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

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Corrections and Revisions

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

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

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

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

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The analysis benefited from comments and suggestions by staff members from other IMF departments, as well as by the IMF’s Executive Directors following their discussion of the report on July 22, 2022. However, both projections and policy considerations are those of the IMF staff and should not be attributed to Executive Directors or to their national authorities.
The External Sector Report presents a holistic assessment of external positions in 30 of the world’s large economies, carried out by the IMF staff. While the assessment is centered on the comparison of current account balances with their norms (levels implied by fundamentals and desirable policy settings), it also considers other variables such as the exchange rate, reserves, capital flows, and international investment positions. The report also discusses recent trends, outlook, and risks for global current account balances, defined as the sum of the absolute values of current account deficits and surpluses, and policies to promote external rebalancing.

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

The pandemic has continued to affect economies’ current account balances through a fall in travel services, an increased demand for medical products, and a shift in household consumption toward goods rather than services. Transportation costs emerged as another important channel in 2021 because of the combination of high demand for tradable goods and supply bottlenecks associated with the pandemic. Energy and commodity prices recovered from the COVID-19 shock and started rising in 2021, a trend that the war is exacerbating in 2022, with opposite effects on the external positions of exporters and importers. Creditor and debtor stock positions remained elevated at the end of 2021, though having moderated from their 2020 peaks, and the global financial safety net remained close to 20 percent of world GDP.

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

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

The IMF’s multilateral approach suggests that global excess current account balances—the sum of the absolute values of deviations of economies’ current account balances from their norms—narrowed to 0.9 percent of world GDP in 2021 compared with 1.2 percent of world GDP in 2020. The largest contributors to lower-than-warranted current account balances as a share of world GDP were, in a descending order, the United States, Canada, and Belgium. The largest contributors to larger-than-warranted current account balances were, in a descending order, Germany, Australia, Russia, and Sweden.
Multilateral cooperation is key in dealing with the policy challenges generated by the pandemic and the war in Ukraine, including tackling the humanitarian crisis. Coordinated policy efforts will also be needed to counter the risks of global economic fragmentation, including by eschewing new barriers to trade. Maintaining liquidity in the global financial system, including via the global safety net, will help economies manage risks related to the tightening of global financial conditions and financial system fragmentation because of geopolitical tensions. Multilateral cooperation could greatly facilitate the green transition: in Chapter 2, a coordinated implementation of climate mitigation policies has been found to reduce global current account balances and help to bring forward net zero emissions.

Policies to promote external rebalancing differ with positions and needs of individual economies. Where excess current account deficits reflected fiscal deficits above desirable medium-term levels and where such imbalances persist, growth-friendly fiscal consolidation will be critical to support external rebalancing and bring the current account balance closer to its norm. Economies with lingering competitiveness challenges would need to address structural challenges—including through labor, product market, and other reforms—to promote green, digital, and inclusive growth while boosting productivity. In economies where excess current account surpluses persist, intensifying reforms that encourage public and private investment and discourage excessive private saving is warranted, including by expanding social safety nets in some emerging markets.
Executive Directors generally agreed with the findings of the 2022 External Sector Report (ESR) and its policy recommendations. They noted that global current account balances continued to widen in 2021 and are projected to widen further in 2022. Directors expressed concern that, despite having moderated from their recent peaks, stocks of foreign assets and liabilities remain elevated amid persistent excess current account balances.

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

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

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

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

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

Directors underlined that policies to promote external rebalancing differ with positions and needs of individual economies. They considered that in economies in which excess current account deficits reflect excessive fiscal deficits, fiscal consolidation that preserves space for infrastructure and social spending and prevents long-term scarring from the pandemic will be critical to support external rebalancing. Directors noted that in economies with lingering competitiveness challenges will need to address structural challenges to promote green, digital, and inclusive growth while boosting productivity. They also noted that in economies where excess current account surpluses persist, intensifying reforms that
encourage public and private investment and discourage excessive private saving is warranted, including by expanding social safety nets in some emerging markets. Directors welcomed the staff’s analysis of historical persistence of current account gaps and looked forward to possible refinements in policy recommendations to better support external rebalancing.

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