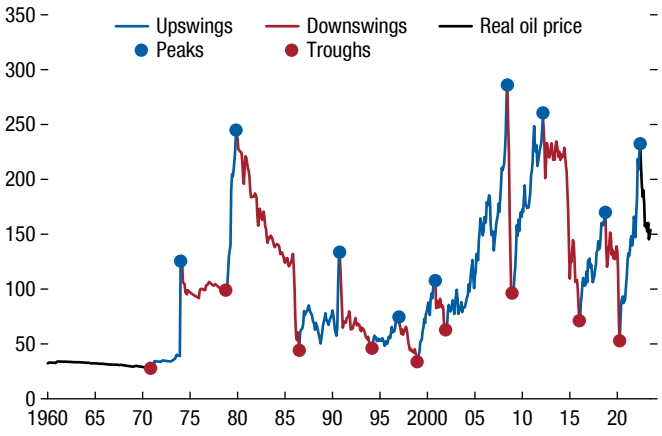
The rest of the chapter is structured as follows. The first section presents stylized facts on key features of commodity price swings. The second section estimates the impact of oil supply and global activity shocks—two prominent drivers of energy price swings—on energy importers and exporters. The empirical analysis is complemented by model-based simulations, allowing for a fuller discussion of the transmission mechanisms. The third section discusses the correlation between the oil price and the US dollar, while also discussing the implications of the clean energy transition for fossil fuel and critical metal exporters, underscoring potential challenges and benefits for the latter. The final section concludes.

Features of Commodity Price Swings

This section documents real commodity price swings and their key features, including the duration and magnitude for all commodities from the IMF Primary Commodity Price System and four commodity groups (energy, metals, food, agricultural).[5] The analysis adopts the standard business cycle (Burns and Mitchell 1946; Bry and Boschan 1971; Harding and Pagan 2002) and commodity price swings (Cashin and McDermott 2002) dating procedures to define the upswing and downswing phases with three modifications. First, the time series is not filtered to avoid the potential loss of some large, but short-lived, price fluctuations and to be independent of the filtering methods. Second, the analysis imposes no minimum duration, thereby capturing the sharp oil price

[5]Commodity group prices are calculated as the weighted average of individual commodity prices based on the average of global import share of 2014–16.

Figure 2.2. Real Oil Price Swings
(Index, 2016 = 100)



Sources: Bureau of Economic Analysis; IMF, Primary Commodity Price System database; and IMF staff calculations.
Note: Real oil prices are calculated by deflating the nominal price series by the US consumer price index.

downswing during the global financial crisis, which lasted only six months. Third, as a consequence from the absence of a minimum duration, a larger window (±24 months compared to around ±5 months in the business cycle literature and ±2 months in Cashin and McDermott 2002) is used to identify peaks and troughs.

Amid a strong co-movement among commodity prices, the energy commodity group displays the most pronounced swings. The chapter identifies 362 upswing and 363 downswing phases for 42 commodities over the period from 1960 to 2023 and documents strong co-movements between commodity prices (Box 2.2). While price swings have comparable durations across commodities, energy commodities stand out regarding the magnitude of price swings, which tend to be more pronounced than for other commodities. Energy prices typically triple during an upswing episode and fall almost as much in a downswing (Figure 2.2). In contrast, other commodity prices "only" double and nearly halve during upswings and downswings.[6]

[6]The magnitude of a commodity price increase (decrease) during a typical upswing (downswing) increases with the window size that is used to identify the upswing (downswing), as, typically, the larger the window size, the longer the average duration. However, the findings—that commodity price swings tend to display similar duration, and energy prices exhibit larger swings than other commodity prices—are robust to different window sizes.

Zooming In on Energy Price Swings

Empirical Analysis: Sources of Energy Price Swings and Impact

Energy prices are determined by the global interplay of supply and demand conditions. The effects of energy price changes on macroeconomic variables depend on their underlying drivers, as shown in the seminal paper by Kilian (2009) for oil prices. Following this literature (see, also, Kilian and Murphy 2014; Baumeister and Hamilton 2019; and Känzig 2021), the chapter focuses on the impact of underlying drivers of oil prices. The focus on oil prices is motivated by the observed strong co-movement between the prices of energy commodities (Box 2.2). Underlying drivers of oil prices are uncovered from the structural vector autoregression (VAR) for the global crude oil market in Baumeister and Hamilton (2019).[7] The VAR is estimated with monthly data on global crude oil production, real oil prices, inventories, and global industrial production from January 1995 to May 2023.[8] To identify the structural shocks, the VAR leverages insights from the economic theory on how its variables respond to a given structural shock (sign restrictions) and existing empirical estimates on oil demand and supply elasticity—how production and consumption respond to exogenous price changes (prior information; see Baumeister and Hamilton 2019 for further detail). It uncovers four structural drivers of oil prices: a global economic activity shock that alters the demand for all commodities, including oil; an oil consumption demand shock that could, for instance, capture changes in the preference for oil relative to other energy inputs; an oil inventory demand shock that reflects changes in demand due to precautionary concerns about future oil supply and demand condi-

[7]Most empirical analyses reported in this chapter are robust to the use of alternative global economic activity and oil supply shocks identified in the oil market VAR literature, including Baumeister and Hamilton (2023), Känzig (2021), and an updated identification along the lines of Kilian and Murphy (2014) as described by Zhou (2020) (see Online Annex 2.6). This chapter relies on Baumeister and Hamilton (2019) as the baseline, since it is the most recent comprehensive global oil market model estimated in the literature and relies on the global industrial production index instead of a freight rate index–derived measure for global economic activity, considering that the COVID-19 shock created a break in the historical relationship between global activities and freight rates.

[8]The data are adjusted to account for extreme observations during the COVID-19 pandemic (see Lenza and Primiceri 2022 and Online Annex 2.3 for more information).

tions; and an oil supply shock that is determined by an exogenous change in the production of oil.

The rest of the chapter focuses on two of the identified structural shocks. First, it focuses on global activity shocks, as those are highly correlated with the global factor that accounts for a significant share of the variation of a broader set of commodity prices (Box 2.2; Delle Chiaie, Ferrara, and Giannone 2022). Second, it focuses on oil supply shocks as they pose adjustment challenges for energy importers, which constitute the majority of world economies.[9]

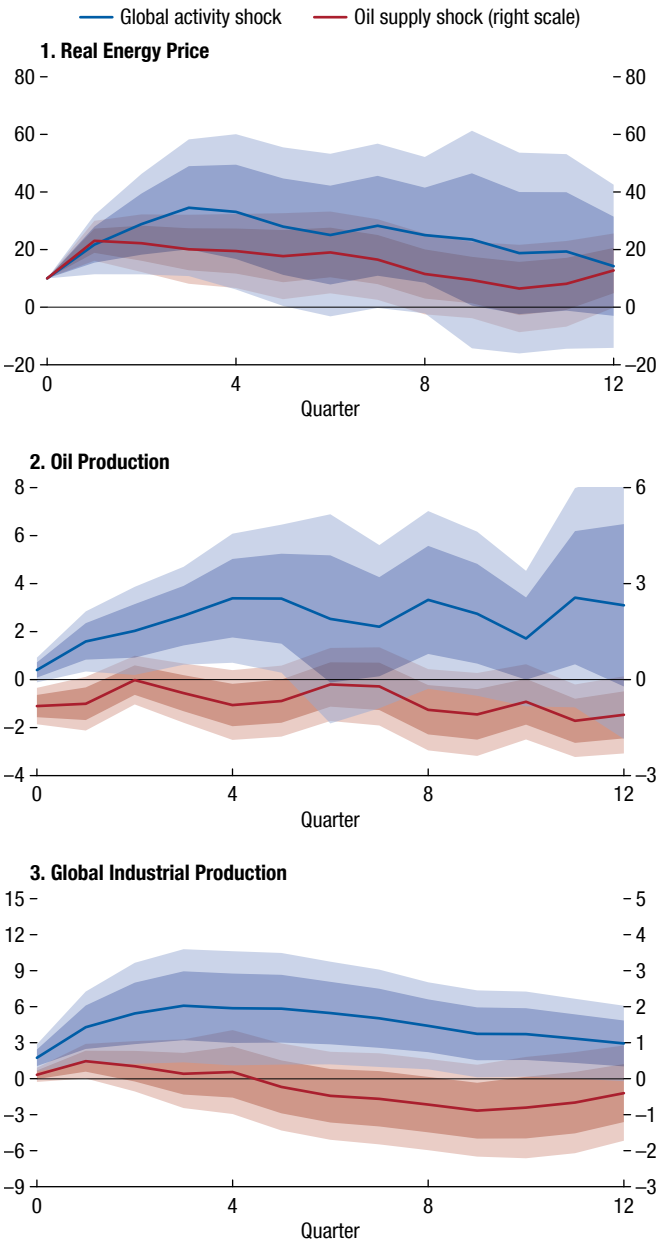
A local projections (LP) approach is used to estimate normalized impulse responses to different drivers of energy price variation (Jordà 2005; Jordà, Schularick, and Taylor 2015; Stock and Watson 2018). This chapter's approach, detailed in the online annexes, uncovers impulse responses to the structural shocks that are scaled to increase the energy price by 10 percent on impact. In contrast to the conventional VAR practice, this approach directly regresses the macroeconomic variables at future horizons on the current (and lagged) shocks, instead of extrapolating them from estimated VAR coefficients, and normalizes the unit effect of the structural shock rather than its unit standard deviation.[10]

Responses of Real Energy Prices, Oil Production, and Global Industrial Production

The first set of regressions estimates the propagation of oil supply and global economic activity shocks to real energy prices, global oil production, and global industrial production over the 1996:Q1 to 2023:Q2 sample period.[11] The regression controls for four lags of the log changes in the global variable of interest, as well as for contemporaneous and one-quarter lag of the other shocks in the global oil market VAR. The results are presented in Figure 2.3.

The shocks have transitory, though persistent, effects on energy prices and other global variables. Following a positive global activity shock that increases the real energy price by 10 percent on impact, global industrial production increases by about ¾ percent on impact, peaking after one year before converging to zero after another year. The strong global activity leads to a period of elevated energy prices, with the effect peaking three quarters after the shock and remaining (statistically) significant for about eight quarters. In response, oil production picks up gradually and remains positive and statistically significant for about six quarters. In contrast,

Figure 2.3. Effects of Oil Supply and Global Activity Shocks
(Percent)



Source: IMF staff calculations.
Note: Impulse responses show the effects of oil supply (in red) and global activity (in blue) shocks that increase real energy price by 10 percent on impact with 68 and 90 percent confidence intervals.

[9]The effects of oil consumption demand and inventory demand shocks on global variables and on energy exporters and importers are similar to those of global activity shocks and are reported in Online Annex 2.5.

[10]See Online Annexes 2.1, 2.2, and 2.3 for technical details, including on the use of instrumental variables local projections (LP-IV) for the unit effect normalization (Stock and Watson 2018). See Li, Plagborg-Møller, and Wolf (2024) for a discussion of advantages and disadvantages of LP vis-à-vis VAR.

[11]Quarterly oil shock series are computed as averages of the monthly shocks following Kilian, Rebucci, and Spatafora (2009).

a negative oil supply shock brings about a decline in global industrial production by 1 percent after eight quarters, following some uptick in the initial quarter.[12] Oil production falls somewhat more persistently, with the effects remaining statistically significant for three years, probably reflecting the long-lasting effect of supply disruptions. Nonetheless, the response of energy prices resembles the tapering (or hump-shaped) response as in the case of global activity shock, with the peak effect reached slightly earlier.

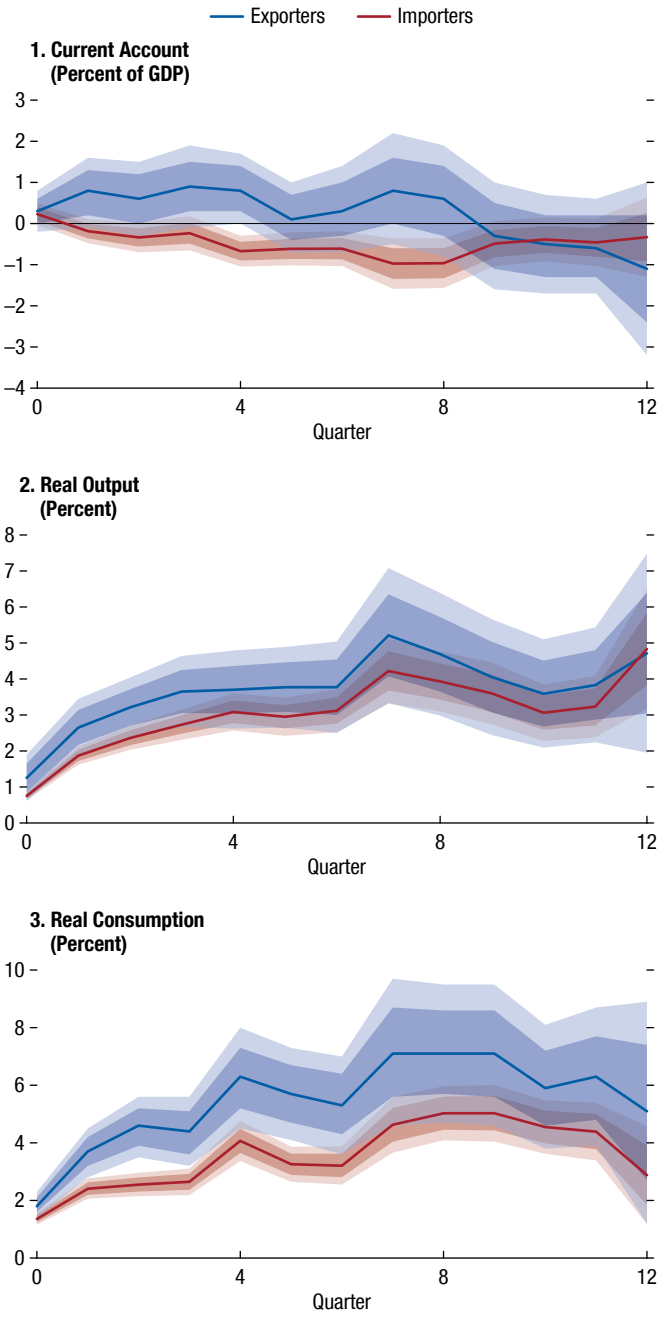
Given the transitory or tapering effects of underlying shocks on energy prices and production, exporters' current accounts can be expected to improve following an energy price increase, as saving would increase to smooth consumption, and vice versa for energy importers. This expectation is borne out in the subsequent empirical results.[13]

Impact on Exporters versus Importers

This subsection examines the impact of the two shocks on individual economies, grouped into energy exporters and importers.[14] Adding a country fixed effect to the previous specification, the effects on real, external, and financial variables are estimated across a large sample of net energy exporters and importers covered by the IMF's External Balance Assessment. The substantial cross-sectional dimension helps tighten the estimation of average effects for exporters and importers.

When energy prices increase by 10 percent (on impact) owing to a positive global activity shock, the average of exporters' current account balances as a share of GDP improves by 1 percentage point after four quarters (Figure 2.4). Importers' current account balances gradually decline to reach a comparable size (–1 percentage point) in two years. Reflecting consumption smoothing, exporters' saving increases temporarily with higher export revenues, thereby offsetting the effects of gradually increasing investment on

Figure 2.4. Effects of Global Activity Shocks on Energy Exporters and Importers



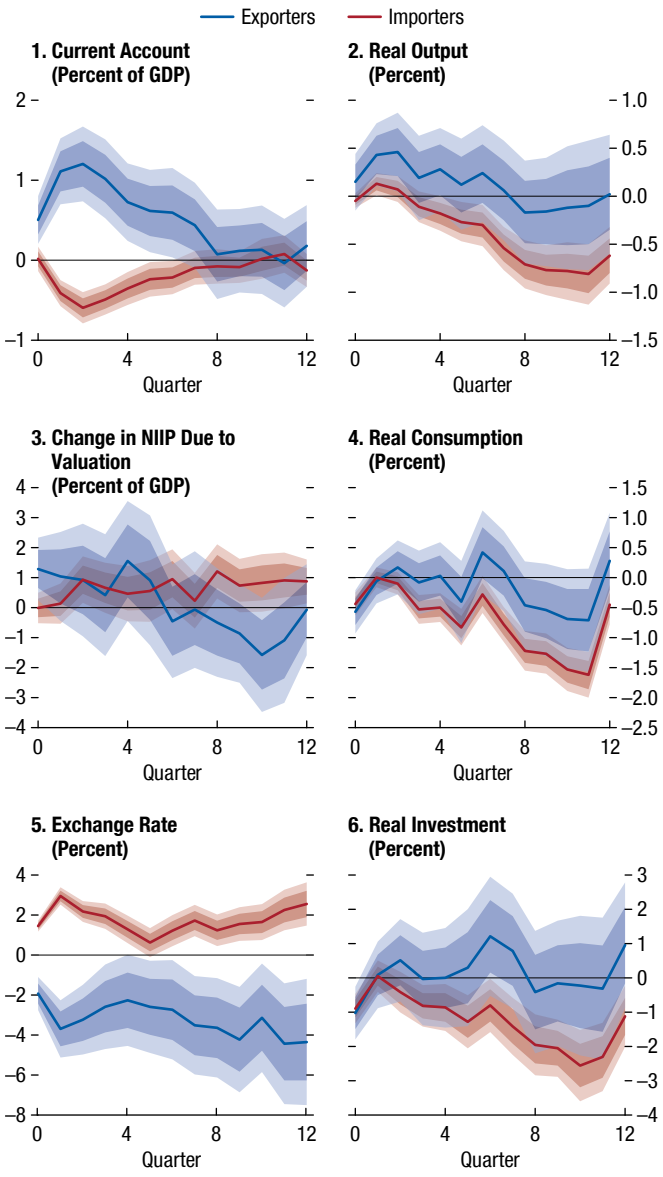
Source: IMF staff calculations.
Note: Impulse responses show the effects of a global activity shock that increases real energy price by 10 percent on impact with 68 and 90 percent confidence intervals.

[12]This initial uptick appears to be the combined outcome of energy exporters benefiting from favorable terms-of-trade effects and importers initially running down their inventories to mitigate the adverse effects of higher energy prices.

[13]In addition to these familiar effects of transitory shocks, classical intertemporal models imply that an exporter's current account balance could deteriorate initially if shocks were to have permanent positive effects on energy prices. For analogous examples discussed for permanent productivity shocks, see Obstfeld and Rogoff (1995) or Aguiar and Gopinath (2007). Arzeki, Ramey, and Sheng (2017) is a case of large oil discoveries.

[14]A country is classified as a net energy exporter (importer) if its median net energy export share over the sample period is above (below) zero. In total, our sample encompasses 11 net energy exporters and 33 net energy importers (see Online Annex Table 2.4.1 for the full list of sample countries). As a robustness check of the country group, the baseline local projection estimations are rerun using a sample of large (top 25th percentile) and small (bottom 25th percentile) net energy importers. The estimation results suggest the analysis is robust to a more selective criterion for importers. Specifically, the impact of an oil supply shock on importers is broadly proportional to the importer's net energy trade balance, with no evidence of nonlinearity (see Online Annex 2.4).

Figure 2.5. Effects of Oil Supply Shocks on Energy Exporters and Importers



Source: IMF staff calculations.
Note: Impulse responses show the effects of an oil supply shock that increases real energy price by 10 percent on impact with 68 and 90 percent confidence intervals. The exporter's nominal exchange rate is measured as the local currency against the US dollar, while the importer's nominal exchange rate is measured as the local currency against the Norwegian krone. Valuation changes are calculated as the difference between change in net international investment position (NIIP) and current account.

current account balances. Meanwhile, importers' saving changes little while consumption and investment increase gradually. Despite the contrasting responses in external balances, other macro variables that include real output, consumption, investment, inflation, and fiscal balances increase for exporters and importers alike. However, higher energy prices lead to a more modest increase in consumption, investment, and output for energy importers. Consequently, importers' interest rates rise to a lesser extent, resulting in depreciation of their exchange rates relative to energy exporters.

In contrast, when energy prices increase by 10 percent due to a negative oil-supply shock, importers bear the brunt of the shock, given the inelastic demand for energy and limited international risk sharing. Current account balance decreases (increases) for energy importers (exporters), reflecting the negative (positive) terms-of-trade effects. The average importer's current account balance as a share of GDP falls by about 0.5 percentage point two quarters after the shock, accompanied by a decline in saving that reflects consumption smoothing. Exchange rate depreciations help improve the nonenergy trade balance and bring about positive valuation effects on the net international investment position. Capital inflows to the private sector, in the form of portfolio debt, aid the adjustment, while capital inflows to the public sector decline despite a higher fiscal deficit. Despite several insulating channels against higher energy prices, importers' real consumption, investment, and output fall by about 1.5, 2.5, and, 0.8 percent, respectively, after two years. In contrast, exporters' consumption remains broadly unchanged for the first two years, indicating a limit to international risk sharing (Figure 2.5).

Energy Importers under Oil Supply Shocks

Given the significant adverse effects of oil supply shocks on importers, this subsection explores policy and economic factors that influence the ease of adjustment by energy importers. Following Ramey and Zubairy (2018) and Jordà (2023), a state-dependent local projection approach is used, allowing for differential responses evaluated at different policy and country characteristics. A wide range of policy and country characteristics can be explored, thanks to the large variation in the panel data.[15] Considering that negative oil supply shocks could be associated with tighter global financial conditions, this subsection also explores how these effects differ under various financial conditions.

Tighter global financial conditions weaken importers' capacities to borrow, necessitating greater adjustments

[15]State-dependent responses are estimated either by splitting the sample into corresponding subgroups or by interacting energy price changes with the continuous variable of interest and evaluating the impulse responses using the variable's value at its 75th and 25th percentiles. Online Annex 2.2 reports details of the regression specification as well as additional results.

to the higher energy prices, including sharper reductions in consumption and investment. The current account deteriorates by less, reflecting the weaker domestic demand (Figure 2.6).[16] Financial tightening associated with US monetary shocks leads to a more gradual downward adjustment in consumption and investment than financial tightening associated with higher global risk aversion, reflecting a more gradual transmission of monetary policy shocks (Online Annex 2.7).

Cross-border investment in energy-exporting countries allows importing economies to share the economic gains. Importers with higher foreign direct investment in energy-exporting countries are found to experience more positive valuation effects on their net foreign assets. This positive wealth effect allows importers to reduce consumption and investment by less, together with a larger decline in the current account (Figure 2.6).

Lower government debt allows greater borrowing for energy importers, facilitating a smoother adjustment to the higher energy prices, including a more moderate decline in consumption and investment. Importers with lower government debt experience a smaller increase in borrowing costs and higher capital inflows to both the private and the public sectors, keeping the credit to the nonfinancial sector broadly unchanged. The lower decline in consumption and investment is accompanied by a larger decline in the current account (Online Annex Figure 2.8.1).

More flexible exchange rate regimes allow the exchange rate to play a greater shock-absorbing role.[17] Importers with more flexible exchange rate regimes exhibit a sharper currency depreciation, higher exports, and shallower declines in consumption and output. The central bank raises interest rates by less, helping reduce a decline in the credit to the nonfinancial sector (Online Annex Figure 2.8.1).

Better-anchored inflation expectations enable central banks to adopt a more accommodative policy stance, providing more support to the real economy. Higher energy prices increase importers' inflation both directly and indirectly via second-round effects. When inflation expectations are better anchored, second-round effects are better contained and the central bank can adopt a more accommodative policy stance. This supports investment and consumption better and allows the exchange rate to depreciate more to absorb the shock (Figure 2.6).

Importers with stronger external positions experience larger capital inflows, shallower declines in consumption and investment, and larger deteriorations in their current account balances. Stronger external positions, measured by the IMF staff current account gap greater or equal to –1 percent of GDP, can reduce financing risks associated with running more negative current account balances, thereby allowing importers to mitigate the impact of rising energy prices (Online Annex Figure 2.8.1).

Among other examined country characteristics, a lower dependence on energy imports mitigates the negative effects for importers.[18] Importers with a lower dependence on energy imports experience smaller terms-of-trade effects and less deterioration in energy trade balance. Their consumption, investment, and real output decline less (Figure 2.6).

Model Simulations: Shocks and Price Swings

This subsection uses the IMF's Flexible System of Global Models (FSGM) to examine the impact of two structural shocks—an increase in global demand and a decrease in global oil supply—on the global economy and on a net oil exporter and importer. It also explores how two characteristics—lower government debt and less flexible exchange rate regimes—can change the effect of oil supply shocks on oil importers. The model-based simulations illustrate the main transmission channels and complement the analysis in the previous subsection, which empirically looks at the impact of these shocks.

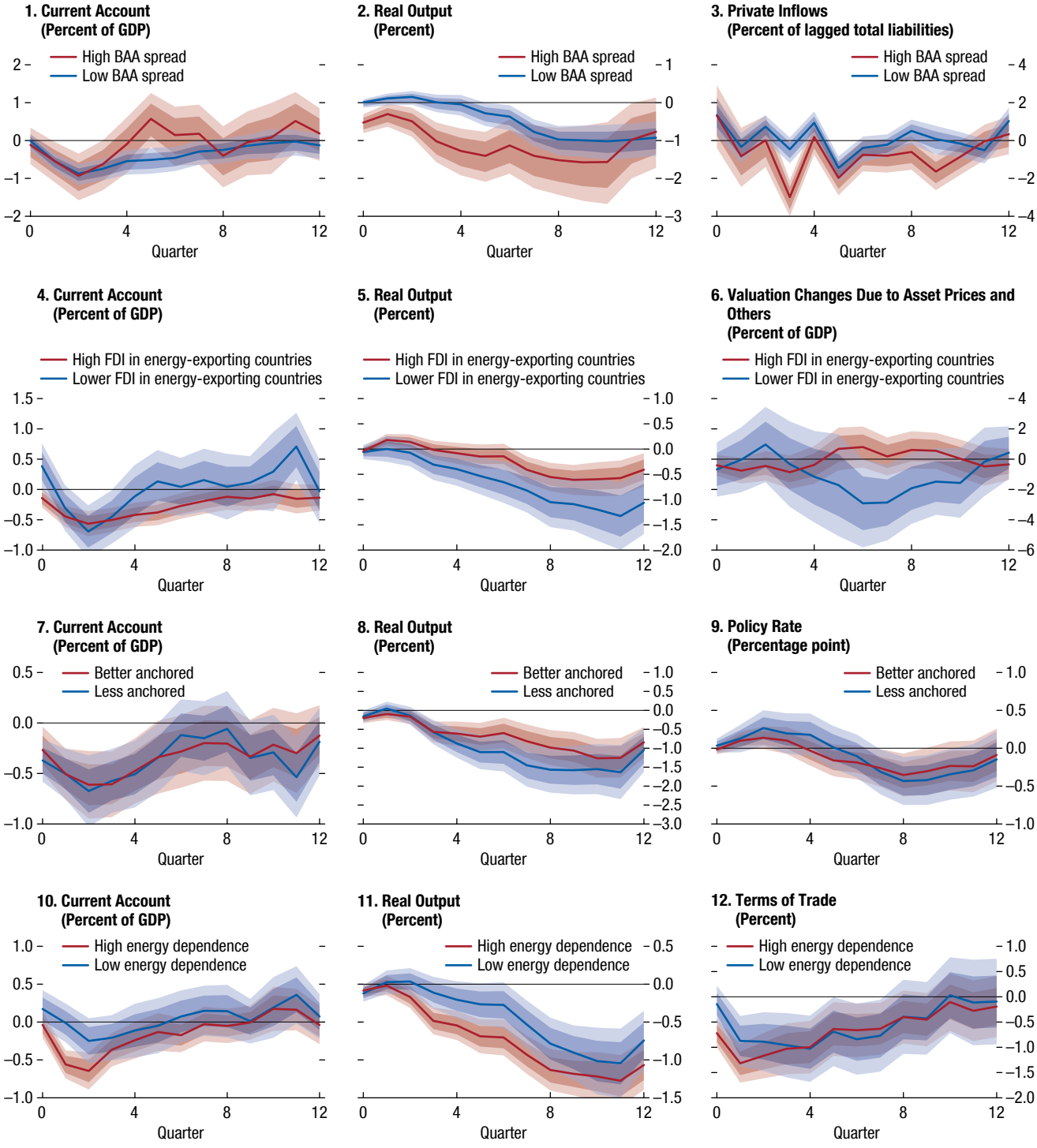
FSGM is an annual multiregion model of the global economy that combines micro-founded and reduced-form formulations of economic sectors and relationships. The analysis presented in this chapter uses the G20MOD module of the FSGM, which includes every Group of Twenty (G20) economy and five additional regions to cover the remaining countries in the world.

[16]Following Juvenal and Petrella (2024), this analysis uses BAA spread as an indicator of global financial conditions. It measures the difference between the yield of 10-year US treasuries and Baa-rated corporate bonds.

[17]Using a measure of exchange rate flexibility developed by Ilzetzki, Reinhart, and Rogoff (2019), an importer is categorized as having a flexible exchange rate if its currency floats freely. The analysis reclassifies euro area countries as having a flexible exchange rate regime. Importers who are using the US dollar as a currency anchor are excluded from the analysis.

[18]This chapter explores a range of other characteristics for which no conclusive results are obtained. These characteristics include income per capita, institutional quality, default risks, external debt, and bond yields.

Figure 2.6. Effects of Oil Supply Shocks and Selected Country Characteristics



Source: IMF staff calculations.
Note: Impulse responses show the effects of an oil supply shock that increases real energy price by 10 percent on impact with 68 and 90 percent confidence intervals. High/low BAA spread represents the impact of an oil supply shock evaluated with BAA spread at its 75th/25th percentile. High FDI in energy-exporting countries refers to importers with FDI in Saudi Arabia as a share of GDP above the median of all importers. Valuation changes due to asset prices and other statistical changes reflect the change in valuation excluding changes due to exchange rate movements (see Allen, Gautam, and Juvenal 2023). Better/less anchored inflation expectations refer to energy importers with their measure in Bems and others (2021) at the 75th/25th percentile. High/low dependence denotes importers with their median energy import share at the 75th/25th percentile of the sample median. FDI = foreign direct investment.

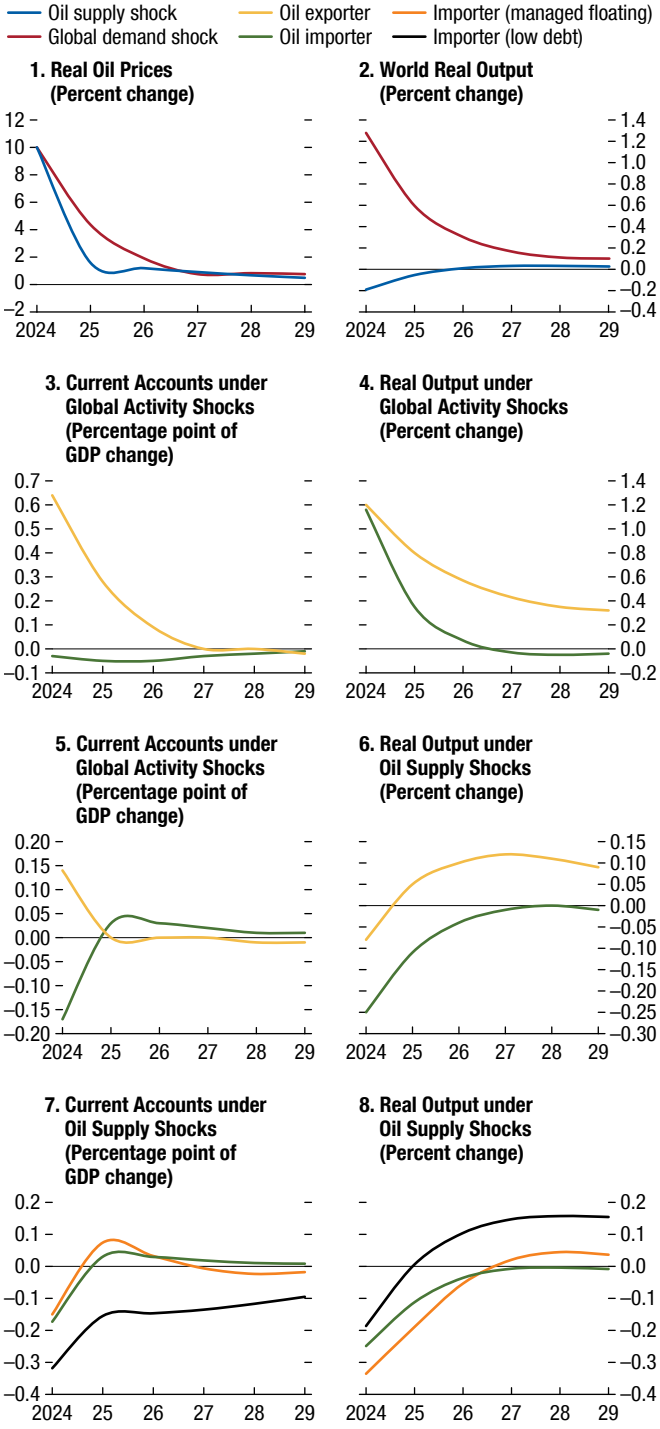
The following model features are particularly relevant for the chapter's analysis (see Andrle and others 2015 for a detailed discussion of the FSGM).

- *Commodity sector.* The model incorporates three types of commodities—oil, food, and metals, whose prices are determined by global supply and demand conditions. Commodity prices affect real economic activity primarily through three channels: (1) higher commodity prices lead to higher inflation which deflates real household income and wealth, (2) higher commodity prices increase cost of production and decrease hiring by firms, and (3) higher commodity prices can trigger second-round effects, leading central banks to tighten monetary policy. Commodities are priced in US dollars.
- *Monetary authorities and interest rates.* For most countries, monetary policy is represented by an interest rate reaction function (an inflation-forecast-based rule), operating under a flexible exchange rate regime. The reaction function can be also adjusted to replicate less flexible exchange rate regimes. Interest rates, including those relevant for consumption and investment, are related to the monetary policy rate but subject to various risk premiums.
- *External sector.* Domestic and foreign trading partners' demand and exchange rate determine exports and imports. Investment decisions of firms, saving decisions of households, and fiscal policy determine the current account. Exchange rates are determined by the interest rate parity condition in the short run and by external sustainability in the long run.

The model simulations consider a temporary shock to private domestic demand that is applied equally to all countries and an exogenous temporary reduction in oil supply that is applied equally to all oil-producing countries, leading to a temporary increase in oil prices. Both shocks are calibrated such that real global oil prices increase by 10 percent on impact. Figure 2.7 presents the simulation results on key variables for an oil exporter and importer, both with a flexible exchange rate regime.

The global activity shock is associated with an increase in output for both exporters and importers, while raising oil prices. Higher oil prices improve the current account of oil exporters and initially deteriorate the current account of oil importers, while output and consumption of both exporters and importers increase on the force of global activity (demand) shock. Higher aggregate demand raises inflation, prompting monetary

Figure 2.7. Impulse Responses to an Oil Supply and a Global Activity Shock in the Flexible System of Global Models



Source: IMF staff calculations.
Note: The panels depict the impact of oil supply and global activity shocks on real oil prices, world real output, and on a representative oil exporter and importer. Moreover, the impact of oil supply shocks on importers with lower government debt and more fixed exchange rate regime (managed floating) are illustrated in panels 7 and 8.

authorities to raise policy rates. For oil importers, however, higher oil prices lead to a more moderate improvement in consumption, investment, and output. Their exchange rates depreciate vis-à-vis oil exporters, because their interest rates rise less. The depreciation improves the non-oil trade balance of importers, albeit falling short of offsetting the decline in the oil trade balance.

A negative shock to oil supply raises oil prices while lowering global output, thereby creating a divergence between oil importers and exporters. Faced with a higher headline inflation and a weaker terms of trade, oil importers experience a decline in household real income and consumption, lower investment by firms, and a negative output gap. The central bank eases in response to economic downturn, also reflecting a limited pass-through of oil prices to core inflation. Despite the currency depreciation and weak growth that help with net exports, the current account balance deteriorates due to a higher energy import bill. In contrast, higher oil prices bring about increased consumption, investment, output, and current account in oil-exporting countries.

An importer with lower government debt tends to experience tapered adverse effects following negative oil supply shocks. Faced with lower borrowing costs (reflecting lower risk premiums due to lower government debt), firms reduce investment and employment to a lesser extent, resulting in higher real wages and household consumption than those with higher government debt. Consequently, the stronger domestic demand, compared with importers that have higher government debt, leads to higher inflation and monetary tightening, which in turn appreciates the currency. The stronger currency and domestic demand dampen exports and strengthen imports, worsening net exports and expanding external borrowing.

Importers with less flexible exchange rate regimes (managed floating) are associated with larger adverse effects. In response to the exchange rate depreciation following oil supply shocks, the central banks raise policy rates to stabilize the exchange rate. Higher interest rates dampen consumption and output and reduce the depreciation of importer currency, with the latter reducing the medium-term improvement in the current account.

The econometric and model analyses illustrate the policies that importers can use to mitigate some adverse spillovers from energy price swings (see also Box 2.1). More anchored inflation expectations and a more flexible exchange rate regime enable central banks to implement a more accommodative monetary policy and allow the exchange rate to act more forcefully as a shock absorber that provides support to the domestic economy. Lower government debt and stronger external positions help maintain investors' confidence, thereby enhancing importers' ability to borrow and mitigate the adverse effect on consumption and investment, with less need to curtail domestic demand. Finally, policies aimed at reducing energy imports, such as improvements to energy efficiency, would help limit importers' exposure to energy price swings.

Looming Challenges

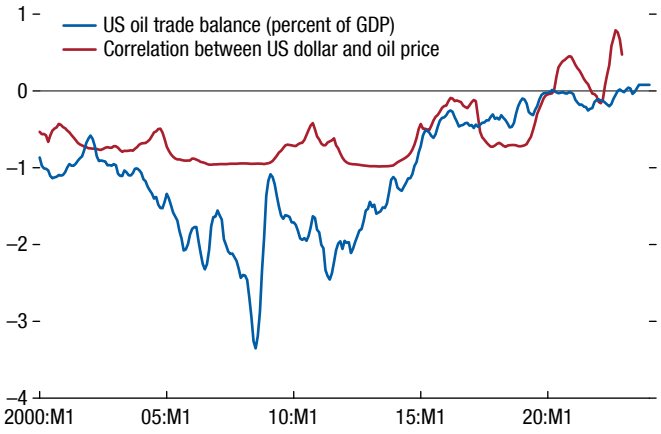
Energy price swings have traditionally been posing a greater adjustment challenge for energy importers than for exporters. While importers had to grapple with limiting the adverse consequences of negative supply shocks, exporters have benefited from the boost to prices that added to their buffers. In the coming years, however, two emerging changes could alter the landscape of the global energy and critical metal markets, potentially posing new adjustment challenges to exporters of these commodities as well as to importers. One is the reversal of the traditional negative correlation between the oil price and the US dollar, which would most likely amplify the volatility of terms of trade resulting from energy price swings, as energy commodities are priced primarily in US dollars. The other is the clean energy transition that can have lasting effects on the exporters of fossil fuels and several critical metals. This section discusses several leads on external sector developments and potential policy implications of these two emerging changes, while they harbor large uncertainty and would be intertwined with individual country characteristics, calling for further analysis.

Oil Price and the US Dollar

Following two decades of stable and negative correlation, the correlation between the oil price and the US dollar has turned positive since 2020 (Figure 2.8). The observed change can be related to three developments without excluding complementary or alternative explanations (Box 2.3).[19] First, the shift of the United

[19]Another possible explanation could be related to the strong US economy in the recent period, which has led to higher interest rates and a stronger US dollar, while the strong US economy could have contributed to raising oil prices via positive spillovers to the global economy.

Figure 2.8. US Oil Trade Balance and Rolling Correlations between Oil Price and the US Dollar



Sources: Federal Reserve Board; IMF, Primary Commodity Price System database; Trade Data Monitor; and IMF staff calculations.
Note: The red line illustrates the rolling correlation between oil price and the US dollar with a 36-month window spanning from January 2000 to May 2023. The blue line represents the US oil trade balance.

States to a net exporter of oil since early 2020 offers one potential explanation. Second, the BAA spread also helps to account for the positive correlation since 2020, suggesting a relevant role of global risk aversion. Another contributing factor (potentially related to the second) can be found in the change in foreign investors' purchases of US assets. Since 2020, foreign investors tended to increase their holdings of US assets—predominantly US treasuries—following an oil price increase. This increase in the demand for US assets can exert upward pressure on the US dollar, all else being equal. If this change in investment behavior were due to the heightened risk aversion following the COVID-19 pandemic, its effect on the positive correlation could dissipate, while there could be other more persistent causes of the change in investment behavior. In contrast, the transition of the United States to a net energy exporter would likely have a more persistent effect.

If the shift to a positive correlation between the US dollar and the oil price were to be permanent, it could strengthen the stabilizing role of the exchange rate for an oil exporter that pegs its currency to the dollar. As the currency appreciates with the oil price increases, it helps cool the economy and stave off inflation pressure. There arises less need for fiscal tightening. The reverse channel operates when the oil price decreases. While the strength of this channel depends on country characteristics, including the degree of economic diversification, the change in the correlation will likely add the stabilizing role to the traditional benefit of pegging in terms of providing a robust nominal anchor (Frankel 2019).

On the downside, the shift in the US dollar–oil price correlation from negative to positive numbers could call for a reassessment on the currency composition of government's external assets and liabilities, in terms of the trade-off among multiple objectives. For countries with sovereign wealth funds long on the US dollar, owing to the higher share of dollar-denominated assets, the valuation change of their external wealth moves in the same direction as the oil price, which will likely increase the cost (in US dollar terms) of fiscal stimulus when the oil price falls (compared to the situation with a negative correlation between the US dollar and the oil price).[20]

For net oil importers with a floating exchange rate, the positive US dollar–oil price correlation would amplify the terms-of-trade shock due to oil prices. They face the dual challenge of rising oil prices (in US dollar terms) and a weaker local currency vis-à-vis the dollar. A tighter monetary policy than under a negative US dollar–oil price correlation could be needed to head off higher inflation in spite of larger real income falls. The negative consequences on output are likely to be larger in countries with larger second-round effects that would require tighter monetary policy (see Chapter 2 of the October 2022 *World Economic Outlook*).

Downward pressure on activity will be partly offset by the export stimulus coming from the depreciated currency (vis-à-vis the dollar), especially if exports are priced in the producer currency. This offset via exports will be curtailed if exports are predominantly priced in the US dollar. On the other hand, the import-reducing effect of the depreciated currency would be larger if imports are priced in the US dollar rather than in local currency or non-US-producer currency (Gopinath and Itskhoki 2022).

For oil importers with short (net) exposure to the US dollar, the positive US dollar–oil price correlation means that a depreciation of the local currency (vis-à-vis the dollar) will tend to have a negative valuation effect, leading to a higher cost of servicing foreign currency–denominated liabilities (Krugman 1999). These negative balance sheet effects can also threaten

[20]For some of the Gulf Cooperation Council countries (Kuwait, Qatar, Saudi Arabia, United Arab Emirates) and other oil exporters (Iraq, Libya) during oil price drops in 1978, 2008, and 2014, fiscal policies turned procyclical due to lack of fiscal space (see Mazarei 2024).

financial stability (Bruno and Shin 2015). According to Allen, Gautam, and Juvenal (2023) and the 2023 *External Sector Report*, the share of emerging markets falling in this category, on the basis of aggregate balance sheets, has been shrinking over the past two decades. However, vulnerabilities remain in some countries, in particular with currency mismatches in portfolio debt. For net oil importers with their currency pegged to the US dollar, the positive correlation will hamper the exchange rate's ability to cushion the effects from oil price swings.

Clean Energy Transition

The clean energy transition requires a major transformation of the energy system from fossil fuels to renewable energy. Global fossil fuel production and consumption would need to decrease substantially to limit global temperature increases below 2 degrees Celsius by 2050. At the same time, the clean energy transition would substantially boost the demand for critical metals such as copper, nickel, cobalt, and lithium, which are key materials for renewable energy facilities and electric cars (see, for example, Chapter 3 of the October 2023 *World Economic Outlook*).

The transition would entail a mix of policies that constitute shocks to commodity markets. Given the large uncertainty around policies and technological changes, a stylized analysis in Box 2.4 models the energy transition as a permanent change in the relative price of fossil fuels and critical metals, which results from a mix of policies that reduce the demand for fossil fuels and increase demand for critical metals. The clean energy transition is likely to bring about initially stronger current account balances and gradually weakening economic performance for fossil fuel (for example, oil) exporters and the opposite effects for critical metal (for example, copper) exporters.

In light of major shifts in energy-related global commodity trade arising from the clean energy transition, exporters need to formulate adequate policy responses to address the economic consequences. For fossil fuel exporters, the transition will involve a reallocation of resources across sectors, as the extractive industries, as well as those that rely heavily on carbon-intensive inputs, would be the most affected (Chen and others 2020). Policymakers will need to facilitate this reallocation of resources, including via active labor market policies focused on job search assistance and retraining to help workers in the fossil fuel industry transition to new sectors. More generally, structural reforms to create a policy environment in which the private sector can respond more dynamically to opportunities would facilitate the growth of private businesses in other less-carbon-intensive and emerging green sectors (see Budina and others 2023; Mesa Puyo and others 2024 for further discussion). Critical mineral exporters, on the other hand, should mitigate the risks of the resource curse by improving their fiscal capacity to prudently manage the windfalls from higher commodity exports and reducing structural barriers to promote economic diversification (IMF 2012; Chapter 4 of the April 2012 *World Economic Outlook*).

Conclusion

This chapter documents the key characteristics of commodity price swings and takes an in-depth look into the consequences of shocks to energy prices, given their high volatility and the critical role of energy commodities in the global economy. While commodities generally experience comparable durations of price swings, energy commodities exhibit more pronounced swings, with prices nearly tripling during a typical upswing and falling by as much during a subsequent downswing. Many countries rely on imports for their critical need for energy, given its high geographic concentration of production. As a result, shocks to energy prices have appreciable effects on the global economy and the adjustment in external balances.

The effect of energy price swings varies both with the source of shocks to energy prices and with the characteristics of individual economies. When hit by a negative oil supply shock, energy prices increase, and energy importers face the unenviable challenge of cushioning the adverse effects on the economy and trade balances. Possible mitigating policy responses include greater exchange rate flexibility, lower government debt, and having a stronger external buffer, among others. Policies that promote greater financial integration, including strengthening the global financial safety net, could foster greater international risk sharing and reduce the adverse effects on energy importers. When hit by other shocks that increase energy prices, such as stronger global activity, importers fare worse than exporters but do not face as large adverse consequences, with output and consumption still rising, though less than those of exporters.

Going forward, close attention is warranted for the evolving correlation between the US dollar and the

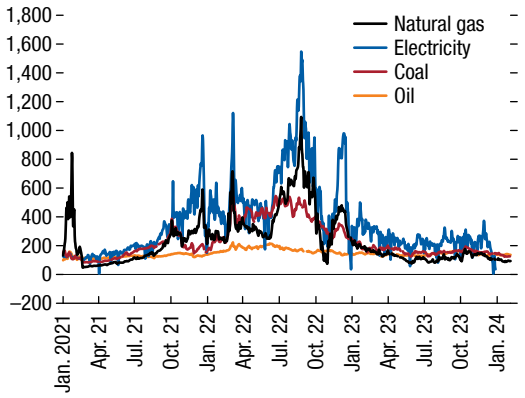
oil price and for the implications of the clean energy transition for affected commodity exporters. Were the correlation between the US dollar and the oil price to permanently change to a positive one (in a break from the negative correlation over the last two decades), dollar-pegging oil exporters could see a marginal increase in the cost of conducting countercyclical fiscal policies during a decline in oil prices. Oil importers would experience larger terms-of-trade shocks due to oil prices and be subject to larger financial stability risks in countries with net short exposure to the US dollar. Were the clean energy transition to proceed at the desired speed, fossil fuel exporters would need to facilitate the reallocation of resources toward low-carbon sectors, while critical mineral exporters should enhance their fiscal capacity to manage windfalls from higher commodity exports, complemented by structural policies to promote economic diversification.

Box 2.1. Impact of the Recent Energy Price Shock on the EU Manufacturing Sector

The European Union, as a significant net energy importer, faced a monumental challenge when Russia's invasion of Ukraine triggered an unprecedented increase in energy prices amid supply disruptions. At their peak in August 2022, the wholesale prices of natural gas, coal, and electricity skyrocketed by 1,100 percent, 600 percent, and 1,600 percent, respectively, compared to their 2019–21 average (Figure 2.1.1). This box delves into the repercussions of this energy price upheaval on the energy costs—measured by the share of energy expenditures in gross value added—of the manufacturing sector—one of the sectors most profoundly affected by such shocks—across a multitude of European economies. This box makes a compelling case study to explore the ramifications of supply-driven energy price swings on a major net energy importer.

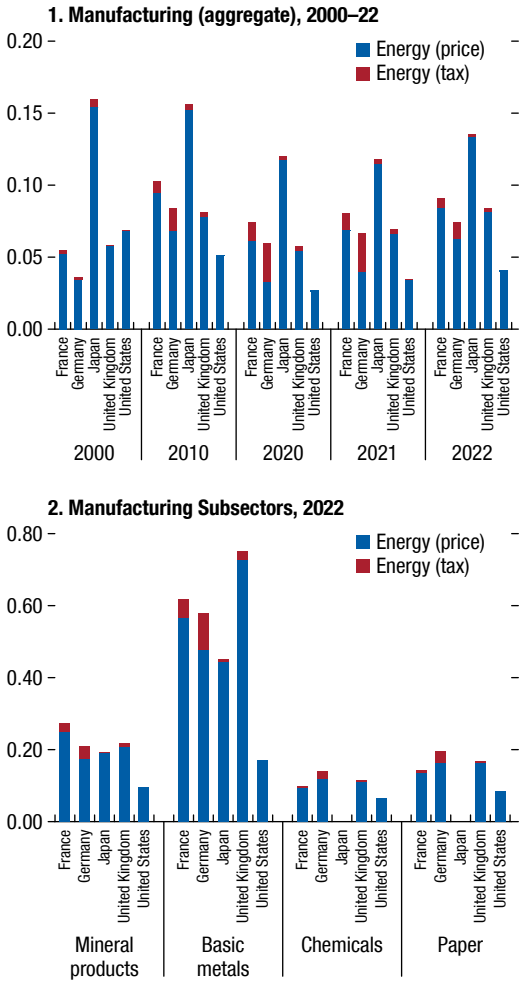
The impact goes through several steps and depends on various factors, including energy mix and intensity, which vary across countries and sectors, thereby having differential effects on manufacturing output (André and others 2023). The first step is the pass-through from wholesale to retail energy prices. In the case of natural gas, the correlation between contemporary wholesale and (pretax) retail prices is 0.81 in our sample of European countries. The second step is how the differences in taxes and levies impact the after-tax retail energy prices (Sato and others 2019). For instance, for electricity in 2021, taxes and charges represented 4 percent of retail prices in the United Kingdom and 48 percent in Germany. The final step is to combine information on the retail energy price with that on energy consumption mix and energy intensity to calculate the energy cost of manufacturing sectors (Figure 2.1.2, panel 1).

Figure 2.1.1. Wholesale Energy Prices in Europe
(Index; average January 2019–September 2021 = 100)



Sources: Argus Media; Ember; Haver Analytics; and IMF staff calculations.
Note: Natural gas refers to the Dutch TTF natural gas forward index; electricity refers to the average wholesale price of electricity in Central Western Europe; oil refers to Brent Crude Oil; coal refers to coal ARA 6000 kcal NAR cif London close (midpoint) contract.

Figure 2.1.2. Energy Cost in European Manufacturing
(US dollars per unit of gross value added)



Sources: International Energy Agency (2023a, 2023b, 2023c); and IMF staff calculations.
Note: The calculation of the energy cost accounts for the composition of the energy mix and the energy intensity of a sector. Energy prices used in the calculation are end-use (after-tax) prices for industry. Data for the "chemicals" and "paper" sectors in Japan are unavailable.

This box was prepared by Geoffroy Dolphin.

Box 2.1 *(continued)*

Energy cost in European countries increased by 3 percentage points on average in 2022 from 7 percent of the gross value added in 2021. Natural gas and electricity prices were the main drivers, mainly reflecting their high share in the manufacturing energy mix. For instance, they together account for 70 and 80 percent of energy consumed by manufacturing sectors in France and Germany, respectively.

There is a large heterogeneity across manufacturing subsectors and countries (Figure 2.1.2, panel 2). Subsectors such as basic metals production, characterized by high energy intensity, incur significantly higher energy costs, amounting to 60 to 70 percent of the gross value added. Likewise, the increase in energy costs also varies across countries. For example, the German manufacturing sector experienced the largest increase (pretax), while the smallest was observed in France. Government interventions played a role in mitigating the impact of the energy price shock. Despite the much larger energy price increase in Europe, the average increase in manufacturing sector energy costs is broadly comparable with that of other non-EU countries. Reductions in taxes alleviated the burden on manufacturing firms, attenuating the overall impact.

Historically, taxes account for a sizable share of the increase in the energy cost incurred by European manufacturing firms. In 2021, the cost incurred as a result of taxes and fees ranged between 4 percent (United Kingdom) and 40 percent (Germany) of the total energy cost. These values reduced to 3 to 10 percent in 2022–23 as governments reduced taxes and introduced other mechanisms to help manufacturing sectors cope with the increased energy prices. The fiscal measures provided important short-term relief, but—if sustained—would reduce firms' incentives to improve their energy efficiency.

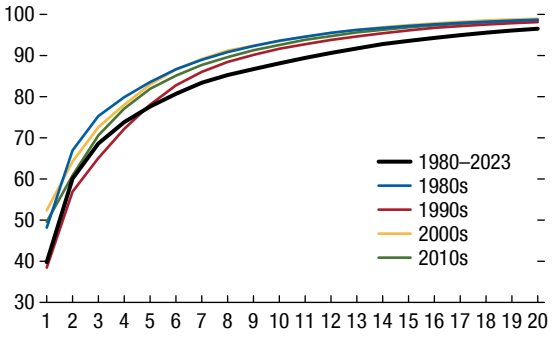
Box 2.2. Co-Movements between Commodity Prices

This box provides new empirical evidence on the co-movement between commodity prices. To investigate commodity price co-movements, the box employs a principal components analysis (PCA) of 39 monthly real commodity prices over the period from 1980 to 2023.[1] The first two components explain a significant share of the variance of commodity prices: 40 percent for the first component alone and 60 percent for the first two components. This result holds across commodity subgroups (food versus other commodities) and over subperiods. In particular, unlike Delle Chiaie, Ferrara, and Giannone (2022), who focus on pre- versus post-2000, we do not find a trend increase in co-movement over time, noting the co-movement between commodity prices is sensitive to the selection of the sample period (Figure 2.2.1).

Further, we characterize the first component of the principal components analysis through simple correlations. As shown in Figure 2.2.2, we find that the first component is highly correlated with energy prices (0.79 on average), with metals prices (0.74 on average), and with food prices (0.50). In contrast, other components are much less correlated with commodity prices. Moreover, the first factor displays the highest correlation with the global activity shocks followed by oil consumption demand, oil inventory demand, and oil supply shock. There are several reasons why commodity prices co-move:

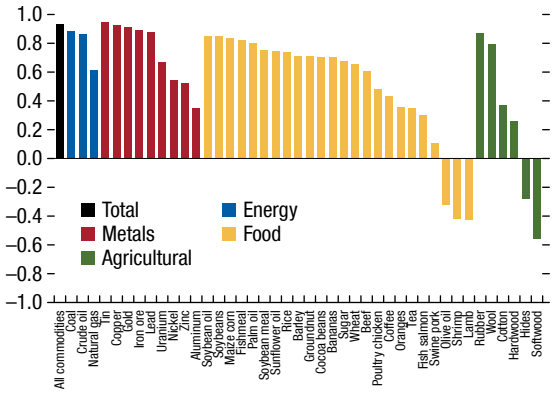
- Energy is a crucial input for production and transportation of all commodities. Agriculture and mining are now mostly mechanized. At the global level, oil, natural gas, and coal represent around 80 percent of total energy consumption. In addition, natural gas is a key input for the production of fertilizer and most chemical products. Therefore, changes in the price of energy commodities (oil, natural gas, coal) prices tend to pass through to other commodity prices.
- Substitution effects between similar commodities (such as oil and natural gas or wheat and corn) tend to equalize prices between these commodities. Competition between uses can have the same effect: land can be used to grow crops for either food or bio-fuel demand, creating a transmission channel between oil and crop prices (see, for example, Baumeister and Kilian 2014).
- Commodity prices share common drivers, namely global activities. For instance, China's demand in particular has played a growing role, given its rapid development and urbanization, which has resulted in higher demand for many commodities such as oil, copper, and iron ore (see, for example, Gauvin and Rebillard 2018).
- Finally, commodities have been increasingly used as financialized assets (Tang and Xiong 2012). Index investment into commodities has triggered an increase in correlation across commodity prices (for those commodities included in the index).

Figure 2.2.1. Cumulative Explanatory Power of Components
(Percent)



Source: IMF staff calculations.
Note: The vertical axis displays percentage of the model explained by the principal component analysis. The horizontal axis displays the number of components used in the model.

Figure 2.2.2. Correlation of First Principal Component with Commodity Prices



Source: IMF staff calculations.

This box was prepared by Cyril Rebillard.

[1]Excluding natural gas, not available before 1992; coal, not available before 1990; and fish meals, not available after 2018.

Box 2.3. The Evolving Correlation between the US Dollar and the Oil Price

This box evaluates the evolving correlation between the US dollar and the oil price and explores potential factors that contributed to the observed positive correlation since early 2020 and, occasionally, before 2000. Three factors are offered as potential explanations that warrant further investigation, without precluding alternative or complementary explanations.

The (monthly) correlation between the US dollar and the oil price has varied over the last five decades. From the 1970s to the 1990s, the correlation alternated between positive and negative signs. Since the 2000s, the correlation remained negative for two decades, wherein a rise (fall) in oil prices coincided with a depreciation (appreciation) of the US dollar. Recently, however, this long-standing negative correlation has shifted, turning positive since the early 2020s (Figure 2.3.1).

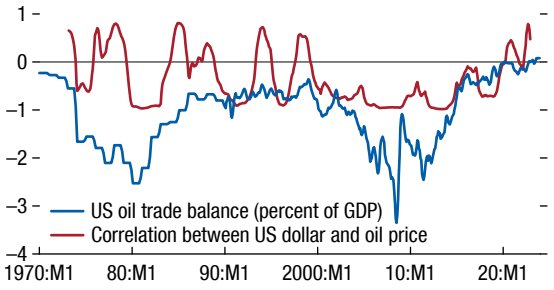
The changing correlations between the US dollar and the oil price can be examined through the prism of the distinct response of the US dollar to oil price shocks, mimicking a regime change. Using monthly data spanning from January 1975 to May 2023, this box estimates the US dollar response to the four structural shocks identified from Baumeister and Hamilton (2019)—oil supply shocks, oil consumption demand shocks, oil inventory demand shocks, and global economic activity shocks—on a rolling sample with a 36-month window.[1]

During periods of positive correlation between the US dollar and the oil price, the US dollar appreciates in response to negative oil supply shocks that lead to an oil price increase, while the US dollar shows no significant response to the other three shocks. In contrast, during periods of negative correlation, the US dollar depreciates in response to any of the four structural shocks that increases the oil price. Figure 2.3.2 illustrates this contrast for the US dollar response to oil supply and global activity shocks over two subperiods with negative (2000–19) and positive (2020:M1 to 2023:M5, post-2020) US dollar–oil correlations.[2]

These patterns of correlations are associated with three factors as potential explanations, with no claim of being conclusive or exclusive: for the post-2020 correlation, the shift of the United States from a net oil importer to a net exporter; and for the longer sample period, bouts of high global risk aversion and changes in foreign investors' purchase of US assets.

First, the shift of the correlation observed in early 2020 coincided with the United States transitioning from a net oil importer to a net oil exporter, which is consistent with the historically estimated response of oil exporter and importer currencies to negative supply shocks. This interpretation is also supported by the rolling window regressions that control for the US net oil import share, which find the dollar responding less to negative oil supply shocks, with the strongest effect estimated in the post-2020 samples (Online Annex Figure 2.9.1).

Figure 2.3.1. US Oil Trade Balance and Rolling Correlations between Oil Price and the US Dollar



Sources: Federal Reserve Board; IMF, Primary Commodity Price System database; IMF, World Economic Outlook database; Trade Data Monitor; and IMF staff calculations.
Note: The red line illustrates the rolling correlation between oil price and the US dollar with a 36-month window spanning from January 1973 to May 2023. The blue line represents the US oil trade balance. Monthly US oil trade balance data are available from 1990. Prior to 1990, annual US oil trade balance data are used.

This box was prepared by Ting Lan.

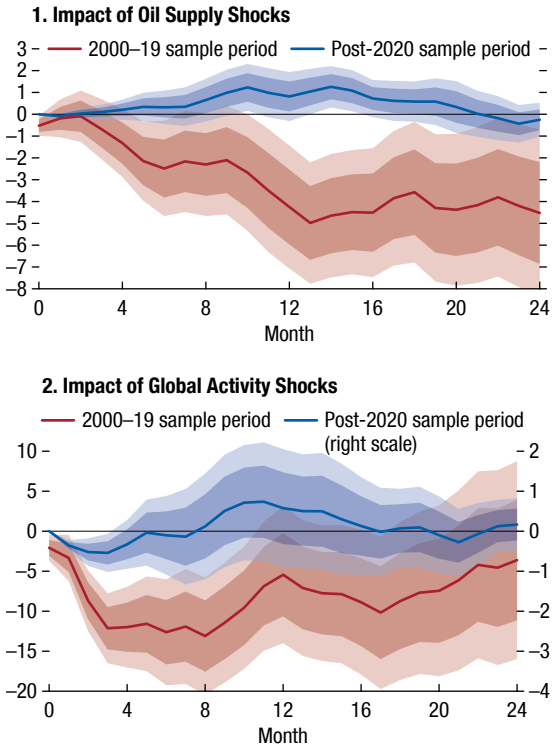
[1]A rolling window time series instrumental variables local projections is estimated using a rolling sample with a 36-month window (see Online Annex 2.2 for technical details). The results are robust to alternative window sizes.

[2]The US dollar's response to oil consumption and inventory demand shocks mirrors its response to global economic activity shocks.

Box 2.3 *(continued)*

Figure 2.3.2. Impact of Oil Price Shocks on the US Dollar over Different Sample Periods

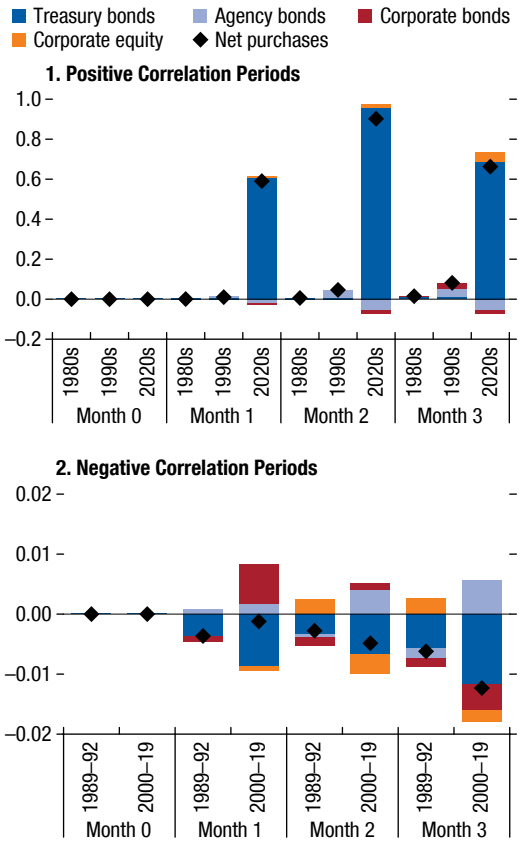
(Percent)



Source: IMF staff calculations.
Note: Impulse responses show the effects of an oil supply shock or a global activity shock that increases oil price by 10 percent on impact with 68 and 90 percent confidence intervals in a time series local projections exercise, using different sample periods.

Figure 2.3.3. Responses of Foreign Investors' Net Purchase of US Assets Following Negative Oil Supply Shocks

(Percent of US GDP)



Sources: Federal Reserve; and IMF staff calculations.
Note: The panels illustrate the foreign investors' net purchase of the US assets for the first three months following a negative oil supply shock that increases real oil price by 1 percent on impact, during positive and negative correlation periods, respectively.

Second, the increase in global risk aversion can also be a potential contributing factor to the positive correlation. Comparison of rolling regressions indicates that during periods with a positive US dollar–oil correlation (such as 1976, 1987, 1997, and post-2020), the US dollar appreciates less in response to a negative oil supply shock, after controlling for the global risk aversion—measured by the residual obtained from regressing BAA spreads on US monetary policy shocks[3] (Online Annex Figure 2.9.2).

[3]The result is robust to alternative measures of global risk aversion, including short-term volatility indexes and the high-yield corporate bond spread.

Another potential explanation can be found in the change in foreign investors' purchase of US assets, which turned from net sales to net purchases during the periods of positive correlation between the US dollar and the oil price (Figure 2.3.3). During the positive correlation periods, foreign net purchase of US assets was estimated to be positive in response to a negative oil supply shock while having had little responses to the other three shocks. This increased demand for US assets can exert upward pressure on the US dollar, all else

Box 2.3 *(continued)*

being equal.[4] During negative correlation periods, including most of the 2000s, foreign net purchase of US assets was negative in response to all four types of shocks that increase the oil price.

These three factors are neither mutually exclusive nor exhaustive. The change in foreign investor behavior could be associated with the heightened global risk aversion, as foreign investors seek the relative safety of US assets. Nor do they preclude other contributing factors. For example, investor behavior changes can be associated with other macroeconomic developments, such as a larger interest rate differential due to relatively tight US monetary policy. More generally, the well-known challenge of accounting for exchange rate movements applies to this question about the US dollar–oil price correlation, calling for further investigation of other channels and statistical evidence.

[4]Several papers have shown that changes in the relative demand for US assets can affect asset prices, including exchange rate and government bond yields under segmented market assumptions (for example, Greenwood and Vayanos 2014 and Koijen and Yogo 2020). It should also be noted that the United States shifting to a net energy exporter could be one reason for this change in investment behavior.

Box 2.4. Macroeconomic Impact of Energy Transition: The Case of Commodity Exporters

This box draws on IMF's Flexible System of Global Models (FSGM) to explore the potential macroeconomic and external sector effects of a global transition to clean energy technologies on commodity exporters, differentiating between exporters of fossil fuels (an input of the old emission intensive technology) and exporters of critical metals (an input of the new and clean technology).

The energy transition is considered heuristically as policies (for example, carbon taxation or subsidies for electric cars) that reduce the demand for fossil fuels relative to the demand for critical metals. The resulting energy transition is simulated in a stylized manner as a permanent 20 percent decline in the real price of oil and a permanent 20 percent increase in the real price of copper—a critical metal for green transition. The findings of the box are broadly consistent with other, more structural analyses (Carton and others 2023; Chapter 3 of the October 2022 *World Economic Outlook*), which used alternative global structural models to directly analyze the effects of a set of mitigation policies, including carbon taxation and green subsidies to the renewable sector. However, this box goes beyond these studies to highlight the potential implications for a major copper exporter.

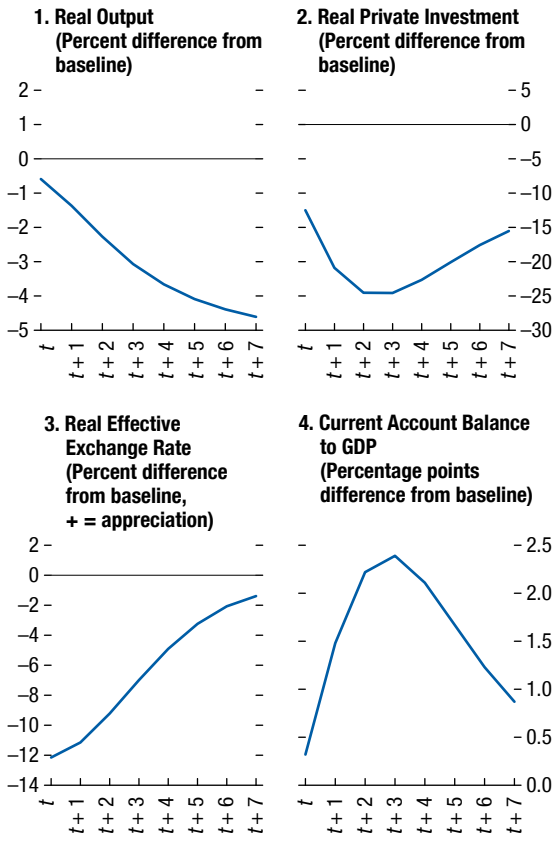
Macroeconomic impact on exporters of fossil fuels. The impact on oil exporters is analyzed using G20MOD, a version of FSGM that includes a bloc of representative major oil exporters. Figure 2.4.1 shows results in percent deviations from the current World Economic Outlook baseline. Permanently lower oil prices reduce the return on capital, leading firms to cut investment sharply and for an extended period of time until a lower desired level of capital is reached. These firms also cut their demand for labor, reducing household income and consumption. Central banks cut the interest rate to support the economy, while the real exchange rate depreciates to facilitate the adjustment. As such, real exports of noncommodities improve and real imports fall. The large drop in investment implies an improvement in the current account balance, while output declines incrementally.

Macroeconomic impact on exporters of metals. The impact on exporters of metals is analyzed using a version of FSGM for Latin America. Simulations are shown for Chile, which is the largest world exporter of copper, one of the metals that stands to gain the most from the clean energy transition. As in the previous simulation, results are shown in percent deviation from the current World Economic Outlook baseline (Figure 2.4.2). In response to permanently higher copper prices, the exporter's current account turns sharply negative, driven by a large investment boom in the copper-producing industry. In addition to higher investment, firms hire more workers, resulting in higher consumption and rising real output in combination with the investment boom. Central bank hikes interest rates and real exchange appreciates, contributing to weaker real exports and trade balance.

This box was prepared by Jiaqian Chen, Rafael Portillo, and Pedro Rodriguez.

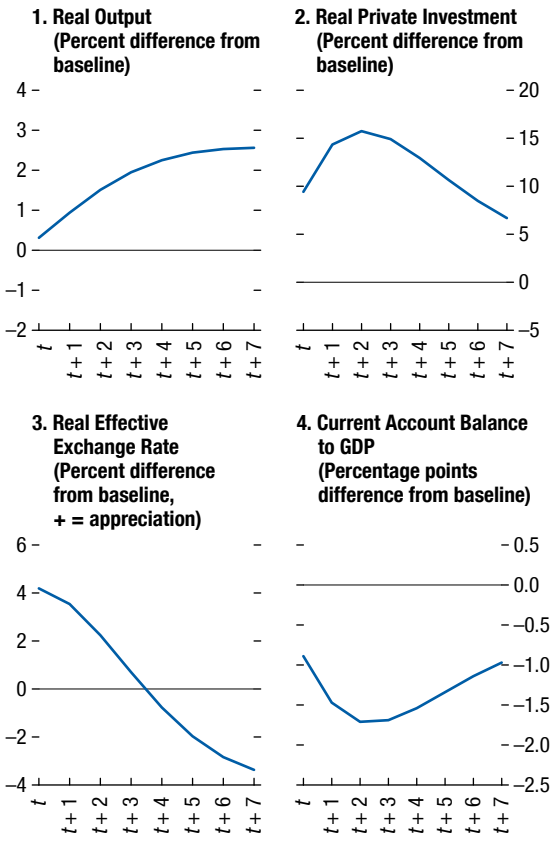
Box 2.4 *(continued)*

Figure 2.4.1. Impulse Response to a Permanent Decline in Global Real Oil Prices in the Flexible System of Global Models



Source: IMF staff calculations.
Note: The panels depict the impact of a permanent decline in real oil prices on a group of representative oil exporters.

Figure 2.4.2. Impulse Response to a Permanent Increase in Global Real Copper Prices in the Flexible System of Global Models



Source: IMF staff calculations.
Note: The panels depict the impact of a permanent increase in real copper prices in Chile.

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CHAPTER 3

2023 INDIVIDUAL ECONOMY ASSESSMENTS

Methodology and Process

The individual economy assessments use a wide range of methods to form an integrated and multilaterally consistent view of economies' external sector positions. These methods are grounded in the latest vintage of the External Balance Assessment (EBA), developed by the IMF's Research Department to estimate desired current account balances and real exchange rates.[1] Model estimates and associated discussions on policy distortions (see Box 3.1 for an example) are accompanied by a holistic view of other external indicators, including capital and financial account flows and measures, foreign exchange intervention and reserves adequacy, and foreign asset or liability positions.[2] The policy discussion in the individual economy assessments highlights policies and reforms that contribute to supporting convergence toward (or maintenance of) external balance, in the context of a summary of the overall policy advice.

The EBA models provide numerical inputs for the identification of external imbalances but, in some cases, may not sufficiently capture all relevant economic characteristics and potential policy distortions. In such cases, the individual economy assessments may need to be complemented by analytically grounded judgment and economy-specific insights in the form of adjustors. IMF staff members estimate an economy's current account gap by combining the EBA model's current account gap estimate with adjustors. The IMF staff estimates the real effective exchange rate (REER) gap consistent with the staff current account gap by applying a country-specific elasticity, although in some cases additional information is used, such as the EBA REER regression models and unit-labor-cost-based measures to arrive at the staff REER gap estimate. To integrate country-specific judgment in an objective, rigorous, and evenhanded manner, a process was developed for multilaterally consistent external assessments for the 30 largest economies, representing about 90 percent of global GDP. These assessments are also discussed with the respective authorities as part of bilateral surveillance.

External assessments are presented in ranges, in recognition of inherent uncertainties, and in different categories generally reflecting deviations of the overall external position from fundamentals and desired policies. As reported in Annex Table 1.1.2 (Chapter 1), the ranges of uncertainty for IMF staff–assessed current account gaps are based on country-specific estimated measures. For the REER, the ranges of uncertainty vary by country, reflecting country-specific factors, including different exchange rate semi-elasticities applied to the staff-assessed current account gaps. Overall external positions are labeled as either "broadly in line," "moderately weaker (stronger)," "weaker (stronger)," or "substantially weaker (stronger)." (See Table 3.A) The criteria for applying the labels to overall external positions are multidimensional.

Regarding the wording to describe the current account and REER gaps, (1) when comparing the cyclically adjusted current account with the current account norm, the wording "higher" or "lower" is used, corresponding to positive or negative current account gaps, respectively; (2) a quantitative estimate of the IMF staff's view of the REER gap is generally reported as ( ) percent "over" or "under" valued. External positions that are labeled as being "broadly in line" are consistent with current account gaps in the range of ±1 percent of GDP as well as REER gaps in a range that reflects the country-specific exchange rate semi-elasticity (for example, ±5 percent based on an elasticity of –0.2).

Selection of Economies

The 30 systemic economies analyzed in detail in this report and included in the individual economy assessments are listed in Table 3.B. They were generally chosen on the basis of a set of criteria, including each economy's global rank in terms of purchasing power GDP, as reported in the IMF's *World Economic Outlook*, and in terms of the level of nominal gross trade and degree of financial integration.

[1]See Allen and others (2023) for a complete description of the EBA methodology and for a description of the most recent refinements.

[2]The individual economy assessments for 2023 are based on external sector data as of May 20, 2024 and IMF staff projections in the April 2024 *World Economic Outlook*.

Table 3.A. Description in *External Sector Report* Overall Assessment

CA Gap	REER Gap (Using Elasticity of –0.2)	Description in Overall Assessment
>4%	<–20%	. . . substantially stronger . . .
2%, 4%	–20%, –10%	. . . stronger . . .
1%, 2%	–10%, –5%	. . . moderately stronger . . .
–1%, 1%	–5%, 5%	The external position is broadly in line with fundamentals and desirable policies.
–2%, –1%	5%, 10%	. . . moderately weaker . . .
–4%, –2%	10%, 20%	. . . weaker . . .
<–4%	> 20%	. . . substantially weaker . . .

Table 3.B. Economies Covered in the *External Sector Report*

Argentina	Euro area	Italy	Poland	Sweden
Australia	France	Japan	Russia	Switzerland
Belgium	Germany	Korea	Saudi Arabia	Thailand
Brazil	Hong Kong SAR	Malaysia	Singapore	Türkiye
Canada	India	Mexico	South Africa	United Kingdom
China	Indonesia	The Netherlands	Spain	United States

Box 3.1. Assessing Imbalances: The Role of Policies—An Example

A two-country example: To clarify how to analyze policy distortions in a multilateral setting and how to distinguish between domestic policy distortions, which may require a country to take action to reduce its external imbalance, and foreign policy distortions, which require no action by the home country (but for which action by the other would help reduce the external imbalance), consider a stylized example of a two-country world.

- Country A has a large *current account deficit* and a large fiscal deficit, as well as high public and external debt.
- Country B has a *current account surplus* (matching the deficit in Country A) and a large creditor position but has no policy distortions.

Overall external assessment: The analysis would show that Country A has an external imbalance reflecting its large fiscal deficit. Country B would have an equal and opposite surplus imbalance. Country A's exchange rate would look overvalued and Country B's undervalued.

Policy gaps: The analysis of policy gaps would show that Country A has a domestic policy distortion that needs adjustment. The analysis would also show that there are no domestic policy gaps in Country B—instead, adjustment by Country A would automatically eliminate the imbalance in Country B.

Individual economy write-ups: While the estimates of the needed *current account adjustment* and associated *real exchange rate change* would be equal and opposite in both cases (given there are only two economies in the world), the individual economy assessments would identify the different issues and risks facing the two economies.

- In the case of Country A, the *capital flows and foreign asset* and *liability position* sections would note the vulnerabilities arising from international liabilities, and the *potential policy response* section would focus on the need to rein in the *fiscal deficit* and limit *financial excesses*.
- For Country B, however, as there were no domestic policy distortions, the write-up would find no fault with policies and would note that adjustment among other economies would help reduce the imbalance.

Implications: It remains critical to distinguish between domestic and foreign fiscal policy gaps. The elimination of the fiscal policy gap in a systemic deficit economy would help reduce excessive surpluses in other systemic economies. More generally, policy actions that contribute to addressing external imbalances relate to the determinants of current account balances, namely the private and public saving-investment balances. Structural or policy distortions can contribute to excessive or inadequate saving and investment, and the policy advice in the individual economy assessments highlights reforms and policy changes that can contribute to addressing these gaps. Policy advice also seeks to address vulnerabilities associated with external stock positions, including reserves, as well as foreign exchange intervention policies.

Abbreviations and Acronyms

Adj.	adjusted
ARA	assessing reserve adequacy
CA	current account
CFM	capital flow management
COVID-19	Coronavirus disease 2019
CPI	consumer price index
Cycl.	cyclically
EBA	External Balance Assessment
EU	European Union
FDI	foreign direct investment
FX	foreign exchange
GDP	gross domestic product
Liab.	liabilities
NEER	nominal effective exchange rate
NIIP	net international investment position
REER	real effective exchange rate
Res.	residual
SDR	special drawing right
TARGET2	Trans-European Automated Real-time Gross Settlement Express Transfer System
ULC	unit labor cost

Table 3.1. Argentina: Economy Assessment

Overall Assessment: *The external position in 2023 was weaker than the level implied by medium-term fundamentals and desirable policies, an assessment based holistically on elevated external debt vulnerabilities, depleted international reserves and no access to international capital markets.*

Policy Responses: Continued implementation of the ambitious stabilization plan, centered on a strong fiscal anchor, relative price corrections and structural reforms, is necessary to strengthen the trade balance, support FDI and capital repatriation, rebuild international reserves, regain market access, and safeguard external sustainability. As stability is reestablished, a gradual conditions-based easing of CFM measures will be needed, while remaining multiple currencies practices (MCP) and exchange restrictions should be phased out as early as possible.

Foreign Asset and Liability Position and Trajectory	**Background.** Argentina's NIIP doubled in USD terms during 2016-19 reflecting a large increase in private sector foreign assets, which was partly offset (and likely triggered) by an increase in the public sector's external liability (over US$60 billion). Since 2019, the external position has remained positive and relatively stable (at around US$110 billion), although gross assets and liabilities moved substantially. In the case of the public sector, significant declines in reserve assets (US$22 billion) were balanced by a decline in privately held debt.[1] Meanwhile, the generally unchanged private sector external position reflects increases in private deposits abroad (about US$60 billion)[2], offset by increases in private liabilities in the form of trade credit. **Assessment.** Argentina has a large positive NIIP, mostly reflecting households' holdings of external assets, while the government's foreign position remains in deep negative territory (US$130 billion) with rising trade credit adding to vulnerabilities.[3]				
2023 (% GDP)	NIIP: 17.0	Gross Assets: 68.1	Res. Assets: 3.6	Gross Liab.: 51.2	Ext. Debt.: 44.5

Current Account	**Background.** The CA reached a deficit of 3.4 percent of GDP in 2023, compared to a deficit of 0.7 percent in 2022, on account of a sharp reduction in exports (due to the drought) and an insufficient compression in imports. The CA balance is projected to reach a surplus of 0.6 percent in 2024, driven by a recovery in grain exports and a significant demand compression. In the medium term, the CA is expected to reach a surplus of about 1.5 percent of GDP supported by a competitive exchange rate, and stronger energy balance. **Assessment.** The cyclically adjusted CA balance reached a deficit of 3.6 percent of GDP in 2023, before accounting for the transitory impact from the drought (about 2.4 percent of GDP).[4] Considering Argentina's weak reserve coverage and heightened external liabilities, external sustainability considerations suggest a CA norm of 1.5 percent of GDP, which would be consistent with bringing reserves near 100 percent of the ARA metric over the medium-term. As such, IMF staff assesses the CA gap to be –2.6 ±1 percent of GDP.					
2023 (% GDP)	CA: –3.4	Cycl. Adj. CA: –3.6	EBA Norm: 0.4	EBA Gap: –3.9	Staff Adj.[5]: 1.3	Staff Gap: –2.6

Real Exchange Rate	**Background.** The REER, after depreciating by more than 25 percent between end-2016 and end-2019, appreciated by over 30 percent through end-2022 and an additional 17 percent through end-November 2023. In mid-December, a step devaluation (about 120 percent against the USD) was implemented to correct the large exchange rate misalignment. Since then, the REER has appreciated by over 40 percent through end-March, bringing it broadly in line with IMF staff's estimate of the equilibrium level. **Assessment.** Staff-assessed CA gap implies a REER gap of about 22 percent in 2023 (with an estimated elasticity of 0.12 applied).[6] Overall, staff assesses the REER gap to have been in the range of 33 to 38 percent just before the December 2023 step devaluation, and in the range of 20 to 25 percent on average in 2023 (also consistent with the EBA REER index model).
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Exchange restrictions, CFM and MCP measures were introduced in late 2019 and were intensified further in 2023, including through (i) incentives to encourage export liquidation, (ii) taxes on FX access for imports, and (iii) financing requirements for imports, which led to an unprecedented rise in private commercial debt. Since mid-December, the previous opaque system of administrative import controls has been replaced by a more transparent system, with a shorter delay in FX access (45 days on average), and a large share of excess commercial debt backlog has been reprofiled or resolved. **Assessment.** While CFMs are not a substitute for sound macroeconomic policies, they may be needed in the near term as imbalances are being addressed. That said, more distortive exchange restrictions and MCP measures should be phased out as early as possible.
FX Intervention and Reserves Level	**Background.** Gross international reserves fell sharply (by over US$20 billion) last year, reaching US$23 billion by end-2023, their lowest level since 2004. Meanwhile, NIR reached $–8.5 billion. Since December 10, the BCRA has purchased over US$15 billion in FX assets through end-April. **Assessment.** Reserve coverage remains inadequate. Gross international reserves are estimated to have fallen to only around 30 percent of the IMF's composite metric by end-2023.

Table 3.2. Australia: Economy Assessment

Overall Assessment: *The external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA surplus expanded marginally from 1.1 percent of GDP in 2022 to 1.2 percent of GDP in 2023, as service exports continue their recovery from the pandemic while the effect of lower prices on commodity exports was partly offset by lower dividend outflows. In the medium term, the CA is projected to return to a slight deficit as commodity prices further decline, savings return to historical levels, and investment picks up.

Potential Policy Responses: Given the positive output gap in the near term and still elevated inflation, fiscal and monetary restraint remains warranted for Australia. While the closing of the output gap will push the CA surplus higher, this should be offset by structural policies that boost investment (rebalancing taxes from direct to indirect taxes, executing planned infrastructure investment, streamlining product market regulation, promoting research and development and innovation investment). Australia's commitment to a floating exchange rate should help keep the external position in line with fundamentals going forward. Australia should continue to support an open trade environment, including in regional and multilateral trade agreements.

Foreign Asset and Liability Position and Trajectory	**Background.** Australia's NIIP improved to –31.9 percent of GDP at the end of 2023, from –38.0 percent of GDP in 2022, driven by the CA surplus, revaluation effects of foreign equities, and rising interest rates that have reduced the market value of external debt. While 61 percent of Australia's gross liabilities are debt obligations, around half of the debt liabilities are denominated in domestic currency, while assets are largely denominated in foreign currency. Foreign liabilities are composed of about one-quarter FDI, one-half portfolio investment (principally banks' borrowing abroad and foreign holdings of government bonds), and one-quarter other investments and derivatives. **Assessment.** The NIIP level and trajectory are sustainable. The structure of Australia's external balance sheet reduces the vulnerability associated with its negative NIIP. With a positive net foreign currency asset position, a nominal depreciation tends to strengthen the external balance sheet, all else being equal. The banking sector's net foreign currency liability position is mostly hedged, and the maturity of banks' external funding has lengthened since the global financial crisis. The government's balance sheet remains strong and can provide credible support in a tail-risk event in which domestic banks suffer a major loss.

2023 (% GDP)	NIIP: –31.9	Gross Assets: 148.6	Debt Assets: 37.2	Gross Liab.: 180.5	Debt Liab.: 80.1

Current Account	**Background.** After decades of CA deficits, the CA balance has been in surplus since 2019, due to an upswing in export commodity prices. In 2023, the CA balance remained close to its 2022 level, at 1.2 percent of GDP, reflecting stable aggregate savings and investment ratios. The merchandise trade balance moderated from 6.5 percent of GDP in 2022 to 4.8 percent of GDP in 2023, as terms of trade have deteriorated. The trade surplus is partially offset by a 3.5 percent of GDP deficit in the primary income balance (due to dividend payments on Australia's equity liabilities, especially in the mining sector), while the services balance recorded a small surplus of 0.1 percent of GDP (as tourism and education service exports continue to recover from the pandemic-related decline). The CA surplus is largely explained by cyclical factors and is expected to gradually return to a small deficit over the medium term as commodity prices decline while investment picks up. **Assessment.** The EBA model estimates a cyclically adjusted CA balance of 0.3 percent of GDP compared with a CA norm of –0.6 percent of GDP, suggesting a model-based CA gap of 0.9 percent of GDP. The small CA gap is largely explained by the negative domestic credit gap and by tighter fiscal policy relative to the rest of the world.

2023 (% GDP)	CA: 1.2	Cycl. Adj. CA: 0.3	EBA Norm: –0.6	EBA Gap: 0.9	Staff Adj.: 0	Staff Gap: 0.9

Real Exchange Rate	**Background.** In 2023, the Australian dollar depreciated slightly against the US dollar, possibly reflecting a decline in iron ore prices and the interest rate differential. In real effective terms, the exchange rate was broadly stable and slightly higher than the average level of the past five years. As of April 2024, the REER was 1.8 percent above the 2023 average. **Assessment.** Staff's CA gap implies a REER gap of –5.3 percent (applying an estimated elasticity of 0.17). The EBA REER level model points to an overvaluation of 20.6 percent, while the index model points to an undervaluation of 10.6 percent. Consistent with the CA gap, staff assesses the REER gap to be in a range of –8.7 to –1.9 percent, with a midpoint of –5.3 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The financial account recorded net outflows in 2023, driven by a net outflow in financial derivatives and portfolio investment. Net FDI and other investment inflows turned positive in 2023. **Assessment.** Vulnerabilities related to the financial account remain contained, supported by a credible commitment to a floating exchange rate.
FX Intervention and Reserves Level	**Background.** The currency has been free-floating since 1983. The central bank has not intervened in the FX market since the global financial crisis. The value of reserve assets recorded a slight increase in 2023 to A$94 billion, from A$85 billion at the end of 2022. **Assessment.** The authorities are strongly committed to a floating regime, which reduces the need for reserve holdings. Although domestic banks' external liabilities remain sizable, they are either in local currency or hedged. Hence, reserve needs for prudential reasons are also limited.

Table 3.3. Belgium: Economy Assessment

Overall Assessment: *Belgium's external position in 2023 was weaker than the level implied by medium-term fundamentals and desirable policies.* The CA balance remained in deficit of –1.0 percent of GDP in 2023, after a swing to deficit from surplus position in 2022 because of a sharp deterioration of the trade balance driven by an increase in net imports of mineral fuels and decline in pharmaceutical exports. The CA deficit is expected to narrow in the medium term as external demand recovers and competitiveness improves, but the outlook remains marred with uncertainty.

Potential Policy Responses: Successive shocks have increased Belgium's structural fiscal deficits and public debt. In addition, given mounting spending pressures from an aging population, policies in the near and medium terms should focus on rebuilding fiscal buffers through a credible, expenditure-led consolidation that also creates space to support green and digital transformation. Public investment should be preserved or increased to mitigate growth impacts of fiscal consolidation. Policies should also focus on strengthening competitiveness through significant structural reforms, including of the wage indexation system, pension and social benefits, tax, and the labor and product markets. These steps are expected to bring the external position closer in line with medium-term fundamentals and desirable policy settings.

Foreign Asset and Liability Position and Trajectory	**Background.** Belgium's NIIP increased to 65 percent of GDP at the end of 2023, from 58 percent of GDP in 2022. The improvement comprised of a modest increase in gross foreign assets of 3 percentage points of GDP from 2022 and a decline in gross foreign liabilities of 4 percentage points of GDP. Net portfolio investment remained the main component of the positive NIIP and was stable at 36 percent of GDP in 2023, supported by strong positive price effects. Higher market valuations for FDI also caused the net direct investment to increase to 30 percent of GDP (up 0.3 percentage point of GDP). Net other investment liabilities dropped to 7.3 percent of GDP at the end of 2023 from a high of 13 percent of GDP in 2022, due to positive income flows driven by an increase in Belgian foreign investment. **Assessment.** Based on the projected CA deficit and growth paths, the NIIP-to-GDP ratio is expected to decline. This trajectory does not raise sustainability concerns given the large and positive NIIP. Belgium's large gross international asset and liability positions are elevated by the presence of corporate treasury units, which do not appear to create macro-relevant mismatches.				
2023 (% GDP)	NIIP: 65	Gross Assets: 423	Debt Assets: 132	Gross Liab.: 358	Debt Liab.: 154

Current Account	**Background.** The CA balance was a deficit of 1.0 percent of GDP in 2023, unchanged from 2022. The effect of higher inflation on wages and social benefits due to indexation, and higher outlays due to the aging population weighed on public net savings in 2023. This was however offset by weakening residential property investment. While the trade deficit remained unchanged at 1.6 percent of GDP in 2023, the decline in goods deficits to 0.6 percent of GDP (from a record high of 1.4 percent of GDP in 2022) was offset by an increase in services deficits to 1.0 percent of GDP (from 0.2 percent of GDP in 2022). The primary income balance increased by 0.5 percentage point of GDP to 2.0 percent of GDP and current transfers declined to –1.4 percent of GDP in 2023. Overall, volatility in the trade and primary income balances is driven in part by sizable operations of multinationals in Belgium and large data revisions. **Assessment.** The EBA model estimates a CA norm of 3 percent of GDP, against a cyclically adjusted CA balance of –0.6 percent of GDP, implying a gap of –3.6 percent of GDP. This is within a range estimated by IMF staff for the CA gap of between –4.0 and –3.2 percent of GDP, applying the standard error of the CA norm estimated at ±0.4 percent of GDP.					
2023 (% GDP)	CA: –1.0	Cycl. Adj. CA: –0.6	EBA Norm: 3.0	EBA Gap: –3.6	Staff Adj.: 0	Staff Gap: –3.6
Real Exchange Rate	**Background.** Both the REER based on CPI and ULC continued to appreciate in 2023, respectively, by 1.3 percent and 2.9 percent (year over year), with a cumulative appreciation during 2019–23 of 2.5 percent and 6.4 percent, respectively. The stronger appreciation of the ULC-based REER reflected more rapid and higher wage increases due to automatic wage indexation in Belgium. As of April 2024, the CPI-based REER (ULC-based REER) was 0.8 percent (1.1 percent) above its 2023 average. **Assessment.** The IMF staff–assessed CA gap implies a REER overvaluation in the range of 4.6 to 5.8 percent, with a midpoint of 5.2 percent (applying an estimated elasticity of the CA balance to the REER of 0.69). The EBA REER index model points to an overvaluation of 8.8 percent, while level model points to an appreciation of 20.6 percent.					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The balance-of-payments financial account balance was negative in 2023, with flows of foreign liabilities exceeding flows of foreign assets by about €6.5 billion (–1.1 percent of GDP). The portfolio investment balance was strongly negative at €21.9 billion (–3.8 percent of GDP) because of purchases of Belgian government bonds by nonresidents. The direct investment balance turned negative for the first time since 2019 at –€8.8 billion (–1.5 percent of GDP), as both assets and liabilities were reduced due largely to the repayment of outstanding loans. The balance of other investment was strongly positive at €26.4 billion (4.5 percent of GDP), as gross assets and liabilities increased owing to financial transactions in the banking sector, with a more pronounced increase on the assets side. Short-term external debt increased marginally to 32 percent of gross external debt in 2023 (from an average of 28 percent in 2018–22). Belgium has an open capital account. **Assessment.** Belgium remains exposed to financial market risks and vulnerabilities associated with high external public debt. Vulnerabilities are limited by the large, positive NIIP.					
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.					

Table 3.4. Brazil: Economy Assessment

Overall Assessment: *The external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA deficit narrowed to 1.4 percent of GDP in 2023 and is expected to remain around 1.5 percent of GDP over the medium term as oil exports increase and net public savings improve. Risks to Brazil's external position over the medium term relate to uncertainties to global financial conditions and insufficient progress on domestic reforms.

Potential Policy Responses: Policies that would help keep the CA in line with its norm include efforts to raise national savings, providing room for a sustainable expansion in investment. Fiscal consolidation should continue contributing to increase net public savings. Structural reforms that improve efficiency and reduce the cost of doing business would help strengthen competitiveness. Industrial policies should remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, avoid increasing barriers to trade and investment, and not favor domestic producers over imports.

Foreign Asset and Liability Position and Trajectory	**Background.** Brazil's NIIP dropped to –44.9percent of GDP in 2023, from –42.2 percent of GDP in 2022, partly reflecting continued FDI and portfolio inflows. The NIIP is projected to be below –40 percent of GDP over the medium term, in line with projected CA deficits offset by robust nominal GDP growth. FDI will continue to account for more than half of all liabilities. At the end of 2023, external debt declined to 33.7 percent of GDP and 208 percent of exports, from around 35 percent of GDP and 200 percent of exports in 2022. **Assessment.** The NIIP has been negative since the series was first published in 2001. Over the medium term, gross external financing needs are moderate at below 10 percent of GDP annually, with capital flows and the exchange rate sensitive to global financing conditions.				
2023 (% GDP)	NIIP: –44.9	Gross Assets: 46.5	Res Assets: 16.3	Gross Liab.: 91.4	Debt Liab.: 33.7

Current Account	**Background.** The CA deficit narrowed to 1.4 percent of GDP in 2023 from 2.5 percent in 2022, on the back of a sizable trade balance surplus of 3.7 percent of GDP (compared with 2.3 percent in 2022). The record-high trades surplus (owing to strong agriculture and oil exports and lackluster imports) reflected partly the structural change in the export sector and was offset by high deficits in transport services and primary income related to profits and dividends. From a saving-investment perspective, the CA deficit reflects the saving-investment deficit of the public sector partially offset by the saving-investment surplus of the private sector. The CA deficit is expected to remain at around 1.5 percent of GDP over the medium term, supported by higher oil exports and improved net public savings. **Assessment.** In 2023 the cyclically adjusted CA balance was –1.7 percent of GDP, and EBA estimates suggest a cyclically adjusted CA norm of –1.9 percent of GDP. IMF staff estimate the CA gap to be in the range of –0.4 and 0.7 percent of GDP, with a midpoint of 0.2 percent of GDP. EBA-identified policy gaps are estimated at –0.4 percent of GDP, reflecting positive credit growth and the more expansionary fiscal policy stances in Brazil relative to trading partners.					
2023 (% GDP)	CA: –1.4	Cycl. Adj. CA: –1.7	EBA Norm: –1.9	EBA Gap: 0.2	Staff Adj.: 0.0	Staff Gap: 0.2

Real Exchange Rate	**Background.** Continuing the appreciation trend in 2020–22 (by around 8 percent), the REER appreciated by 4.6 percent in 2023 compared to the 2022 average, below the NEER appreciation of 11.6 percent, reflecting relatively low inflation in Brazil compared with its major trading partners. As of April 2024, the REER had depreciated by 0.5 percent relative to the 2023 average. **Assessment.** The IMF staff CA gap implies a REER gap of –1.7 percent in 2023 (applying an estimated elasticity of 0.12). The REER index model suggests a REER gap of –25.1 percent, while the REER level model suggests a REER gap of –11.2 percent. Consistent with the staff CA gap, staff assesses the REER gap to be in the range of –5.9 to 2.5 percent, with a midpoint of –1.7 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Brazil continues to attract sizable capital flows. Net FDI flows continued to finance the CA deficit, averaging 2.6 percent of GDP during 2015–22 (when CA deficits averaged 2.8 percent) before dropping to 1.7 percent of GDP in 2023. Portfolio investment registered net inflows of 0.3 percent of GDP. **Assessment.** The composition of capital flows is expected to have a favorable risk profile over the medium term, with positive net FDI inflows (above 1.5 percent of GDP) outweighing negative portfolio outflows (around 0.2 percent of GDP) and debt liabilities increasingly denominated by FDI liabilities. Nevertheless, uncertainties related to tighter global financial conditions and insufficient progress on reforms pose downside risks to capital flows.
FX Intervention and Reserves Level	**Background.** Brazil has a floating exchange rate. While FX interventions in 2022 relied on spot, repo, and FX swap markets to ensure smooth market functioning, the authorities did not intervene in the FX markets in 2023 amid resilient FX performance. The outstanding stock of the FX swap, a nondeliverable future settled in local currency, stayed around US$100 billion since 2022. International reserves increased by US$30 billion and reached US$355 billion at the end of 2023, mostly owing to valuation effects. **Assessment.** The flexible exchange rate has been an important shock absorber. Reserves remain adequate relative to various criteria, including the IMF's reserve adequacy metric (130 percent as of the end of 2023) and serve as insurance against external shocks. Intervention should be limited to alleviating disorderly FX market conditions.

Table 3.5. Canada: Economy Assessment

Overall Assessment: *The external position in 2023 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* The CA deficit widened slightly in 2023, mainly reflecting worsened terms of trade as energy and commodity prices normalized following the start of Russia's war in Ukraine. The widening of the CA deficit occurred despite a moderation in domestic demand reflected in lower imports (–0.8 percent decrease), higher exports reflecting stronger US demand, and a weakening in the real exchange rate.

Potential Policy Responses: Policies should aim to boost Canada's competitiveness in nonfuel goods exports and in services exports and to diversify Canada's export markets. These policies include (1) introducing measures to improve labor productivity, (2) removing nontariff trade barriers, (3) investing in R&D and physical capital, (4) investing in the green transformation, and (5) promoting FDI. Further, industrial policies should be pursued cautiously, remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, and aim to minimize trade and investment distortions. Tighter near-term fiscal policies as well as a medium-term fiscal consolidation plan would also help in stabilizing debt and supporting external rebalancing.

Foreign Asset and Liability Position and Trajectory	**Background.** Canada's NIIP position rose sharply to 57.7 percent of GDP in 2023 from 38.9 percent of GDP in 2022 (and up also from the five-year average of 40.7 percent of GDP), reflecting a rise in global equity prices (in the context of a somewhat weaker currency). Gross external debt increased to 143.4 percent of GDP (from 134.9 percent of GDP in 2022), of which around 41 percent is short term. **Assessment.** Canada's foreign assets have a higher foreign-currency component than its liabilities do, which provides a hedge against currency depreciation. The NIIP level and trajectory are sustainable.				
2023 (% GDP)	NIIP: 57.7	Gross Assets: 310.3	Debt Assets: 84.0	Gross Liab.: 252.5	Debt Liab.: 143.4

Current Account	**Background.** The estimated CA deficit reached 0.7 percent of GDP in 2023, slightly higher than the 0.4 percent of GDP deficit in 2022, mainly on account of lower energy prices (terms of trade fell by 6 percent year over year). But with savings somewhat higher than—and investment broadly in line with—the 2019–22 average, the CA deficit in 2023 was somewhat smaller than the average CA deficit of 1.1 percent of GDP during 2019–22. The CA is expected to remain in slight deficit over the medium term. Export growth is projected to slow, whereas import growth is projected to pick up on the back of recovering domestic demand, which is supported by a slightly expansionary near-term fiscal stance. **Assessment.** The cyclically adjusted CA was –1 percent of GDP in 2023, as against the EBA's CA norm for Canada of 2.3 percent of GDP, implying a gap of –3.3 percent of GDP for 2023. Part of this gap, however, is explained by biases in measuring inflation and retained earnings.[1] Taking these factors into account, IMF staff assess the CA gap to be in the range between –2.2 and –1.3 percent of GDP, with a midpoint of –1.8 percent of GDP.					
2023 (% GDP)	CA: –0.7	Cycl. Adj. CA: –1.0	EBA Norm: 2.3	EBA Gap: –3.3	Staff Adj.: 1.5	Staff Gap: –1.8

Real Exchange Rate	**Background.** The average REER for 2023 was 3.6 percent below the 2022 average, largely reflecting the strength of the US dollar. The REER in 2023 was around 2 percent weaker than the 2019–22 average. As of April 2024, the REER had depreciated by 1.3 percent relative to the 2023 average. **Assessment.** The EBA REER index model points to an overvaluation of 0.5 percent in 2023, while the REER level model suggests an undervaluation of 12.9 percent. Consistent with the staff CA gap, staff assess the REER to be overvalued by between 5.1 and 8.3 percent, with a midpoint of 6.7 percent (with a semi-elasticity of the CA with respect to the REER at 0.27).
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The financial account recorded net inflows due to other investments, moderated by outflows in FDI and portfolio investments. Specifically, FDI saw net outflows of 1.6 percent of GDP in 2023 (comparable with levels in 2022 and 2021) as did net portfolio flows of around 0.7 of GDP, moving from inflows of around 5.3 percent of GDP in 2022. This was offset by other investments which recorded inflows of around 3.2 percent of GDP as opposed to net outflows in 2022 of around 3 percent of GDP. Errors and omissions were small at 0.2 percent of GDP. **Assessment.** Canada has an open capital account. Vulnerabilities are limited by a credible commitment to a floating exchange rate.
FX Intervention and Reserves Level	**Background.** Canada has a free-floating exchange rate regime and has not intervened in the FX market since September 1998 (except for participating in joint interventions with other central banks). Canada has limited reserves, but its central bank has standing swap arrangements with the US Federal Reserve and four other major central banks. (The Bank of Canada has not drawn on these swap lines.) **Assessment.** Policies in this area are appropriate to the circumstances of Canada. The authorities are strongly committed to a floating regime which, together with the swap arrangements, reduces the need for reserve holdings.

Table 3.6. China: Economy Assessment

Overall Assessment: *The external position in 2023 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA surplus declined to 1.4 percent of GDP in 2023 as exports declined on the back of both weakness in global demand as well as the unwinding of the COVID-19-related export boom. Rising services imports due to a normalization of outbound tourism also contributed to the lower CA surplus. Over the medium term, the CA surplus is projected to narrow further and gradually converge to the CA norm, mostly reflecting rising social spending pressures as population ages.

Potential Policy Responses: Policies to ensure that the external position remains broadly in line with fundamentals include (1) accelerating market-based structural reforms—a further opening up of domestic markets, ensuring competitive neutrality between state-owned and private firms, scaling back wasteful and distorting industrial policies, and increasing reliance on market forces to improve resource allocation—to boost potential growth; (2) shifting fiscal policy support toward strengthening social protection to reduce high household savings and rebalance toward private consumption; and (3) gradually increasing exchange rate flexibility to help the economy better absorb external shocks.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP reached 16.5 percent of GDP in 2023, from 13.6 percent in 2022 and significantly below the peak of 30.4 percent in 2008. The increase largely reflects the CA surplus. **Assessment.** The NIIP-to-GDP ratio is expected to remain positive and increase modestly over the medium term in line with the narrowing CA surplus. Increasing portfolio investment, on the back of China's gradual financial opening, is expected to diversify its foreign assets and liabilities further. The NIIP is not a major source of risk, as assets remain high—reflecting large foreign reserves ($3.4 trillion as of the end of 2023, 19.5 percent of GDP)—and liabilities are mostly related to FDI.				
2023 (% GDP)	NIIP: 16.5	Gross Assets: 54.3	Debt Assets: 15.9	Gross Liab.: 37.8	Debt Liab.: 13.0

Current Account	**Background.** Following the increase since 2019, the CA surplus declined to 1.4 percent of GDP in 2023 as domestic saving declined to its pre-pandemic level. The lower CA surplus reflects lower goods and services balances. After a post-reopening increase in trade in 2023:Q1, exports declined amid weak global demand and the unwinding of the COVID-19-related surge in goods exports. Imports evolved in line with domestic demand, sequentially weakening in 2023:Q2–23:Q3 and partially rebounding in 2023:Q4. Taken together, the trade balance declined to 3.3 percent of GDP (from 3.7 percent of GDP in 2022) as exports weakened more than imports. The 2023 services deficit increased to 1.2 percent of GDP (from 0.5 percent of GDP in 2022) as outbound tourism partially recovered. Over the medium term, domestic saving is expected to decline faster than investment, due to rapid population aging and the associated rising social spending pressures further reducing the CA surplus. **Assessment.** Based on the adjusted results of the EBA CA model, the IMF staff CA gap ranges from –0.7 to 0.5 percent of GDP with a midpoint of –0.1 percent. As the travel balance continues to recover to pre-COVID-19 levels, an adjustor of –0.4 percent is applied to the CA. EBA-identified policy gaps are estimated at –0.6 percent of GDP, driven by relatively favorable credit conditions (–0.3 percent of GDP) and looser fiscal policy than in other countries (–0.2 percent of GDP).					
2023 (% GDP)	CA: 1.4	Cycl. Adj. CA: 1.2	EBA Norm: 0.9	EBA Gap: 0.3	Staff Adj.: –0.4	Staff Gap: –0.1
Real Exchange Rate	**Background.** In 2023, the REER depreciated by 8.2 percent from the 2022 average, faster than the NEER depreciation (3.4 percent) reflecting lower inflation in China. The REER depreciation more than reversed the appreciation of 5 percent in 2020–21, which followed a depreciation of 7 percent during 2015–19. As of April 2024, the REER had depreciated by 2.7 percent relative to the 2023 average. **Assessment.** The IMF staff CA gap implies a REER gap of 0.7 percent. The EBA REER index regression estimates the REER gap in 2023 to be 5.1 percent, and the EBA REER level regression estimates the REER gap to be 3.4 percent. Consistent with the IMF staff CA gap, the IMF staff assesses the REER to be in the range of –3.6 to 5.0 percent with a midpoint of 0.7 percent (with an estimated elasticity of 0.14 applied).					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The 2023 financial account (excluding net errors and omissions) reached –1.2 percent of GDP (–1.4 percent of GDP in 2022) as capital outflow pressures reemerged in 2023:H2, while inward FDI reached a historically low level (0.2 percent of GDP) and portfolio investment remained subdued (0.1 percent of GDP). Net errors and omissions declined in absolute terms to –0.2 percent of GDP in 2023 (from the 2015–20 average of –1.4 percent of GDP). The authorities raised the cross-border financing macroprudential adjustment parameter for financial institutions and enterprises from 1.25 to 1.5 (relaxation of an inflow CFM measure) in July 2023. The authorities cut FX reserve requirements from 6 to 4 percent in September. As of the end of May 2024, the total Qualified Domestic Institutional Investor quota stood at $167.8 billion.[1] **Assessment.** Substantial net outflow pressures resurfaced with the divergence of China's monetary policy from that in advanced economies, expectations for weakening economic prospects as well as market-perceived geopolitical risk and economic policy uncertainty. Over the medium term, further capital account opening is likely to create substantially larger two-way gross flows. The sequencing of capital account opening consistent with exchange rate flexibility should carefully consider domestic financial stability, while addressing the faster pace of private sector accumulation of foreign assets with respect to nonresident accumulation of Chinese assets. CFMs should not be used to actively manage the capital flow cycle or substitute for warranted macroeconomic adjustment and exchange rate flexibility. Over the medium term, China should gradually phase out CFM measures in a sequence consistent with greater exchange rate flexibility and accompanying reforms.					
FX Intervention and Reserves Level	**Background.** FX reserves increased (by about $110 billion) and reached $3.3 trillion as of the end of 2023. In the last quarter of 2023, a partial recovery in capital flows, including FDI, and favorable valuation effects contributed to an increase in FX reserves that more than offset losses in the first three quarters of the year. **Assessment.** The end-of-2023 reserve assets, including gold, at $3.4 trillion—69 percent of the IMF's standard composite metric at the end of 2023 (68 percent in 2022) and 112 percent of the metric adjusted for capital controls (110 percent in 2022)—are assessed to be adequate. Temporary FX intervention could be considered in the event of large capital outflows that pose significant risks to macroeconomic and financial stability, including if markets turn disorderly.					

Table 3.7. Euro Area: Economy Assessment

Overall Assessment: *The external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA balance increased to 1.7 percent of GDP in 2023 from –0.6 percent of GDP in 2022, due to the reversal of the negative terms of trade shock. Over the medium term, the euro area's CA balance is projected to increase further (though still below its historical average) as external demand improves and structural reforms to improve competitiveness are implemented. National external imbalances are expected to remain sizable.

Potential Policy Responses: Improving productivity—through increased public investment, reskilling and upskilling of the labor force, and structural reforms to foster a business environment that encourages private investment and technology diffusion—will help build resilience and lift growth potential, mitigating the headwind from aging. Strengthening the EU single market—by harmonizing regulations, reducing administrative barriers, and streamlining trade procedures—will create a more resilient domestic economy, thereby helping address challenges from an increasingly shock-prone and fragmented global economy. It is also critical to avoid a trade-distorting, fiscally costly subsidy race and other trade-distorting measures, which would undermine resource allocation and productivity. Trade and investment disagreements with other countries should be resolved in a manner that supports an open, stable, and transparent rules-based trading system. As historical policy gaps at the national level in the European Union are projected to persist, countries with excess CA surpluses should increase investment, while countries with weak external positions should undertake reforms to raise productivity, reduce structural and youth unemployment, and commence growth-friendly fiscal consolidation. Euro-area-wide initiatives to make the currency union more resilient (for example, completing the banking and capital markets unions and establishing the central fiscal capacity for some common public goods) would deepen public and private sector risk sharing, supporting external stability of high-debt countries.

Foreign Asset and Liability Position and Trajectory

Background. After falling to –20.5 percent of GDP in 2009, the NIIP of the euro area rose substantially to 4.1 percent of GDP by the end of 2023, reflecting accumulated CA surpluses. Relative to 2022, the NIIP increased in 2023 by 0.8 percentage point of GDP, primarily reflecting valuation effects from the weaker euro and improvement in the CA balance. Gross portfolio investment assets and liabilities have both declined sharply, reflecting impact of higher interest rates and financial market repricing. Direct investment assets and liabilities have also declined though more moderately. The gross values of derivative positions have increased with higher financial market volatility. Gross foreign assets were 243.0 percent of GDP and liabilities 238.9 percent of GDP as of the end of 2023. Net external assets (including those vis-à-vis other euro area member states) remain elevated in external creditor countries (for example, Germany), whereas net external liabilities remain high in debtor countries (for example, Portugal and Spain).

Assessment. Projections of continued CA surpluses over the medium term suggest that the NIIP-to-GDP ratio will rise further, at a moderate pace. While the region's overall NIIP financing vulnerabilities appear low in aggregate, large net external debtor countries bear an elevated risk of a sudden stop of gross inflows.

2023 (% GDP)	NIIP: 4.1	Gross Assets: 243.0	Debt Assets: 89.7	Gross Liab.: 238.9	Debt Liab.: 86.6

Current Account

Background. The CA balance for the euro area increased to 1.7 percent of GDP in 2023 from –0.6 percent of GDP in 2022. The improvement is driven by a significant improvement in the goods balance (from declines in import prices especially of natural gas and oil) and, to a lesser extent, an increase in the income balances, which more than offset the reduction in the services surplus. Large creditor countries, such as Germany and The Netherlands, continued to have sizable surpluses, reflecting high corporate and household saving and weak investment.

Assessment. The EBA model estimates a CA norm of 0.7 percent of GDP, against a cyclically adjusted CA of 1.7 percent of GDP. This implies a gap of 1 percent of GDP. Adjustments of –0.4 percent of GDP were made to the underlying CA reflecting CA measurement issues in Ireland and The Netherlands to account for activities of multinational enterprises and portfolio retained earnings bias, respectively. Considering these factors and uncertainties in the estimates, including the cyclical adjustment, staff assesses the CA gap to be 0.6 percent of GDP in 2023, with a range of 0 to 1.2 percent of GDP (considering a standard error of 0.6).

2023 (% GDP)	CA: 1.7	Cycl. Adj. CA: 1.7	EBA Norm: 0.7	EBA Gap: 1	Staff Adj.: –0.4	Staff Gap: 0.6

Real Exchange Rate

Background. The euro area CPI-based REER appreciated by 4.5 percent between 2015 and 2021 following a depreciation of nearly 20 percent in the post–global financial crisis period. In 2023, the CPI-based REER appreciated by 3.5 percent compared to 2022, reflecting an appreciation of 3 percent against the US dollar. The ULC-based REER appreciated by 4.4 percent. As of April 2024, the CPI-based REER was 0.4 percent below its 2023 average.

Assessment. Consistent with the IMF staff CA gap, the IMF staff assesses the REER gap to be –1.7 percent in 2023, with a range of –3.4 to 0 percent, based on the estimated CA-REER elasticity of 0.35.[1] As with the CA gap, the aggregate REER gap masks a large degree of heterogeneity in REER gaps across euro area member states, ranging from an undervaluation of 7.5 percent in Germany to an overvaluation of about 11.5 percent in Italy. The EBA REER index and level models suggest overvaluations of 5.5 percent and 3.9 percent, respectively.

Capital and Financial Accounts: Flows and Policy Measures

Background. The euro area experienced a capital account surplus of 0.3 percent of GDP and a financial account surplus of 1.9 percent of GDP in 2023, mirroring the CA surplus.

Assessment. Gross external indebtedness of euro area residents decreased by 7.4 percentage points of GDP in 2023 as lower external debt of the Eurosystem, and the nonfinancial sector has offset higher debt of deposit-taking institutions and governments.

FX Intervention and Reserves Level

Background. The euro has the status of a global reserve currency.

Assessment. Reserves held by euro area economies are typically low relative to standard metrics, but the currency is free floating.

Table 3.8. France: Economy Assessment

Overall Assessment: *The external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA deficit declined to 0.7 percent of GDP in 2023, driven by the unwinding of the terms-of-trade shock and strong non-oil goods export performance. Over the medium term, the CA deficit is expected to continue to shrink as fiscal consolidation and structural reforms to improve competitiveness of the economy are implemented.

Potential Policy Responses: Maintaining the external position in line with medium-term fundamentals and desirable policies will require sustained fiscal consolidation efforts as well as structural reforms to support productivity and attract higher private investment to facilitate the green and digital transitions. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, and avoid favoring domestic producers over imports to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP stood at –29.2 percent of GDP in 2023, slightly above the range observed during 2014–19 (between –15 and –26 percent of GDP). The NIIP worsened by 5.5 percent of GDP since the end of 2022, largely driven by a decrease in direct and portfolio investment. While the net position is moderately negative, gross positions are large. Gross assets stood at 334.9 percent of GDP in 2023, of which banks' non-FDI-related assets accounted for about 46.2 percent, reflecting their global activities. Gross liabilities increased to 364.1 percent of GDP in 2023, of which external debt was about 227.5 percent of GDP (58 percent accounted for by banks and 24 percent by the public sector). About three-quarters of France's external debt liabilities are denominated in domestic currency. The average TARGET2 balance in 2023 was about €120.5 billion. **Assessment.** The NIIP is negative, but its size and projected stable trajectory do not raise sustainability concerns. However, there are vulnerabilities coming from the large public external debt (53.7 percent of GDP in 2023) and banks' gross financing needs—the stock of banks' short-term debt securities was €149 billion in 2023 (5.3 percent of GDP), and financial derivatives stood at about 47.7 percent of GDP.

2023 (% GDP)	NIIP: –29.2	Gross Assets: 334.9	Debt Assets: 190.7	Gross Liab.: 364.1	Debt Liab.: 227.5

Current Account	**Background.** The CA deficit declined to 0.7 percent of GDP in 2023 (from a deficit of 2 percent in 2022), driven by the unwinding of the large terms-of-trade shock and a strong export performance by the aeronautics, naval, and textile sectors and in capital goods as well as lower energy imports from ongoing price corrections. Gross national savings continued to increase in 2023 by 0.4 percent of GDP, driven by private savings given still high uncertainty around the external outlook, while domestic investment declined somewhat after reaching a peak in 2022. The CA deficit is expected to decrease slightly to about 0.6 percent of GDP in 2024, driven by the continued recovery in the aeronautics and automobile sectors. Over the medium term, the CA deficit is projected to shrink to a small deficit by 2029 as recent reforms to improve France's competitiveness start to pay off. Fiscal consolidation will also help reduce the CA deficit over the medium term. **Assessment.** The 2023 cyclically adjusted CA balance is estimated at –0.9 percent of GDP compared with an EBA-estimated norm of 0 percent. On this basis, the IMF staff assesses that the CA gap in 2023 is between –1.3 and –0.5 percent of GDP (compared with –2.5 and –1.6 percent of GDP in 2022), with a midpoint of –0.9 percent of GDP. The main contributor to the overall positive policy gap of 0.1 percent of GDP is a positive credit gap of 0.4 percent, while the health expenditure gap is –0.3 percent. The fiscal policy gap is 0 percent despite a negative domestic gap of 1.2 percent.

2023 (% GDP)	CA: –0.7	Cycl. Adj. CA: –0.9	EBA Norm: 0.0	EBA Gap: –0.9	Staff Adj.: 0.0	Staff Gap: –0.9

Real Exchange Rate	**Background.** The ULC-based and CPI-based REERs continued to appreciate in 2023, by 4.1 and 1.9 percent, respectively, compared to 2022. As of April 2024, the ULC-based REER was 0.6 percent below the 2023 average, while the CPI-based measure was about 0.5 below the 2023 average. From a longer-term perspective, France has not managed to regain the loss of about one-third of its export market share registered in the early 2000s (while the export market share of the euro area remained broadly stable between 2000 and 2023). France should advance its reform agenda, with emphasis on horizontal efforts to support competitiveness and foster efficient investment allocation. **Assessment.** The CA gap, as assessed by IMF staff, implies a REER gap of 3.3 percent in 2023 (applying an estimated semi-elasticity of 0.27). The EBA REER index model points to a REER gap of –5.1 percent, while the EBA REER level model points to a REER gap of 2.9 percent. Consistent with the IMF staff CA gap, the IMF staff assesses the REER to be overvalued in the range of 1.7 to 5 percent, with a midpoint of 3.3 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** After a postpandemic normalization in 2021–22, inward and outward foreign direct investment declined significantly in 2023 (from 3.8 to 0.7, and from 4.2 to 2.2 percent of GDP, respectively). The financial account is open. Public external debt and banks' gross financing needs have increased in 2023. **Assessment.** France remains exposed to financial market risks owing to the large refinancing needs of the sovereign and banking sectors.
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.

Table 3.9. Germany: Economy Assessment

Overall Assessment: *The external position in 2023 was stronger than the level implied by medium-term fundamentals and desirable policies.* In 2023, the CA strengthened versus 2022 mainly due to a normalization in the prices of energy imports, which had previously risen significantly in the wake of Russia's invasion of Ukraine. In 2024, the CA is expected to strengthen slightly from improved terms of trade and as demand from Asia recovers. Over the medium term, the CA is projected to taper slightly as higher wage growth pushes up imports.

Potential Policy Responses: Policies aimed at promoting investment and diminishing excess saving would support external rebalancing and a further reduction of the CA balance toward its norm. Over the medium term, higher fiscal deficits than currently planned are likely to be needed to ensure adequate public investment in the green transition, digitalization, and transport infrastructure. Structural reforms to foster innovation, including strengthening of venture capital financing for start-up companies and streamlining of administrative procedures to start a business, would also stimulate investment. Training to enhance employability of older workers with outdated skills could also extend working lives and reduce the need for excess saving. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, and avoid favoring domestic producers over imports to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP was largely unchanged at 70 percent of GDP in 2023 versus 2022. This was despite the year's CA surplus because of valuation losses on Germany's external assets versus liabilities over the course of the year. Germany's external assets include holdings of sovereign securities, whose market prices fell in response to global policy rate tightening. Germany's TARGET2 claims on the Eurosystem fell to €1.1 trillion at the end of 2023, down from €1.3 trillion at the end of 2022 as the European Central Bank initiated its quantitative tightening program from March 2023 onwards. Between 2017 and 2023, the NIIP increased by some 24 percent of GDP, lifting the primary income balance going forward.

Assessment. Germany's exposure to the Eurosystem remains large.

2023 (% GDP)	NIIP: 70	Gross Assets: 302	Debt Assets: 157	Gross Liab.: 232	Debt Liab.: 148

Current Account

Background. The CA surplus came in at 5.9 percent of GDP in 2023, compared with 4.2 percent in 2022 and 8.0 percent on average over 2017–19. The strengthening of the CA in 2023 was driven mainly by a significant increase in the goods balance, as the cost of commodity imports (mainly natural gas and other energy sources) declined sharply, even though goods exports weakened slightly. The increase in the goods balance was partially offset by a significant decrease in the services balance, mainly due to a normalization of travel, transport, and vaccine-related intellectual property exports after the pandemic. Primary and secondary income accounts were largely unchanged. The increase in the CA surplus reflected a sharp increase in Germany's CA surplus with non–euro area countries. With Asia, Germany's trade balance increased, reflecting, in particular, a reduced deficit with China, as both exports and imports contracted, the latter more sharply. The government's savings-investment balance increased slightly, in line with the tight fiscal stance. The savings-investment surpluses of households and firms also increased slightly, especially given lower inventory accumulation than in the previous year.

Assessment. The cyclically adjusted CA balance is estimated by the EBA model to be 5.9 percent of GDP in 2023. IMF staff assess the CA norm to be between 2.6 and 3.6 percent of GDP, with a midpoint of 3.1 percent of GDP, in line with the EBA model. The difference between the cyclically adjusted CA and the CA norm implies that the CA gap for 2023 was in the range of 2.2–3.2 percent of GDP, with a midpoint of 2.7 percent of GDP.

2023 (% GDP)	CA: 5.9	Cycl. Adj. CA: 5.9	EBA Norm: 3.1	EBA Gap: 2.7	Staff Adj.: 0.0	Staff Gap: 2.7

Real Exchange Rate

Background. Despite a strong REER depreciation during the energy crisis (early 2021 to mid-2022), the REER has recovered to prepandemic levels. The REER based on consumer prices appreciated by 3.5 percent in 2023, driven by real appreciation against China and Japan. As of April 2024, the REER was 0.5 percent below the 2023 average.

Assessment. The IMF staff CA gap implies a REER gap of –7.5 percent in 2023 (with an estimated elasticity of 0.36 applied). The EBA REER level and index models suggest an undervaluation of 9.3 percent and an overvaluation of 8.0 percent, respectively. Consistent with the staff CA gap, the staff assesses the REER to be undervalued, with a midpoint of 7.5 percent and a range of uncertainty of ±1.4 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2023, significant capital exports corresponding to the CA surplus were largely in the "other investments" category due to transactions via the accounts of monetary and financial institutions by firms, households, and governments, as FDI and portfolio investment were muted, while derivatives transactions were largely unchanged. Foreign institutions reduced deposits with German banks, reflecting in part a decline in excess liquidity in the euro area. FDI (both inward and outward) as well as portfolio investment declined versus the previous year, in part due to the global rate tightening environment, especially during the first three quarters of 2023. This led to reduced demand for listed and unlisted equities and higher demand for highly rated sovereign securities, with German investors buying euro area securities and foreign investors buying German securities.

Assessment. Risks are limited, given Germany's safe-haven status and the strength of its external position.

FX Intervention and Reserves Level

Background. The euro has the status of a global reserve currency.

Assessment. Reserves held by euro area economies are typically low relative to standard metrics. The currency floats freely.

Table 3.10. Hong Kong Special Administrative Region: Economy Assessment

Overall Assessment: *The external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA surplus (in percent of GDP) narrowed in 2023 as the goods balance deficit widened due to weaker external demand while the services balance registered a subdued recovery from COVID-era disruptions as slower growth in key markets impacted the performance of the tourism sector. The CA surplus is expected to decline moderately over the medium term with the recovery in domestic demand broadly offsetting the impact of improved external conditions. Under the Linked Exchange Rate System (LERS), short-term movements in the REER largely reflect US dollar developments. The credibility of the currency board arrangement has been ensured by a transparent set of rules governing the arrangement, large fiscal and FX reserves, strong financial regulation and supervision, the flexible economy, and a prudent fiscal framework.

Potential Policy Responses: A gradual pace of fiscal consolidation in the near term to secure a balanced recovery, while taking measures to ensure fiscal sustainability over the medium to long term given the rapidly aging population, would help ensure that the external position will remain broadly in line with fundamentals. Maintaining policies that support wage and price flexibility is crucial to preserving competitiveness under the currency board arrangement. Robust and proactive financial supervision and regulation, prudent fiscal management, flexible markets, and the LERS have worked well, and continuation of these policies will help keep the external position broadly in line with fundamentals.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP decreased to 468 percent of GDP in 2023 from 492 percent in 2022. There were significant decreases in both gross assets (by 68 percentage points of GDP), and gross liabilities (44 percentage points of GDP). Both gross assets and liabilities are high, reflecting Hong Kong Special Administrative Region's status as an international financial center. Valuation effects in 2023 were sizable as the change in the NIIP (–24 percentage points of GDP) far exceeded the financial account balance (–9.2 percent of GDP).

Assessment. Vulnerabilities are low given the positive and sizable NIIP and its favorable composition. FX reserves remain large (111 percent of GDP at the end of 2023) and direct investments account for a large share of gross assets and liabilities (36 and 53 percent, respectively) while only 10.9 percent of gross liabilities are portfolio investments.

2023 (% GDP)	NIIP: 468	Gross Assets: 1,620	Debt Assets[1]: 390	Gross Liab.: 1,152	Debt Liab.[1]: 211

Current Account

Background. The CA surplus narrowed to 9.2 percent of GDP in 2023 from 10.2 percent in 2022. The goods deficit widened, driven by a decline in exports due to the economic slowdown in Mainland China. The services recovery moderated in part due to the lingering impact of COVID restrictions, which remained in place until late-2022, leaving the services surplus stable but well below the pre-pandemic level. However, the income balance rose strongly, driven by higher investment income flows, in part reflecting higher global interest rates. The CA balance is projected to continue to gradually decline over the medium term with the recovery in domestic demand broadly offsetting the impact of improved external conditions.

Assessment. After adjusting for cyclical and other temporary factors,[2] the CA surplus is estimated to be 9.5 percent of GDP in 2023, compared to the mid-point of the staff assessed range for the norm of 10.4 percent of GDP (9.5 to 11.3 percent of GDP). The IMF staff-assessed CA gap range hence is between –1.8 to 0 percent of GDP, with an estimated mid-point of –0.9 percent of GDP. Since Hong Kong Special Administrative Region is not in the EBA sample, the CA norm was estimated by applying EBA-estimated coefficients to Hong Kong Special Administrative Region and was adjusted for measurement issues related to the large valuation effects in the NIIP and the discrepancies between stocks and flows.[3]

2023 (% GDP)	CA: 9.2	Cycl. Adj. CA: 8.8	EBA Norm: —	EBA Gap: —	Staff Adj.: —	Staff Gap: –0.9

Real Exchange Rate

Background. Under the currency board arrangement, REER dynamics are largely determined by U.S. dollar developments and inflation differentials between the United States and Hong Kong Special Administrative Region. The REER appreciated by 2.6 percent in 2023, somewhat slower than the 3.7 percent appreciation in 2022. As of April 2024, the REER had appreciated by 2.6 percent relative to the 2023 average.

Assessment. The IMF staff assesses the REER gap, based on the staff-assessed CA gap range, to be around 2.3 percent (mid-point of the REER gap range of 0 to 4.5 percent and based on the average CA-REER elasticity of about 0.4).[4]

Capital and Financial Accounts: Flows and Policy Measures

Background. As an international financial center, Hong Kong Special Administrative Region has an open capital account. The net outflow in non-reserve financial flows moderated to 11.9 percent of GDP in 2023, well below the 22.9 percent recorded in 2022, driven by net portfolio and other investment outflows. The financial account is typically very volatile, reflecting financial conditions in Hong Kong Special Administrative Region and Mainland China (transmitted through growing cross-border financial linkages),[5] shifting expectations of U.S. monetary policy, and related arbitraging in the FX and rates markets.

Assessment. Large financial resources, proactive financial supervision and regulation, and deep and liquid markets should help limit the risks from potentially volatile capital flows. The greater financial exposure to Mainland China could also pose risks to the financial sector through real sector linkages, particularly trade and tourism, credit exposures of the banking sector, and fundraising by Chinese firms in local financial markets. However, Hong Kong Special Administrative Region's banking system, with its high capital buffers and profitability, is assessed to be broadly resilient to macro-financial shocks.

FX Intervention and Reserves Level

Background. The Hong Kong dollar has continued to trade in a smooth and orderly manner within the Convertibility Zone in 2023. The HKMA conducted FX operations as part of the currency board operations, selling US$6.6 billion, substantially less than US$30.8 billion sold in 2022. Total reserve assets decreased to 111 percent of GDP at the end of 2023 (or 1.8 times the monetary base) from 118 percent of GDP at the end of 2022.

Assessment. FX reserves are currently adequate for precautionary purposes and should continue to evolve in line with the automatic adjustment inherent in the currency board system. Despite a large fiscal deficit in 2023, Hong Kong Special Administrative Region still holds significant fiscal reserves (about 25 percent of GDP at the end of 2023) built up through strong fiscal discipline in previous years.

Table 3.11. India: Economy Assessment

Overall Assessment: *The external position in fiscal year 2023/24 (ending in March 2024) was moderately stronger than the level implied by medium-term fundamentals and desirable policies,* suggesting that the CA deficit was somewhat smaller than implied by India's level of per capita income, favorable growth prospects, demographic trends, and development needs. External vulnerabilities stem from weakening demand in some partner countries and potentially volatile global financial conditions and commodity prices. In part reflecting buoyant services exports and steady oil prices, the CA deficit is projected to remain smaller than its estimated norm in fiscal year 2024/25 but converge to it over the medium term. The authorities have made some progress in external trade promotion and the liberalization of FDI and portfolio flows, which enabled India's inclusion in global bond indices, but India's trade and capital account regimes remain relatively restricted, weighing on both exports and imports.

Potential Policy Responses: In the near term, the government's additional infrastructure spending, along with the expected strengthening of private consumption, will contribute to raising the CA deficit, thereby reducing the positive CA gap. To facilitate external rebalancing over the medium term, development of export infrastructure and negotiation of free trade agreements with main trading partners to provide a sustainable boost to exports should be accompanied by further investment regime liberalization and a reduction in import tariffs, especially on intermediate goods. Structural reforms should aim at improving the business environment, aiming to induce private investment, and deepening integration into global value chains and attracting FDI, hence mitigating external vulnerabilities. Industrial policies should be pursued cautiously, remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, and aim to minimize trade and investment distortions. Exchange rate flexibility should act as the main shock absorber, with intervention limited to addressing disorderly market conditions.

Foreign Asset and Liability Position and Trajectory	**Background.** As of the end of 2023, India's NIIP had improved marginally to –10.6 percent of GDP, from –11.1 percent of GDP at the end of 2022, reflecting valuation changes and a base effect of fast nominal GDP growth more than offsetting the CA deficit. Gross foreign assets increased to 27.9 percent of GDP (from 26.1 percent of GDP at the end of 2022), while gross foreign liabilities rose to 38.5 percent of GDP, from 37.2 percent of GDP at the end of the previous year. The bulk of assets were in the form of official reserves and FDI, whereas liabilities included mostly debt and FDI. **Assessment.** With the CA deficit projected to remain below its medium-term norm in 2024 and converge to it by 2029, the NIIP-to-GDP ratio is expected to remain broadly unchanged over the medium term, as robust nominal GDP expansion will offset the nominal NIIP decline resulting from the projected CA deficits. India's external debt liabilities are relatively low compared with those of its peers, and short-term rollover risks are limited. The moderate level of foreign liabilities reflects India's incremental approach to capital account liberalization, including focus on attracting FDI.				
2023 (% GDP)	NIIP: –10.6	Gross Assets: 27.9	Debt Assets: 3.1	Gross Liab.: 38.5	Debt Liab.: 17.1

Current Account	**Background.** The CA deficit is estimated to have narrowed to about 0.8 percent of GDP in fiscal year 2023/24, from 2.0 percent of GDP in the previous year, supported by improving terms of trade and fiscal consolidation. From the domestic perspective, it corresponded to an increase in gross savings from 31 to 32.5 percent of GDP, while gross domestic investment grew modestly from 33 to 33.3 percent of GDP. Amid steady oil prices (in part reflecting India's proactive diversification of oil import sources), buoyant services exports increasingly offset the contained merchandise trade deficit. Trade restrictions—including food export restrictions and an information technology hardware import management system—are weighing on both exports and imports. The CA deficit is projected to increase to about 1.4 percent of GDP in fiscal year 2024/25, largely reflecting rebounding domestic demand. Over the medium term, the CA deficit is projected to converge to its norm of about 2.2 percent of GDP. **Assessment.** The EBA cyclically adjusted CA balance stood at –0.5 percent of GDP in fiscal year 2023/24. The EBA CA regression estimates a norm of –2.2 percent of GDP, with a standard error of 0.6 percent, implying a CA gap of 1.7 percent of GDP. IMF staff thus assesses the CA gap to be 1.7 percent of GDP, within a range of 1.1 to 2.3 percent of GDP. Positive policy contributions to the CA gap stem mostly from the fiscal balance and changes in FX reserves amid elevated capital controls, while negative contributions come mostly from the domestic credit gap. In IMF staff's judgment, a CA deficit of up to 2½ percent of GDP is financeable in the medium term by a combination of steady FDI inflows, public and private external borrowing, and portfolio flows, though the latter may remain susceptible to changes in global risk appetite.					
2023 (% GDP)	CA: –0.8	Cycl. Adj. CA: –0.5	EBA Norm: –2.2	EBA Gap: 1.7	Staff Adj.: 0.0	Staff Gap: 1.7

Real Exchange Rate	**Background.** In early 2023, policy tightening in advanced economies and portfolio investment outflows resulted in depreciation pressures on the rupee. These pressures abated and reversed when the CA deficit narrowed and global investor sentiment improved in the second half of 2023 and early 2024. The average REER in 2023 depreciated by about 1.6 percent from its 2022 average. As of April 2024, the REER was 1.8 percent above the 2023 average. **Assessment.** The IMF staff CA gap implies a REER gap of –9.4 percent (with an estimated elasticity of 0.18). EBA REER index and level models suggest an overvaluation of 5.9 percent and 5.2 percent, respectively. Consistent with the staff CA gap, however, the IMF staff assesses the REER gap to be in the range of –12.7 to –6.1 percent, with a midpoint of –9.4 percent, for fiscal year 2023/24.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In fiscal year 2023/24, net FDI inflows decreased to about 0.3 percent of GDP, mostly reflecting rising repatriations and disinvestment. Net portfolio investment inflows strengthened to about 1.2 percent of GDP in anticipation of India's inclusion in global bond indices. Other investments, reflecting mostly debt-creating inflows, remained at about 1.1 percent of GDP. During the year, the Indian authorities made further steps toward capital account liberalization by widening the scope of government bonds available for foreign investors, which should help moderate the interest costs associated with financing the CA deficit. **Assessment.** While net FDI inflows covered most of the CA deficit in fiscal year 2023/24, the decline in FDI inflows as share of GDP warrants further structural reforms and improvement of the investment regime to promote FDI. Volatile portfolio flows are sensitive to changes in global financial conditions and country risk premia. The planned inclusion of India in international bond indices has significantly increased foreign participation in India's bond market (though from a low base) and supported net portfolio inflows that more than covered the CA deficit.
FX Intervention and Reserves Level	**Background.** Official FX reserves increased in 2023 and early 2024, reflecting a decreasing CA deficit, FDI and portfolio investment inflows, and valuation changes. During this time, the Reserve Bank of India's FX interventions aimed to smooth excessive market volatility and contributed to the rupee's exchange rate stability. Reserves stood at $623.2 billion at the end of 2023 and $645.6 billion at end-March 2024. **Assessment.** Various criteria confirm that the official FX reserves are adequate for precautionary purposes. As of the end of 2023, they represented about 219 percent of short-term debt (on residual maturity), 109 percent of the IMF's composite metric (for a *de facto* stabilized exchange rate arrangement),[1] and more than eight months of import coverage. In view of India's moderately strong external position, generally deep and liquid FX markets, limited FX mismatches, well-anchored inflation expectations, and adequate reserves level, Integrated Policy Framework analysis indicates that FX interventions should be limited to addressing disorderly market conditions.

Table 3.12. Indonesia: Economy Assessment

Overall Assessment: *The external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* In the medium term, exchange rate flexibility and structural policies are expected to contain the CA deficit. Although external financing needs appear sustainable, Indonesia's reliance on foreign portfolio investment exposes the economy to sharp swings in market sentiment and risk premiums, and to fluctuations in global financial conditions.

Potential Policy Responses: The projected fiscal expansion in the coming years may support import growth and increase the CA deficit. Maintaining external balance will thus require structural reforms to enhance productivity and facilitate post-COVID-19 sectoral adjustments. Reforms should include (1) higher infrastructure investment and higher social spending to foster human capital development and strengthen the social safety net; (2) a reduction of restrictions on inward FDI and external trade, including by moving away from nontariff barriers, (as discussed in the 2023 Article IV consultation); and (3) promotion of greater labor market flexibility. Flexibility of the exchange rate should continue to support external stability with the ongoing structural transformation of the Indonesian economy.

Foreign Asset and Liability Position and Trajectory	**Background.** Indonesia's NIIP remained unchanged at –19.0 percent of GDP at the end of 2023, reflecting an increase of 1.1 percentage points in gross external assets and liabilities, respectively to 35.3 and 54.3 percent of GDP. The increase in gross external assets was supported by higher FDI abroad, portfolio investment, and reserve assets. In turn, the increase in gross external liabilities reflected fully the increase in FDI inflows. Indonesia's gross external debt remained moderate at 29.8 percent of GDP at the end of 2023, declining marginally from 30.1 percent of GDP in 2022. External rollover risks in the short term are contained as reflected in the large share of long-term debt. **Assessment.** The level and composition of the NIIP and gross external debt indicate that Indonesia's external position is sustainable and subject to limited rollover risk. But the relatively high dependence on foreign portfolio investment (20.1 percent of GDP in 2023) makes Indonesia highly vulnerable to swings in global financial market sentiment. The NIIP as a percent of GDP is projected to stabilize at current levels in the medium term, as robust nominal GDP growth offsets the projected small CA deficits.				
2023 (% GDP)	NIIP: –19.0	Gross Assets: 35.3	Res. Assets: 10.7	Gross Liab.: 54.3	Debt Liab.: 29.8

Current Account	**Background.** The CA balance posted a small deficit of 0.1 percent in 2023, after two consecutive years of surpluses (1.0 percent in 2022). The deficit in 2023 was primarily driven by the non-oil and gas trade balance, reflecting weaker growth in major trading partners, and a broad-based decline in commodity prices. The resilience in domestic demand translated into a smaller decline in imports relative to exports. On the savings-investment side, higher government revenue was broadly offset by lower private savings and higher private investment. The CA deficit is expected to widen moderately in 2024 due to lower commodity prices, while robust domestic demand will support import growth. The CA deficit is expected to remain close to the norm throughout the projection horizon. **Assessment.** Staff estimates a CA gap of 0.8 percent of GDP for 2023, consistent with an estimated cyclically adjusted CA deficit of –0.3 percent of GDP, a staff assessed norm of –0.8 percent of GDP, and an adjustor of 0.3 percentage point for demographics.[1] Considering the uncertainty in the estimation of the norm, the CA gap for 2023 is in the range of 0.3 to 1.3 percent of GDP. EBA-identified policy gaps are estimated at 1.7 percent of GDP, driven by a tighter fiscal stance than in other countries (1.3 percent) and underspending on health care (0.6 percent).					
2023 (% GDP)	CA: –0.1	Cycl. Adj. CA: –0.3	EBA Norm: –0.8	EBA Gap: 0.5	Staff Adj.: 0.3	Staff Gap: 0.8

Real Exchange Rate	**Background.** The average REER depreciated by 3.7 percent in 2023 compared to the average level in 2022 (or 3.2 percent relative to the pre-COVID-19 2016–19 average). The depreciation materialized on the back of the rapid tightening in global monetary policy and high volatility in global financial markets. The rupiah managed to recover some of the losses against major currencies toward the end of 2023, as a result of easier global financial conditions, and Bank Indonesia's policy responses (including a one-off interest rate hike). As of the end of April 2024, the REER was 2.4 percent below its 2023 average. **Assessment.** The staff CA gap estimate of 0.8 percent of GDP implies a REER gap of –5.0 percent (applying an estimated elasticity of 0.16). The REER index and level models point to REER gaps of 0.8 percent and –15.9 percent, respectively. Consistent with the staff CA gap, staff assesses the REER gap in the range of –7.9 to –2.1 percent, with a midpoint of –5.0 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net capital and financial flows returned to positive territory in 2023 (0.6 percent of GDP), after negative net flows of –0.7 percent of GDP in 2022. The recovery in financial inflows was driven by portfolio investment, particularly concentrated in the last quarter of 2023, reflecting the introduction of several open market instruments by Bank Indonesia to attract capital flows to support international reserves. Net FDI inflows continued to decline, to 1.1 percent of GDP in 2023 (1.4 percent in 2022 and 1.5 percent in 2021). The share of nonresident holdings of rupiah-denominated government bonds ticked up by 0.6 percentage point to 14.9 percent in 2023, but remain considerably below the 39 percent share in 2019. **Assessment.** The recovery in portfolio investment flows in 2023 helped support the small negative CA deficit in 2023. Continued strong policies, focused on safeguarding the fiscal position, advancing financial deepening, and easing broad-based structural reforms that promote an enabling business environment, should help sustain capital inflows in the medium term, particularly in periods of high market volatility.
FX Intervention and Reserves Level	**Background.** Since mid-2013, Indonesia has had a more flexible exchange rate policy framework. Official foreign reserves increased to US$146 billion in 2023, from US$137 billion in 2022, reflecting the increase in deposits abroad and the withdrawal of government's foreign loans during the year, which more than offset the decline in securities from FX intervention. **Assessment.** The current level of reserves (10.7 percent of GDP, 123 percent of the IMF's reserve adequacy metric, and 6.1 months of prospective imports) should provide a sufficient buffer against external shocks. Predetermined drains also seem manageable, although they have increased related to short positions on financial derivatives. In line with the Integrated Policy Framework, the use of FX interventions remains appropriate under certain shocks and circumstances, particularly when shocks trigger spikes in market premia given shallow FX markets, while remaining mindful of preserving reserve buffers.

Table 3.13. Italy: Economy Assessment

Overall Assessment: *The external sector position in 2023 was weaker than the level implied by medium-term fundamentals and desirable policies.* The CA balance increased by 2.1 percentage points to a surplus of 0.5 percent of GDP, largely on the fall in the energy import bill. The capital account maintained a surplus of 0.8 percent of GDP on inflows of NextGenerationEU grants. The rise in the external position reflected a 2.2 percentage point decrease in the investment rate mainly on large inventory decumulation by the private sector in response to the easing of global supply and energy terms of trade shocks. The saving rate declined modestly. Chronic weak productivity, rapid population aging, and uncertain medium-term growth prospects could depress investment once tax credits and fiscal programs under the National Recovery and Resilience Plan are completed, with the CA rising toward its norm.

Potential Policy Responses: Comprehensive structural reforms are needed to encourage an increase in private investment in order to modernize the capital stock and boost potential growth. Simultaneously strengthening the external position will require an increase in public sector saving, supported by a frontloaded fiscal adjustment program. Vulnerabilities associated with rollover of public debt would be reduced through a frontloaded fiscal adjustment, including improved budget efficiency, containing social benefit spending, undertaking comprehensive and progressive tax reform and fully implementing the National Recovery and Resilience Plan. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, and avoid favoring domestic producers over imports to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** Italy's NIIP increased to 7.4 percent of GDP at the end of 2023, reflecting the modest CA and capital account surpluses and small valuation gains. Gross foreign assets and liabilities decreased to 169.4 and 162.0 percent of GDP, respectively. TARGET 2 liabilities declined notably from their peak of 36 percent of GDP in 2022 to 25 percent of GDP at the end of 2023, driven mainly by the rebound in net foreign financial inflows (mainly residents' repatriation of foreign assets), while foreign liabilities fell. Over half of external debt is attributed to the public sector (general government and Bank of Italy), and nearly 40 percent of debt is short term. External debt owed by the Bank of Italy (30 percent of GDP) relates to its Target 2 liabilities to other Eurosystem central banks, which are short term and remunerated at the European Central Bank policy rate. **Assessment.** Further strengthening public balance sheets and undertaking structural reforms would lessen vulnerabilities associated with the high public debt, reinvigorate economic growth, and reduce the potential for negative feedback loops between the debt stock and debt-servicing costs.				
2023 (% GDP)	NIIP: 7.4	Gross Assets: 169.4	Debt Assets: 44.2	Gross Liab.: 162.0	Debt Liab.: 121.8

Current Account	**Background.** From 2017 through 2022, Italy's CA averaged 2.2 percent of GDP, gradually increasing through 2021 before declining in 2022 due to the adverse energy price shock. The CA balance shifted from a deficit of 1.6 percent of GDP in 2022 to a surplus of 0.5 percent of GDP in 2023, primarily due to a sharp reduction in energy imports on the abatement of the previous energy terms-of-trade shock. While exports to non-EU countries grew strongly, overall performance weakened on the decline in exports to other EU members, leading to a 1.8 percentage point drop in the goods exports to GDP ratio. The primary income balance declined by more than 1 percent of GDP largely on the increase in interest payments on TARGET 2 liabilities. From a saving-investment perspective, the CA improvement was supported by a large reduction in private investment, mainly due to inventory decumulation. Over the forecast horizon, the CA is expected to gradually increase, but remain somewhat below the norm on account of high EU-financed public investment and a slow improvement in government saving. **Assessment.** The cyclically adjusted CA is estimated at 0.8 percent of GDP for 2023, 3.0 percentage points below the EBA-estimated CA norm of 3.8 percent of GDP. Taking into account uncertainty around the estimate, the IMF staff assesses the CA gap to be in the range of –3.7 to –2.3 percent of GDP, with a midpoint of –3.0 percent of GDP. The fiscal policy gap and credit policy gap contributed –1.2 percent of GDP and 1.0 percent of GDP to the total policy gap (–0.2 percent of GDP), reflecting the sizable fiscal deficit and the longstanding credit shortfall.					
2023 (% GDP)	CA: 0.5	Cycl. Adj. CA: 0.8	EBA Norm: 3.8	EBA Gap: –3.0	Staff Adj.: 0.0	Staff Gap: –3.0

Real Exchange Rate	**Background.** During 2017–22, the CPI-based REER depreciated by 2.5 percent, while the ULC-based REER depreciated by 1.1 percent. During 2023, the CPI-based REER appreciated by 2.8 percent due to the strengthening of the euro, but partly offset by Italy's relatively lower inflation than its trading partners. As of April 2024, the CPI-based REER depreciated by 1.7 percent relative to the 2023 average. **Assessment.** The IMF staff CA gap implies a REER gap of 11.5 percent in 2023 (with an estimated elasticity of 0.26 applied). The level and index CPI-based REER models suggest an overvaluation in 2023 of 10.8 percent and 8.9 percent, respectively. Based on the IMF staff CA gap, the staff assesses a REER gap to be in the range of 8.8 to 14.2 percent, with a midpoint of 11.5 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The capital account balance recorded a surplus of 0.8 percent of GDP in 2023 (higher than in 2022) due to receipt of NextGenerationEU grants. The financial account posted net outflows of 1.7 percent of GDP in 2023, as the reduction in TARGET 2 liabilities by €165 billion was partly offset by repatriation of foreign assets by the resident nonfinancial sector. **Assessment.** The tightening of monetary policy through September 2023 pushed up yields on government bonds, which have since decreased on expectations of monetary policy loosening. Large refinancing needs of the sovereign and the banking sector suggest Italy remains vulnerable to market volatility.
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. Italy's reserves remained largely unchanged in 2023. **Assessment.** Reserves held by the euro area are typically low relative to standard metrics, but the currency is freely floating.

Table 3.14. Japan: Economy Assessment

Overall Assessment: *The external position in 2023 is assessed as broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA surplus increased to 3.6 percent of GDP in 2023 from 2.1 percent in 2022. The lower primary income surplus is more than offset by higher inbound tourism and auto exports (as supply disruptions fade) and reduced imports from lower commodity prices. Japan's CA surplus is expected to continue over the medium term, mainly driven by its primary income surplus, arising from a large positive NIIP and a high rate of return on net foreign assets.

Potential Policy Responses: Policies focused on structural reforms and fiscal sustainability (a credible and specific medium-term fiscal consolidation plan) are needed to maintain an external position consistent with medium-term fundamentals and desirable policies. These "desirable" policies will help shift the drivers of the economy from an unsustainable public saving-investment position to one where investment is driven by the private sector, which would raise Japan's potential growth over the medium term. Priority should be given to labor market and fiscal reforms that support private demand, raise potential growth, and promote digital and green investment. While fiscal consolidation will push the CA surplus higher, this would be offset by higher investment and a decrease in private savings from pandemic-era highs and due to demographic-related declines. Industrial policies should be pursued cautiously and remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions and aim to minimize trade and investment distortions. Japan's global leadership role to promote more open, stable, and transparent trade policies in regional/multilateral trade agreements should be prioritized.

Foreign Asset and Liability Position and Trajectory

Background. Japan's NIIP rose to 80 percent of GDP at the end of 2023, from 72.6 percent in 2022, and significantly higher than the pre-pandemic (2016–19) average of 61.7 percent. This was driven by an increase in both net FDI and portfolio outflows and the positive valuation effects from yen depreciation. Japan holds the world's largest stock of net foreign assets, valued at $3.4 trillion at the end of 2023.

Assessment. Japan's foreign asset holdings are well diversified, both by geography and risk classes. As of the end of 2023, gross foreign assets largely comprised portfolio investment accounting for about 41 percent of the total, followed by FDI with 21 percent. Of that portfolio investment, about 20 percent was yen denominated and 56 percent dollar denominated. In the event of yen appreciation against the dollar, the risk of negative valuation effects could materialize. Vulnerabilities associated with liabilities are contained, given that equity and direct investment account for about 33 percent of gross foreign liabilities. Owing to the continued depreciation of the yen, the NIIP continued to generate a net annual investment income return of 7.4 percent in 2023, lower than 8.7 percent in 2022, but still significantly larger than the pre-pandemic (2016–19) average of 6.3 percent. Japan's large positive NIIP is partly related to the asset accumulation for old-age consumption; a gradual decumulation of such assets is expected over the long term.

2023 (% GDP)	NIIP: 80.0	Gross Assets: 247.5	Debt Assets: 88.2	Gross Liab.: 167.5	Debt Liab.: 96.1

Current Account

Background. Japan's CA surplus reflects a sizable primary income balance owing to its large net foreign asset position. The CA surplus increased to 3.6 percent of GDP in 2023 from 2.1 percent in 2022, supported by higher net savings by the private sector which more than offset the decline in net savings by the public sector. The merchandise trade deficit improved from –2.7 percent of GDP in 2022 to –1.1 percent in 2023, driven by lower prices for commodity imports. Offshoring of production over the years has limited the positive impact of yen depreciation on exports, while auto exports have surged on the back of supply-side improvements. The surge in inbound tourism also boosted the services balance which improved from a deficit of 1 percent in 2022 to 0.5 percent in 2023. The primary income balance declined to 5.9 percent from a historic high of 6.3 percent of GDP in 2022. The lower primary income balance is more than offset by a 2 percent of GDP improvement in the overall trade (good and services) balance. In the medium term, the CA balance is projected to average 3.5 percent.

Assessment. The 2023 cyclically adjusted CA is 3.7 percent of GDP, and the cyclically adjusted CA norm is 4 percent of GDP (with a range between 2.9 and 5.1 percent of GDP). The 2023 CA gap midpoint is assessed at –0.3 percent of GDP, with a range between –1.4 and 0.8 percent of GDP. The EBA-identified policy gaps reflect relatively greater medium-term fiscal consolidation needs, as well as a positive credit gap, in relation to medium-term desired policy.[1] The unexplained residual of the assessment potentially reflects structural impediments and country-specific factors not included in the model, such as investment bottlenecks, including entrepreneurship entry barriers and corporate savings distortions.

2023 (% GDP)	CA: 3.6	Cycl. Adj. CA: 3.7	EBA Norm: 4.0	EBA Gap: –0.3	Staff Adj.: 0.0	Staff Gap: –0.3

Real Exchange Rate

Background. The REER continued to depreciate in 2023 by close to 5 percent, following a depreciation of 14 percent in 2022. This reflects relatively higher inflation in Japan's major trading partners combined with the yen's nominal depreciation against major currencies as a result of widening real interest rate differentials amid global monetary tightening. As of April 2024, the REER was 6.9 percent below the 2023 average.

Assessment. The IMF staff CA gap implies a REER gap of 1.7 percent in 2023 (with an estimated elasticity of 0.18 applied). The EBA REER level and index models deliver gaps of –31.7 and –35.5 percent, respectively. Consistent with the IMF staff CA gap, the REER gap is assessed to be in the range of –4.6 to 8.0 percent, with a midpoint of 1.7 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account recorded net outflows in 2023, mirroring the CA surplus, and increased to 3.9 percent of GDP in 2023 from 1.1 percent in 2022. Net FDI outflows at 3.8 percent of GDP are primarily driven by outward FDI flows to Asia, Europe, and North America. Net portfolio outflows at 4.7 percent of GDP, in comparison to net inflows of 3.4 percent of GDP in 2022, reflect lower demand for yen-denominated assets due to divergence in monetary policy.

Assessment. Vulnerabilities are limited. Inward investment tends to be equity based, and the home bias of Japanese investors is strong. So far, outward spillovers from Japan's policies to financial conditions in other economies (interest rates, credit growth) are contained.

FX Intervention and Reserves Level

Background. Reflecting legacy accumulation, reserves stood at $1.1 trillion, or about 26 percent of GDP, at the end of 2022. They remained broadly unchanged in 2023.

Assessment. The exchange rate is free floating, and there were no FX interventions in 2023. FX interventions should be limited to exceptional circumstances such as disorderly market conditions or when economies are vulnerable to sharp currency fluctuations because of unhedged exposures, shallow markets, or because inflation expectations are at risk of de-anchoring.

Table 3.15. Korea: Economy Assessment

Overall Assessment: *The external position in 2023 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* While lower import values due to declining commodity prices contributed to an increase in the CA surplus in 2023 relative to 2022, other factors prevented a larger improvement, notably weaker semiconductor exports reflecting a downturn in the global semiconductor cycle. The strong recovery of semiconductor exports is expected to significantly increase the CA surplus in 2024 and in the medium term. Risks from geopolitical tensions, if they materialized, could impede trade and investment.

Potential Policy Responses: The restrictive monetary and fiscal policy stance is appropriate and will contain domestic demand and import growth, supporting Korea's external position in the near term. Over the medium term, an increase in precautionary savings in light of the aging-related rise of spending on healthcare and pension, orderly deleveraging of private debt and policies to mitigate risks arising from geopolitical tensions would help to keep external position strong. Exchange rate flexibility, with intervention limited to preventing disorderly market conditions, would help the economy absorb external shocks. Industrial policies should remain narrowly targeted to specific objectives and aim to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP has been positive and has significantly increased in the past decade. In 2023, the nominal value of NIIP improved slightly ($8.5 billion) while the NIIP-to-GDP ratio decreased modestly (by about 0.5 percent of GDP reflecting the denominator effect) to 45.5 percent. The NIIP is projected to rise further in the medium term, to about 60 percent of GDP in 2029, on the back of increasing CA surpluses. **Assessment.** The large and positive NIIP is a key factor supporting external sustainability. Foreign asset holdings are diversified, with about 35 percent in equity or debt securities. About 60 percent of foreign assets are denominated in dollars, implying that depreciation of the won can have large positive valuation effects in aggregate. The structure of liabilities further limits vulnerabilities, with direct investment and long-term loans together accounting for 55 percent of liabilities and 70 percent of liabilities denominated in Korean won.				
2023 (% GDP)	NIIP: 45.5	Gross Assets: 133.5	Debt Assets: 60.0	Gross Liab.: 88.0	Debt Liab.: 38.7

Current Account	**Background.** The CA surplus increased from 1.5 percent of GDP in 2022 to 2.1 percent of GDP in 2023, with lowered commodity imports and the improvements in primary income more than offsetting the decline in semiconductor exports and service balances. From a saving-investment perspective, a drop in the investment rate drove the increase in surplus in 2023 despite a decline in the saving rate from pandemic-era highs. Since the pandemic, the developments in CA have been driven significantly by the global semiconductor cycle. Following a surge during 2021-22, semiconductor exports decreased sharply by about 2 percent of GDP in 2023. But a strong recovery is ongoing, with semiconductor exports already up by about 50 percent (y/y) in the first quarter of 2024, and the recovery is expected to continue in 2024. Sustained growth in semiconductor exports over the medium term, coupled with the expected stabilization of commodity import prices, is projected to increase the CA surplus to 4.5 percent of GDP in 2029. In the first quarter of 2024, the CA surplus already reached $16.8 billion, equivalent to about 1 percent of GDP. **Assessment.** The EBA CA model estimates a sizeable gap between the cyclically adjusted CA of 2.3 percent of GDP and the CA norm of 4.4 percent of GDP (with a standard error of 0.9 percent of GDP), while the 2023 surplus was already at a level that would maintain the NIIP at its current level. Based on the CA model, the IMF staff estimates the 2023 CA gap midpoint at –2.0 percent of GDP, with a range of –2.9 to –1.2 percent of GDP. A large unexplained residual potentially reflects country-specific factors not included in the model. The net contribution of the relative policy gap is 0.6 percent of GDP, with contributions from a lower health spending and tighter fiscal stance outweighing a more positive credit gap compared to the rest of the world.					
2023 (% GDP)	CA: 2.1	Cycl. Adj. CA: 2.3	EBA Norm: 4.4	EBA Gap: –2.0	Staff Adj.: 0	Staff Gap: –2.0

Real Exchange Rate	**Background.** The REER appreciated by about 2.1 percent in 2023 on average relative to 2022, reversing the sustained depreciation (11.4 percent accumulated) during 2019-2022. The REER appreciation in 2023 was mainly driven by won appreciation against currencies of some major trading partners, notably the Japanese Yen and Chinese Yuan. As of April 2024, the REER depreciated by about 2 percent relative to the 2023 average. **Assessment.** The EBA CA gap implies a REER overvaluation of 6.1 percent (with an estimated elasticity of 0.33 applied). However, the EBA REER index model estimates an undervaluation of 4.1 percent, while the EBA level model estimates a 3.1 percent undervaluation. Consistent with the staff CA gap, staff assesses the REER gap to be in the range of 3.4 to 8.7 percent, with a midpoint of 6.1 percent. Given the wide range of estimates from different approaches, the estimated REER gap should be interpreted with caution.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net capital outflows, which have been on a declining trend since 2016, further reduced to 2 percent of GDP in 2023 from 3.3 percent of GDP in 2022. Both net FDI and portfolio outflows dropped by about 1.2 percent of GDP, reflecting a reduction of residents' outbound direct investment and the resumption of foreigners' net purchases of equity securities. **Assessment.** Amid multiple global shocks in recent years, Korea has demonstrated remarkable resilience in weathering short-term capital flow volatility. The present configuration of capital flows appears sustainable over the medium term, mirroring the projected increase in the CA surplus and NIIP.
FX Intervention and Reserves Level	**Background.** Korea has a floating exchange rate. Based on IMF staff estimates and published data, FX intervention since 2015 has been two-sided. In 2023, FX intervention significantly reduced from net sales of $45.9 billion (2.8 percent of GDP) in 2022 to $9.6 billion (0.6 percent of GDP), mostly conducted in the second and third quarters during periods of heightened exchange rate volatility. As of the end-2023, reserves stood at $420 billion, lower than $423 billion as of end-2022. **Assessment.** Exchange rate volatility generally does not pose significant economic challenges for Korea, given limited currency mismatches and manageable passthrough to consumer prices. FX market depth, while ranking higher than in most emerging markets, still lags advanced economy peers. In periods of high global financial market uncertainty, there could be herding behavior amid temporarily shallow markets, leading to sharp FX movements and impaired market functioning. Intervention should thus remain limited to preventing disorderly market conditions. As of end-2023, FX reserves were about 25 percent of GDP, 2.2 times short-term debt, 6.6 months of imports, or 14 percent of M2. Systemwide stress tests also show that reserves provide sufficient FX liquidity buffers under a wide range of plausible shocks.

Table 3.16. Malaysia: Economy Assessment

Overall Assessment: *Malaysia's external position in 2023 is assessed to be stronger than the level implied by medium-term fundamentals and desirable policies.* The CA surplus, after strengthening due to pandemic-related exports, narrowed significantly in 2023 due to a moderation in external demand and a high primary income deficit. Over the medium term, the CA surplus is projected to widen as the services balance improves due to a recovery in tourism and as imports moderate.

Potential Policy Responses: In the near term, flexibility of exchange rate should be preserved to facilitate external adjustments that are driven by fundamentals. Over the medium term, policies should be implemented to strengthen social safety nets and public health care, including through a reorientation of fiscal spending. Structural policies should be implemented to encourage private investment and improve productivity growth, including through a reduction in the skills mismatch, improvements in the quality of education, and measures to improve access to credit for small and medium enterprises. Industrial policy should remain narrowly targeted to specific objectives where market solutions cannot deliver due to the presence of externalities or other market imperfections and should avoid discriminatory measures that distort trade and investment flows.

Foreign Asset and Liability Position and Trajectory	**Background.** Malaysia's NIIP has averaged about 1 percent of GDP over the last decade, increasing to 5.8 percent at the end of 2021, supported by strong CA surpluses during the pandemic that increased reserve assets. As of the end of 2022, NIIP declined to 3.0 percent of GDP; however, it increased to 6.8 percent of GDP by the end of 2023 due to an increase in the acquisition of assets abroad in the form of portfolio and direct investments. Total external debt remains manageable, increasing to 68 percent of GDP at the end of 2023, from 64 percent at the end of 2022. One-third of external debt is ringgit-denominated, hence, not exposed to valuation risks. Short-term external debt, accounting for 42 percent of external debt, is also manageable, as most of it is either in the form of largely stable intragroup borrowing or trade credits. **Assessment.** Malaysia's NIIP is expected to increase over the medium term, supported by the projected CA surpluses. Malaysia's balance sheet strength, along with exchange rate flexibility and increased domestic investor participation, would help support resilience to a variety of shocks, including outflows associated with external liabilities.					
2023 (% GDP)	NIIP: 6.8	Gross Assets: 132.0	Debt Assets: 28.6	Gross Liab.: 125.2	Debt Liab.: 24.6	
Current Account	**Background.** Malaysia's CA surplus averaged 3.2 percent over the last five years, supported by robust external goods demand. During the pandemic, despite a decline in travel receipts, external demand for pandemic-related goods and electrical and electronic products strengthened the CA balance. CA surplus declined to 1.5 percent of GDP in 2023, the lowest in over two decades. This decline was driven by a moderation in external demand, because of a slowdown in major trading partners and a decline in demand for electrical and electronic products amid a global technology downcycle. The declining trend in the CA surplus over the past five years is also reflective of the narrowing savings-investment gap, mainly driven by an increase in private investment and decline in public savings. The CA surplus is expected to grow over the medium term, as tourism recovers and improves the services balance. **Assessment.** The EBA CA model estimates a cyclically adjusted CA balance of 1.8 percent of GDP and a norm of –0.3 percent, implying a model-assed CA gap of 2.1 percent. Staff assess a CA gap in the range of 1.6 to 2.7 percent, with a midpoint estimate of 2.1 percent. Identified policy gaps partly explain the CA gap, with weaker social safety nets, proxied by health care expenditure, and looser fiscal policies adopted by the rest of the world relative to Malaysia contributing positively (0.6 percent each) to the excess surplus, and decline in balance-of-payments reserve assets and credit growth contributing negatively (–0.2 percent and –0.1 percent, respectively).					
2023 (% GDP)	CA: 1.5	Cycl. Adj. CA: 1.8	EBA Norm: –0.3	EBA Gap: 2.1	Staff Adj.: 0.0	Staff Gap: 2.1
Real Exchange Rate	**Background.** The ringgit faced depreciation pressures during most of 2023, weakening by almost 5 percent against the US dollar as of the end of 2023 relative to the end of 2022. Over the same period, the REER depreciated by 5.4 percent, while the NEER depreciated by 4.3 percent, as inflation in Malaysia was lower compared to its major trading partners. As of April 2024, the REER depreciated by 2.7 percent relative to the 2023 average. **Assessment.** Using a semi-elasticity of 0.5, the staff assessed CA gap implies a REER undervaluation of 4.1 percent in 2023. The REER index and level models estimate Malaysia's REER to be undervalued by 27.2 percent and 30.1 percent, respectively. This implies that, over the medium term, Malaysia's REER needs to appreciate to narrow the CA gap. Staff assess the REER to be undervalued in the range of 3.1 to 5.2 percent, with a midpoint estimate of 4.1 percent.					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Over the past five years, Malaysia has experienced significant volatility in capital flows, largely driven by portfolio flows in and out of the local-currency debt market, in response to changes in global financial conditions and domestic factors. Between 2019 and 2023, the financial account balance and portfolio investments averaged –2.3 and –1.9 percent of GDP, respectively. **Assessment.** Continued exchange rate flexibility and warranted macroeconomic policy adjustments should continue to play the central role in response to capital flow volatility. CFM measures should be gradually phased out, with due regard for market conditions.					
FX Intervention and Reserves Level	**Background.** Malaysia has a floating exchange rate regime. Gross international reserves declined to US$113.5 billion at the end of 2023, relative to US$114.7 billion at the end of 2022. In 2023, against the backdrop of external pressures, reserves decreased through October, but recovered during the last two months of the year, as external pressures eased. **Assessment.** Based on the IMF's composite ARA metric, reserves declined to 114 percent of ARA at the end of 2023, above the adequacy threshold of 100 percent, but marginally lower than 116 percent at the end of the previous year. This decline is partly driven by an increase in the short-term external debt. The reserve coverage declined to 4.8 months of prospective imports of goods and services, or about 81 percent of short-term debt. Staff assess that Bank Negara Malaysia engaged in largely two-sided FX interventions over the year. There is a role for FX interventions to address disorderly market conditions. Integrated Policy Framework analysis suggests that, in the context of Malaysia's shallow FX market, the use of FX interventions may be warranted to smooth large changes in hedging and financing premia if they generate risks to macroeconomic and financial stability. FX interventions should not however substitute for needed policy adjustment and should not be used to lean against exchange rate pressures that are driven by fundamentals.					

Table 3.17. Mexico: Economy Assessment

Overall Assessment: *The external position in 2023 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.* As Mexico's CA deficit shrank to 0.3 percent of GDP in 2023, its adjusted external position strengthened owing to the improvement of terms of trade and the impact of the more accommodative fiscal stance in other economies. The CA deficit is expected to widen moderately in 2024 and hover around 1 percent of GDP in the medium term.

Potential Policy Responses: Further structural reforms to address investment obstacles are critical to boost investment, including through FDI inflows, and thereby enhance growth in the medium and long term, and to maintain external sustainability. These reforms could include tackling economic informality and governance gaps, encouraging female labor force participation, promoting financial deepening, initiating private sector participation in energy, and reforming Pemex's business strategy and governance. Maintaining a prudent fiscal stance is also vital to buttress external stability. Mexico should continue to promote open trade policies and avoid increasing barriers to trade and investment. The floating exchange rate should continue to serve as a shock absorber, with FX interventions employed only in exceptional circumstances. The IMF's Flexible Credit Line with Mexico continues to provide an added buffer against global tail risks.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP is projected to improve from –41 percent of GDP in 2023 to about –28 percent of GDP over the medium term, driven mainly by a decline in foreign liabilities relative to nominal GDP. Foreign assets in 2023 (44 percent of GDP) were mostly direct investment (15 percent of GDP) and international reserves (12 percent of GDP). Foreign liabilities (84 percent of GDP) were mostly direct investment (46 percent of GDP) and portfolio investment (30 percent of GDP). **Assessment.** While the NIIP is sustainable and the relatively high share of local currency denomination in its foreign public liabilities reduces FX risks, the large gross foreign portfolio liabilities could be a source of vulnerability in case of global financial volatility. Vulnerabilities from exchange rate volatility are moderate, as most Mexican firms with FX debt have natural hedges and actively manage their FX exposures.				
2023 (% GDP)	NIIP: –41	Gross Assets: 44	Debt Assets: 13	Gross Liab.: 84	Debt Liab.: 33

Current Account	**Background.** The CA deficit was 0.3 percent of GDP in 2023, down from 1.2 percent in 2022, mainly reflecting a higher (by 1.5 percent of GDP) trade balance partly offset by a lower (by 0.1 percent of GDP) primary income balance and lower (by 0.5 percent of GDP) secondary income balance relative to GDP. The trade deficit shrunk as terms of trade improved. The improvement of the CA reflected higher private savings, while these were partly offset by higher investment. The CA deficit is expected to widen moderately in 2024 with strong demand boosting imports. Over the medium term, the CA balance is projected to hover around a deficit of 1 percent of GDP. **Assessment.** The EBA model estimates a cyclically adjusted CA balance of 0.1 percent of GDP and a cyclically adjusted CA norm of –1.3 percent of GDP. This implies an EBA model CA gap of 1.4 percent of GDP, reflecting policy gaps (0.6 percent of GDP, mostly driven by the fiscal gap of 0.7 percent of GDP) and an unidentified residual (0.8 percent of GDP). The estimated fiscal gap of 0.7 percent of GDP reflects a relatively tighter fiscal stance than in the rest of the world. The cyclically adjusted CA norm has an error band (with one standard deviation) of –0.9 to –1.7 percent of GDP.					
2023 (% GDP)	CA: –0.3	Cycl. Adj. CA: 0.1	EBA Norm: –1.3	EBA Gap: 1.4	Staff Adj.: 0.0	Staff Gap: 1.4

Real Exchange Rate	**Background.** In 2023, the peso appreciated by more than 10 percent against the US dollar. Average REER in 2023 appreciated by about 21 percent compared with the 2022 average, mostly driven by a nominal appreciation, reflected in an average NEER appreciation of 18 percent in 2023 compared with the average 2022 NEER. As of April 2024, the REER was 9 percent above the 2023 average. **Assessment.** The IMF staff CA gap implies a REER undervaluation of 4.5 percent (with a semi-elasticity of 0.31 applied). The EBA REER index and level models estimate overvaluations of 8.1 percent and 27.6 percent, respectively, in 2023. The staff's overall assessment, based on the CA gap approach, is a REER undervaluation in the range of 3.2 to 5.9 percent, with a midpoint of 4.5 percent. This assessment is subject to high uncertainty, including due to large unidentified CA model residuals.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In 2023, Mexico recorded net financial account inflows to the tune of 0.3 percent of GDP, compared with 1.0 percent of GDP in 2022. Net inflows of FDI rose to 1.7 percent of GDP, partially offset by net portfolio outflows of 0.6 percent of GDP, widening somewhat from the previous year (0.3 percent of GDP), and reserve accumulation. **Assessment.** The long maturity of external sovereign debt and the relatively high share of local-currency-denominated debt, supported by prudent fiscal and debt management by the government, reduce the exposure of government finances to FX depreciation and refinancing risks. The banking sector is resilient, with FX risks contained under macroprudential policy measures. FX risks of nonfinancial corporate debt are generally covered by natural and financial hedges. However, the strong presence of foreign investors leaves Mexico exposed to capital flow reversals and risk premium increases.
FX Intervention and Reserves Level	**Background.** The authorities remain committed to a free-floating exchange rate and has used FX intervention in limited occasions of extreme volatility, in line with their policy framework. This is consistent with staff determination in the context of the Integrated Policy Framework (CR No. 23/356) that the use of FX interventions should remain limited to exceptional circumstances, as staff analysis did not identify material frictions that would warrant regular FX interventions in Mexico, given Mexican peso's deep and liquid FX market, limited FX balance sheet mismatches, and well-anchored inflation expectations under the inflation targeting framework. At the end of 2023, gross international reserves were $214 billion (12 percent of GDP), up from $201 billion at the end of 2022. In 2023, the FX hedging mechanism using nondeliverable forwards, created in 2017 to address heightened market volatility, was started to be unwound. No other FX intervention was conducted. **Assessment.** At 126 percent of the ARA metric and 296 percent of short-term debt (at remaining maturity), the level of Mexico's foreign reserves at the end of 2023 remains adequate. The IMF staff recommends that the authorities continue to maintain reserves at an adequate level over the medium term. The Flexible Credit Line arrangement continues to provide an additional buffer.

Table 3.18. The Netherlands: Economy Assessment

Overall Assessment: *The external position in 2023 was substantially stronger than the level implied by medium-term fundamentals and desirable policies.* The Netherlands' status as a base for multinational corporations and as a trading hub and financial center makes the external assessment challenging. After a rebound in 2023, the external CA surplus is expected to contract over the medium term as population aging and a progressively higher fiscal deficit in the baseline forecast reduce domestic saving.

Potential Policy Responses: To bring the external balance to a level in line with medium-term fundamentals and desirable policies, fostering investment in physical and human capital, also by facilitating access to finance, particularly for small and medium enterprises, should take priority. Against this background, the previous government's structural investment and reform plans to safeguard energy security, allay housing market shortages, reinforce the education system, advance the climate transition, and further promote the digitalization of the economy should continue.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP reached 71.8 percent of GDP in 2023, compared with 75.2 percent in 2022. Positive NIIP impacts from CA surpluses recorded in 2023 were more than offset by denominator effects from strongly increasing nominal GDP and negative valuation effects that particularly affected the net stock of portfolio investment and financial derivatives. FDI remains the largest component of the international investment position, accounting for more than half of external assets and liabilities, also reflecting The Netherlands' role as the seat for multinational corporations and its importance as a financial center. Debt liabilities primarily comprise long-term debt securities (48 percent, of which 69 percent are denominated in euro and 22 percent are denominated in US dollars), currency and deposits (29 percent, of which 60 percent are denominated in euro), and long-term loans (7 percent). **Assessment.** The Netherlands' safe haven status and its sizable foreign assets limit risks from its large foreign liabilities.				
2023 (% GDP)	NIIP: 71.8	Gross Assets: 931.2	Debt Assets: 228.1	Gross Liab.: 859.4	Debt Liab.: 242.1

Current Account	**Background.** Refinements by Statistics Netherlands applied over 2020–22 resulted in an upward shift of the CA surplus from 4.4 to 9.3 percent of GDP in 2022, primarily reflecting a higher trade balance (+1.5 percentage points) after addressing data limitations that had prevailed during the pandemic and an improvement of the primary income balance (+3.2 percentage points) due to revisions to the profits of multinational corporations listed on the stock market. In 2023, the CA surplus is estimated to have rebounded to 10.1 percent of GDP (10.3 percent of GDP cyclically adjusted). Support measures cushioning the impact of the energy price shock on households and corporations have weighed on public net savings in 2023 but were counterbalanced by recovering private net savings from a strong labor market, accelerating wage growth, and weakening residential investment. The Netherlands' role as a trading hub and financial center contributes to a structurally strong headline external position. Specifically, multinational corporations based in The Netherlands are recording profits at their Dutch headquarters while channeling a large part of their investment abroad in the form of FDI, keeping nonfinancial corporate saving high. Relatedly, measurement biases of portfolio equity–retained earnings in official statistics may also contribute to an overstatement of the net accumulation of wealth that is attributed to Dutch residents, an issue of relevance for a country where the foreign ownership of publicly listed firms has been above 80 percent in recent years. In 2024, the CA is projected to decline to 9.1 percent of GDP. **Assessment.** The EBA CA model estimates a CA norm of 4.3 percent of GDP. Based on a cyclically adjusted CA surplus of 10.3 percent of GDP in 2023, the EBA CA gap is assessed at 6.1 percent of GDP. A total of 3.7 percentage points of the CA gap are attributable to policy gaps, primarily reflecting a relatively tighter fiscal stance and a negative credit gap that remains wider than those abroad. The portfolio retained earnings bias is assessed to be –1.8 percent of GDP based on the provision of granular data by De Nederlandsche Bank that allows for the attribution of aggregate net savings by firms to different segments of the corporate sector. Taking these factors into consideration, and against a norm in the range of 3.8 to 4.8 percent of GDP, the IMF staff assesses the CA gap to be in the range of 3.7 to 4.8 percent of GDP, with a midpoint of 4.3 percent of GDP. This gap reflects a second-pillar retirement scheme with large coverage, robust replacement ratios, and strict prefunding requirements.					
2023 (% GDP)	CA: 10.1	Cycl. Adj. CA: 10.3	EBA Norm: 4.3	EBA Gap: 6.1	Staff Adj.: –1.8	Staff Gap: 4.3

Real Exchange Rate	**Background.** In 2023, the CPI-based REER appreciated by 0.8 percent when compared with its 2022 average as inflation in The Netherlands kept outpacing price developments in key trading partners. The ULC-based REER appreciated by 0.7 percent, suggesting labor cost increases slightly ahead of competitors. As of April 2024, the CPI-based REER was 0.6 percent above its 2023 average. **Assessment.** Assuming a semi-elasticity of 0.65, the IMF staff CA gap of 4.3 percent of GDP implies a REER undervaluation of about 6.6 percent. EBA REER model estimates for 2023 range from an overvaluation of 2.8 percent (level model) to 18.9 percent (index model), largely reflecting unexplained residuals. Consistent with the staff CA gap, the IMF staff assesses the REER as undervalued by about 5.8 to 7.4 percent, with a midpoint of 6.6 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** A considerable share of gross foreign assets and liabilities are attributable to special purpose entities, financial vehicles with marginal operational footprints in The Netherlands that contribute to substantial yet hard-to-interpret capital flow volatility. A notable part of capital outflows represents the channeling of corporate profits by multinationals abroad as FDI. **Assessment.** The strong external position limits vulnerabilities to capital outflows. The financial account deficit is primarily the flip side of a CA recording sustained—and structural—surpluses.
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by euro area economies are typically low relative to standard metrics, but the currency floats freely.

Table 3.19. Poland: Economy Assessment

Overall Assessment: *The external position in 2023 was stronger than the level implied by medium-term fundamentals and desirable policies.* The CA shifted from a deficit of 2.4 percent in 2022 to a sizable surplus of 1.6 percent of GDP, due to improved terms-of-trade, subdued domestic demand, and a transitory sharp drawdown in import-intensive inventories to unwind extraordinary buildup in the aftermath of the pandemic and at the start of the Russia's invasion of neighboring Ukraine. As the economic recovery continues in 2024, consumption and credit growth are anticipated to pick up. The significant REER appreciation in 2023 and the release of EU funds are also expected to support imports. The CA balance is projected to decline to –1 percent of GDP over the medium term.

Potential Policy Responses: Efforts to boost investment should focus on easing regulatory hurdles to private investments in the energy sector. This would help catalyze investment and financing additional to the NextGenerationEU grants to address infrastructure gaps and support digitalization. Strengthening the pension system in a financially sustainable manner can reduce pressures on precautionary savings for households from declining replacement ratios.

Foreign Asset and Liability Position and Trajectory	**Background.** The negative NIIP has declined markedly over the last decade, both in size and structure, transitioning from volatile sources of financing such as portfolio flows and short-term financing towards more stable FDI. The NIIP reached –33.5 percent of GDP in 2023 from –33.7 percent in 2022. Gross external debt declined to 49 percent of GDP in 2023 from 54 percent in 2022. **Assessment.** The level of external debt has declined substantially, with rollover risk mitigated by the large share of long-term debt (70 percent of total debt) and intercompany lending (30 percent of total debt). The level of gross reserves (158 percent of short-term debt) is adequate and further reduces residual rollover risk.				
2023 (% GDP)	NIIP: –33.5	Gross Assets: 59.6	Reserve Assets: 24	Gross Liab.: 93.1	Gross External Debt: 49

Current Account	**Background.** The CA in recent years was characterized by volatile domestic and external demand and terms-of-trade changes amid multiple shocks associated with the pandemic and the war, increased government spending to cushion cost-of-living increases and support refugees, robust service exports and strong reinvested earnings of foreign firms. In 2023, the CA recorded a surplus of 1.6 percent of GDP from a deficit of 2.4 percent in 2022. This shift is mainly attributed to a substantial decline of commodity imports driven by a rebound in terms-of-trade, subdued domestic demand partly due to cumulative interest rate hikes, and a sharp drawdown in import-intensive inventories. This one-off effect was to unwind an unprecedented inventory build-up in 2021 and 2022 in response to supply chain disruptions resulting from the pandemic and then Russia's invasion of Ukraine that had prompted a stockpiling of inventories as a precautionary measure. Total national savings remained broadly stable in 2023 while significant inventory destocking by companies dampened overall investment despite a sizable pick up in fixed investment. In the near term, the CA balance is expected to decline as growth picks up on the back of recovering consumption and EU fund-supported investment, with also the impact of the sizable real appreciation in the latter part of 2023, and as inventories normalizes. Over the medium term, the CA balance is projected to converge towards a deficit of 1 percent, due to robust consumption growth, sustained EU fund inflows and increased military spending. **Assessment.** The EBA CA model estimates a CA norm of –2.2 percent of GDP and a cyclically adjusted CA surplus of 1.4 percent of GDP in 2023, implying an EBA model CA gap of 3.6 percent of GDP. The staff CA gap of 3.6 (±0.5) percent of GDP includes identified policy gaps of 1.8 percent of GDP and an unexplained residual of 1.8 percent of GDP. However, these estimates may not fully capture the one-off effects boosting the CA surplus due to the drawdown in inventories. Among the policy variables, the credit gap was the largest contributor to the policy gap. Staff estimates that overall desirable policies together with cyclical demand recovery will help narrow the credit gap over the medium term.					
2023 (% GDP)	CA: 1.6	Cycl. Adj. CA: 1.4	EBA Norm: –2.2	EBA Gap: 3.6	Staff Adj.: 0.0	Staff Gap: 3.6

Real Exchange Rate	**Background.** The annual average of the NEER appreciated by 6.3 percent in 2023, while the REER appreciated by 11.3 percent, as the zloty strengthened considerably against both the US dollar and euro and as a positive inflation differential persisted in 2023 relative to Poland's trading partners. As of April 2024, the CPI-based REER had further appreciated by 5.2 percent from its 2023 average. **Assessment.** The EBA REER index and level models estimate a 2023 REER gap of 11.8 and –11.7 percent, respectively. Consistent with the staff CA gap and an estimated elasticity of 0.43, staff's overall assessment is a REER undervaluation within a range of –7.3 to –9.4 percent, with a midpoint of –8.4 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The capital account surplus declined to 0.2 percent of GDP in 2023 from 0.5 percent in 2022. Over the medium term, the capital account surplus is projected to stabilize around 0.5 percent of GDP, supported by inflows of EU funds. The financial account experienced a net inflow of 1.6 percent of GDP in 2023. FDI inflows reached 2.3 percent of GDP on a net basis in 2023 from 3.7 percent in 2022. **Assessment.** The capital account is projected to remain a strong source of support for investment, reflecting EU cooperation frameworks. Vulnerability to capital outflows is contained as foreign holdings of domestic government securities have declined continuously and significantly since 2016, and the foreign investor base remains diversified. The central bank has adequate tools to manage bouts of volatility.
FX Intervention and Reserves Level	**Background.** FX reserves increased to US$194 billion in 2023 from US$167 billion in 2022. Net reserves, which net out the central bank's repo operations and government FX deposits, stood at about US$167 billion in 2023 from US$146 billion in 2022. While central bank briefly intervened in foreign exchange markets in March 2022 amid disorderly market conditions at the beginning of the war in Ukraine, no intervention was conducted in 2023. The zloty is considered free floating. **Assessment.** At about 164 percent of the IMF's reserve adequacy metric, Poland's level of gross reserves is adequate to guard against external shocks and disorderly market conditions.

Table 3.20. Russia: Economy Assessment

Overall Assessment: *Russia's external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* However, the models do not fully account for Russia's idiosyncratic situation. Due to sanctions, CA surpluses may not translate into an accumulation of readily accessible foreign assets in reserve currencies. Further, the range of uncertainty surrounding the projections remains exceptionally large in the context of shifting sanctions.

Foreign Asset and Liability Position and Trajectory	**Background.** Russia's NIIP stood at 42.4 percent of GDP as of the end of 2023, an increase of 9.2 percentage points of GDP from its 2022 level. In 2023, gross assets increased by 7.6 percentage points of GDP while remaining below their peak of 105 percent of GDP in 2020—driven primarily by an increase in other investments and reserve assets. Gross liabilities stood at 34.5 percent of GDP, declining from their 2022 level of 36.1 percent of GDP. As of the end of 2023, about one-third of external debt was held in domestic currency, and there were no obvious maturity mismatches between gross asset and liability positions. The share of nonresident holdings of domestic government debt continued to decline sharply, from 32.2 percent at the end of 2019 to 7.4 percent by the end of 2023. **Assessment.** Recurring positive CA surpluses maintain Russia's positive NIIP trends and contribute to an accumulation of external buffers. Despite low external vulnerabilities at present, a share of international reserves is currently frozen due to sanctions and additional reserves accumulation in traditional reserve currencies is hampered.				
2023 (% GDP)	NIIP: 42.4	Gross Assets: 76.9	Reserve Assets: 29.6	Gross Liab.: 34.5	Debt Liab.: 15.6

Current Account	**Background.** After reaching a record level of 10.5 percent of GDP in 2022, Russia's CA surplus narrowed sharply to 2.5 percent of GDP, closer to its historical average and driven by an export-led decline in the trade balance. Energy exports declined due to lower global prices and sharply lower gas exports to Europe since mid-2022. The CA is projected to increase slightly to 2.7 percent of GDP in 2024, although the projection is subject to high uncertainty. **Assessment.** The EBA CA model estimates a norm of 2.3 percent of GDP for 2023 and a cyclically adjusted CA surplus of 2.6 percent of GDP. Identified policy gaps account for 1.5 percentage points—half of which is driven by the gap in the fiscal balance and reflect larger consolidation needs in the rest of the world compared with Russia—while the unexplained residual accounts for –1.2 percentage points. Moreover, the range of uncertainty surrounding the CA gap estimates is exceptionally large, given how difficult it is to estimate the cyclically adjusted CA and the CA norm in the context of sanctions that have a direct impact on external balances.					
2023 (% GDP)	CA: 2.5	Cycl. Adj. CA: 2.6	EBA Norm: 2.3	EBA Gap: 0.3	Staff Adj.: 0.0	Staff Gap: 0.3

Real Exchange Rate	**Background.** Between the end of 2022 and summer 2023, the ruble lost close to 40 percent of its value in part due to the sharp decline in the CA surplus. In response, the Bank of Russia raised its policy rate by a cumulative 850 basis points in several steps starting at the end of July, reaching 16 percent by the end of 2023. The Bank of Russia also intervened in the FX market to stem the depreciation. Additionally, the Bank of Russia re-introduced repatriation and surrender requirements of export proceeds and tightened FX controls. The REER depreciated by 24.6 percent in 2023, fully reversing 2022 gains. As of April 2024, the REER was 3.7 percent below the 2023 average. **Assessment.** The IMF staff CA gap implies a REER undervaluation of 1.8 percent in 2023 (assuming an estimated elasticity of 0.17). The EBA REER index models suggest a REER overvaluation of 3.3 percent, while the EBA REER level models points to a REER undervaluation of 18.6 percent. Consistent with the CA gap (and also in line with the REER index model), staff assess the REER gap to be in the range of –6.7 percent and 3.1 percent, with a midpoint of –1.8 percent (undervalued). However, these models do not fully account for Russia's idiosyncratic situation.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** While capital flow measures introduced in early 2022 were subsequently relaxed, the authorities have kept in place restrictions on repatriation of foreign investment, including FDI, as well as restrictions on cash FX withdrawals from bank accounts and cash exports abroad. Amid remaining restrictions, net private capital outflows declined significantly—from 9.5 percentage points of GDP in 2022 to 2.5 percentage points of GDP in 2023. **Assessment.** Russia's large FX reserves and floating exchange rate regime continue to help absorb shocks. Remaining capital controls effectively curtailed capital outflows and helped preserve buffers despite sanctions.
FX Intervention and Reserves Level	**Background.** Official reserves increased modestly by $16.6 billion to $598.6 billion in 2023 due to revaluation effects. Despite a positive CA balance, reserves accumulation remains constrained by the sanctions. In response to depreciation pressures, the Bank of Russia implemented additional FX interventions in support of the ruble, including mirroring withdrawals from the National Wealth Fund related to the National Wealth Fund's investment in domestic assets and the suspension of FX purchases prescribed by the fiscal rule. Since January 2023, the Bank of Russia has resumed buying and selling FX, but now only in Chinese RMB, as transactions in traditional reserve currencies are prohibited by sanctions. The 2023 fiscal rule set the benchmark oil and gas revenues in rubles. When oil and gas revenues exceeded the benchmark (in rubles), the authorities were required to purchase FX. The Ministry of Finance reverted to an earlier (benchmark oil price–based) version of the fiscal rule from January 2024 onward. **Assessment.** As of the end of 2023, international reserves stood at 343.2 percent of the IMF's reserve adequacy metric. Given that a share of international reserves has been frozen due to sanctions, the assessment of reserve adequacy is subject to high uncertainty.

Table 3.21. Saudi Arabia: Economy Assessment

Overall Assessment: *The external position in 2023 was weaker than the level implied by medium-term fundamentals and desirable policies.* The external balance sheet remains strong. Reserves remain adequate according to standard IMF metrics, although savings are not sufficient from an intergenerational equity perspective. Lower oil exports and investment-driven imports are expected to shift the CA surplus to a deficit. The central government's non-oil primary balance to GDP is expected to be on a continuously improving trend. Given the economy's structure, external adjustment will be driven primarily by fiscal policy. The pegged exchange rate continues to provide Saudi Arabia with a credible policy anchor.

Potential Policy Responses: Over the medium term, additional fiscal consolidation—including through enhanced revenue mobilization and energy price reforms—could bring the CA balance closer to the norm. Sustained implementation of an ambitious structural reform agenda to diversify the economy, lift productivity, and boost the non-oil tradable sector will also help in closing the gap. Risks associated with industrial policies should be minimized, while discriminatory policies should be avoided as they could create distortions in the allocation of resources and elicit retaliatory actions by trade partners.

Foreign Asset and Liability Position and Trajectory	**Background.** Net external assets are estimated at 73.5 percent of GDP at the end of 2023, slightly up from 70.9 percent of GDP in 2022 and down from 81.2 percent in 2021. In the medium term, the NIIP is expected to stabilize at 65 percent of GDP. Only broad categories are available on the composition of external assets. Portfolio and other investments, reserves, and FDI, respectively, account for 55 percent, 31 percent, and 14 percent of total external assets. **Assessment.** The external balance sheet remains very strong. Substantial accumulated assets represent both protection against vulnerabilities from oil price volatility and saving of exhaustible resource revenues for future generations.				
2023 (% GDP)	NIIP: 73.5	Gross Assets: 133.7	Res. Assets: 40.9	Gross Liab.: 60.1	Debt Liab.: 26.2

Current Account	**Background.** The CA balance registered a surplus of 3.2 percent of GDP in 2023, down from a historical high of 13.7 percent surplus in 2022. The trade balance decreased by 9.5 percent of GDP as the price and volume of oil exports decreased and imports picked up in 2023—primarily driven by domestic-driven policies of reducing oil production and promoting investment. Higher consumption and reduced oil windfalls led to lower savings in 2023. The terms of trade deteriorated by 15 percent in 2023. For the projections, oil production is assumed to follow the OPEC+ (Organization of the Petroleum Exporting Countries, including Russia and other non-OPEC oil exporters) agreement, with a further decline in 2024 and a recovery in 2025. The CA surplus is expected to deteriorate to around 0.5 percent of GDP in 2024 before shifting to a deficit in 2025 and decline further to a 2.8 percent of GDP deficit by 2029, reflecting increases in investment-driven imports and decline in oil export revenues. **Assessment.** The IMF staff assesses a CA gap of –2.6 percent of GDP using the EBA-Lite CA model[1] (April 2024 *World Economic Outlook*), although the overall assessment is subject to significant model uncertainty due to the idiosyncratic characteristics of the Saudi Arabian economy. Saudi Arabia's reliance on oil complicates the application of standard external assessment methodologies, given the wide swings of oil prices between 2020 and 2023. Given this, the EBA-lite commodity module is also applied to Saudi Arabia ESA, with the Consumption Allocation Rules suggesting a CA gap of –2 percent of GDP for constant real annuity rules and –5 percent of GDP for constant real per capita annuity allocation rules. The Investment Needs Model suggests a CA gap of 3.5 percent of GDP. The estimated CA gap of –2.6 percent of GDP has an estimated range from –4.6 to –0.6 percent of GDP.[2]					
2023 (% GDP)	CA: 3.2	Cycl. Adj. CA: 3.3	EBA Norm: —	EBA Gap: —	Staff Adj.: —	Staff Gap: –2.6

Real Exchange Rate	**Background.** The riyal has been pegged to the US dollar at a rate of 3.75 since 1986. On average, the REER appreciated by 0.7 percent in 2023 and was 5.7 percent above its 10-year average (2013–22), while the NEER appreciated by 3.4 percent in 2023. The NEER appreciation was mainly driven by the appreciation of the US dollar versus third currencies and with inflation less than in its trading partners, Saudi Arabia's REER appreciation was less than that of its NEER. As of April 2024, the REER was 0.7 percent above the 2023 average. **Assessment.** Exchange rate movements have a limited impact on Saudi Arabia's competitiveness in the short term, as most of its exports are oil or oil-related products that are denominated in dollars. There is limited substitutability between imports and domestically produced products, which in turn have significant imported labor and intermediate-input content. The EBA-Lite REER model suggests an overvaluation of 13.2 percent. Based on the IMF staff CA gap and a 0.2 elasticity of the CA to a change in REER, the staff assesses the REER to be overvalued by 12.1 percent, with a range of 2.9 to 21.2 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net financial outflows in 2023 ($43 billion) returned to their historical average (2013–21) from a record high in 2022 ($123 billion), mainly due to the decline of CA balance associated with reduced oil exports and oil prices. Net outflows continued as the Public Investment Fund (sovereign wealth fund) and other entities continued to invest abroad. Reserves are expected to remain at a stable level over the medium term through reduced asset accumulation abroad. **Assessment.** A lack of detailed information on the nature of financial flows in Saudi Arabia complicates the analysis of its financial account. The strong reserve position, including the sizable assets of the Public Investment Fund, limits risks and vulnerabilities to capital flows.
FX Intervention and Reserves Level	**Background.** The Public Investment Fund's investments abroad are increasing, although most of the government's foreign assets are still held at the central bank within international reserves. Net foreign assets decreased to $417.1 billion (39.1 percent of GDP, 15.7 months of imports, and 208 percent of the ARA metric) at the end of 2023, down from $440.5 billion at the end of 2022 (and from $724 billion in 2014). This trend was, in part, driven by financial outflows. Reserves are expected to stabilize at about 13 months of imports in the medium term. **Assessment.** Reserves play a dual role: they are saving for both precautionary motives and future generations. Reserves are adequate for precautionary purposes (measured by the IMF's metrics). Significant buffers are also available through external assets held by the Public Investment Fund and national oil company. Nevertheless, fiscal consolidation is needed over the medium term to strengthen the CA and increase saving for future generations.

Table 3.22. Singapore: Economy Assessment

Overall Assessment: *The external position in 2023 was substantially stronger than the level implied by medium-term fundamentals and desirable policies.* The assessment is subject to a wide range of uncertainty, reflecting Singapore's very open economy and status as a global trading and financial center. Over the medium term, the CA surplus is projected to narrow gradually driven by higher public spending, private investment, and an increase in household consumption (as the share of prime working-age population actively saving for retirement declines).

Potential Policy Responses: The planned execution of major green infrastructure projects and the strengthening of social safety nets should help reduce external imbalances in the near term. Over the medium term, Singapore's economy is expected to undergo structural transformation in light of a rapidly aging population and a transition to a green and digital economy. Higher public investment to address these issues, including spending on health care, green and other physical infrastructures, and human capital, as well as ongoing reforms to strengthen social safety nets, would help reduce external imbalances over the medium term by reducing net saving of the economy.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP stood at 171.4 percent of GDP in 2023, down from 178.4 percent of GDP in 2022 and below the average level of 227.1 percent of GDP in 2019–23. Gross assets and liabilities are high, reflecting Singapore's status as a financial center. About half of foreign liabilities are in FDI, and about a fifth are in the form of currency and deposits. The CA surplus has been a main driver of the NIIP since the global financial crisis, but valuation effects were material in some years, driven mainly by NEER appreciation as the Monetary Authority of Singapore tightened its exchange rate–based monetary policy. CA and growth projections imply that the NIIP will rise over the medium term. The large positive NIIP in part reflects the accumulation of assets for old-age consumption, which is expected to be gradually unwound over the long term. **Assessment.** Large gross non-FDI liabilities (425.9 percent of GDP in 2023)—predominantly cross-border deposit taking by local branches of foreign banks—present some risks, but these are mitigated by large gross asset positions, banks' large short-term external assets, and the authorities' close monitoring of banks' liquidity risk profiles. Singapore has large official reserves and other official liquid assets.

2023 (% GDP)	NIIP: 171.4	Gross Assets: 1,122.3	Res. Assets: 70	Gross Liab.: 950.9	Debt Liab.: 326.9

Current Account	**Background.** The CA surplus was 19.8 percent of GDP in 2023, up from 18 percent in 2022. This mainly reflects an improvement in primary income balance as receipts rose and payments declined. The CA balance is higher than the average of 17.7 percent since 2018 and slightly lower than the post-global-financial-crisis peak of 22.9 percent in 2010. Singapore's large CA balance reflects a strong goods balance and a small surplus in the services balance that is partly offset by a (primary) income deficit.[1] Structural factors and policies that boost savings, such as Singapore's status as a financial center, consecutive fiscal surpluses in most years, and rapid aging—combined with a mandatory defined-contribution pension program (whose assets were about 84.8 percent of GDP in 2023)—are the main drivers of Singapore's strong external position. The CA surplus is projected to narrow over the medium term on the back of increased infrastructure and social spending. In 2023, public saving increased as the fiscal balance improved further, following the unprecedented COVID-19-related stimulus, while private saving decreased slightly. **Assessment.** Guided by the EBA framework, staff assesses the 2023 CA gap to be in the range of 5.2 to 8.8 percent of GDP, with a midpoint of 7.0 percent.[2] The identified policy gaps in 2023 reflect a more contractionary fiscal policy adopted in 2023 in Singapore compared to the rest of the world.

2023 (% GDP)	CA: 19.8	Cycl. Adj. CA: 20.1	EBA Norm: —	EBA Gap: —	Staff Adj.: —	Staff Gap: 7.0

Real Exchange Rate	**Background.** The REER appreciated by 7.2 percent in 2023, reflecting the appreciation of the NEER by 5.3 percent. This followed an appreciation of the REER by 5.8 percent and an appreciation of the NEER by 3.9 percent, both cumulative, between 2020 and 2022. As of April 2024, the REER appreciated by 2.0 percent relative to its 2023 average. **Assessment.** Consistent with the staff CA gap, staff assesses the REER to be undervalued in the range of 10.4 to 17.6 percent, with a midpoint of 14.0 percent in 2023 (applying an estimated elasticity of 0.5).[3]
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Singapore has an open financial account. As a trade and financial center in Asia, changes in market sentiment can affect Singapore significantly. Increased risk aversion in the region, for instance, may lead to inflows to Singapore given its status as a regional safe haven, whereas global stress may lead to outflows. The financial account balance reflects in part reinvestment abroad of income from official foreign assets, as well as sizable net inward FDI and smaller but more volatile net bank-related flows. In 2023, the capital and financial account featured lower net outflows of 7.1 percent of GDP compared to 40.6 percent in 2022 (outflows ranged from 4.6 to 40.6 percent in 2018–22). **Assessment.** The financial account is likely to remain in deficit as long as the trade surplus remains large.
FX Intervention and Reserves Level	**Background.** With the NEER as the intermediate monetary policy target, intervention is undertaken to achieve inflation and output objectives. As a financial center, prudential motives call for a larger NIIP buffer. Official reserves held by the Monetary Authority of Singapore reached US$351billion (70 percent of GDP) in 2023. Aggregate data on foreign exchange intervention operations has been published since April 2020 (with a six-month lag). **Assessment.** In addition to FX reserves held by the Monetary Authority of Singapore, Singapore also has access to other official foreign assets managed by Temasek and GIC.[4] The current level of official external assets appears adequate, even after considering prudential motives, and there is no clear case for further accumulation for precautionary purposes.

Table 3.23. South Africa: Economy Assessment

Overall Assessment: *The external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA deficit widened to 1.6 percent of GDP in 2023 from 0.5 percent of GDP in 2022, largely driven by higher goods imports, with the CA dynamics reflecting public sector dissaving associated with an increase in the fiscal deficit. The CA deficit is expected to modestly widen to 1.8 percent of GDP in 2024 as imports continue to recover.

Potential Policy Responses: A combination of bold structural reforms and fiscal consolidation is necessary and can help support South Africa's external position. Structural reform efforts to help boost competitiveness should focus on addressing the energy and logistics crises (including by promoting private sector participation), as well as on improving governance, product market efficiency, and the functioning of labor markets and bolstering worker skills. Fiscal consolidation should be expenditure based, while providing space for critical infrastructure investment and well-targeted social spending to help tackle poverty and inequality. Industrial policies, where desirable, should address specific market failures to promote competition and exports in concerned industries and technological advancement, while avoiding discriminatory contents that violate international trade rules or accentuate trade tensions. A flexible rand exchange rate should remain the main shock absorber, and maintaining an adequate level of international reserves can further support resilience to shocks.

Foreign Asset and Liability Position and Trajectory	**Background.** At end-2023, South Africa's NIIP improved markedly to 28.1 percent of GDP from to 19.7 percent in 2022 (and about 8 percent in 2019), mainly due to valuation adjustments on foreign assets (both on account of exchange rate depreciation and price effects). The NIIP surplus is expected to moderate over the medium term as the CA deficit is projected to widen. Gross external assets reached 128.1 percent of GDP (of which 17.4 percent of GDP were reserve assets) and gross liabilities stood at 100 percent of GDP. Gross external debt increased slightly to about 42 percent of GDP in 2023 (from 41 percent in 2022), while short-term external debt (on a residual maturity basis) increased marginally to 13.3 percent of GDP in 2023. **Assessment.** The level and composition of NIIP and gross external debt indicate that South Africa's external position is sustainable. Risks from large gross external liabilities are mitigated by a large external asset position and the liability composition (mostly in equities), and a significant share of external debt (43 percent) is rand-denominated.				
2023 (% GDP)	NIIP: 28.1	Gross Assets: 128.1	Debt Assets: 16.8	Gross Liab.: 100	Debt Liab.: 41.8

Current Account	**Background.** The CA deficit averaged 3 percent of GDP during 2015-19, turning temporarily into surplus during the pandemic, but reverting to a deficit of 0.5 percent of GDP in 2022. In 2023, the CA deficit widened to 1.6 percent of GDP, largely driven by a decline in the goods trade balance surplus on account of higher imports, partly offset by a reduction in the income balance deficit. The CA deficit is projected to widen to 1.8 percent of GDP in 2024 and 2.2 percent in the medium term, as import growth continues to strengthen alongside a recovery in domestic demand to pre-pandemic levels. **Assessment.** Staff estimates a CA gap in the range of –0.2 to –1.6 percent of GDP in 2023 (–0.9 percent of GDP mid-point estimate). The cyclically adjusted CA is estimated at –2.2 percent of GDP in 2023, relative to a model-based EBA CA norm of 0.6 percent of GDP. Accounting for South Africa's lower life expectancy relative to other countries, an adjustor of 0.5 is applied, bringing its norm to 0.1 percent of GDP. Staff also adjusts the CA for the statistical treatment of Southern African Customs Union transfers (1 percent of GDP) and income balance measurement issues (0.4 percent of GDP),[1] resulting in an estimated staff CA gap of –0.9 percent of GDP, largely explained by structural factors outside the model.					
2023 (% GDP)	CA: –1.6	Cycl. Adj. CA: –2.2	EBA Norm: 0.6	EBA Gap: –2.8	Staff Adj.: 1.9	Staff Gap: –0.9

Real Exchange Rate	**Background.** The CPI-based REER depreciated by 8.3 percent in 2023 (following a depreciation of 2.2 percent in 2022), largely on account of the depreciation of the rand against the currencies of main trading partners. As of April 2024, REER appreciated by 1.8 percent compared to the 2023 average. **Assessment.** Based on the CA approach, and taking model uncertainties into consideration, staff assesses the REER to be overvalued with a range of 0.9 to 6.3 percent and a midpoint of 3.6 percent for 2023 (applying an estimated elasticity of 0.25). The REER-based regression points to undervaluation of 15.8 percent (level approach) and to an undervaluation of 20.7 percent (index approach).
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net FDI inflows increased to 2.1 percent of GDP in 2023 (from 1.7 percent in 2022), while net portfolio outflows accelerated to –1.6 percent in 2023 (from –1.1 percent in 2022). At the same time, derivative net inflows increased to 0.6 percent of GDP (from –0.5 percent in 2022), while other investment registered an outflow of –0.1 percent of GDP (from an inflow of 1.9 percent in 2022). Reserves increased by 0.2 percent of GDP in 2023 (net of valuation gains), contributing to an increase in the surplus of the financial account to 1.3 percent GDP in 2023 from 1 percent in 2022. The capital account was in balance in 2023 from a deficit of 0.4 percent of GDP in 2022. Gross external financing needs reached almost 15 percent of GDP in 2023 from 12.7 percent in 2022, owing to increased external debt amortization and the wider current account deficit. **Assessment.** Risks from large reliance on non-FDI inflows for external financing and sizable nonresident holdings of local financial assets are mitigated by relatively limited currency mismatches, large equity liability composition of the NIIP, and a large domestic institutional investor base. The latter tends to reduce asset price volatility during periods of market stress.
FX Intervention and Reserves Level	**Background.** South Africa's exchange rate regime is classified as floating. Central bank intervention in the FX market is rare. International reserves increased to 16.6 percent of GDP at end-2023 (from 15.5 percent in 2022) representing about 127.3 percent of short-term debt and covering about 6 months of imports. International reserves represent 97.3 percent of the IMF's ARA metric (108.8 percent when CFMs are taken into account), in line with the recommended 100–150 percent range. **Assessment.** Maintaining an adequate level of international reserves well within the recommended range can further support South Africa's resilience to shocks.

Table 3.24. Spain: Economy Assessment

Overall Assessment: *The external position in 2023 is assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies.* Even though the large negative NIIP was significantly reduced in 2023, strengthening it further will require sustaining relatively high CA surpluses in coming years. While in 2023–24 the CA balance will exceed the norm, this gap is projected to shrink in the medium term, with the CA surplus declining as tourism flows normalize, non-energy imports regain strength—supported by the shift in the economy's growth drivers towards domestic demand, particularly investment which has a high import content—and private saving slowly declines toward pre-COVID-19 levels.

Potential Policy Responses: The projected CA surplus path will keep reducing the sizable negative NIIP as needed. Therefore, policies that would divert the CA from such a path, including those that would weaken competitiveness and the CA, should be avoided. However, a similar path could be achieved with a better policy mix that keeps the savings-investment balance and the projected CA path broadly unchanged, while supporting growth and preserving fiscal sustainability. Specifically, sustained fiscal consolidation efforts would rebuild fiscal space and raise aggregate saving, while structural reforms—together with investments in strategic areas—could boost growth and raise aggregate investment. Any such industrial policies should be pursued cautiously, remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, and aim to minimize trade and investment distortions. Spain should persist in its efforts to enhance education outcomes, encourage innovation, and reduce energy dependence from abroad. The Recovery, Transformation and Resilience Plan includes investments and reforms in these areas, as well as specific measures to diversify and improve the quality of tourism services, but adequate implementation and ex post evaluation remain critical for success.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP continued to improve in 2023 and reached –52.8 percent of GDP by the end of the year. This trajectory reflects a larger decrease in gross liabilities compared to that in assets (as a percentage of GDP). Gross liabilities—of which nearly 70 percent correspond to external debt—declined to 248.3 percent of GDP by the end of 2023. Most of the negative NIIP is attributed to the general government and the central bank, with TARGET2 liabilities amounting to 26.2 percent of GDP by December 2023.[1] The NIIP is projected to continue improving in the medium term, supported by sustained CA surpluses and the positive—though temporary—impact of NextGenerationEU funds disbursements on the capital account.

Assessment. Despite its projected improvement, the still large negative NIIP comes with external vulnerabilities, including those from large gross financing needs and risks of adverse valuation effects, which could be affected by the evolution of global financial conditions and policy responses. Mitigating factors include the rather long maturity of outstanding sovereign debt (averaging almost eight years) and the limited share of debt denominated in foreign currency (11.9 percent of total external debt).

2023 (% GDP)	NIIP: –52.8	Gross Assets: 195.5	Debt Assets: 95.0	Gross Liab.: 248.3	Debt Liab.: 149.0

Current Account

Background. The CA surplus rose significantly from 0.6 percent of GDP in 2022 to 2.6 percent of GDP in 2023. This was driven by a strong performance of services exports (both tourism and non-tourism) and by weak imports (not only due to the decline in energy import prices but also to a low—relative to historical average—elasticity of imports to domestic demand). Higher public saving and weaker private investment—including due to high uncertainty and tight financial conditions—more than offset the rise in public investment and a drawdown of excess private savings generated during the pandemic. Continued strength of services exports and further improvements in the energy goods balance will keep the trade surplus high in 2024. In the medium term, the CA surplus is projected to shrink gradually as tourism inflows normalize and non-energy imports regain strength—supported by the shift in the economy's growth drivers toward domestic demand, particularly investment which has a high import content.

Assessment. The 2023 cyclically adjusted CA balance is 2.8 percent of GDP. IMF staff assess the CA norm to be between 0.1 and 1.7 percent of GDP, with a midpoint of 0.9 percent of GDP, in line with the EBA CA model. The difference between the cyclically adjusted CA and the CA norm yields a CA gap in the range of 1.0 to 2.6 percent of GDP, with a midpoint of 1.8 percent of GDP. The overall estimated contribution of identified policy gaps is 0.3 percent of GDP, reflecting the positive contributions from a more expansionary fiscal policy stance in the rest of the world relative to Spain and relatively low credit growth (0.4 and 0.2 percent of GDP, respectively), which are only partially offset by the negative contribution from strong social safety nets (–0.3 percent of GDP).

2023 (% GDP)	CA: 2.6	Cycl. Adj. CA: 2.8	EBA Norm: 0.9	EBA Gap: 1.8	Staff Adj.: 0.0	Staff Gap: 1.8

Real Exchange Rate

Background. In 2023, Spain's CPI- and ULC-based REER remained broadly stable, with changes relative to 2022 average of 0.3 and –0.45 percent, respectively. This followed a period of sustained REER depreciation since 2009, which almost fully reversed the large appreciation during 1999–2008. As of April 2024, the CPI-based REER was 1.0 percent above the 2023 average.

Assessment. The IMF staff CA gap implies a REER gap of –6.4 percent in 2023 (with an estimated elasticity of 0.28 applied). The EBA REER index and level models suggest instead an overvaluation of 3.8 percent and 18.6 percent for 2023, respectively, mostly driven by large unexplained residuals. Consistent with the staff CA gap, the staff assesses the REER to be moderately undervalued, with a midpoint of 6.4 percent and a range of uncertainty of ±2.8 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital account surplus has remained high due to flows associated with NextGenerationEU funds. The financial account balance improved to 4.1 percent of GDP in 2023 (from 1.9 percent of GDP in 2022). The increase in the financial account surplus was largely driven by changes in the Bank of Spain's balance sheet, which were only partially offset by net outflows in the other components.

Assessment. Large external financing needs leave Spain vulnerable to sustained market volatility and tighter global financial conditions.

FX Intervention and Reserves Level

Background. The euro has the status of a global reserve currency.

Assessment. Euro area economies typically hold low reserves relative to standard metrics, but the currency is free floating.

Table 3.25. Sweden: Economy Assessment

Overall Assessment: *The external position in 2023 is substantially stronger than the level implied by medium-term fundamentals and desirable policies,* with an increase of the CA of 1.4 percentage points to 6.8 percent of GDP. The projected medium-term recovery is expected to bring the external balance down before stabilizing at its long-term average of about 4 percent.

Potential Policy Responses: As inflation recedes, there is scope to increase private and public investment in the green transition and the health sector. This would lower the external balance, help meet Sweden's ambitious climate goals, and prepare it for demographic challenges.

Foreign Asset and Liability Position and Trajectory	**Background.** NIIP reached 33.2 percent of GDP in 2023, an increase of 2.2 percentage points, helped by net valuation gains and stronger CA surplus. Gross liabilities decreased to 280.7 percent of GDP in 2023, with more than half being gross external debt (166.4 percent of GDP). Other financial institutions (75.4 percent of GDP) hold the bulk of net foreign assets followed by social security funds (20.2 percent of GDP), households (18.2 percent of GDP), and the Riksbank (6 percent of GDP), while nonfinancial corporations (44.5 percent of GDP), monetary financial institutions (37.4 percent of GDP), and the general government (2.9 percent of GDP) are net external debtors. A total of 50 percent of the NIIP is in foreign currency. **Assessment.** The NIIP is expected to firm further in the medium term, reflecting the outlook for continued CA surpluses. Sweden's foreign currency assets are almost three times as high as its foreign currency liabilities, providing a hedge against currency valuation changes. These estimates are subject to uncertainty as international investment position data typically include errors and omissions averaging over 2 percent of GDP in the past decade. Although rollovers of external debt (which include banks' covered bonds) pose some vulnerability, risks are moderated by banks' ample liquidity and large capital buffers. The NIIP level and trajectory do not raise sustainability concerns.

2023 (% GDP)	NIIP: 33.2	Gross Assets: 313.9	Debt Assets: 140.9	Gross Liab.: 280.7	Debt Liab.: 137.4

Current Account	**Background.** The 2022 CA surplus was revised up from 4.3 percent of GDP in last year's *External Sector Report* to 5.4 percent, stemming from revisions in exports of goods and services (equivalent to 0.3 percent of GDP) and net primary income (equivalent to 0.8 percent of GDP). In 2023, the CA surplus rose to 6.8 percent of GDP on the back of higher net exports (an increase by 1.8 percent of GDP in 2023) from both an increase in exports and a decrease in imports of goods. On the other hand, the net exports of services posted a deficit. Primary income, consisting of compensation of employees and investment income registered a surplus of 3.8 percent of GDP, down from 4.4 percent of GDP in 2022, while secondary income recorded a deficit of 1.6 percent of GDP. In 2023, gross saving fell by 0.4 percentage point to 33.5 percent of GDP, while gross investment decreased by 1.7 percentage points to 26.8 percent of GDP, with the slowdown in gross savings growth driven by the public sector. Sweden continues to be a net oil importer with the oil deficit estimated at –0.9 percent of GDP. Over the medium term, as domestic and global macroeconomic policies normalize, the CA is projected to return to its long-term average. **Assessment.** The cyclically adjusted CA is estimated at 6.6 percent of GDP in 2023, 5.5 percentage points above the cyclically adjusted EBA norm of 1.1 percent of GDP. However, the estimated EBA norm is low and continues to be below the actual CA outcome for the past two decades, suggesting that factors not captured by the model, such as Sweden's mandatory contributions to fully funded pension schemes and an older labor force, may also be driving Sweden's saving–investment balances. Staff assesses the CA gap at 5.5 percent of GDP in 2023, with a model-estimated range of 5.1 to 6 percent of GDP (using the model's standard error of ±0.4 percent of GDP). Policies that would explain this gap make up 3 percentage points, with fiscal policy, which was more contractionary compared to the rest of the world, accounting for 1.1 percent and the negative credit gap contributing another 2.0 percent. Complementary EBA tools suggest that Sweden's pension system could explain about 1 percentage point of the gap.

2023 (% GDP)	CA: 6.8	Cycl. Adj. CA: 6.6	EBA Norm: 1.1	EBA Gap: 5.5	Staff Adj.: 0.0	Staff Gap: 5.5

Real Exchange Rate	**Background.** In 2023, the krona depreciated by 6.4 percentage points in real effective terms (OECD-ULC based) relative to its average index in 2022. As of April 2024, the CPI-based REER was 0.2 percent above its 2023 average. **Assessment.** The staff CA gap implies a REER gap of –14.1 percent (applying an estimated elasticity of –0.39), with a range between –15.2 to –13.0 percent (using the model standard error of ±0.4 percent of GDP). The REER index and level models suggest a gap of –20.9 percent and –23.9 percent, respectively, for 2023. The ULC-based REER index depreciated by 20.3 percent since the krona was floated in 1993 and was about 17 percent below its 30-year average in 2023. Overall, the IMF staff assesses the krona to be undervalued between –10.6 to –23.5 percent, with a midpoint of –17 percent as guided by the ULC-based REER index and its standard deviation.[1]
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The financial account increased to 3.8 percent of GDP in 2023, from 0.5 percent of GDP in 2022. The change in net outflows was mainly driven by an increase in other investments of about 3 percent of GDP constituting three-fourths of the financial account, and an increase in portfolio investments caused by an increase in equity and investment fund shares and long-term debt securities. Direct investments increased from 2.6 to 3 percent of GDP. **Assessment.** Large changes in capital flows are common in countries with large financial sectors such as in Sweden where the banking sector is nearly three times GDP. Risk can be mitigated by strong financial regulation, supervision, and a sound financial sector. According to the recent Financial Sector Assessment Program assessment, the banking system is expected to be resilient to large liquidity shocks despite its substantial share of wholesale funding.
FX Intervention and Reserves Level	**Background.** The exchange rate is de facto floating. Foreign currency reserves decreased by USD$4.8 billion to US$60.2 billion in 2023, equivalent to 21.1 percent of the short-term external debt of monetary and financial institutions, and slightly below three months of imports. On September 25, 2023, the Riksbank launched a program to hedge the FX risk in its balance sheet, following losses of about 1.4 percent of GDP in 2022. **Assessment.** Despite its floating exchange rate regime, Sweden should maintain adequate foreign reserves in view of the high dependence of commercial banks on wholesale funding in foreign currency and disruptions in such funding during global financial distress. As seen during the pandemic, the Riksbank can quickly establish swap facilities when necessary.

Table 3.26. Switzerland: Economy Assessment

Overall Assessment: *Switzerland's external position in 2023 was weaker than the level implied by medium-term fundamentals and desirable policies.* External buffers remain strong given surplus on net foreign investment position and sizable foreign reserves. As in previous years, the assessment is subject to uncertainty due to complex measurement issues and data lags.[1] Due to changes in methodology, it is possible that data will be revised more extensively than in past years.[2] In addition, more time will be needed to assess the durability of the shift in the CA in 2023.

Potential Policy Responses: Operating within the authorities' debt-brake rule, fiscal policy should balance the need to avoid creating headwinds to growth, while creating fiscal space to address accumulating spending pressures. Reflecting past extraordinary expenditures due to COVID-19 and support for refugees from Ukraine and the sizable accumulated balance of the amortization account, the authorities need to amortize them—via surpluses or extraordinary receipts—until 2035, with an option for extension until 2039. A comprehensive medium-term plan will be needed to address mounting structural spending needs on aging, climate, and defense. Under current inflation and liquidity conditions, the Swiss National Bank should remain data-dependent in its monetary policy decision making and avoid the risk of inflation settling at very low rates. Macroprudential policies should continue to focus on safeguarding financial stability, taking into consideration the current cyclical position of the economy. Commitment to free trade and cooperation, as shown by abolition of industrial tariffs in 2024 and efforts to expand trade relations, should continue in order to build resilience.

Foreign Asset and Liability Position and Trajectory

Background. Switzerland is a major financial center with a large, positive NIIP of 95 percent of GDP and large gross foreign asset and liability positions of 631.4 and 536.7 percent of GDP, respectively, at the end of 2023. The NIIP reflects both a history of large CA surpluses and valuation changes, and has fluctuated around 100 percent of GDP over the past five years.[3] Compared with 2022, the NIIP increased in 2023 by 2.4 percentage points of GDP, mainly driven by positive net transactions which compensated negative valuation effects due to exchange rate movements. Decline in reserves were partly offset by movements in other investments. Projections of the NIIP in 2024 and beyond are complicated by the large gross positions and compositional differences among assets and liabilities.

Assessment. Switzerland's large gross liability position and the volatility of financial flows and investment returns present some risk, but this is mitigated by the large gross asset position and the Swiss franc denomination of about two-thirds of external liabilities.

2023 (% GDP)	NIIP: 95	Gross Assets: 631	Reserve Assets: 91	Gross Liab.: 537	Debt Liab.: 167

Current Account

Background. Switzerland's CA surpluses averaged 6.9 percent of GDP during 2012–22. The CA surplus in 2023 is estimated to be 7.6 percent of GDP, well below the value of 9.4 percent in 2022. This decline was primarily influenced by reductions in merchanting (from 10.6 to 9.5 percent of GDP) and services (from –1.1 to –2.6 percent of GDP). The introduction of a new CA survey, which altered how merchanting-related expenses are reported, reduced the reported decline in net merchanting income but negatively affected the service balance, increasing the import of transportation services. The balance in cross-border goods trade remained largely stable in 2023, despite a significant drop in net exports of pharmaceuticals. This decline could be partly attributed to a normalization following high exports during the pandemic and a temporary effect due to value chain restructuring in one of Switzerland's major pharmaceutical companies, but there is uncertainty around whether this implies a structural change in net trade balance in pharmaceuticals. From the saving-investment perspective, overall savings declined by 1.3 percent of GDP, driven by an increase in both public and private consumption (with the increase in private consumption not as strong as in 2022), while investment increased by 0.5 percent of GDP. The CA surplus is expected to slightly increase to 8.2 percent of GDP in 2024 due to a recovery in external demand and moderate toward 8 percent in the medium term supported by the performance of key sectors (pharmaceutical, merchanting).

Assessment. The EBA CA norm of 6.4 percent of GDP is close to the previous year's norm. Based on a cyclically adjusted CA surplus of 7.7 percent and the norm, the overall EBA-estimated CA gap equaled 1.3 percent of GDP in 2023.[4] Domestic policy gaps account for –1.7 percentage points and include change in reserves (–1.8 percentage points) which more than offsets fiscal underspending (+0.5 percentage point); policy gaps in the rest of the world contribute +0.7 percentage point. Adjustments for specific factors relevant for Switzerland that are not treated appropriately in the income account—namely, valuation losses on fixed-income securities arising from inflation (–3.3 percentage points) and retained earnings on portfolio equity investment (–0.8 percentage point)—lead to a gap of –2.8 percent of GDP (±0.8 percentage point).[5]

2023 (% GDP)	CA: 7.6	Cycl. Adj. CA: 7.7	EBA Norm: 6.4	EBA Gap: 1.3	Staff Adj.: –4.1	Staff Gap: –2.8

Real Exchange Rate

Background. Relative to 2022, the average NEER appreciated by 6.8 percent, while the CPI-based REER appreciated by 3.4 percent in 2023.The UBS-Credit Suisse merger did not have a significant impact on the franc exchange rate. From a long-term perspective, the NEER has appreciated by 31 percent since 2011, while the CPI-based REER has depreciated by 2 percent. As of April2024, REER depreciated by 1.1 percent compared to the 2023 average.

Assessment. The staff CA gap implies REER overvaluation of 5.2 percent in 2023 (applying an elasticity of 0.54). The EBA REER index and level models suggest that the average REER in 2023 was overvalued by 12.8 and 17.7 percent, respectively. The fit of these models does not fully capture trends specific to Switzerland, in particular, a secular improvement in productivity, especially in knowledge-based sectors. Consistent with the staff CA gap, staff assess the REER gap in 2023 to be in the range of 3.8 percent and 6.6 percent with a midpoint of 5.2 percent (overvalued).

Capital and Financial Accounts: Flows and Policy Measures

Background. Net financial outflows totaled 6.8 percent of GDP in 2023, including private outflows of 21 percent of GDP (related to the collapse of Credit Suisse) and a decrease in Swiss National Bank reserve assets of 15 percent of GDP (due to interventions). During 2010–22, net private inflows averaged 1.1 percent of GDP, while the average annual increase in Swiss National Bank reserves was 9.4 percent of GDP.

Assessment. Financial flows are large and volatile, reflecting Switzerland's status as a financial center and safe haven. From a long-term perspective, sizable net private financial outflows prior to the global financial crisis declined and, on average, turned into net capital inflows between 2010 and 2020, adding to appreciation pressures. In 2023, driven by Credit Suisse–related events and interest rate differentials, net private outflows increased from to 25 percent, while the Swiss National Bank reduced reserve assets on a net basis.

FX Intervention and Reserves Level

Background. Official reserve assets (including gold) amounted to CHF724 billion (or US$805 billion, 91 percent of GDP) at the end of 2023, down CHF128 billion (or US$142 billion) from the end of 2022. The Swiss National Bank sold CHF133 billion (17 percent of GDP) of FX (net) through FX interventions in 2023, while in the recent past interventions have curbed excessive appreciation due to safe-haven inflows.

Assessment. Reserves are large relative to GDP, but more moderate in comparison with short-term foreign liabilities. Considering the reserve currency status of the franc, the adequacy of FX reserves is not a pressing concern for Switzerland. On the other hand, the financial losses incurred by the Swiss National Bank in 2022 and 2023, and the volatility of its income, indicate risks associated with its large balance sheet. Foreign exchange interventions can be considered in cases of disorderly market conditions or to prevent inflation expectations de-anchoring that could result from large and persistent exchange rate movements.

Table 3.27. Thailand: Economy Assessment

Overall Assessment: *The external position in 2023 was stronger than the level implied by medium-term fundamentals and desirable policies*, although CA and REER gaps are narrowing. The CA balance improved to 1.4 percent of GDP in 2023 from –3.2 percent of GDP in 2022, as tourism receipts recovered further, and is projected to return to a surplus of around 3 percent of GDP in the medium term.

Potential Policy Responses: Policies aimed at promoting investment, diminishing precautionary saving, liberalizing the services sector, and minimizing tax incentives and subsidies that distort competition would facilitate external rebalancing. Public expenditures should be focused on targeted social transfers to continue to support the most vulnerable, as well as infrastructure investment to support a green recovery and reorientation of affected sectors. Efforts to reform and expand social safety nets, notably the fragmented pension schemes, should continue, and measures to address widespread informality should help reduce precautionary saving and support consumption.

Foreign Asset and Liability Position and Trajectory	**Background.** Thailand's NIIP strengthened to 8.3 percent of GDP in 2023 (from –3.4 percent in 2022), after weakening over the past two years. Gross assets increased to 120 percent of GDP (from 117.5 percent) and gross liabilities declined to 111.7 percent of GDP (from 121 percent of GDP), respectively. Gross assets primarily consist of gross reserve assets (41.2 percent of GDP) and direct investment (40 percent of GDP). Gross liabilities mainly comprise of direct (about half) and portfolio (about one-fourth) investment. Net direct and portfolio investment assets declined by 1.9 and 3.7 percentage points of GDP, respectively, while net other investment assets increased by 1.6 percentage points of GDP. **Assessment.** The NIIP is projected to remain in a small creditor position over the medium term given CA surpluses. External debt declined to 37.5 percent of GDP in 2023 from 40.4 percent of GDP in 2022, of which short-term debt amounts to about 15.4 percent of GDP. External debt stability and liquidity risks are limited.

2023 (% GDP)	NIIP: 8.3	Gross Assets: 120.0	Debt Assets: 41.4	Gross Liab.: 111.7	Debt Liab.: 37.5

Current Account	**Background.** Thailand's CA balance registered a surplus of 1.4 percent of GDP in 2023, from a deficit of –3.2 percent of GDP in 2022, as the partial recovery in tourist arrivals and improvement in transportation balance offset the weak performance of merchandise exports. The decline in shipping costs and postpandemic tourism recovery, albeit still partial, improved the services account by 3.3 percent of GDP. The normalization of inventories and higher net public savings from delays in approving the FY2024 budget contributed to the CA balance registering a surplus despite lower private savings from robust private consumption growth. Going forward, the CA balance is expected to stabilize at around 3 percent of GDP as foreign tourist arrivals reach prepandemic levels. **Assessment.** The EBA CA model estimates a cyclically adjusted CA of 1.3 percent of GDP and a CA norm of 0.8 percent of GDP for 2023. The CA gap of 0.5 percent of GDP consists of an identified policy gap of 0.3 percent of GDP and an unexplained residual of 0.3 percent of GDP. As the large and persistent COVID-19-related shocks to the travel and transport sectors are not accounted for by the standard EBA cyclical adjustment, adjustors of 1.2 percent and 0.9 percent of GDP, respectively, are applied.[1] Overall, IMF staff assesses the CA gap to be in the 1.9 to 3.3 percent of GDP range, with a midpoint of 2.6 percent of GDP for 2023. However, the results are subject to uncertainties regarding the adjustors.

2023 (% GDP)	CA: 1.4	Cycl. Adj. CA: 1.3	EBA Norm: 0.8	EBA Gap: 0.5	Staff Adj.: 2.1	Staff Gap: 2.6

Real Exchange Rate	**Background.** The baht has been on a gradual real appreciation trend since the mid-2000s, despite occasional bouts of volatility. In 2023, the real exchange rate appreciated by 1.1 percent relative to 2022, partly reflecting the partial recovery of tourism receipts. This was despite depreciation pressures from portfolio outflows during the year, which were partly linked to electoral uncertainty. As of April 2024, the REER was 5.0 percent below its 2023 average. **Assessment.** Using an elasticity of 0.49 and based on the IMF staff CA gap, IMF staff assesses the 2023 REER to be undervalued in the 3.9 to 6.7 percent range, with a midpoint of 5.3 percent. The EBA index REER gap in 2023 is estimated at 7.4 percent, and the EBA level REER gap is estimated at –1.4 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In 2023, the capital and financial account balance (excluding change in reserves) weakened to –2.4 percent of GDP from 1.4 percent in 2022, driven by the declines in portfolio investment (from 1.2 percent in 2022 to –2.6 percent of GDP in 2023) and inward FDI (from 2.3 percent in 2022 to 0.6 percent of GDP in 2023). Other net investments increased from –0.6 to 0.9 percent of GDP. **Assessment.** Thailand maintains strong external buffers and fundamentals that have helped weather episodes of volatility reflecting external financial conditions, political uncertainty, and shocks related to COVID-19 and the war in Ukraine. IMF staff welcome the authorities' efforts to provide more flexibility and reduce the cost of non-residents' foreign exchange transactions including by expanding the scope of the Non-resident Qualified Company scheme—to allow nonresidents providing cross-border payment services to participate.[2] In line with past advice, the IMF team recommends phasing out CFM measures on nonresident baht accounts. A comprehensive package of macroeconomic, financial, and structural policies should be pursued to address volatile capital flows, complemented with gradual and prudent financial account liberalization.
FX Intervention and Reserves Level	**Background.** The exchange rate regime is classified as (de jure and de facto) floating. International reserves (including the net forward position) declined to 49.4 percent of GDP from 49.6 percent of GDP in 2022, which is around 2.5 times the short-term debt, 11 months of imports, and 237 percent of the IMF's standard ARA metric. The exchange rate has been allowed to adjust, with some two-sided FX interventions in periods of large volatility. **Assessment.** Reserves are higher than the range of the IMF's reserve adequacy metrics and there continues to be no need to build up reserves for precautionary purposes. The exchange rate should move flexibly to act as a shock absorber, while FX intervention could be used to address disorderly market conditions and mitigate policy trade-offs when the FX market becomes dysfunctional and deviations in hedging and financing premia become excessive due to large non-fundamental shocks.

Table 3.28. Türkiye: Economy Assessment

Overall Assessment: *The external position in 2023 is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies.* The assessment is mainly driven by the sizable CA gap, but also supported by the low level of reserves, large external financing needs, and the size and composition of the NIIP with high debt component, all of which contribute to external vulnerabilities. The CA deficit narrowed in 2023:H2, reflecting lower energy prices, declining gold imports, and demand compression from financial tightening, and is expected to improve further in the medium term. However, Türkiye's vulnerability to shocks remains high amid a negative net reserves position and elevated gross external financing needs.

Potential Policy Responses: Strengthening the policy framework would help underpin Türkiye's external sustainability going forward. Tightening of the monetary and fiscal policy stance would contain demand and improve the CA balance. Accelerating financial liberalization would reduce market distortions and improve monetary policy transmission. Open trade policies, including removing discretionary credit allocation that favors exports, could enhance competition and facilitate external rebalancing. Collectively, these policies would improve confidence and help sustain capital inflows which would allow for a much-needed accumulation of international reserves.

Foreign Asset and Liability Position and Trajectory	**Background.** Türkiye's NIIP averaged –36.8 percent of GDP over 2019–23. The NIIP improved from –34.7 percent of GDP at the end of 2022 to –25.5 percent of GDP at the end of 2023, mainly driven by valuation effects including a large decrease in direct investment (equity) liabilities in dollar terms. Debt liabilities account for around 70 percent of gross liabilities. External debt declined from 51 percent of GDP in 2022 to 45 percent of GDP in 2023. The private sector holds almost 50 percent of Türkiye's external debt, while the public sector (general government and central bank) holds the remainder. About 45 percent of the external debt is short term (on a remaining-maturity basis). **Assessment.** The size and composition of its gross external liabilities, coupled with low reserves, increase Türkiye's vulnerability to liquidity shocks, sudden shifts in investor sentiment, and any global upswing in interest rates. The NIIP is expected to stabilize over the medium term and hover around –33 percent of GDP in 2029 due to a projected improvement in the CA balance. External debt is sustainable over the medium term but is subject to risks, particularly from a large depreciation in the REER.				
2023 (% GDP)	NIIP: –25.5	Gross Assets: 29.4	Debt Assets: 11.5	Gross Liab.: 54.9	Debt Liab.: 39.0

Current Account	**Background.** The CA deficit averaged 2.4 percent of GDP over 2019–23. Despite favorable energy prices, the CA deficit in 2023 remained significant at 4.0 percent of GDP, following a deficit of 5.1 percent of GDP in 2022, as nonenergy surplus declined from 3.8 percent of GDP in 2022 to 0.7 percent of GDP in 2023, due to a significant slowdown in exports amidst robust imports. In 2023:H2, however, CA deficit narrowed to around –1.4 percent of GDP, reflecting lower energy prices, declining gold imports, and demand compression from financial tightening. The improvement in the current account between 2022 and 2023 thus reflects an increase in savings, driven by the reduction in private consumption, which outweighed the increase in investment. **Assessment.** The EBA CA model estimates a cyclically adjusted CA balance of –3.0 percent of GDP and a CA norm of –0.3 percent of GDP in 2023. Overall, the CA gap is assessed in the range of –3.3 to –2.0 percent of GDP, with a midpoint of –2.6 percent of GDP.					
2023 (% GDP)	CA: –4.0	Cycl. Adj. CA: –3.0	EBA Norm: –0.3	EBA Gap: –2.6	Staff Adj.: 0.0	Staff Gap: –2.6

Real Exchange Rate	**Background.** The CPI-based REER depreciated by an annual average of 8.3 percent over 2019–22. Following several years of deprecation, average REER appreciated by 2.4 percent in 2023. Reflecting higher PPI inflation, the average PPI-based REER appreciated by around 8 percent in 2023. As of April 2024, the CPI-based REER and the PPI-based REER appreciated by 7 percent and 3 percent, respectively, relative to the 2023 average, as inflation picked up driven by a large minimum wage hike in January. **Assessment.** Consistent with the staff CA gap, staff assesses the REER to be overvalued in the range of 7.3 to 11.9 with a midpoint of 9.6 percent (applying an estimated REER elasticity of 0.27). The EBA REER index and level models suggest the REER was undervalued in 2023 by 45.7 and 55.7 percent, respectively, although the models' residuals are very large for Türkiye.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net capital inflows increased to 4.9 percent of GDP in 2023 from 3.9 percent of GDP in 2022, driven by an increased borrowing in the banking sector. Portfolio investments also turned positive after the May 2023 election and recorded a net inflow of 0.8 percent of GDP in 2023. Direct investment recorded a moderate net inflow of 0.4 percent of GDP. **Assessment.** With annual gross external financing needs projected at around 24 percent of GDP on average over 2024–29, Türkiye remains vulnerable to adverse shifts in global investor sentiment. The authorities' policy normalization since May 2023 has contributed to a modest rebound in capital flows, but increasing and sustaining the capital inflows, including to lira-denominated assets, would require further strengthening policy credibility and accelerating financial liberalization to reduce market distortions. As conditions improve, CFMs on capital outflows will need to be phased out.
FX Intervention and Reserves Level	**Background.** The de jure exchange rate is free floating while the de facto classification is assessed as a crawl-like arrangement. Gross international reserves increased to $141 billion in 2023 from $129 billion in 2022 supported by capital inflows and lower CA deficit. However, reserves have fallen subsequently as depreciation pressures increased in early 2024. **Assessment.** Gross international reserves were at 97 percent of the IMF's ARA metric as of the end of December 2023, close but still below the floor of the recommended 100 to 150 percent range. Moreover, international reserves net of off-balance-sheet swaps and other short-term liabilities remain deeply negative, and quality of reserves remains an issue, with non–SDR basket currencies accounting for a large share (about 15 percent). Given the shallow FX market, interventions may be needed to avoid excessive exchange rate volatility, while not preventing warranted macroeconomic adjustments. Going forward, significant reserves buildup is needed, but the accumulation of reserves should be opportunistic given the uncertain market environment.

Table 3.29. United Kingdom: Economy Assessment

Overall Assessment: *The external position in 2023 was weaker than the level implied by medium-term fundamentals and desirable policies.* The CA deficit deteriorated marginally in 2023, reflecting a higher income deficit largely offset by improved trade balances due to lower energy prices and a negative public imbalance. The CA deficit is projected to gradually narrow as trade balances recover. The uncertainty around this assessment remains significant, reflecting measurement issues and the evolving impact on trade and capital flows of the new EU-UK Trade and Cooperation Agreement.

Potential Policy Responses: Gradual fiscal consolidation, while preserving key public services and protecting the vulnerable, should help close the CA gap. In the medium term, implementing structural reforms to boost UK international competitiveness (including via upgrading the labor skill base to support labor reallocation to fast-growing sectors) would help improve CA balance while accommodating a need for rising public investment in support of the climate transition. The UK should continue to support an open trade environment, including addressing remaining barriers to trade with the European Union, while industrial policies should continue to be deployed cautiously and remain targeted to specific objectives where externalities or market failures prevent effective market solutions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP deteriorated to –31 percent of GDP in 2023 from –14 percent of GDP in 2022. A negative valuation effect (including sterling appreciation) led to this sizable worsening of the NIIP in 2023 in addition to the CA deficit.[1] Other investment—which is mainly cross-border bank loans—(196 percent of GDP in assets and 194 percent in liabilities) and portfolio investment (123 percent of GDP in assets and 130 percent in liabilities) constitute a large part of gross assets and liabilities. Other European countries, Japan, and the United States account for about three-quarters percent of total UK external assets and liabilities, and external liabilities have a larger share denominated in pounds than do external assets.[2] IMF staff project the NIIP will moderately improve over the medium term, although large and volatile valuation effects make these estimates particularly uncertain. **Assessment.** Despite the large valuation losses in 2023 (mainly driven by valuation losses on other investment assets), total valuation gains since 2016 (including the unrecorded impact of inflation differentials and the retained earnings bias on portfolio investment, as well as sterling depreciation) have more than offset the negative CA flows on the NIIP. Fluctuations in large gross stock positions could be a potential source of vulnerability (gross assets and liabilities exceed 500 percent of GDP). However, the United Kingdom's net liability position in domestic currency and exchange rate flexibility would offer some insurance against external crises.					
2023 (% GDP)	NIIP: –31	Gross Assets: 503	Debt Assets: 257	Gross Liab.: 534	Debt Liab.: 282	
Current Account	**Background.** The CA deficit increased marginally from 3.1 percent of GDP in 2022 to 3.3 percent in 2023, driven by a larger income deficit largely offset by an improved trade balance with a positive terms-of-trade shock. This CA deficit was higher than the average of 2.5 percent over the past five years (2019–23). While the income balance has been volatile historically, the deterioration in 2023 (which is also high compared with the average over the past five years) was likely due to higher interest payments on pound-denominated external debt. The decline in investment was slightly lower than the decline in gross savings, which was driven by the fact that public dissaving (6 percent of GDP) exceeded private saving (2.7 percent of GDP). **Assessment.** The EBA CA model estimates a norm of –0.4 percent of GDP; thus, with the cyclically adjusted 2023 CA of –3.3 percent of GDP, the CA gap is –2.9 percent of GDP. As in previous years, the unrecorded impact of inflation differential-related valuation effects on debt stocks (which would otherwise improve the 2023 CA by 0.6 percent of GDP) and retained earnings on portfolio equity assets (which would otherwise worsen the 2023 CA by –0.1 percent of GDP) together underestimate the underlying CA by 0.5 percent of GDP.[3] Adjusting for this, the IMF staff assesses the CA gap at –2.4 percent of GDP, within a range of –1.4 to –3.4 percent of GDP.					
2023 (% GDP)	CA: –3.3	Cycl. Adj. CA: –3.3	EBA Norm: –0.4	EBA Gap: –2.9	Staff Adj.: 0.5	Staff Gap: –2.4
Real Exchange Rate	**Background.** The pound appreciated in real effective terms in 2023 by 2.5 percent relative to its average level in 2022, driven partly by nominal appreciation, with higher for longer policy rates expected in the United Kingdom. Overall, the pound has depreciated by about 3.7 percent since mid-2016, reflecting market expectations of more restricted access to the EU market under post-Brexit trade arrangements. As of April 2024, the REER had further appreciated by 2.8 percent compared to the 2023 average. **Assessment.** The EBA REER level and index approaches suggest a gap of 4 and –6 percent, respectively, for 2023. Consistent with the staff CA gap, the staff assessed the REER gap to be in the range of 5.4 to 13 percent with a midpoint of 9.2 percent (applying an estimated elasticity of 0.26).					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Given the United Kingdom's role as an international financial center, portfolio investment and other investment are the key components of the financial account. In net terms, the CA deficit was mainly financed in 2023 by net other investment of 11.1 percent of GDP, while net portfolio investment and FDI declined by 6.2 and 2.7 percent of GDP, respectively. **Assessment.** Large fluctuations in capital flows are inherent in countries with a large financial sector. This volatility is a potential source of vulnerability, although it is mitigated by a robust financial stability framework.					
FX Intervention and Reserves Level	**Background.** The pound has the status of a global reserve currency. The share of global reserves in sterling has not changed materially since 2015, at about 4.6 percent. **Assessment.** Reserves held by the United Kingdom are typically low relative to standard metrics, and the currency is free floating.					

Table 3.30. United States: Economy Assessment

Overall Assessment: *The external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* An improvement in the trade balance was led by a decline in the goods deficit, primarily driven by reduced imports of goods, resulting in a CA deficit of 3.0 percent of GDP (versus 3.8 percent of GDP in 2022). The CA deficit is projected to decline to about 2¼ percent of GDP over the medium term based on an increase in net public saving due to fiscal consolidation and a slow convergence of private saving to its steady state after years of excess saving drawdowns, reflected in a lower trade deficit.

Potential Policy Responses: Over the medium term, suggested fiscal consolidation aimed at a medium-term general government primary surplus of about 1 percent of GDP should broadly stabilize the debt-to-GDP ratio and maintain an external position consistent with medium-term fundamentals and desirable policies. Structural policies to increase competitiveness while maintaining full employment include upgrading infrastructure; enhancing the schooling, training, apprenticeship, and mobility of workers; supporting the working poor; and implementing policies to increase growth in the labor force (including skill-based immigration reform). Industrial policies should remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions and avoid favoring domestic producers over imports. Tariff barriers and other trade distortions should be rolled back, and trade and investment disagreements with other countries should be resolved in a manner that supports an open, stable, and transparent global trading system.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP stood at –70.7 percent of GDP at the end of 2023, weakening from –61.2 percent of GDP in 2022 and compared to the 2016–19 prepandemic average of about –46½ percent of GDP. About a quarter of the NIIP decline was attributed to net transactions, while the main driver of change was valuation adjustments stemming from a significant rise in US stock prices compared to foreign stocks which led to an increase in the market value of US liabilities more than US assets. At the same time, the small depreciation of the US dollar (around 1.7 percent) raised the value of foreign-currency-denominated US assets in dollar terms, thereby marginally offsetting (about 10 percent of) the negative impact of rising stock prices on the NIIP. Under the IMF staff's baseline scenario, the NIIP is projected to remain broadly unchanged through the medium term on the back of improvements in net portfolio investment position as the CA balance reverts to its prepandemic average and valuation gains persist.

Assessment. Despite the widening negative trend in the NIIP, the US external debt declined to around 87 percent of GDP in 2023 (down from its mid-2020 peak of nearly 110 percent of GDP and the 2016–19 average of 94 percent of GDP) driven by a strong postpandemic economic rebound. In addition, the investment income balance remained positive as the yield on assets has consistently surpassed that of its liabilities. Importantly, the substantial share of external assets denominated in foreign currencies (which has increased to around 70 percent by 2020)—combined with an even larger share of US-dollar-denominated external liabilities—remains a relevant channel for exchange rates to affect NIIP through valuation changes, with a depreciation generally improving the NIIP. Nonetheless, financial stability risk could surface in the form of an unexpected decline in foreign demand for US fixed-income securities, which is a main component of the country's external liabilities. The risk, which could materialize, for example, as a result of a failure to reestablish fiscal sustainability, remains moderate given the dominant status of the US dollar as a reserve currency. Strong institutions, a predictable policy framework, and attractive diverse investment opportunities further mitigate the likelihood of such risk materializing. About 60 percent of US assets are in the form of FDI and portfolio equity claims.

2023 (% GDP)	NIIP: –70.7	Gross Assets: 123.6	Debt Assets: 37.9	Gross Liab.: 194.4	Debt Liab.: 87

Current Account

Background. The CA deficit was 3.0 percent of GDP in 2023, down from 3.8 percent in 2022 (moving from 3½ to 2.6 percent of GDP in cyclically adjusted terms) and compared with the 2016–19 prepandemic deficit of around 2 percent of GDP. In 2023, the trade deficit notably contracted relative to 2022 (–2.8 percent versus –3.7 percent of GDP), reversing the trend of deterioration observed since 2016 primarily due to a reduced deficit in goods. Additionally, the service surplus increased slightly. Meanwhile, income accounts remained broadly stable. From a savings-investment perspective, the CA deficit reflected the public sector's savings-investment deficit, partly offset by private sector's savings-investment surplus. The CA deficit is expected to gradually decline to about 2¼ percent of GDP over the medium term.

Assessment. The EBA model estimates a cyclically adjusted CA balance of –2.6 percent of GDP against a CA norm of –1.9 percent of GDP, with a standard error of 0.7 percent of GDP. This implies a model-based CA gap of –0.7 percent of GDP for 2023, with an estimated contribution of identified policy gaps of –0.7 percent of GDP. The identified policy gaps primarily reflect the more expansionary fiscal policy in the US relative to the rest of the world (resulting in -0.8 percent of GDP contribution from the fiscal policy gap). The IMF staff assesses a CA gap in a range of –1.4 and 0 percent of GDP with a midpoint of –0.7 percent of GDP.

2023 (% GDP)	CA: –3.0	Cycl. Adj. CA: –2.6	EBA Norm: –1.9	EBA Gap: –0.7	Staff Adj.: 0	Staff Gap: –0.7

Real Exchange Rate

Background. After appreciating by 8.3 percent in 2022, the REER depreciated by 0.5 percent in 2023 (when yearly averages are compared). As of April 2024, the REER was about 2.0 percent above the 2023 average.

Assessment. The IMF staff CA gap implies a REER that is overvalued by 5.8 percent in 2022 (with an estimated elasticity of 0.12 applied). The EBA REER index model suggests an overvaluation of 8.3 percent, and the EBA REER level model suggests an overvaluation of 16.7 percent. Considering all the estimates and their uncertainties, consistent with the CA gap, the IMF staff assesses the 2023 midpoint REER overvaluation to be 5.8 percent of GDP, with a range of 11.6 to 0 percent, where the range is obtained from the CA standard error and the corresponding CA elasticity.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2023, the financial account balance stood at approximately –3.0 percent of GDP, a slight improvement from the –3.1 percent of GDP recorded in 2022. This shift primarily stemmed from an increase in net other investment and, to a lesser degree, an increase in net financial derivatives, though it was partly offset by declines in net portfolio investment and net direct investment.

Assessment. The United States has an open capital account. Vulnerabilities are limited by the US dollar's status as a reserve currency, with foreign demand for US Treasury securities supported by the status of the dollar as a reserve currency and, possibly, by safe haven flows.

FX Intervention and Reserves Level

Assessment. The US dollar has the status of a global reserve currency. Reserves held by the United States are typically low relative to standard metrics. The currency is free floating.

Technical Endnotes by Economy

Argentina

[1]Namely reflecting valuation gains from the exchange rate depreciation on peso debt held by nonresidents as well as resident purchases of debt held by nonresidents.
[2]Investment income to Argentines over the same period was US$13.8 billion, indicating that a larger share of the growth in Argentines' foreign savings has been on account of new flows (e.g., interest and capital gains).
[3]High levels of private foreign assets suggest diminishing risks of significant capital flight upon the lifting of CFMs.
[4]The adjustor is smaller than the actual impact of the drought on exports (~3 percent of GDP), due to second-round effects.
[5]Staff's adjustment includes the 2.4 percent drought adjustment to the cyclical CA minus the 1.1 percent external sustainability adjustor to the CA norm.
[6]Meanwhile, results from the EBA REER index model suggest a REER gap of 19.9 percent, while the EBA REER level model estimates a gap of 5.0 percent, with the estimate surrounded by significant uncertainty.

Canada

[1]Inflation compensation is not recorded in the income balance which is recorded in nominal terms. This yields an estimated downward bias of 0.9 percent of GDP. Further, retained earnings on portfolio equity are not recorded, but can be estimated from stock positions, financial market data, and the national accounts. The downward bias from this is estimated to amount to 0.6 percent of GDP, yielding a total estimated downward bias on the income balance of 1.5 percent of GDP.

China

[1]See 2022 IMF CFM Taxonomy for a list of China's existing CFMs and related policy advice.

Euro Area

[1]The export and import elasticities are obtained as the average of estimates from Consultative Group on Exchange Rate Issues–inspired export and import equations using REERs relevant for the euro area with an ADL (2,2,2) model on quarterly data 2000–19. The trade balance elasticity is calculated using the share of exports and imports in extra-EU trade in GDP.

Hong Kong Special Administrative Region

[1]Includes debt securities, loans, trade credits and other advances.
[2]A +0.4 pp of GDP cyclical adjustment arising from the estimated negative output gap for Hong Kong SAR in 2023 and other cyclical and short-term factors, implies a cyclically adjusted CA of 8.8 percent of GDP. The CA was adjusted further by 0.7 pp to account for the incomplete recovery in incoming tourism, reflecting in part continued weak consumer confidence in Mainland China, the key market, and lingering capacity constraints associated with reopening in Hong Kong SAR. This adjustment reflects the gap between actual tourist arrivals in 2023 and projected arrivals based on the trend from 2010–19. As a result, the underlying current account balance used in this assessment is 9.5 percent of GDP.
[3]Hong Kong SAR is not in the EBA sample as it is an outlier along many dimensions of EBA analysis. While it is possible to use EBA-estimated coefficients and apply them to Hong Kong SAR, there are obvious drawbacks. Following this approach, the cyclically adjusted multilaterally consistent CA norm in 2023 is estimated to be about 22.5 percent of GDP, which compared with the CA adjusted for cyclical and other short-term factors (9.5 percent of GDP, see footnote 2), implying a CA gap of –13.0 percent. The EBA CA gap is overstated as it does not properly reflect the measurement issues that are relevant for Hong Kong SAR, so three adjustments are made which reduce the CA norm by around 12 ppt of GDP to 10.4 percent, based on a staff-assessed norm range. First, a deduction of around 6.1 ppt of GDP (based on a range between 5.4–6.8 ppt) is made to the EBA model's implied contribution of the NIIP position. This is because the positive NIIP contribution in EBA captures average income effects that are less relevant for Hong Kong SAR since the income balance relative to its NIIP is systematically lower than other peer economies, due to a persistently higher share of debt instruments on the asset side than on the liability side. Second, a deduction of around 4.6 ppt of GDP is made to account for a decline in the gold trade balance that does not reflect changes in wealth but rather the increased physical settlement of gold futures contracts resulting from the opening of a Precious Metals Depository. Third, a deduction of 1.3 ppt of GDP (midpoint of an estimated 1.2–1.5 ppt range) is made to account for Mainland China's increased onshoring, which led to a decline in logistics and trading activities in Hong Kong SAR, but did not result in lower consumption because it is viewed as temporary and to be replaced with increased provision of high value-added services as Hong Kong SAR's own economy rebalances in response to Mainland demand (see "People's Republic of China—Hong Kong Special Administrative Region: Selected Issues" (Country Report No. 17/12) for more details).
[4]The range is calculated by applying the average semi-elasticities of Hong Kong SAR and similar economies.
[5]The financial linkages with the Mainland have deepened in recent years with the increase in cross-border bank lending, capital market financing, and the internationalization of the RMB. As of end-2023, banking system claims on bank

and non-bank entities in Mainland China amounted to 102 percent of GDP, down by about 17 ppt from the peak at end-2020.

India

[1]The observed stability of the exchange rate since December 2022 prompted reclassification of India's de facto exchange rate regime by the IMF from "floating" to "stabilized arrangement" as of the Article IV consultation in December 2023, while the de jure classification remained "floating."

Indonesia

[1]Indonesia is among a few countries with low life expectancy at prime age and demographic indicators are adjusted to account for this. As a result, the model-estimated CA norm is adjusted by subtracting 0.3 percentage point.

Japan

[1]IMF staff recommends allowing the estimated credit-to-GDP gap to decline gradually over the medium term from its currently estimated level of 16.5 percent (14.4 percent net of corporate savings) with a corresponding policy setting (P*) for the credit-to-GDP gap in five years of 7.3 percent of GDP. This is consistent with the reduction envisaged earlier in the 2022/23 *External Sector Report*.

Saudi Arabia

[1]EBA models do not include Saudi Arabia. The IMF staff considered two approaches of the EBA-lite methodology: the EBA-lite CA model and the EBA-lite commodity module. The latter includes the special intertemporal considerations that are dominant in economies in which exports of nonrenewable resources are a very high share of output and exports.
[2]Using the EBA-lite CA model, the cyclically adjusted CA norm is estimated at 5.9 percent of GDP (lower than the CA norm of 7.7 percent of GDP in 2022, which was mainly driven by high oil exports and fiscal balance). The Consumption Allocation Rules assume that the sustainability of the CA trajectory requires that the net present value of all future oil and financial and investment income (wealth) be equal to the net present value of imports of goods and services net of non-oil exports. Estimated CA norms from the Consumption Allocation Rules were 5.2 percent of GDP and 8.2 percent of GDP for the constant real annuity and constant real per capita annuity allocation rules, respectively. The Investment Needs Model takes account of the possibility that it might be desirable to allocate part of the resource wealth to finance investment, which was not explicitly considered by the consumption-based model and produced a CA gap of 3.5 percent over the medium term. The reliance of the consumption and investment models on projected oil prices beyond the medium-term macro framework subjects the results to a high degree of uncertainty. The CA gap in 2023 of –2.6 percent of GDP represents the staff's overall assessment, which is anchored on the EBA-Lite CA model. The range for the gap is calculated using the standard error of Norway (2 percent), a comparable oil-rich economy in the EBA sample.

Singapore

[1]Singapore has a negative income balance despite its large positive NIIP position, reflecting lower rates of return on its foreign assets relative to returns on its foreign liabilities, possibly due to the fact that the composition of Singapore's assets is tilted toward safer assets with lower returns.
[2]Nonstandard factors make a quantitative assessment of Singapore's external position difficult and subject to significant uncertainty. Singapore is not included in the EBA sample because it is an outlier along several dimensions. One possibility, though with drawbacks, is to use EBA estimated coefficients and apply them to Singapore. Following that approach, the CA norm is estimated to be about 15.6 percent of GDP in 2023 (including the multilateral consistency adjustor). However, using this approach understates the CA gap. In order to account for Singapore specificities, several adjustments are needed. First, a downward adjustment of 1 percentage point is made to EBA's implied contribution of public health expenditures to the norm to account for the fact that Singapore's health expenditure is appropriate given its high efficiency, even though its desirable, as well as current, public health expenditure is significantly lower than in other EBA countries. Second, a downward adjustment of 3.7 percentage points to the norm is made to better account for the effect of NFA composition and component-specific return differentials on the CA. Third, notwithstanding possible partial double-counting with the NFA components adjustor, a downward adjustment of 2.2 percentage points of GDP is applied to the underlying CA to account for measurement biases due to inflation and portfolio equity retained earnings (–5.4 and +3.2 percent of GDP, respectively). Adjusting for these factors, the staff-estimated CA gap is about 7.0 percent of GDP, to which the fiscal gap contributes about 1.6 percent of GDP, credit gap about –0.1 percent of GDP, public health spending about 0.2 percent of GDP, and reserves about 0.3 percent of GDP.
[3]We apply the maximum range of ±1.8 percent in the EBA sample for the CA gap reflecting the uncertainty around Singapore's assessment.
[4]The reserves-to-GDP ratio is also larger than in most other financial centers, but this may reflect in part that most other financial centers are in reserve-currency countries or currency unions. External assets managed by the government's investment corporation and wealth fund (GIC and Temasek) amount to at least 100 percent of GDP.

South Africa

[1]Because South Africa is among the few countries with relatively high adult mortality rates, the demographic indicators are adjusted to account for the younger average prime age and exit age from the workforce, resulting in a lower CA norm. Other adjustors account for transfers related to the Southern African Customs Union (SACU), assessed to have a net negative impact on the CA, and measurement biases related to the treatment of retained earnings on portfolio equity assets and inflation compensation, which are likely to contribute to an underestimation of the income balance.

Spain

[1]TARGET2 is the settlement system run by the Eurosystem. It settles payments related to the Eurosystem's monetary policy operations, as well as bank-to-bank and commercial transactions. When banks in Spain send more euros through TARGET2 than they receive overall, the Bank of Spain incurs a TARGET2 liability. The Bank of Spain's TARGET2 liabilities had increased until recently, mostly as a result of the asset purchase program introduced by the European Central Bank in 2015, which technically led the Bank of Spain to purchase assets held by investors with bank accounts abroad.

Sweden

[1]The upper and lower bounds are derived by adding/subtracting the standard deviation (6.4 percent) from the average outcome (midpoint) to reflect uncertainty around the EBA estimated norm.

Switzerland

[1]Due to large revisions to historical balance-of-payments and international investment position data, particular caution is needed when comparing the ESA results for different periods. For example, based on the latest information from the annual surveys on cross-border capital linkages, the CA has been revised in 2023 downwards by CHF15 billion (2 percent of GDP) for 2021 and by CHF4 billion (0.5 percent of GDP) for 2022, driven by higher expenses for dividends paid to nonresident investors for their equity participations in resident enterprises.
[2]As flagged by the Swiss National Bank (press release: "Swiss Balance of Payments and International Investment Position 2023 and Q4 2023," March 2024).
[3]Valuation changes reflect fluctuations of exchange rates and prices of securities and precious metals that interact with differences among assets and liabilities in terms of currencies and instruments. As a result, an appreciation (depreciation) of the Swiss franc has a negative (positive) effect on the NIIP. Other stock-flow adjustments include changes in statistical sources, such as changes in the number of entities surveyed and items covered.
[4]Part of the positive EBA CA gap may reflect institutional pension features, such as replacement and coverage rates, in Switzerland rather than other economic policy gaps.
[5]The underlying CA is adjusted for Switzerland-specific factors in the income account: (1) retained earnings on portfolio equity investment that are not recorded in the income balance of the CA (or the PE RE bias) under the sixth edition of the IMF *Balance of Payments and International Investment Position Manual* and (2) recording of nominal interest on fixed income securities under the *Balance of Payments Manual* framework, which compensates for expected valuation losses (due to inflation and/or nominal exchange rate movements), even though this stream compensates for the (anticipated) erosion in the real value of debt assets and liabilities. The PE RE bias was estimated using the "stock method" and "flow method" as explained in "The Measurement of External Accounts" (IMF Working Paper 19/132), and it is similar in size to estimates based on the Swiss National Bank's pilot *BPM7* data.

Thailand

[1]For Thailand, the transportation adjustor is calculated as the change in the transport services balance between 2019 and 2023. The travel adjustor is added to account for the temporary impact of the COVID-19 shock on the tourism balance, as the Thai economy is highly dependent on tourism and Chinese tourist flows represent a large share of prepandemic tourist arrivals. Under the assumption that tourism flows will have recovered by 2025 for Thailand, a tourism adjustor of 1.2 percent of GDP is calculated in four steps: (1) first, subtracting the IMF staff prepandemic projection of the travel balance for 2023 from the actual 2023 travel balance yields the overall impact of the both transitory and structural factors impacting the tourism balance after the COVID-19 shock; (2) second, subtracting the IMF staff prepandemic projection of the travel balance for 2025 from the currently projected 2025 travel balance provides an estimate of the structural change on the tourism balance following the pandemic; (3) third, netting out the structural change estimated in the second step from the overall effect calculated in the first step yields a measure of the transient effect on the travel services balance; and (4) applying the coefficient of 0.75 (that is, the estimated impact of changes in the travel services balance on the CA) on the estimate of the transient effect on the travel services balance calculated in the third step yields the tourism adjustor applied by IMF staff.
[2]The Non-Resident Qualified Company scheme is being assessed under the Institutional View for the Liberalization and Management of Capital Flows.

United Kingdom

[1]Official NIIP data do not record FDI assets and liabilities at market value. The Bank of England's December 2022 *Financial Stability Report* estimates that if the United Kingdom's FDI assets and liabilities were also marked-to-market, then the United Kingdom's NIIP would rise from negative territory to close to +100 percent of GDP.

[2]Estimates in Allen and others (2023) suggest that, in 2020, about 93 percent of external assets were denominated in foreign currency compared with 53 percent for external liabilities.

[3]These measurement issues arise primarily because of differences between the statistical definition of income and the relevant economic concept. Both would lead to NIIP valuation changes but are not recorded in the income balance.

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