CHAPTER 3

2021 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. For the 2021 assessments, similar to the previous year, additional adjustors to account for the effects of the COVID-19 crisis on external positions were introduced (see Online Annex 1.2, Chapter 1). 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, unit-labor-cost-based measures, and metrics, 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 semielasticities 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 semielasticity (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 Cubeddu and others (2019) for a complete description of the EBA methodology and for a description of the most recent refinements.

[2]The individual economy assessments for 2021 are based on data and IMF staff projections as of June 30, 2022.

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
ECB	European Central Bank
EU	European Union
FDI	foreign direct investment
FX	foreign exchange
GDP	gross domestic product
IIP	international investment position
Liab.	liabilities
NEER	nominal effective exchange rate
NIIP	net international investment position
PIF	Public Investment Fund
QFII	Qualified Institutional Investor
REER	real effective exchange rate
Res.	residual
RQFII	Renminbi Qualified Institutional Investor
SDR	special drawing right
TARGET2	Trans-European Automated Real-Time Gross Settlement Express Transfer System
ULC	unit labor cost
VAT	value-added tax

Table 3.1. Argentina: Economy Assessment

Overall Assessment: *The external position in 2021 was weaker than the level implied by medium-term fundamentals and desirable policies, an assessment based holistically on elevated external debt vulnerabilities, precariously low international reserves, and lack of access to international capital markets.* The recent sovereign FX debt restructuring agreements with private creditors have provided important short-term cash flow relief, but it remains critical to implement policies that rebuild international reserves and address external debt service obligations over the medium term. A CA surplus near 1 percent of GDP is projected over the medium to long term, supported by sustained fiscal consolidation.

Potential Policy Responses: Policies should carefully balance the need to support the recovery and strengthen domestic and external stability. Growth-friendly fiscal consolidation, combined with prudent monetary policies, is essential to contain excessive domestic demand growth, maintain a strong trade surplus, rebuild international reserves, regain market access, and ensure debt sustainability, although this path will depend on the evolution of global conditions. In addition, structural reforms to boost Argentina's export capacity and encourage FDI are required. As stability and confidence are reestablished, a gradual conditions-based easing of CFM measures will need to be considered.

Foreign Asset and Liability Position and Trajectory

Background. Argentina's external gross liabilities stood at 60.9 percent of GDP at the end of 2021, well above the level of 34 percent of GDP at the end of 2015. That said, the NIIP remained positive, reaching 25 percent of GDP in the fourth quarter of 2021 (up 16 percentage points since the end of 2015), driven by continued private capital outflows and deleveraging by firms, despite tight CFM measures.

Assessment. In 2020, Argentina restructured US$82 billion (21.4 percent of GDP) in domestic and foreign law sovereign FX debt held by the private sector, with cash flow relief of US$34 billion during 2020–30. Additional relief was achieved during 2021, as provincial governments restructured US$13 billion in foreign law FX debt obligations, with total cash flow savings estimated at about US$6.5 billion for 2021–27. Gross debt and debt service obligations remain substantial and meeting these obligations over the medium term will depend on implementation of a strong economic reform plan that restores market access.

2021:Q4 (% GDP)	NIIP: 25.2	Gross Assets: 86.0	Res. Assets: 8.2	Gross Liab.: 60.9	Debt Liab.: 45.8

Current Account

Background. The CA surplus rose to 1.4 percent of GDP in 2021, reflecting an improvement in the income balance (largely due to lower interest payments related to the debt restructuring operations), while the sharp rebound in imports broadly offset stronger exports, including from improved terms of trade. The CA balance is projected to narrow slightly in 2022, mainly on account of rising domestic demand, as spillovers from the war in Ukraine are expected to have limited net effects—with higher energy and fertilizer imports being broadly offset by higher grain exports.

Assessment. The EBA CA cyclically adjusted balance reached a surplus of 0.5 percent of GDP in 2021, compared with an EBA CA norm equivalent to a surplus of 0.2 percent of GDP. The transitory impacts of the COVID-19 crisis in relation to the travel services (including tourism) and transport sectors cancel each other out. Furthermore, consistent with the need to bring down external debt service to more manageable levels and pave the way for market access, the IMF staff judges the near- to medium-term CA norm to be closer to 1 percent of GDP, implying an adjustment of 0.8 percent of GDP. As such, the IMF staff assesses the CA gap to be –0.5 ±1 percent of GDP.[1]

2021 (% GDP)	CA: 1.4	Cycl. Adj. CA: 0.5	EBA Norm: 0.2	EBA Gap: 0.3	COVID-19 Adj.: 0	Other Adj.: 0.8	Staff Gap: –0.5

Real Exchange Rate

Background. After depreciating by nearly 30 percent between the end of 2017 and the end of 2019, the REER has been relatively stable, with some appreciation during the course of 2021 as the rate crawl lagged headline inflation. The average 2021 REER appreciated by 4.3 percent compared with the 2020 average, yet it is up over 20 percent when comparing end-of-period levels. The REER through May 2022 was up 18.3 percent relative to the 2021 average.

Assessment. The IMF staff CA gap implies a REER gap of about 4 percent in 2021 (applying an estimated elasticity of 0.13). The EBA REER index model suggests a REER gap of 7.6 percent, while the EBA REER level model estimates a gap of –8.7 percent, albeit surrounded by significant uncertainty. Overall, the IMF staff assesses the 2021 REER gap to be in the range of –5 to 5 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Various CFM measures were introduced in 2019, with subsequent adjustments. The country's central bank (BCRA) and securities authority (CNV) introduced regulations to (1) restrict official FX market (MULC) access for financial account transactions; (2) restrict participation in securities markets (MEP/CCL); (3) subject FX purchases to two separate taxes of 30 and 35 percent; (4) apply tight repatriation and surrender requirements on export proceeds; (5) limit cash withdrawals and restrict selected capital-flow-related credit card transactions abroad; and (6) limit FX holdings of banks, mutual funds, and exchange bureaus. These are all considered to be CFM measures under the IMF's institutional view on capital flows. The BCRA has stopped intervening in the FX securities market, and regulations issued to limit trading in this market have been eased.

Assessment. The CFM measures have generally slowed capital outflows but have introduced distortions that tend to discourage trade and foreign investment. Importantly, the measures are not a substitute for macroeconomic policies to address underlying imbalances, and while they are needed in the near term, controls on trade flows should be avoided and a conditions-based easing will be necessary, especially to encourage FDI.

FX Intervention and Reserves Level

Background. Gross international reserves stood at US$39.7 billion at the end of 2021,[2] generally unchanged relative to 2020, yet US$5 billion below levels at the end of 2019. Meanwhile, net international reserves (NIR), after excluding swap lines with other central banks, reserve requirements on domestic US dollar deposits, and deposit insurance, fell to US$2.3 billion at the end of 2021. Despite current account surpluses, debt restructuring efforts and capital controls, reserve accumulation has been challenged by continued outflows, including from net private debt amortization payments. NIR had reached US$3.8 billion by the end of March 2022,[3] reflecting in part net IMF program disbursements.

Assessment. Gross international reserves are estimated at about 63 percent of the IMF's composite metric as of the end of 2021 after smoothing of temporary effects, and about 68 percent without the adjustment.[4] Tighter fiscal and monetary policies are necessary to secure the projected trade surpluses and improve reserve coverage, which in turn is essential to pave the way for market access and the easing of CFM measures over the medium term. Given reserve scarcity, FX sales (in the official or parallel market) should be consistent with reserve accumulation goals, while taking into account variability coming from seasonal factors and temporary bouts of excessive volatility.

Table 3.2. Australia: Economy Assessment

Overall Assessment: *The external position in 2021 was stronger than the level implied by medium-term fundamentals and desirable policies.* A significant improvement in Australia's terms of trade and higher savings (partly due to COVID-19–related factors) contributed to the increase in the CA balance in 2021. The CA balance is expected to remain in surplus in 2022 due to elevated commodity prices in the wake of the war in Ukraine, but is projected to return to a slight deficit in the medium term as commodity prices decline, savings return to historical levels, and investment picks up.

Potential Policy Responses: Withdrawing fiscal and monetary stimulus at an appropriate pace is warranted for Australia as it emerges from the pandemic. Private savings, which are at elevated levels in part due to the large pandemic-related fiscal stimulus, are expected to decline in the medium term. Furthermore, policies that boost investment can help reduce the CA gap. In particular, executing planned infrastructure investment, streamlining product market regulation, promoting R&D and innovation investment, and reducing the tax burden on companies can help boost investment. Australia's commitment to a floating exchange rate should also help close the CA gap.

Foreign Asset and Liability Position and Trajectory

Background. Australia's NIIP improved to –35.4 percent of GDP in 2021 from –55 percent of GDP in 2020 (and an average of –52 percent over the last five years), driven by the large CA surplus, significant valuation gains, and substantial growth of nominal GDP. Although about half of Australia's gross liabilities are debt obligations, more than half of the debt liabilities are denominated in domestic currency, while assets are 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 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. Despite the recent increase in debt, 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.

2021 (% GDP)	NIIP: –35.4	Gross Assets: 148.2	Debt Assets: 38.4	Gross Liab.: 183.7	Debt Liab.: 85.5

Current Account

Background. While Australia has historically run CA deficits, the CA balance switched to a surplus in 2019, and increased further from 2.6 percent of GDP in 2020 to 3.5 percent of GDP in 2021. The goods and services balance increased by 1.9 percent of GDP, driven by high prices for Australian commodity exports, most notably iron ore. The improvement in the trade balance was partly offset by a 1.2 percent of GDP deterioration in the primary income balance, as dividend payments on Australia's equity liabilities (which had declined significantly in 2020 due to temporary pandemic-related factors) recovered. However, the income balance remained 0.8 percent of GDP stronger than pre–COVID-19 levels as the net compensation of employees (due to border closures) and net interest payments (due to low interest rates on debt liabilities) remained above historical averages. From a savings-investment perspective, the recent CA surpluses reflect a decline in investment rates, including mining investment, as well as a steep rise in private savings during the pandemic on account of pandemic-related uncertainty and generous fiscal support. While there is considerable uncertainty, the CA is expected to gradually return to a small deficit over the medium term.

Assessment. The EBA model estimates a cyclically adjusted CA surplus of 1.7 percent of GDP compared with a CA norm of –0.9 percent of GDP, suggesting a model-based CA gap of 2.6 percent of GDP. However, in the IMF staff's view, two adjustments are warranted to the cyclically adjusted CA balance: (1) a net adjustment of +0.2 percent of GDP to reflect temporary factors related to the COVID-19 shock, including changes in the travel services (–0.1) and transport services balances (+0.3) and higher imports of medical goods (+0.2); and (2) an adjustment of –0.2 percent of GDP to reflect a temporarily higher net compensation of employees. Taking these adjustments into consideration, the IMF staff–adjusted CA gap is in the range of 2.1 to 3.3 percent of GDP, with a midpoint of 2.7 percent of GDP. Part of the CA gap may reflect the pension system (which is not captured by the EBA model), for which mandated individual contributions to superannuation have increased in recent years, potentially contributing to higher savings.

2021 (% GDP)	CA: 3.5	Cycl. Adj. CA: 1.7	EBA Norm: –0.9	EBA Gap: 2.6	COVID-19 Adj.: 0.2	Other Adj.: 0	Staff Gap: 2.7

Real Exchange Rate

Background. Australia's REER appreciated by 6 percent in 2021 compared with the 2020 average and was about 1.5 percent higher than its five-year average. After appreciating in the first half of 2021, the REER depreciated in the latter half of the year amid renewed lockdowns, a decline in Australian yields relative to other advanced economies, and lower iron ore prices. As of May 2022, the REER was 0.6 percent above the 2021 average.

Assessment. The IMF staff CA gap implies a REER gap of –13.7 percent (applying an estimated elasticity of 0.2). The EBA REER level model points to an overvaluation of 24.6 percent, while the index model points to an undervaluation of 2.3 percent. Consistent with the CA gap, the IMF staff assesses the REER gap to be in the range of –16.7 to –10.7 percent, with a midpoint of –13.7 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account recorded net outflows in 2021, reflecting the sizable CA surplus. Net FDI inflows (1 percent of GDP in 2021) recovered from the COVID-19–induced low in 2020 (0.5 percent of GDP), though they remained lower than the pre-pandemic average (3.2 percent of percent of GDP over 2015–19). FDI inflows were offset by large net portfolio outflows (3.9 percent of GDP), mainly reflecting equity investments abroad by Australian residents, including by pension funds (superannuation). Net derivative outflows were small, with inflows and outflows of about 1.2 percent of GDP.

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. Reserve assets increased, mainly reflecting the IMF's SDR allocation.

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, so reserve needs for prudential reasons are also limited.

Table 3.3. Belgium: Economy Assessment

Overall Assessment: *The external position in 2021 was weaker than the level implied by medium-term fundamentals and desirable policies.* The CA balance turned into a deficit of 0.4 percent of GDP, largely due to a narrowing of the trade surplus, reflecting a swing to deficit in the goods balance. While the economy had been recovering well in 2021, and COVID-19 relief measures were unwound, the war in Ukraine has clouded the economic outlook. The CA balance is projected to deteriorate in the near term, mainly due to the effects of higher energy prices, before returning to a surplus in the medium term with the narrowing of fiscal imbalances.

Potential Policy Responses: In the near term, outlays on energy bill support and expenses related to spillovers from the war in Ukraine (for example, refugee support) will delay much-needed fiscal adjustment, given elevated deficit/debt levels and aging-related spending pressures. Narrowing policy space requires fiscal support measures to be targeted and time-bound, balancing the protection of vulnerable households and viable firms with facilitating resource reallocation to mitigate scarring and with increasing energy efficiency. In light of imbalances that existed before the COVID-19 outbreak, policies in the medium term should focus on rebuilding fiscal buffers through a credible, expenditure-led consolidation that also creates space to support green and digital transformation through planned increases in investment. Policies should also focus on strengthening competitiveness by addressing structural challenges, including social benefit and labor and product market reforms and other actions to foster green, digital, and inclusive growth. 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. The NIIP increased to 57 percent of GDP at the end of 2021 from 44 percent at the end of 2020. This was mainly due to a decrease in gross liabilities by 9 percentage points of GDP, reflecting largely valuation changes. Gross foreign assets reached 460 percent of GDP in 2021 (up 11 percentage points of GDP from the pre–COVID-19 level in 2019), inflated by intragroup corporate treasury activities. Belgium's large creditor position is also underpinned by sizable net household financial wealth. Following a decade of consolidation and deleveraging, gross foreign assets of the banking sector declined to 74 percent of GDP at the end of 2021, well below the pre-global-financial-crisis peak of more than 200 percent. External public debt—predominantly denominated in euros—decreased to 67 percent of GDP in 2021 from 74 percent of GDP in 2020. This represented a reversal, following a sharp increase in financing needs in 2020 due to fiscal response measures to address the pandemic (and a decline in nominal GDP).

Assessment. 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. Looking ahead, based on the projected CA and growth paths, the NIIP-to-GDP ratio is expected to decline. The large and positive NIIP and its trajectory do not raise sustainability concerns.

2021 (% GDP)	NIIP: 57	Gross Assets: 460	Debt Assets: 161	Gross Liab.: 403	Debt Liab.: 178

Current Account

Background. The CA averaged 0.5 percent of GDP over 2015–20 and has been on a downward but volatile path since its post-global-financial-crisis peak of 1.4 percent of GDP in 2015. Volatility in the trade and primary income balances is driven in part by sizable operations of multinationals and large revisions.[1] Preliminary data suggest that in 2021 the CA turned into a deficit of 0.4 percent of GDP from a surplus of 0.8 percent of GDP in 2020, driven by a deterioration of the trade balance (1.4 percent of GDP) and a modest decline in net income inflows (0.2 percent of GDP). Net current transfer outflows declined slightly (0.3 percent of GDP). The narrowing of the trade surplus reflected a swing to deficit in the goods balance (by 1.3 percent of GDP), as buoyant export growth (30 percent) was surpassed by an even stronger recovery of imports (34 percent). By major goods categories, there was an increase in net oil/fuel imports (1.3 percent of GDP) due to higher oil prices and net chemical imports (excluding pharmaceuticals) (2.6 percent of GDP); these offset a large increase in net exports of pharmaceutical products (1.9 percent of GDP). From a saving-investment perspective, the improvement in gross national saving that was led by a narrowing of public dissaving, was more than offset by a larger increase in gross capital formation that was largely driven by a pickup in private investment (increases in business investments in information technology and digitalization and a revival of residential property investment).

Assessment. EBA model estimates yield a CA gap of –3.1 percent of GDP for 2021, based on a cyclically adjusted CA balance of 0 percent of GDP. Adjustment for transitory COVID-19 effects on the CA of –0.2 percent of GDP—driven by –0.3 percent of GDP for travel services (including tourism), 0.4 percent of GDP for transport, –0.1 percent of GDP for the shift in household consumption from services to consumer goods, and –0.2 percent of GDP for the impact on medical goods trade—brings the gap to –3.3 percent of GDP (relative to an estimated norm of 3.1 percent of GDP). This is within a range estimated by the IMF staff for the CA gap of between –3.6 and –3 percent of GDP, applying the standard error of the CA norm, estimated at ±0.3 percent of GDP.

2021 (% GDP)	CA: –0.4	Cycl. Adj. CA: 0	EBA Norm: 3.1	EBA Gap: –3.1	COVID-19 Adj.: –0.2	Other Adj.: —	Staff Gap: –3.3

Real Exchange Rate

Background. The ULC- and CPI-based REER appreciated in 2021 by 0.4 and 0.1 percent, respectively, relative to the 2020 average. This brings the cumulative appreciation of the ULC-based and CPI-based REER in recent years to 4 and 7 percent, respectively, thus broadly reversing the sharp depreciation in 2014–15 brought about by wage moderation. As of May 2022, the REER was 1.8 percent below the 2021 average.

Assessment. The IMF staff assesses the REER gap, based on the staff-assessed CA gap range, to be overvalued in the range of 4.4 to 5.3 percent, with a midpoint of 4.9 percent (applying an estimated elasticity of the CA balance to the REER of 0.68). EBA model estimates point to a REER overvaluation of between 12 and 26.1 percent, based on the CPI-based REER index and level models.

Capital and Financial Accounts: Flows and Policy Measures

Background. Gross financial outflows and inflows were on an upward trend prior to the global financial crisis as banks expanded their cross-border operations. These flows have shrunk considerably and become more volatile as banks have deleveraged. Short-term external debt accounted for 27 percent of gross external debt in 2021. The capital account is open.

Assessment. Belgium remains exposed to financial market risks, but the structure of financial flows does not point to specific vulnerabilities. The large and positive NIIP reduces the vulnerabilities associated with high external public debt.

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

<table>
<tr><td colspan="8">Overall Assessment: The external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The CA deficit is expected to narrow in 2022 on the back of higher commodity prices related to the war in Ukraine, but then to gradually widen to about 2 percent of GDP in the medium term as growth recovers.

Potential Policy Responses: Policies that would help keep the CA in line with its norm include the continuation of fiscal consolidation into the medium term to increase savings as well as structural reforms to raise potential growth and investment, and thereby maintain the savings-investment balance. FX intervention, including using derivatives, may be appropriate to alleviate disorderly market conditions in the FX market.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="7">Background. Brazil's NIIP was –30 percent of GDP at the end of 2021, modestly stronger than the 2016–20 average (–35 percent of GDP) stemming from higher GDP growth and valuation effects associated with the currency depreciation (assets are predominantly denominated in FX while liabilities are more concentrated in local currency). Over the medium term, the NIIP is projected to be about –33 percent of GDP. FDI accounts for half of all liabilities. Estimated external debt at the end of 2021 improved to 41 percent of GDP and 234 percent of exports, relative to 44 percent of GDP and 303 percent of exports in 2020.

Assessment. Brazil's NIIP has been negative since the series was first published in 2001. Over the medium term, gross external financing needs are moderate at 10 percent of GDP annually, with capital flows and the exchange rate particularly sensitive to global financing conditions. The CA deficit required to stabilize the NIIP at –30 percent is 1.5 percent of GDP.</td></tr>
<tr><td>2021 (% GDP)</td><td>NIIP: –30</td><td>Gross Assets: 59.8</td><td>Res Assets: 22.5</td><td>Gross Liab.: 89.6</td><td colspan="3">Debt Liab.: 41.4</td></tr>
<tr><td>Current Account</td><td colspan="7">Background. The CA deficit was 1.7 percent of GDP in 2021, broadly unchanged from 2020. While exports and imports rebounded strongly in 2021, the trade surplus remained unchanged, with the terms of trade rising in the first half of the year before falling during the second half. Imports in 2020 and 2021 saw an increase of approximately 0.9 percent of GDP of an accounting nature related to transactions under the Repetro program.[1] In 2022, exports are expected to benefit from higher global commodity prices, related to the war in Ukraine, narrowing the CA deficit to 1.3 percent of GDP. In the medium term, the CA deficit is expected to gradually widen to about 2 percent of GDP as growth recovers.

Assessment. In 2021, the cyclically adjusted CA balance was –2.8 percent of GDP. EBA estimates suggest a CA norm in 2021 of –1.6 percent of GDP. This implies a CA gap of –1.2 percent of GDP, with an estimated contribution of identified policy gaps of 0.3 percent of GDP. The identified policy gaps mainly reflect a positive total fiscal policy gap from the more expansionary fiscal policy stances in trading partners relative to Brazil, partly countered by strong credit growth. Adjustments were made to account for (1) the transitory impacts of the COVID-19 crisis on travel and transport (–0.3 percent of GDP) and the medical goods sectors (0.1 percent of GDP); (2) higher liquefied natural gas imports due to the drought effect on hydropower generation (0.1 percent of GDP); and (3) the lagged temporary increase in the export and import data, which are of an accounting nature only, owing to the Repetro program that ended in December 2020 (0.9 percent of GDP). With these adjustments, IMF staff estimates the CA gap in the range of –0.9 to 0.1 percent of GDP with a midpoint of –0.4 percent of GDP.</td></tr>
<tr><td>2021 (% GDP)</td><td>CA: –1.7</td><td>Cycl. Adj. CA: –2.8</td><td>EBA Norm: –1.6</td><td>EBA Gap: –1.2</td><td>COVID-19 Adj.: –0.2</td><td>Other Adj.: 1</td><td>Staff Gap: –0.4</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="7">Background. After a sharp depreciation in 2020 (–20.6 percent), the REER remained broadly stable in 2021 (–3.2 percent). The REER saw mild appreciation in the first half of 2021 followed by a depreciation in the second half consistent with the movement in the terms of trade. As of the end of May 2022, the REER had appreciated by 17.8 percent relative to the 2021 average.

Assessment. The IMF staff CA gap implies a REER gap of 3.1 percent in 2021 (applying an estimated elasticity of 0.12). The REER index and level methodologies indicate a 36.4 percent and 19.6 percent undervaluation, respectively, for 2021. Consistent with the staff CA gap, staff assesses the REER gap to be in the range of –1.1 to 7.3 percent, with a midpoint of 3.1 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="7">Background. Brazil continues to attract sizable capital flows. Despite a reduction to 1.7 percent of GDP (from 2.8 percent of GDP in 2020), net FDI has continued to fully finance the CA deficit since 2015 (averaging 2.9 percent of GDP during 2015–21, while CA deficits averaged 2.2 percent). Net portfolio flows were positive at 0.4 percent for the first time since 2015, with the wider interest rate gap between Brazil and competitor economies attracting debt inflows. Recently, the government issued a decree that gradually reduces the Tax on Financial Operations (IOF) on FX operations to zero by 2029, as part of the process of Brazil's entry into the Organization for Economic Co-operation and Development.

Assessment. The composition of capital flows is expected to have a favorable risk profile over the medium term, with positive net FDI inflows outweighing negative portfolio outflows. Nevertheless, uncertainties related to the war in Ukraine and the COVID-19 pandemic, tighter global financial conditions, insufficient progress on reforms, and political uncertainty pose downside risks to capital flows.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="7">Background. Brazil has a floating exchange rate. In 2021, the central bank sold FX in the spot, repo, and FX swap markets to dampen excess exchange rate volatility. Nevertheless, reserves remained high at US$362 billion at the end of 2021.

Assessment. The flexible exchange rate has been an important shock absorber. Reserves are adequate relative to various criteria, including the IMF's reserve adequacy metric (162 percent as of the end of 2021) and serve as insurance against external shocks. Intervention should be limited to alleviating disorderly FX market conditions.</td></tr>
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Table 3.5. Canada: Economy Assessment

Overall Assessment: *The external position in 2021 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* The CA balance turned marginally positive driven largely by the recovery of global demand and higher prices of major exporting goods, notably energy products. With commodity prices surging further in the aftermath of the Russian war in Ukraine, the CA balance is expected to grow further in 2022. Over the medium term, the CA is projected to revert to a moderate deficit as export prices normalize and domestic demand continues to recover.

Potential Policy Responses: Policies should aim to boost Canada's nonfuel exports. These policies include measures geared toward improving labor productivity; removing nontariff trade barriers, investing in R&D and physical capital, investing in the green transformation, promoting FDI, developing services exports, and diversifying Canada's export markets. The recent sharp increase in government debt that resulted from the government's response to COVID-19 underscores the importance of developing a medium-term fiscal consolidation plan underpinned by sustainable policy measures to support external rebalancing.

Foreign Asset and Liability Position and Trajectory

Background. Canada's NIIP has improved since 2011, reaching 68.8 percent of GDP in 2021, up from 53.3 percent in 2020, 20.2 percent in 2016, and –17.1 percent in 2011. This largely reflects valuation gains on external portfolio assets. At the same time, gross external debt decreased to 133.8 percent of GDP at the end of 2021, of which around 51 percent of GDP is short-term debt.

Assessment. Canada's foreign assets have a higher foreign currency component than its liabilities, which provides a hedge against currency depreciation. The NIIP level and trajectory are sustainable.

2021 (% GDP)	NIIP: 68.8	Gross Assets: 311.3	Debt Assets: 77.3	Gross Liab.: 242.5	Debt Liab.: 133.8

Current Account

Background. The estimated CA balance was at 0 percent of GDP in 2021, up from –1.8 percent of GDP in 2020, reflecting the recovery of global demand and the improvement in the terms of trade.

Assessment. The EBA estimates a CA norm of 2.6 percent of GDP and a cyclically adjusted CA gap of –3.0 percent of GDP for 2021. The IMF staff assesses the CA gap to be narrower after considering (1) the temporary impact of the COVID-19 crisis on travel, transport, household consumption composition, and trade in medical products[1] and (2) the biases in measuring inflation and retained earnings.[2] Taking these factors into account, the IMF staff assesses the CA gap to be in the range between –1.9 and –1.1 percent of GDP, with a midpoint of –1.5 percent of GDP.

2021 (% GDP)	CA: 0.0	Cycl. Adj. CA: –0.4	EBA Norm: 2.6	EBA Gap: –3.0	COVID-19 Adj.: 0.1	Other Adj.: 1.5	Staff Gap: –1.5

Real Exchange Rate

Background. Relative to the 2020 average, the REER appreciated by 4.9 percent on average in 2021. As of May 2022, the REER was 0.3 percent below the 2021 average.

Assessment. The EBA REER index model points to an overvaluation of 6.7 percent in 2021, while the REER level model points to an undervaluation of 7.4 percent. Consistent with the IMF staff CA gap, the IMF staff assesses the REER to be overvalued in the range of 4.2 to 7.4 percent, with a midpoint of 5.8 percent.[3]

Capital and Financial Accounts: Flows and Policy Measures

Background. FDI saw net outflows of 1.9 percent of GDP in 2021 (comparable with levels in 2020 and 2019). Portfolio investments recorded net inflows of 2.1 percent of GDP in 2021, down from 4.1 percent in 2020, whereas other investments recorded inflows of 0.6 percent of GDP in 2021 compared to net outflows in 2020 of around 0.8 percent of GDP. The errors and omissions recorded a net inflow of 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 internationally concerted interventions). Canada has limited reserves, but its central bank has standing swap arrangements with the US Federal Reserve and four other major central banks (it 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 arrangement, reduces the need for reserve holdings.

Table 3.6. China: Economy Assessment

Overall Assessment: *The external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA surplus was slightly higher than in 2020, reflecting the continuing influence of transitory factors linked to the global COVID-19 crisis, such as elevated pandemic-related exports and limited outbound travel, despite stronger imports on the back of higher commodity prices. Once these temporary factors fully dissipate, the CA surplus is expected to return to its medium-term downward trend as China's economy rebalances toward higher-quality, more consumption-driven growth.

Potential Policy Responses: Policies to ensure that the external position remains broadly in line with fundamentals include (1) accelerating structural reforms—a further opening up of domestic markets, reforming state-owned enterprises, and ensuring competitive neutrality with private firms while promoting green investment—to boost potential growth and income; (2) shifting policy support toward strengthening social protection to reduce high household precautionary saving and free up income for consumption; and (3) further increasing exchange rate flexibility to help the economy adjust to the changing external environment. China has room to provide more fiscal support, preferably through household support and green investment.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP further declined to 11.2 percent of GDP in 2021, significantly below the peak of 30.4 percent in 2008. The drop came despite the CA surplus and continued external lending and reflected continuing inward direct investment and securities investment received.

Assessment. The NIIP-to-GDP ratio is expected to remain positive, with a modest decline over the medium term. The NIIP is not a major source of risk, as assets remain high—reflecting large foreign reserves (US$3.4 trillion, 19.3 percent of GDP). Liabilities are mostly FDI-related.

2021 (% GDP)	NIIP: 11.2	Gross Assets: 52.5	Debt Assets: 14.9	Gross Liab.: 41.4	Debt Liab.: 13.4

Current Account

Background. The CA surplus was 1.8 percent of GDP in 2021 (compared with 1.7 percent of GDP in 2020). Pandemic-related factors continued to elevate the CA surplus in 2021, including medical trade, shifting of household consumption abroad toward goods, still subdued outbound tourism, and increases in transportation costs. However, the trade balance narrowed by 0.2 percentage point of GDP due to stronger imports on the back of higher commodity prices, which was partly offset by the wider income balance deficit (0.1 percent of GDP). Higher energy and commodity prices, partly as a consequence of the war in Ukraine, will increase import costs in 2022. Over the medium term, the CA surplus is projected to converge to about 0.5 percent of GDP based on the assumption of continued rebalancing toward higher-quality and more consumption-driven growth.

Assessment. The EBA CA methodology estimates the CA gap in 2021 to be 1.4 percent of GDP. Considering that pandemic-related temporary factors raised the CA surplus by 1.6 percent of GDP (with contributions of 0.7 percentage point from the travel services balance, 0.3 percentage point from the shift in global household consumption from services to consumer goods, 0.4 percentage point from the impact on the medical goods trade, and 0.2 percentage point from the impact on the transportation services balance, respectively), the IMF staff assesses the CA gap to range from –0.9 to 0.3 percent of GDP, with a midpoint of –0.3 percent. EBA-identified policy gaps are estimated to be about 1.3 percent of GDP, driven by relatively low credit growth, continued reserve accumulation with a relatively closed capital account (in a de jure sense), the larger fiscal contraction in 2021 than in other countries, and inadequate social safety nets.

2021 (% GDP)	CA: 1.8	Cycl. Adj. CA: 2.2	EBA Norm: 0.8	EBA Gap: 1.4	COVID-19 Adj.: –1.6	Other Adj.: 0	Staff Gap: –0.3

Real Exchange Rate

Background. The REER appreciated by 3 percent in 2021 from the 2020 average, largely driven by the NEER appreciation (5.4 percent). This continued the REER appreciation in 2020 (by 2.1 percent) after a depreciation of 7 percent during 2015–19. As of May 2022, the REER was 1.3 percent below the 2021 average.

Assessment. The IMF staff CA gap implies a REER gap of 1.9 percent in 2021 (applying an estimated elasticity of 0.14). The EBA REER index regression estimates the REER gap in 2021 to be 10.5 percent, and the EBA REER level regression estimates the REER gap to be 10.5 percent. Consistent with the staff CA gap, the IMF staff assesses the REER gap to be in the range of –2.3 to 6.2 percent, with a midpoint of 1.9 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net capital outflows (including errors and omissions) declined to US$129 billion (0.7 percent of GDP) in 2021, down from $220 billion (1.5 percent of GDP) in 2020. This was largely due to the decline in gross capital outflows (including outward direct investment, equity outflows, and overseas bank loans). Since December 2020, CFM measures have included the following: (1) The ceiling on cross-border financing under the macroprudential assessment framework was lowered to the original level in December 2020 for financial institutions and in January 2021 for enterprises. (2) QFII investors were allowed to trade commodity futures, commodity options, and stock index options starting in November 2021. As of December 2021, the total Qualified Domestic Institutional Investor quota stood at US$157.5 billion.[1]

Assessment. While currently absent, substantial net outflow pressures may resurface as the private sector seeks to accumulate foreign assets faster than nonresidents accumulate Chinese assets. Over the medium term, the sequence of further capital account opening consistent with exchange rate flexibility should carefully consider domestic financial stability. Specifically, further capital account opening is likely to create substantially larger two-way gross flows. Hence, the associated balance sheet adjustments and the shifts in market sentiment require prioritizing the shift to an effective float (while using FX intervention to counter disorderly market conditions) and strengthening domestic financial stability prior to substantial further opening.

FX Intervention and Reserves Level

Background. FX reserves continued to increase (by US$34 billion in 2021) and reached US$3.3 trillion in 2021, mainly reflecting valuation effects, return on reserves, and adjustments in net forward positions, with no sign of large FX intervention.

Assessment. The level of reserves—68 percent of the IMF's standard composite metric at the end of 2021 (75 percent in 2020) and 109 percent of the metric adjusted for capital controls (120 percent in 2020)—is assessed to be adequate. The decline in the ratios reflects higher exports, broad money, external debt, and other liabilities, all of which raised the metric.

Table 3.7. Euro Area: Economy Assessment

Overall Assessment: *The external position in 2021 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.* The CA surplus increased to 2.4 percent of GDP in 2021 from 1.9 percent of GDP in 2020 largely on the back of stronger external demand, especially for services. However, this increase is projected to be reversed in 2022 due to weaker external demand, high energy prices, and persistent supply disruptions, all of which were amplified by Russia's invasion of Ukraine. Over the medium term, the euro area's CA surplus is projected to increase compared to the 2021 level, although the range of uncertainty around this projection is exceptionally high given the pandemic and war-related unknowns. National external imbalances that existed prior to the COVID-19 outbreak could remain sizable.

Potential Policy Responses: Short-term policies focused on reducing scarring from the COVID-19 crisis (including the Next Generation EU response) and mitigating the fallout from Russia's invasion of Ukraine, including by supporting vulnerable households and firms in the face of high energy prices, would help increase investment and consumption, thereby raising imports and reducing the CA surplus. Fiscal policy should remain supportive over the near term by allowing automatic stabilizers to operate, while medium-term fiscal consolidation would help reduce vulnerabilities in high-debt countries. If historical imbalances in policy gaps at the national level persist, then countries with excess CA surpluses should continue increasing investment and potential growth. Countries with weak external positions should undertake reforms to raise productivity, reduce structural and youth unemployment, and enhance competitiveness in order to reduce external financing vulnerabilities. Euro-area-wide initiatives to make the currency union more resilient (for example, establishing a banking and capital markets union and central fiscal capacity for macroeconomic stabilization) could reinvigorate investment, thus reducing the CA surplus.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP of the euro area had fallen to –20.5 percent of GDP by the end of 2009 but then rose substantially to –1.5 percent of GDP by the end of 2021, mainly due to stronger CA balances. Relative to 2020, the NIIP increased by 3.4 percentage points of GDP, reflecting primarily higher net direct investment and lower inbound portfolio investment, partially offset by an increase in other inbound investment. Gross foreign positions were 274.6 percent of GDP for assets and 276.0 percent of GDP for liabilities as of the end of 2021. Net external assets reached elevated levels in large net external creditors such as Germany and The Netherlands, whereas net external liabilities remained high in countries such as 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.

2021 (% GDP)	NIIP: –1.5	Gross Assets: 274.6	Debt Assets: 105.0	Gross Liab.: 276.0	Debt Liab.: 104.4

Current Account

Background. The CA balance for the euro area increased to 2.4 percent of GDP in 2021 from 1.9 percent of GDP in 2020. The services balance recovered especially strongly, alongside modest increases in primary and secondary income balances, while the goods balance modestly declined amid supply-chain disruptions. With the strong economic recovery and the phasing out of support related to the COVID-19 crisis, public sector saving increased, while private sector saving modestly declined, with the overall increase in saving outpacing a smaller increase in investment. Some large creditor countries, such as Germany and The Netherlands, continued to have sizable surpluses, reflecting high corporate and household saving and weak investment. At the end of the projection horizon, the CA balance is projected to be above the 2019 pre-pandemic level, mainly driven by higher private sector saving in some small euro area countries, including Ireland.

Assessment. The EBA model estimates a CA norm of 0.6 percent of GDP, against a cyclically adjusted CA of 2.3 percent of GDP. This implies a gap of 1.7 percent of GDP. IMF staff analysis indicates a CA norm of 0.2 percent of GDP higher than that estimated by the EBA model, reflecting policy commitments to reduce the large net external liability positions (for example, Greece and Spain). In addition, adjustments were made to the underlying CA, totaling –0.4 percent to reflect CA measurement issues in Ireland and The Netherlands. Adjustments for the transitory impact of the COVID-19 crisis on household consumption composition, medical goods, transportation, and travel services (including tourism) are estimated at 0.1 percent of GDP. Considering these factors and uncertainties in the estimates, including the cyclical adjustment, the IMF staff assesses the CA gap to be 1.2 percent of GDP in 2021, with a range of 0.6 to 1.8 percent of GDP.

2021 (% GDP)	CA: 2.4	Cycl. Adj. CA: 2.3	EBA Norm: 0.6	EBA Gap: 1.7	COVID-19 Adj.: 0.1	Other Adj.: –0.6	Staff Gap: 1.2

Real Exchange Rate

Background. The euro area REER peaked during the global financial crisis before depreciating by almost 20 percent between 2009 and 2015. Between 2015 and 2021, the CPI-based REER registered a cumulative appreciation of 7.1 percent, while the ULC-based REER remained broadly unchanged. The CPI-based REER appreciated by 0.5 percent in 2021 compared with 2020. This reflected a nominal appreciation of 1.7 percent, which was partially offset by weaker euro area inflation relative to its trading partners. The ULC-based REER depreciated by 1.7 percent. As of May 2022, the REER was 5.4 percent below its 2021 average.

Assessment. Consistent with the staff CA gap, the IMF staff assesses the REER gap to be –3.4 percent in 2021, with a range of –1.7 to –5.1 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 10.8 percent in Germany to an overvaluation of 4.9 percent in Belgium. The substantial differences in REER gaps within the euro area highlight the continued need for net external debtor countries to improve their external competitiveness and for net external creditor countries to boost domestic demand. The EBA REER index and level models suggest overvaluations of 6.8 percent and 7.1 percent, respectively.

Capital and Financial Accounts: Flows and Policy Measures

Background. Mirroring the CA surplus in 2020, the euro area experienced net capital outflows, largely driven by lower inbound FDI and portfolio debt investment, which more than offset higher portfolio equity and other investment into the euro area.

Assessment. Gross external indebtedness of euro area residents increased by 0.5 percentage point of GDP in 2021 as lower external debt of governments and the nonfinancial sector was offset by higher external debt of the euro system, with stable external debt of deposit-taking institutions.

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 2021 was broadly in line with medium-term fundamentals and desirable policies.* The CA balance is expected to decline in 2022 driven by the large terms-of-trade shock and lower external demand from trading partners affected by the war in Ukraine, as well as through supply-chain effects. Over the medium term, the CA balance is expected to move to a deficit of less than 0.5 percent of GDP as the effects of the pandemic and the war fade and structural reforms to improve competitiveness of the economy are implemented.

Potential Policy Responses: In response to the COVID-19 pandemic, France deployed significant fiscal resources to bolster the health care system and provide targeted support to affected firms and individuals. Maintaining consistency of the external position with medium-term fundamentals will require structural reforms to continue enhancing productivity and sustain higher private investment to facilitate the green transition and digitalization, while rebuilding fiscal space once the shock dissipates.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP stood at –34.3 percent of GDP in the fourth quarter of 2021, below the range observed during 2014–19 (between –16 and –23 percent of GDP). The NIIP fell by about four percent of GDP since the end of 2020, largely driven by a fall in direct and other investment. While the net position is moderately negative, gross positions are large. Gross assets stood at 341 percent of GDP in the fourth quarter of 2021, of which banks' non-FDI-related assets accounted for about 39 percent, reflecting their global activities. Gross liabilities reached 375 percent of GDP in the fourth quarter of 2021, of which external debt was about 237 percent of GDP (54 percent accounted for by banks and 25 percent by the public sector). About three-quarters of France's external debt liabilities are denominated in domestic currency. The average TARGET2 balance in 2021 was about €6.4 billion. **Assessment.** The NIIP is negative, but its size and projected stable trajectory do not raise sustainability concerns. However, there are vulnerabilities coming from large public external debt (59.2 percent of GDP in the fourth quarter of 2021) and banks' gross financing needs—the stock of banks' short-term debt securities was €116 billion in the fourth quarter of 2021 (4.6 percent of GDP), and financial derivatives stood at about 39.3 percent of GDP.
2021 (% GDP)	NIIP: –34.3 | Gross Assets: 341 | Debt Assets: 194.3 | Gross Liab.: 375.2 | Debt Liab.: 237.2
Current Account	**Background.** The CA balance moved to a surplus of 0.4 percent of GDP (from a deficit of 1.8 percent in 2020), driven by an uptick in services exports. One-off factors continued to weigh-in on the current account deficit (for example, imports of health-care-sector equipment) together with temporary factors that are expected to gradually normalize (for example, the services balance, including business and tourism travel). Despite limited direct trade and investment linkages with Russia and Ukraine, the CA balance is expected to move to a deficit of 1.4 percent of GDP in 2022, driven by a large terms-of-trade shock and lower external demand from trading partners affected by the war as well as through supply-chain effects. Over the medium term, the IMF staff projects the CA balance to move to a deficit of less than 0.5 percent of GDP by 2026 as temporary factors from the pandemic dissipate, the effects from the war fade, and reforms to improve France's competitiveness start to pay off. **Assessment.** The 2021 cyclically adjusted CA balance is estimated at 0.2 percent of GDP compared with an EBA-estimated norm of a 0.3 percent surplus. The IMF staff estimates CA net adjustments related to COVID-19 at 0.0 percent of GDP, driven by travel-services-related transitory factors (0.2 percent of GDP), transport (–0.7 percent of GDP), exports of aeronautics (0.4 percent of GDP),[1] exports of medical goods (0.3 percent) and the shift in household consumption composition to durable goods (–0.2 percent of GDP). On this basis, the IMF staff assesses that the CA gap in 2021 is between –0.5 and 0.3 percent of GDP (compared with –2.7 to –1.7 percent of GDP in 2020), with a midpoint of –0.1 percent of GDP.
2021 (% GDP)	CA: 0.4 | Cycl. Adj. CA: 0.2 | EBA Norm: 0.3 | EBA CA Gap: –0.1 | COVID-19 Adj.: 0.0 | Other Adj.: 0.0 | Staff CA Gap: –0.1
Real Exchange Rate	**Background.** Following an appreciation in 2020 of the REER based on the ULC of 4.7 percent and an appreciation of the REER based on the CPI of 1 percent, both REER measures depreciated in 2021. The ULC-based REER depreciated by 2.9 percent with respect to the 2020 average, while the CPI-based REER depreciated by 0.6 percent. From a longer-term perspective, although both REER measures depreciated by about 7 to 9 percent between 2008 and 2020, 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 2020). As of May 2022, the REER was 4.7 percent below the 2021 average. **Assessment.** The IMF staff CA gap implies a REER gap of 0.2 percent in 2021 (applying an estimated elasticity of 0.26). The EBA REER index model points to a REER gap of –2.1 percent, while the EBA REER level model points to a REER gap of 8.2 percent. Consistent with the IMF staff CA gap, the IMF staff assesses the REER to be overvalued in the range of –1.3 to 1.7 percent, with a midpoint of 0.2 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Inward foreign direct investment normalized in 2021 after decreasing significantly between 2019 and 2020, by 2.3 percent of GDP. The capital account is open. **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 2021 was stronger than the level implied by medium-term fundamentals and desirable policies.* This assessment accounts for continued temporary weakness in outbound travel in 2021 due to the ongoing COVID-19 pandemic. Russia's invasion of Ukraine in February 2022 and the associated economic sanctions are expected to weaken Germany's current account significantly in 2022, as energy import prices surge, supply disruptions intensify and exports to Russia collapse. The current account surplus is projected to increase in 2023 and 2024 as energy prices and supply bottlenecks ease, before declining over the medium term on reduced competitiveness and revived domestic demand.

Potential Policy Responses: Policies aimed at promoting investment and diminishing excess saving would support external rebalancing and a further reduction of the current account balance towards its norm. In particular, the sizeable fiscal stimulus in response to the COVID-19 crisis and the fiscal measures to relieve the current impact of high energy prices are welcome. An investment push is a key priority to achieve Germany's climate, digital, and energy security goals, including to expand the generation and distribution of renewable electricity, broaden the network of electric vehicle charging stations, and widen coverage of fiber optic and 5G mobile networks. Structural reforms to foster innovation, including development of the venture capital market and reducing the administrative steps needed to start a business, would also stimulate investment. Additional tax relief for lower-income households would help reduce excess saving and ameliorate external imbalances.

Foreign Asset and Liability Position and Trajectory

Background. Germany's NIIP reached 65 percent of GDP in 2021, from 67 percent in 2020. The NIIP increased in 2021 slightly less than the year's CA balance, suggesting slight valuation losses over the year. Germany's TARGET2 claims on the Eurosystem increased to €1.3 trillion by end-2021, from €1.1 trillion at the end of 2020. In 2021, the NIIP was revised up by 3.4 percent of GDP, for the period between 2017 and 2021, due to new data becoming available on the safe custody accounts abroad of German insurers and pension funds. The allocation of SDRs in 2021 did not affect the NIIP, because it caused both assets and liabilities to rise by the same amounts. Between 2017 and 2021, the NIIP has increased by some 23 percent of GDP, which lifts the primary income balance of the CA going forward.

Assessment. Germany's exposure to the Eurosystem remains large, given continued quantitative easing by the ECB.

2021 (% GDP)	NIIP: 65	Gross Assets: 302	Debt Assets: 170	Gross Liabilities: 237	Debt Liabilities: 163

Current Account

Background. The current account surplus came in at 7.4 percent of GDP in 2021 (compared with 7.1 percent in 2020 and 7.8 percent on average over 2017–19). The strengthening of the current account in 2021 was driven by a recovery of earnings on foreign direct investment, within the primary income balance. The goods trade balance remained weaker than pre-pandemic levels, largely due to costlier energy imports. The services trade balance remains stronger than pre-pandemic levels, due to elevated licensing fees for COVID-19 vaccines and still subdued imports of tourism and travel services. The bulk of the CA surplus reflects the large saving-investment surplus of households, which is only partially offset by the saving-investment deficit of the government.

Assessment. The cyclically adjusted CA balance is estimated by the EBA model to reach 7.6 percent of GDP. Staff assess the cyclically adjusted CA balance to be 7 percent of GDP, which is 0.6 percent of GDP lower than estimated by the model, after accounting for the temporary drop in outbound travel (+0.5), the temporary pandemic-induced shift of consumption from services to goods (+0.2), and temporarily higher net exports of medical goods (–0.1), all associated with the pandemic. Staff assesses the CA norm to be between 2.8 and 3.8 percent of GDP, with a midpoint of 3.3 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 in 2021 is in the range of 3.2 to 4.2 percent of GDP, with a midpoint of 3.7 percent of GDP. Note that the demographic adjuster from past assessments has been phased out this year.

2021 (% GDP)	CA: 7.4	Cycl. Adj. CA: 7.6	EBA Norm: 3.3	EBA Gap: 4.3	COVID-19 Adj.: –0.6	Other Adj.: 0	Staff Gap: 3.7

Real Exchange Rate

Background. The REER based on consumer prices depreciated by 2 percent in 2021, driven by real depreciations against the United States, China, and the United Kingdom. Between December 2021 and February 2022, the REER based on consumer prices depreciated a further 0.3 percent. As of May 2022, the REER was 3 percent below the 2021 average.

Assessment. The staff CA gap implies a REER gap of 10.8 percent in 2021, after applying an estimated elasticity of 0.34. The EBA REER level and index models suggest an undervaluation of 7.9 percent and an overvaluation of 7.7 percent, respectively. Consistent with the staff CA gap, staff assess the REER to be undervalued with a midpoint of 10.8 percent and a range of uncertainty of ±1.5 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2021, the global economy began to recover from the COVID-19 pandemic. As such, the safe-haven inflows that Germany experienced in 2020 were reversed in 2021, resulting in large portfolio outflows. Net foreign direct investment outflows resumed in 2021, after recording negligible outflow in 2020. The portfolio and direct investment outflows were partially mirrored by "other" inflows, which partly reflect (1) declining net foreign assets of the Bundesbank and (2) banks' transfer of some securities business from the United Kingdom to Germany.

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 countries are typically low relative to standard metrics. The currency floats freely.

Table 3.10. Hong Kong SAR: Economy Assessment

Overall Assessment: *The external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA surplus (in percent of GDP) widened further in 2021, reflecting a recovery of reexports vis-à-vis mainland China as well as a stronger income balance, and is expected to gradually decline over the medium term with the recovery in domestic demand. 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: Expansionary fiscal policy in the near term to mitigate the impact of adverse shocks and support the 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 578 percent of GDP in 2021 from 615 percent in 2020. This was mainly due to a decrease in gross assets by 76 percentage points of GDP, following a large increase of 279 percentage points of GDP recorded in 2020. Both gross assets and liabilities are high, reflecting Hong Kong SAR's status as an international financial center. Valuation changes have been sizable as the increase in the NIIP during 2016–21 (218 percent of GDP) far exceeded the cumulative financial account balances (39 percent of GDP).

Assessment. Vulnerabilities are low given the positive and sizable NIIP and its favorable composition. FX reserves are large and stable (135 percent of GDP at the end of 2021) and direct investments account for a large share of gross assets and liabilities (35 and 50 percent, respectively) while only 12 percent of gross liabilities are portfolio investments.

2021 (% GDP)	NIIP: 578	Gross Assets: 1,747	Debt Assets: 591	Gross Liab.: 1,169	Debt Liab.: 433

Current Account

Background. The CA surplus widened to 11.3 percent of GDP in 2021 from 7 percent in 2020, amid a large increase in public savings resulting from a tightening of the fiscal policy stance. The goods balance turned into a surplus driven by a recovery of reexports via-à-vis mainland China, leading to a large increase in the overall trade surplus despite a slow recovery of the service surplus. The income balance also improved further, driven by strong portfolio investment income flows. The CA surplus has been on a widening trend over the past five years, largely due to a notable decline in private investment as the economy has faced multiple domestic and external shocks, including social unrest, China–United States tensions, and the COVID-19 pandemic. The CA balance is projected to gradually decline over the medium term with the recovery in domestic demand.

Assessment. After adjusting for cyclical factors and for the transitory impact of the COVID-19 crisis on the travel services (including tourism), medical, and transport sectors (adjustments of 0.8, –0.8, and –0.5 percent of GDP, respectively), the CA surplus is estimated to be 10.4 percent of GDP in 2021, which is within the IMF staff–assessed CA norm range of 7.9 to 10.9 percent of GDP. The IMF staff–assessed CA gap range is hence between –0.5 and 2.5 percent of GDP, with a midpoint of 1 percent. Since Hong Kong SAR is not in the EBA sample, the CA norm was estimated by applying EBA-estimated coefficients to Hong Kong SAR and was adjusted for measurement issues related to the large valuation effects in the NIIP and the discrepancies between stocks and flows.[1]

2021 (% GDP)	CA: 11.3	Cycl. Adj. CA: 10.7	EBA Norm: —	EBA Gap: —	COVID-19 Adj.: –0.5	Other Adj.: —	Staff Gap: 1.0

Real Exchange Rate

Background. Under the currency board arrangement, REER dynamics are largely determined by US dollar developments and inflation differentials between the United States and Hong Kong SAR. In line with the US dollar, after appreciating by about 20 percent over 2012–20, the REER depreciated by about 5 percent in 2021 compared with its 2020 average. As of May 2022, the REER was 2.3 percent above the 2021 average.

Assessment. The IMF staff assesses the REER gap, based on the staff-assessed CA gap range, to be in the range of –6.4 to 1.2 percent, with a midpoint of –2.6 percent (based on the average CA-REER elasticity of about 0.4).[2]

Capital and Financial Accounts: Flows and Policy Measures

Background. As an international financial center, Hong Kong SAR has an open capital account. Nonreserve financial flows turned into a net outflow of US$49 billion in 2021, from a net inflow of US$3 billion in 2020, largely driven by portfolio investment outflows. The financial account is typically very volatile, reflecting financial conditions in Hong Kong SAR and mainland China (transmitted through growing cross-border financial linkages),[3] shifting expectations of US 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 and the war in Ukraine. 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 SAR'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 during the COVID-19 crisis. Total reserve assets decreased to 135 percent of GDP at the end of 2021 (or 1.8 times the monetary base) from 143 percent of GDP at the end of 2020.

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 2020 and 2021, Hong Kong SAR still holds significant fiscal reserves (about 34 percent of GDP at the end of 2021) built up through a track record of strong fiscal discipline in previous years.

Table 3.11. India: Economy Assessment

Overall Assessment: *The external position in fiscal year 2021/22 (ending in March 2022) was broadly in line with the level implied by medium-term fundamentals and desirable policies.* Running CA deficits is broadly consistent with India's level of per capita income, favorable growth prospects, demographic trends, and development needs. External vulnerabilities stem from volatile global financial conditions and significant increases in commodity prices. In part reflecting the impact of the war in Ukraine on oil prices, the CA deficit is projected to widen in fiscal year 2022/23 but then stabilize over the medium term. The authorities have made some progress in external trade promotion and the liberalization of FDI and portfolio flows, but the existing tariff structure remains broadly unchanged.

Potential Policy Responses: To maintain the external sector balance at a comfortable level over the medium term, gradual withdrawal of fiscal and monetary policy stimulus, development of export infrastructure, and negotiation of free trade agreements with main trading partners to provide a sustainable boost to exports of goods and services should be accompanied by further investment regime liberalization and a reduction in tariffs, especially on intermediate goods. Structural reforms could deepen integration in global value chains and attract FDI, hence mitigating external vulnerabilities. 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 2021, India's NIIP had improved to –11.1 percent of GDP from –13.5 percent of GDP at the end of 2020. This reflected a relatively low CA deficit (amid the COVID-19 pandemic) and the accumulation of reserve assets. Gross foreign assets and liabilities were 30.5 percent of GDP and 41.7 percent of GDP, respectively. The bulk of assets were in the form of official reserves and FDI, whereas liabilities included mostly FDI and other investments. **Assessment.** With the CA deficit projected to widen in 2022 (due to external shocks) and stabilize at a lower level thereafter, the NIIP-to-GDP ratio is expected to strengthen marginally over the medium term. India's external debt liabilities are moderate compared with peers, and short-term rollover risks are limited. The moderate level of foreign liabilities reflects India's incremental approach to capital account liberalization, which has focused primarily on attracting FDI.

2021 (% GDP)	NIIP: –11.1	Gross Assets: 30.5	Debt Assets: 2.6	Gross Liab.: 41.7	Debt Liab.: 20.1

Current Account	**Background.** In fiscal year 2021/22, the CA returned to a small deficit of 1.2 percent of GDP from an unusual surplus of 0.9 percent of GDP in the previous year (due to the COVID-19 pandemic). As the pandemic eased, imports rebounded faster than exports on the back of pent-up domestic demand and rising prices of oil and other commodities. The CA deficit is projected to widen further to about 3 percent of GDP in fiscal year 2022/23, reflecting both the post-COVID economic recovery and the terms-of-trade shock from the Ukraine war, which affects India mostly through higher (and volatile) oil prices. Over the medium term, the CA deficit is projected to stabilize and converge to about 2.6 percent of GDP. **Assessment.** The EBA cyclically adjusted CA balance stood at –1.6 percent of GDP in fiscal year 2021/22. The EBA CA regression estimates a norm of –1.9 percent of GDP, with a standard error of 0.7 percent, thus implying a CA gap of 0.3 percent of GDP. In the judgment of the IMF staff, a CA deficit of up to 2½ percent of GDP is financeable over time. Steady FDI inflows are not yet sufficient to cover protracted and large CA deficits, while portfolio flows are volatile and susceptible to changes in global risk appetite. Additional cyclical considerations are given to factor in the transitory impacts of the COVID-19 crisis (0.7 percent of GDP), which includes the impacts on travel (0.4 percent of GDP), transportation (0.6 percent of GDP), shifts in household consumption (–0.1 percent of GDP), and medical goods of (–0.1 percent of GDP). Thus, with the IMF staff–assessed CA norm and COVID-19–related adjustor, the IMF staff assesses the CA gap to be 1 percent of GDP, with a range of 0.3 to 1.7 percent of GDP. Positive policy contributions to the CA gap stem mostly from the domestic credit gap.

2021 (% GDP)	CA: –1.2	Cycl. Adj. CA: –1.6	EBA Norm: –1.9	EBA Gap: 0.3	COVID-19 Adj.: 0.7	Other Adj.: 0	Staff Gap: 1.0

Real Exchange Rate	**Background.** In 2020 and early 2021, unusual CA surpluses resulted in appreciation pressures on the rupee. This trend abated and reversed when the CA returned to deficit in the second half of 2021 and volatile portfolio investments shifted to net outflows. The average REER in 2021 depreciated by about 1.1 percent from its 2020 average. As of May 2022, the REER was 2.4 percent above the 2021 average. **Assessment.** The IMF staff CA gap implies a REER gap of –6 percent (applying an estimated elasticity of 0.16). EBA REER index and level models suggest an overvaluation of 10.1 percent and 8.5 percent, respectively. Consistent with the staff CA gap, however, the IMF staff assesses the REER gap to be in the range of –10.3 to –1.7 percent, with a midpoint of –6 percent, for fiscal year 2021/22.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In FY2021/22, the financial account balance was about –1.2 percent of GDP (indicating net inflows to India), compared with outflows of 0.8 percent of GDP in 2020/21. FDI inflows decreased to 1.2 percent of GDP (from 1.6 percent of GDP in the prior year) and volatile portfolio investments shifted to outflows of about 0.5 percent of GDP, while other investments reflecting mostly debt-creating flows increased to about 2.2 percent of GDP. During the year, the Indian authorities made further steps towards capital account liberalization. They increased the limits on FDI and portfolio investments, particularly for the oil, gas, and life insurance sectors. **Assessment.** While FDI inflows covered the CA deficit in FY2021/22, structural reforms and improvement of the investment regime to promote FDI are needed. Volatile portfolio investments are very sensitive to changes in global financial conditions and country risk premia. Expected inclusion of India in international bond indices should increase portfolio investment inflows for financing the CA deficit over the medium term.
FX Intervention and Reserves Level	**Background.** An unusual period of CA surpluses in 2020 and early 2021 allowed the Reserve Bank of India to replenish official FX reserves, which reached a record high of about US$638.5 billion at the end of 2021. The reserves decreased in subsequent months but remained at a comfortable level of about eight months of import coverage. **Assessment.** Various criteria confirm that official FX reserves are adequate for precautionary purposes. As of the end of 2021, they represented about 223 percent of short-term debt (on residual maturity) and 195 percent of the IMF's composite metric. Consequently, accumulation of additional reserves is less warranted, and FX interventions should be limited to addressing disorderly market conditions.

Table 3.12. Indonesia: Economy Assessment

Overall Assessment: *The external position in 2021 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 should help contain the CA deficit, keeping it in line with its norm of near-balance. External financing needs appear sustainable. However, they are sizable, and with a relatively large share of foreign portfolio investment, they expose the economy to fluctuations in global financial conditions.

Potential Policy Responses: The projected effect of fiscal consolidation on the CA would be more than offset by the projected pickup in economic activity as the impact of the pandemic unwinds. Therefore, maintaining external balance will require structural reforms to enhance productivity and facilitate post–COVID-19 sectoral adjustments. Reforms should include higher infrastructure and social spending to foster human capital development and strengthen the social safety net (while maintaining fiscal sustainability through revenue mobilization), a reduction of restrictions on FDI and external trade (nontariff trade barriers), and promotion of greater labor market flexibility (for example, by streamlining stringent job protection rules and improving job placement services). 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. At the end of 2021, Indonesia's NIIP was –23.5 percent of GDP, improving from –26.4 percent at the end of 2020. The improvement was mainly explained by a decrease of 5 percentage points in gross external liabilities to 59.9 percent of GDP at the end of 2021, reflecting in part a strong rebound in nominal GDP, but also an 8½ percent drop in nonresident investors' holdings of rupiah-denominated government bonds relative to the end of 2020. Gross external assets also fell slightly to 36.4 percent of GDP (one-third of which were reserve assets) from 38 percent at the end of 2020. Indonesia's gross external debt remained moderate at 35 percent of GDP at the end of 2021 (down from 39.4 percent of GDP at the end of 2020), with only 14 percent of external debt (amounting to 5 percent of GDP) having a remaining maturity of less than one year.

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. The share of nonresident holdings of rupiah-denominated government bonds declined from 25 percent of the total stock at the end of 2020 to 19 percent (or 5.3 percent of GDP) at the end of 2021 but remains sizable, making Indonesia vulnerable to global financial volatility, higher US interest rates, and a stronger US dollar. The NIIP as a percent of GDP is projected to strengthen in the medium term, reflecting projected small CA deficits and strong nominal GDP growth.

2021 (% GDP)	NIIP: –23.5	Gross Assets: 36.4	Res. Assets: 12.2	Gross Liab.: 59.9	Debt Liab.: 35

Current Account

Background. The CA balance recorded a modest surplus of 0.3 percent of GDP in 2021 compared with a deficit of 0.4 percent in 2020. While domestic demand and imports picked up with the economic recovery, exports grew at a higher rate than imports, reflecting higher international commodity prices and export volumes. On the savings-investment side, the positive impact on national savings of the higher commodity terms of trade and related higher government revenue was sufficient to offset lower private savings and investment. In 2022, the increase in global commodity prices following the war in Ukraine is expected to improve Indonesia's terms of trade to yield a sizable CA surplus. While this positive shock is expected to dissipate in 2023–24, structural policies will help maintain the CA balance close to the norm in the medium term.

Assessment. The IMF staff estimate of a CA gap of 0.2 percent of GDP for 2021 is consistent with (1) an estimated cyclically adjusted CA deficit of 1.5 percent of GDP; (2) an additional adjustor for the effects of the COVID-19 crisis estimated at 0.6 percent of GDP (0.4 percent travel; 0.1 percent transport; –0.2 percent household consumption; 0.3 percent medical); and (3) a CA norm of –0.8 percent of GDP adjusted by –0.4 percent of GDP for demographics, yielding –1.2 percent of GDP.[1] Considering uncertainties in the estimation of the norm, the IMF staff assessment of the CA gap for 2021 is in the range of –0.3 to 0.7 percent of GDP, with a midpoint of 0.2 percent.[2]

2021 (% GDP)	CA: 0.3	Cycl. Adj. CA: –1.5	EBA Norm: –0.8	EBA Gap: –0.7	COVID-19 Adj.: 0.6	Other Adj.: 0.4	Staff Gap: 0.2

Real Exchange Rate

Background. Indonesia's REER held steady within a narrow band in 2021, with the average REER over the year depreciating by 1.4 percent relative to the 2020 average, or by 2 percent relative to the 2016–20 REER average. As of May 2022, the REER was 2.7 percent above the 2021 average.

Assessment. The IMF staff CA gap estimate of 0.2 percent of GDP implies a REER gap of –1.7 percent (applying an estimated elasticity of 0.14).[3] The REER index and level models point to 2021 REER gaps of about 1.9 percent and –18.1 percent, respectively. Consistent with the staff CA gap, the IMF staff assesses the REER gap in the range of –5.3 to 1.9 percent, with a midpoint of –1.7 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net financial inflows stabilized at 1 percent of GDP in 2021 after a decline to 0.7 percent of GDP in 2020 (from 3.3 percent in 2019) in the context of large volatility at the onset of the pandemic. Net portfolio inflows inched their way back up to 0.4 percent of GDP (from 0.3 percent at the end of 2020), including positive net equity inflows for the first time since 2016. However, with markets anticipating monetary policy normalization in advanced economies, inflows into rupiah government securities remained volatile, with the share of nonresident holdings of rupiah government bonds declining to 19 percent of GDP at the end of 2021 from 25 percent at the end of 2020. Net FDI inflows rose to 1.4 percent of GDP from 1.3 percent at the end of 2020.

Assessment. Net and gross financial flows continue to be prone to periods of volatility. The contained CA balance and strengthened policy frameworks, including exchange rate flexibility since mid-2013, have helped reduce capital flow volatility. Continued strong policies focused on safeguarding the fiscal position, curbing inflation, advancing financial deepening, and easing obstacles to investment through structural reforms would help differentiate Indonesia and sustain capital inflows in the medium term.

FX Intervention and Reserves Level

Background. Since mid-2013, Indonesia has had a more flexible exchange rate policy framework. At the end of 2021, reserves were US$145 billion, compared with US$136 billion at the end of 2020. Two-thirds of the increase in reserves reflects the IMF's 2021 SDR allocation, which the authorities intend to keep as reserves.

Assessment. The current level of reserves—equal to 12.2 percent of GDP, 110.7 percent of the IMF's reserve adequacy metric, and about 6.6 months of prospective imports of goods and services—should provide a sufficient buffer against external shocks, with predetermined drains also manageable. Exchange rate flexibility should continue to help absorb shocks. If external pressures result in disorderly market conditions in the FX market, the use of FX intervention could be appropriate to mitigate the negative impact on balance sheet exposures.

Table 3.13. Italy: Economy Assessment

Overall Assessment: *The external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The combined current and capital account surplus declined as private sector saving net of investment declined by more than the increase in government saving net of investment as pandemic-related income support was wound down. Generous tax credits and other fiscal programs under the National Recovery and Resilience Plan, mainly funded by the European Union, lifted private and public investment in 2021. Nonetheless, chronic weak productivity and uncertain medium-term growth prospects could dampen private investment once these programs expire. How the current account balance evolves over the medium term will depend on progress with the green transition, ability to adapt to fragmentation of global value chains, and how successfully structural reforms are implemented. Under the baseline scenario, the CA surplus is expected to moderate over the next few years due to the adverse commodity terms-of-trade shock and higher imports of capital goods to support the green transition and digitalization, after which the CA balance would gradually improve.

Potential Policy Responses: Raising productivity and improving the business climate through structural reforms would sustain the higher private investment while the fiscal primary balance returns to surplus and household saving moderates. In particular, upskilling the workforce and increasing the quality of infrastructure and the effectiveness of the judiciary and public administration would boost productivity, reduce high unemployment, and raise output and domestic absorption. Vulnerabilities associated with rollover of public debt would be reduced by improving budget efficiency and fully implementing the National Recovery and Resilience Plan.

Foreign Asset and Liability Position and Trajectory

Background. Italy's NIIP further increased to 7.4 percent of GDP at the end of 2021, continuing its gradual upward trend owing to sustained CA surpluses and net valuation gains on external positions. Gross foreign assets and liabilities increased during 2021 to 188 and 181 percent of GDP, respectively. This includes an increase in TARGET2 liabilities to a record high of 33 percent of GDP. About half of gross external liabilities is attributed to the general government and the Bank of Italy. A steady accumulation of direct and portfolio investments in foreign equities and a net long US dollar external position contributed to the net valuation gains on Italy's NIIP over the past decade.

Assessment. Further strengthening public balance sheets and undertaking structural reforms would reduce 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.

2021 (% GDP)	NIIP: 7.4	Gross Assets: 188.1	Debt Assets: 45.4	Gross Liab.: 180.6	Debt Liab.: 103.0

Current Account

Background. Italy's CA has continued to gradually increase, averaging 2.9 percent of GDP during 2016–20. This increase was underpinned by rising private sector gross national saving and lower public and private sector gross domestic investment. More than half of the increase in the CA balance is due to the trade surplus, with the rest reflecting strong dividend and interest income on the rising foreign asset holdings of the nonfinancial private sector as well as declining interest payments on external liabilities owing to the ECB's accommodative monetary stance. Due to the pandemic, the CA balance reached a high of 3.7 percent of GDP in 2020 as private saving surged and private investment declined. In 2021, the CA moderated to 2.4 percent of GDP, mainly due to a 1.1 percent of GDP increase in the energy trade deficit on much higher energy import prices in the latter part of the year, despite a recovery in exports of services and a strong rebound in goods exports. This moderation was underpinned by a larger increase in investment than the increase in total saving, with declines in private saving more than offset by higher government saving. Italy's overall trade and financial linkages with Russia and Ukraine are limited (3 percent of imports and 2 percent of exports). However, Italy is heavily reliant on energy imports from Russia (including 40 percent of Italy's natural gas consumption). The war in Ukraine has pushed up international commodity prices, widening Italy's energy trade deficit, and reduced export demand from regional trade partners, with the impact on the current account felt mostly beginning in 2022.

Assessment. The cyclically adjusted CA is estimated at 2.2 percent of GDP in 2021, 1.2 percentage points below the EBA-estimated CA norm of 3.4 percent of GDP. An Italy-specific COVID-19 adjustor of 0.3 percent of GDP is applied to account for a temporary decline in travel (0.4 percent) and transport (0.1 percent) net receipts, medical trade (0.1 percent), and the household shift in consumption (–0.2 percent) caused by the pandemic. Therefore, and taking into account uncertainty around the estimate, the IMF staff assesses the CA gap to be in the range of –1.6 to –0.2 percent of GDP.

2021 (% GDP)	CA: 2.4	Cycl. Adj. CA: 2.2	EBA Norm: 3.4	EBA Gap: –1.2	COVID-19 Adj.: 0.3	Other Adj.: 0	Staff Gap: –0.9

Real Exchange Rate

Background. During 2016–20, the CPI-based REER appreciated by 2.2 percent while the ULC-based REER was unchanged. During 2021, the CPI-based REER was broadly stable, with a 0.3 percent depreciation relative to the 2020 average, mainly on account of a weakening euro. However, during this pandemic period, official statistics may not fully capture actual price and wage dynamics. As of May 2022, the REER was 4.1 percent below the 2021 average.

Assessment. The IMF staff CA gap implies a REER gap of 3.3 percent in 2021 (applying an estimated elasticity of 0.26). The level and index CPI-based REER models suggest an overvaluation in 2021 of 10.8 percent and 8.6 percent, respectively, with an average of 9.7 percent. Taking into account the staff CA gap, the IMF staff assesses a REER gap range of 0.7 to 6 percent, with a midpoint of 3.3 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital account balance remained unchanged at –0.1 percent of GDP in 2021. The financial account posted net outflows of 1.5 percent of GDP in 2021, reflecting residents' net purchases of foreign assets. Large portfolio investment outflows were mostly offset by inflows of other investment, including a €74 billion increase in Italy's TARGET2 liabilities.

Assessment. The low global interest rate environment has been conducive to the smooth functioning of the sovereign debt market. However, rising inflation and geopolitical tensions, large refinancing needs of the sovereign and the banking sector, and exposures to the current geopolitical situation and energy shocks 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 increased by €21 billion in 2021 mostly on account of the IMF's SDR allocation.

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

Table 3.14. Japan: Economy Assessment

Overall Assessment: *The external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* Japan's CA surplus narrowed in 2021, driven by transitory factors amid the continued global pandemic. When these temporary factors dissipate, the CA surplus is expected to rise to a level slightly above 3 percent of GDP in the medium term. The continued CA surplus primarily reflects an income surplus arising from a large positive NIIP and high net returns, as well as a high private sector saving-investment balance, notably net saving by firms.

Potential Policy Responses: The authorities' broad-based policy support to counter the adverse impact of the pandemic has been appropriate. Near-term policy should remain supportive but increasingly shift toward more targeted measures, and the scale and composition of support should be adjusted in response to epidemiological, economic, and geopolitical developments. Once the recovery is firmly in place, policies should shift toward structural reforms and fiscal sustainability. While fiscal consolidation should proceed in a gradual manner, it should be accompanied by a credible medium-term fiscal framework, accommodative monetary policy, and structural reforms that support domestic demand. Priority should be given to reforms to increase labor supply and boost productivity and wages. Broadening and deepening of corporate governance and regulatory reforms would encourage firms to deploy their accumulated savings and boost investment and productivity.

Foreign Asset and Liability Position and Trajectory

Background. Japan's NIIP has risen since 2016, reaching 75.9 percent of GDP at the end of 2021, up from 61.8 percent in 2016 and 67.8 percent in 2020. This has been largely driven by an increase in foreign assets related to outward FDI and portfolio outflows. Japan holds the world's largest stock of net foreign assets, valued at US$3.6 trillion at the end of 2021.

Assessment. Japan's foreign asset holdings are well diversified, both by geography and risk classes. At the end of 2021, gross foreign assets were largely composed of portfolio investments, accounting for about 46 percent of the total. Of that portfolio investment, about 21 percent was yen-denominated and 51 percent US dollar–denominated. In the event of appreciation of the yen against the US dollar, the risk of negative valuation effects could materialize. The vulnerabilities of liabilities are contained, given that equity and direct investment account for a third of gross foreign liabilities. Japan's large positive NIIP is partly related to asset accumulation for old-age consumption. A gradual decumulation of such assets is expected over the long term.

2021 (% GDP)	NIIP: 75.9	Gross Assets: 230.6	Debt Assets: 89.9	Gross Liab.: 154.8	Debt Liab.: 95.9

Current Account

Background. Japan's CA surplus reflects a sizable income balance, at 3.8 percent of GDP, owing to its large net foreign asset position. From a saving-investment perspective, it reflects a high private sector saving-investment balance, notably net saving by firms, that more than compensates for the low government saving-investment balance. The CA surplus was 2.9 percent of GDP in 2021, broadly unchanged from 3 percent in 2020, albeit well below the average of 3.8 percent during 2016–19. The narrowing in the 2020 and 2021 CA surplus was largely driven by a decline in the services trade balance amid international travel restrictions, while the goods trade balance remained in surplus. While Japan has limited trade and financial linkages with Russia and Ukraine, the spillover effects of the ongoing war have weighed on Japan's external balance, primarily through the commodity price channel. After these temporary factors dissipate, the CA surplus is projected to rise to a level slightly above 3 percent of GDP in the medium term.

Assessment. The 2021 CA assessment uses the EBA model, which estimates cyclically adjusted CA at 2.9 percent of GDP and the cyclically adjusted CA norm at 3.9 percent of GDP, with a standard error of 1 percent of GDP. IMF staff adjustments were made to account for the transitory impact of the COVID-19 crisis, including on travel services (0.4 percent of GDP), transport balance (0 percent of GDP), the global household consumption composition shift (–0.1 percent of GDP), and trade in medical products (0.1 percent of GDP). Including these adjustments, the 2021 CA gap midpoint is assessed at –0.5 percent of GDP, with the CA gap range between –1.5 and 0.5 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 overall gap is accounted for by a relatively large residual, potentially reflecting structural impediments and country-specific factors not included in the model, such as investment bottlenecks, including entrepreneurship entry barriers and corporate savings distortions.

2021 (% GDP)	CA: 2.9	Cycl. Adj. CA: 2.9	EBA Norm: 3.9	EBA Gap: –0.9	COVID-19 Adj.: 0.4	Other Adj.: 0	Staff Gap: –0.5

Real Exchange Rate

Background. The REER depreciated sharply by 8.6 percent in 2021, following a slight appreciation during 2017–20. This reflects a sharp rise in inflation in Japan's major trading partners as well as a shift toward a tighter monetary policy stance of key central banks. As of May 2022, the REER was 13.4 percent below the 2021 average.

Assessment. The IMF staff CA gap implies a REER gap of 3.6 percent in 2021 (applying an estimated elasticity of 0.15). The EBA REER level and index models deliver REER gaps of –18.4 and –20.1 percent, respectively, for the 2021 average REER. Considering all estimates, the uncertainties around them, and REER depreciation in 2021, the IMF staff assesses the REER gap to be in the range of –3 to 10.2 percent, with a midpoint of 3.6 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The CA surplus in 2021 is mirrored by an increase in net FDI outflows to about 2.9 percent of GDP from 1.8 percent in 2020, primarily driven by outward FDI flows to North America. Supported by portfolio inflows from Europe and Oceania, portfolio investment is expected to record net inflows of 0.1 percent of GDP in 2021, as opposed to net outflows of 0.7 percent in 2020. Net short yen positions have emerged since early 2021 due to the relative strength of the US dollar amid changes in monetary policy stances. An increase in reserve assets in 2021 reflects the IMF allocation of SDR 29.5 billion (about US$42.1 billion or 0.9 percent of GDP).

Assessment. Vulnerabilities are limited. Inward investment tends to be equity based, and the home bias of Japanese investors remains 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 US$1.3 trillion, or 28 percent of GDP, as of the end of May 2022. There has been no FX intervention in recent years.

Assessment. The exchange rate is free floating. Interventions are isolated (the most recent occurred in 2011) and intended to reduce short-term volatility and disorderly exchange rate movements.

Table 3.15. Korea: Economy Assessment

Overall Assessment: *The external position in 2021 is assessed to be broadly in line with fundamentals and desirable policies.* The CA surplus widened in 2021, primarily due to a narrowing of the service sector deficit and a favorable income balance. However, the surplus is projected to narrow in 2022 due to high oil prices and supply-chain disruptions, and recover over the medium term as transitory factors related to the COVID-19 shock and the war in Ukraine recede. **Potential Policy Responses:** To support activity following the COVID-19 outbreak, the authorities have deployed fiscal and monetary stimulus, of which a substantial part is expected to be temporary. In a context of expected normalization of fiscal and monetary policy, ensuring that the external position remains broadly in line with medium-term fundamentals will require structural policies to stimulate investment and facilitate rebalancing of the economy toward services and other new growth drivers. Desirable reforms include reducing barriers to firm entry and investment, deregulating the nonmanufacturing sector, and strengthening the social safety net to lessen the need for precautionary saving. Reforms in some of these areas are contained in the authorities' Korean New Deal to be implemented over the next few years. The exchange rate should remain market determined, with intervention limited to preventing disorderly market conditions.	
Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP has been positive since 2014 and stood at 36.4 percent of GDP in 2021, with gross liabilities at 83.9 percent of GDP, of which about 40 percent was gross external debt. The 2021 NIIP level marked an increase by about 7 percent of GDP compared with 2020, largely reflecting the increase of residents' overseas portfolio investment. The NIIP is projected to rise further to about 50 percent of GDP in the medium term on the back of CA surpluses and search-for-yield activity by financial institutions driven by asset accumulation for old-age consumption. **Assessment.** The positive NIIP is a source of external sustainability. Foreign asset holdings are diversified, with about 39 percent held in equity or debt securities. About 60 percent of foreign assets are denominated in US dollars, implying that depreciation of the won could have positive valuation effects. The structure of liabilities limits vulnerabilities, with equity and direct investment accounting for about 60 percent of total liabilities.
2021 (% GDP)	NIIP: 36.4 | Gross Assets: 120.3 | Debt Assets: 59.9 | Gross Liab.: 83.9 | Debt Liab.: 34.9
Current Account	**Background.** The CA surplus in 2021 was 4.9 percent of GDP, driven by robust technology exports, a narrowing of the services deficit due to an increase in transportation exports, and an improvement in the primary income balance. The CA surplus has been trending down from the peak of 7.2 percent of GDP in 2015, reflecting a fall in savings, particularly for the household sector, and an increase in the investment-to-GDP ratio The CA surplus is projected to narrow to around 2.8 percent of GDP in 2022 due to high oil prices and supply-chain disruptions, and recover to around 4 percent of GDP over the medium term, as the shocks from COVID-19 and the war in Ukraine recede. **Assessment.** The EBA model estimates the cyclically adjusted CA at 5.6 percent of GDP. The CA norm is estimated at 5 percent of GDP, with a standard error of 0.8 percent of GDP. After accounting for transitory factors arising from the ongoing COVID-19 shock, mainly in the transportation sector (0.9 percent of GDP), travel services (0.2 percent of GDP), and the shift in household consumption composition from services to goods (–0.2 percent of GDP), IMF staff estimates the 2021 CA gap midpoint at –0.3 percent of GDP, with a range of –1.1 to 0.5 percent of GDP. The contribution of the relative policy gap is –0.1 percent of GDP, reflecting the offsetting effects of larger fiscal stimulus in the rest of the world relative to Korea and a positive domestic credit gap for which the authorities have been taking macroprudential policy measures to rein in credit growth, particularly household debt.
2021 (% GDP)	CA: 4.9 | Cycl. Adj. CA: 5.6 | EBA Norm: 5 | EBA Gap: 0.6 | COVID-19 Adj.: –0.9 | Other Adj.: 0 | Staff Gap: –0.3
Real Exchange Rate	**Background.** Following sustained appreciation during 2015–18, the REER depreciated in 2019 by about 4.3 percent, returning to its 2015 level. The REER showed a brief appreciation in the second half of 2020 by about 4.5 percent, followed by a depreciation in 2021 by about 4.8 percent. The average REER for 2021 remained stable compared with the 2020 average. As of May 2022, the REER was 4.7 percent below the 2021 average. **Assessment.** The IMF staff CA gap implies a REER overvaluation of 1 percent (applying an estimated elasticity of 0.31). The EBA REER index model estimates a 0.8 percent REER undervaluation, while the REER level model estimates a 4.2 percent overvaluation. The IMF staff uses the estimated CA gap for its assessment, given the better fit of the EBA CA model. Consistent with the staff CA gap, the IMF staff assesses the REER gap to be in a range of –1.6 to 3.7 percent, with a midpoint of 1 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net FDI and portfolio outflows have declined since 2017, when outflows reached 4.6 percent of GDP. Net portfolio outflows were 1.1 percent of GDP in 2021, reflecting further portfolio diversification and institutional investors' continued search for yield, but they were largely offset by nonresident debt inflow. Net FDI and portfolio outflows made up the bulk of the 2021 financial account (2.4 and 1.1 percent of GDP, respectively), whereas other investments (net) recorded inflows (0.1 percent of GDP). **Assessment.** The present configuration of net and gross capital flows appears sustainable over the medium term. In recent years, including in the context of the COVID-19 shock, Korea has demonstrated ample capacity to absorb short-term capital flow volatility.
FX Intervention and Reserves Level	**Background.** Korea has a floating exchange rate. As of the end of 2021, reserves stood at 25.6 percent of GDP, largely reflecting legacy accumulation. FX intervention data released by the Bank of Korea show net sales of US$14 billion (0.8 percent of GDP) in the second half of 2021, conducted to limit excess exchange rate volatility. With an increase in investment returns, gross reserves rose by US$20 billion (1.1 percent of GDP) year to date. **Assessment.** Intervention has been limited to preventing disorderly market conditions. As of the end of 2021, the preliminary data indicate that FX reserves were about 99 percent of the IMF's composite reserve adequacy metric, which, together with the US$60 billion swap line with the US Federal Reserve (which expired at the end of 2021), provided an adequate buffer against a wide range of possible external shocks.

Table 3.16. Malaysia: Economy Assessment

Overall Assessment: *Malaysia's external position in 2021 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.* During the COVID-19 pandemic, Malaysia's CA surplus increased, given strong external demand for pandemic-related exports, including personal protective equipment and electronic and electrical equipment. While a temporary increase in the CA surplus is expected in the short term from higher fuel prices following the war in Ukraine, a decline is projected over the medium term as domestic private demand gradually recovers and as Malaysia moves from the pandemic to the endemic phase of COVID-19.

Potential Policy Responses: With Malaysia almost fully vaccinated, near-term policies should continue to support the nascent recovery through a targeted fiscal expansion. Over the medium term, a policy mix promoting domestically led growth would support external rebalancing and help bring the CA balance closer to its norm. Fiscal policy should target a gradual and growth-friendly consolidation, while policies that strengthen social safety nets and encourage private investment and productivity growth should be prioritized.

Foreign Asset and Liability Position and Trajectory

Background. Malaysia's NIIP has averaged about 1 percent since 2010 and was 5.5 percent of GDP in 2021 (compared with 5.7 percent of GDP at the end of 2020), reflecting higher gross and reserve assets and an increase in net portfolio investment. Direct investment and portfolio investment abroad contribute most to both assets and liabilities. Total external debt, measured in US dollars, was about 68 percent of GDP in 2021 (compared with 71 percent at the end of 2020) and has remained manageable, with one-third in foreign currency and just over one-third in short-term debt by original maturity (half of which is held by intragroup borrowing among banks and corporations that have been generally stable during the pandemic).

Assessment. Malaysia's NIIP is projected to rise over the medium term, reflecting projected CA surpluses. Malaysia's balance sheet strength, exchange rate flexibility, and increased domestic investor participation should continue to help withstand shocks (as they have in the context of the COVID-19 crisis).

2021 (% GDP)	NIIP: 5.5	Gross Assets: 136.9	Debt Assets: 31.5	Gross Liab.: 131.4	Debt Liab.: 29.7

Current Account

Background. Between 2010 and 2019, Malaysia's CA surplus contracted by about 7 percentage points to 3.5 percent of GDP, underpinned by lower national savings and robust domestic demand. After a rise in 2020, the CA surplus decreased in 2021 to 3.8 percent of GDP (4.2 percent of GDP in 2020) as a recovery in overall imports offset exports. The CA surplus continues to be affected by pandemic-related transitory factors, including (1) the decline in travel income given continued international travel restrictions; (2) the sustained strong external demand for pandemic-related exports, including rubber glove products and electronic and electrical equipment; and (3) the decline in outward remittances from the crisis and lockdown measures in 2021.

Assessment. The EBA CA model estimates a cyclically adjusted CA of 2.6 percent of GDP and a CA norm of –0.1 percent of GDP for 2021. After factoring in the transitory effect on the CA of net exports of pandemic-related medical goods, including rubber glove products (1.3 percent of GDP); the global household consumption composition shift (0.9 percent of GDP); lower net remittances (0.2 percent of GDP); and the decline in receipts from travel services (including tourism) (–1.4 percent) and transport (–0.1), the IMF staff estimates that the CA gap is about 1.8 percent of GDP (±0.5 percent of GDP). Relative policy gaps largely explain the CA gap: low public health care expenditures compared with the rest of the world contribute 0.6 percentage point to the CA gap, while the looser fiscal policies adopted in 2021 in the rest of the world relative to Malaysia also contribute 0.6 percentage point to the excess surplus.

2021 (% GDP)	CA: 3.8	Cycl. Adj. CA: 2.6	EBA Norm: –0.1	EBA Gap: 2.7	COVID-19 Adj.: –0.8	Other Adj.: 0.0	Staff Gap: 1.8

Real Exchange Rate

Background. In 2021, the REER depreciated by 0.5 percent relative to the 2020 average and was about 6 percent lower than in 2015. The mild depreciation in 2021 compared with 2020 (–3 percent) reflects a stabilization in capital outflows and the effect of the weakened economic outlook and new COVID-19 waves on the NEER. As of May 2022, the REER was 2.5 percent below the 2021 average.

Assessment. The IMF staff CA gap implies a REER undervaluation of 4 percent in 2021, applying an estimated elasticity of 0.46. The EBA REER index and level models estimate Malaysia's REER to be undervalued by 22.4 percent and 29.1 percent, respectively. At the same time, considering the lack of underlying macroeconomic stresses, such as inflation or wage pressures, and the broad stability of FX reserves, the IMF staff assesses the REER to be undervalued in the range of 2.9 to 5.1 percent, with a midpoint of 4 percent, consistent with the IMF staff CA gap.

Capital and Financial Accounts: Flows and Policy Measures

Background. Since the global financial crisis, Malaysia has experienced periods of significant capital flow volatility, largely driven by portfolio flows in and out of the local-currency-debt market, in response to both the change in global financial conditions and domestic factors. In 2020, Malaysia saw capital outflows during the March 2020 global risk-off episode, but capital flows stabilized afterward. Capital flows remained broadly stable in 2021 despite the resurgence of COVID-19 waves and the renewal of lockdowns. Net portfolio flows reached US$7.4 billion by December 2021, primarily driven by sustained net debt inflows (US$8.2 billion). Since late 2016, the Financial Markets Committee has implemented measures to develop the onshore FX market and increase hedging opportunities, some of which are considered CFM measures under the IMF's Institutional View.[1]

Assessment. Continued exchange rate flexibility and macroeconomic policy adjustments, such as those prescribed by the IMF's Integrated Policy Framework, are necessary to manage capital flow volatility. CFM measures should be gradually phased out, with due regard for market conditions.

FX Intervention and Reserves Level

Background. Reserve levels have steadily increased for Malaysia during the COVID-19 pandemic after capital outflows to the region stabilized following the risk-off episode in March 2020. Reserve levels stood at US$116.9 billion as of December 2021 (compared with US$107.6 billion at the end of December 2020).

Assessment. Under the IMF's composite ARA metric, reserves remain broadly adequate, so further accumulation is not called for. Gross official reserves were about 122 percent of the ARA metric at the end of December 2021. FX interventions should continue to be limited to preventing disorderly market conditions, while the exchange rate should continue to adjust as a first line of defense and to serve as a shock absorber in the event such conditions occur.

Table 3.17. Mexico: Economy Assessment

Overall Assessment: *The external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The rebalancing of Mexico's external position in 2021 was led by the economic reopening and recovery, domestically and elsewhere, and a smaller fiscal policy gap. The latter reflected the narrowing of the wide cross-country differences in the magnitude of pandemic-related fiscal policy support compared with the previous year. The current account deficit is expected to rise toward 1 percent of GDP in the medium term.

Potential Policy Responses: While Mexico's external position at present is broadly in balance, further structural reforms to address investment obstacles are critical to boost growth and exports in the medium and long term and to maintain external sustainability. The reforms should include tackling economic informality and governance gaps, private sector participation in energy, and reforming Pemex's business strategy and governance. The floating exchange rate should continue to serve as a shock absorber, with FX interventions used only to prevent disorderly market conditions. The IMF's Flexible Credit Line continues to provide an added buffer against global tail risks.

Foreign Asset and Liability Position and Trajectory	**Background.** Mexico's NIIP is projected to improve from –41 percent of GDP in 2021 to about –40 percent of GDP over the medium term, driven mainly by the decline in foreign liabilities. Foreign assets in 2021 were mostly direct investment (18 percent of GDP) and international reserves (16 percent of GDP). Foreign liabilities were mostly direct investment (49 percent of GDP) and portfolio investment (39 percent of GDP). Gross public external debt was estimated at 23 percent of GDP at the end of 2021, of which roughly one-quarter was comprised of holdings of local currency government bonds. **Assessment.** While the NIIP is sustainable and a relatively high share of the local currency denomination of 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.
2021 (% GDP)	NIIP: –41 · Gross Assets: 58 · Debt Assets: 19 · Gross Liab.: 99 · Debt Liab.: 38
Current Account	**Background.** In 2021, the CA balance moved to a deficit of 0.4 percent of GDP after posting a surplus of 2.4 percent of GDP in 2020, reflecting the recovery of import demand, including from the restocking of intermediate goods, with economic recovery. An increase in investment and a decline in saving contributed roughly equally to the change in the CA balance in 2021. The private sector saving-investment balance declined by 3.1 percentage points of GDP, more than offsetting the improvement in the public sector balance of 0.7 percentage point. In 2022, the current account deficit is expected to widen with higher global commodity prices, given Mexico's net commodity importer status. Other direct trade effects of the war in Ukraine are expected to be insignificant, given the limited trade linkages with Russia and other countries in eastern Europe. In addition, the domestic fuel price ceiling and the associated fuel subsidies will weaken the substitution and income effects of higher oil prices and amplify their impact on the CA balance. Taking these factors into consideration, the 2022 CA deficit is projected to increase to 0.5 percent of GDP, with considerable forecast uncertainty, given risks from the COVID-19 pandemic and the war in Ukraine. Over the medium term, the CA balance is projected to move to a deficit of about 1 percent of GDP. **Assessment.** The EBA model estimates a cyclically adjusted CA norm of –1.2 percent of GDP in 2021. This implies a CA gap of –0.2 percent of GDP, with a range from –1.2 to 0.8 percent of GDP. The contribution from the overall policy gap is estimated at 1.3 percent of GDP, driven by the fiscal gap (1.2 percent). The latter reflects the relatively more accommodative fiscal stances of trading partners. IMF staff adjustments were made to account for the transitory impact of the COVID-19 pandemic on travel services (0.1 percent of GDP), the transport balance (0.6 percent of GDP), the household consumption composition shift (–0.3 percent of GDP), trade in medical products (0.1 percent of GDP), and remittances (–0.3 percent of GDP). Including these adjustments, the IMF staff assesses the midpoint CA gap at –0.2 percent of GDP, with a range of –1.2 to 0.8 percent of GDP.
2021 (% GDP)	CA: –0.4 · Cycl. Adj. CA: –1.5 · EBA Norm: –1.2 · EBA Gap: –0.2 · COVID-19 Adj.: 0.1 · Other Adj.: 0 · Staff Gap: –0.2
Real Exchange Rate	**Background.** In 2021, the peso fluctuated in a narrow range of about 20 to 21 pesos per US dollar. The average REER in 2021 appreciated by about 6 percent compared with the 2020 average, mostly driven by a nominal appreciation. As of May 2022, the REER had appreciated by 4 percent compared with its 2021 average. **Assessment.** The IMF staff CA gap implies a REER gap of 0.5 percent of GDP (applying a semielasticity of 0.33). The EBA REER level and index models estimate an overvaluation of 7.7 percent and an undervaluation of 9.1 percent, respectively, in 2021. The IMF staff's overall assessment, based on the CA gap, is a REER gap in the range of –2.6 to 3.5 percent, with a midpoint of 0.5 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In 2021, Mexico recorded a small amount of net financial account inflows. Net portfolio outflows increased compared with the previous year on account of both higher purchases of foreign assets by residents and larger sales of Mexican assets by nonresidents. The outflows were offset by a turnaround in other investment flows and continued strong net FDI inflows. **Assessment.** The long maturity of sovereign debt and the relatively high share of local-currency-denominated debt reduce the exposure of government finances to FX depreciation and refinancing risks. The banking sector is resilient, and 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 central bank remains committed to a free-floating exchange rate and uses discretionary FX intervention to prevent disorderly market conditions. At the end of 2021, gross international reserves were US$208 billion (16 percent of GDP), up from US$199 billion at the end of 2020, largely owing to the IMF's general SDR allocation. In 2021, no FX intervention was conducted. **Assessment.** At 131 percent of the ARA metric and 254 percent of short-term debt (at remaining maturity), the level of foreign reserves at the end of 2021 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 2021 was 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 particularly challenging. In the medium term, the current account surplus is expected to shrink moderately as population aging, pension reform, and some fiscal loosening reduce domestic saving.

Potential Policy Responses: The continued use of ample fiscal buffers for health care and economic support during repeated waves of the COVID-19 pandemic has been appropriate. The repercussions from the war in Ukraine, particularly on commodity markets and refugee flows, are likely to call for additional government expenditure, facilitated by the EU Stability and Growth Pact escape clause activation. Beyond crisis-related spending, fostering investment in physical and human capital as well as facilitating access to finance, particularly for SMEs, should take priority to nurture robust potential growth, thereby also contributing to external rebalancing. Thus, structural investment and reform plans by the new government to allay housing market shortages, reinforce the education system, and advance the climate transition and digitalization are welcome.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP of The Netherlands reached 93.8 percent of GDP in 2021, reflecting gross assets and liabilities of 1,119.8 and 1,026.1 percent of GDP, respectively, compared to a nearly balanced NIIP at the end of 2009. The largest component of the NIIP comes from the net FDI stock—about €1,057 billion (122.8 percent of GDP) in 2021. According to the latest Coordinated Direct Investment Survey, the inward and outward FDI positions of The Netherlands were second only to those of the United States at the end of 2020, also reflecting its role as the seat for several large multinational corporations and its importance as a financial center, with the largest gross bilateral stocks accounted for by the United States (US$1.98 trillion), the United Kingdom (US$1.23 trillion), and Luxembourg (US$0.77 trillion). Reflecting a persistent CA surplus, the NIIP tends to increase as a ratio of GDP over time in the absence of large valuation effects. The relocation of Shell's headquarters to the United Kingdom may dampen NIIP fluctuations going forward by substituting portfolio investment liabilities (Shell's foreign shareholders) with less volatile FDI liabilities (Shell's ownership of its Dutch operations).

Assessment. The Netherlands' safe haven status and its sizable foreign assets limit risks from its large foreign liabilities.

2021 (% GDP)	NIIP: 93.8	Gross Assets: 1,119.9	Debt Assets: 254.1	Gross Liab.: 1,026.1	Debt Liab.: 285.7

Current Account

Background. In 2021, the CA surplus rebounded to 9 percent of GDP (9.2 percent cyclically adjusted). The traditionally sizable goods and services surplus expanded to 10.3 percent of GDP as the economies of key trading partners, concentrated in the EU, recovered from the pandemic. The primary income balance improved to –0.4 percent of GDP, mainly reflecting higher net FDI income, while the secondary income deficit contracted to 0.8 percent of GDP due to lower current transfers abroad. Regarding saving and investment, household net lending has turned positive since the global financial crisis, partly reflecting substantial mandatory contributions to second-pillar occupational pension funds. Furthermore, The Netherlands' role as a trading hub and financial center also contributes to a structurally strong headline external position. In particular, multinationals based in The Netherlands are keeping nonfinancial corporate net lending high and have sustained substantial net FDI outflows since the early 2000s by investing abroad. In 2022, the CA surplus is projected to shrink to 8.8 percent of GDP. Shell's relocation to London is estimated to account for about 0.2 percentage point of the decline. Moreover, energy market disruptions related to the war in Ukraine are expected to contribute to a moderate worsening of The Netherlands' modest energy trade deficit.

Assessment. The EBA CA model estimates a CA norm of 5.1 percent of GDP and a CA gap of 4.1 percent of GDP in 2021. A large part of the CA gap (2.2 percent of GDP) is attributable to an unexplained residual, reflecting high gross savings of multinationals based in The Netherlands and, as suggested by the EBA's complementary pension tool, a second-pillar retirement scheme with large coverage, robust replacement ratios, and strict pre-funding requirements. Measurement errors or biases in official statistics may also contribute to an overstatement of the net accumulation of wealth that is attributed to Dutch residents, an issue of particular relevance for a country where the foreign ownership of publicly listed corporations has remained consistently above 85 percent. An IMF staff adjustment of –1.7 percent of GDP to offset this bias is calculated with the help of granular data provided by the Dutch central bank. Another –0.4 percent of GDP adjustment is applied to correct for the (temporary) effects of the COVID-19 pandemic, mainly reflecting shifts of household consumption patterns toward goods in 2021, while changes in travel and transport balances and the trade in medical goods played only marginal roles. Taking these factors into consideration, and against a norm in a range of 4.6 to 5.6 percent of GDP, the IMF staff assesses a CA gap of 1.5 to 2.5 percent of GDP.

2021 (% GDP)	CA: 9.0	Cycl. Adj. CA: 9.2	EBA Norm: 5.1	EBA Gap: 4.1	COVID-19 Adj.: –0.4	Other Adj.: –1.7	Staff Gap: 2.0

Real Exchange Rate

Background. The annual average CPI-based REER appreciated by 0.2 percent in 2021, with part of the rise in the euro NEER offset by inflation in The Netherlands staying below that of its trading partners. The average ULC-based REER appreciated by 1.7 percent. As in 2020, assessing shifts in competitiveness from REER changes continues to be hampered by distortions from the COVID-19 pandemic affecting consumer prices and ULCs across different countries. As of May 2022, the CPI-based REER was 1.7 percent below its 2021 average.

Assessment. Assuming a semielasticity of 0.6, the IMF staff CA gap of 2.0 percent of GDP implies a REER undervaluation of about 3.3 percent. EBA REER model estimates for 2021 range from an overvaluation of 6 percent (level model) to 21.9 percent (index model), largely reflecting unexplained residuals. Consistent with the staff CA gap, the IMF staff assesses the REER as undervalued by about 2.5 to 4.1 percent, with a midpoint of 3.3 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. A respective 25 and 27 percent 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 is free floating.

Table 3.19. Poland: Economy Assessment

Overall Assessment: *The external position in 2021 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.* The course of the pandemic and spillovers from the Ukraine war are the main near-term risks, and uncertainty remains high. In the context of a domestic-demand-led economic expansion, the use of the Next Generation EU grants, and a projected increase in defense-related government expenditures, the CA deficit is expected to converge to 2 percent of GDP in the medium term.

Policy Responses: In the short term, targeted fiscal support to mitigate the effects of high energy prices and potential new pandemic waves, and support for refugees from the Ukraine war are warranted. In the medium term, policies should boost investment by (1) deploying the Next Generation EU grants to tackle infrastructure gaps, digitalization, and climate change and (2) using public policies to encourage corporate investment and productivity, including through initiatives to increase the availability of clean energy and supply of skilled labor and reducing disincentives to allocate credit to the private sector by redesigning the bank asset tax.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP strengthened to –38 percent of GDP in 2021, from –46 percent in 2020. Gross assets and liabilities reached about 55.5 and 93.4 percent of GDP, respectively. The stock of net FDI (equity and debt), equivalent to 38 percent of gross external liabilities, remains diversified across sectors and source countries. While gross external debt in 2021 remained sizable at 54 percent of GDP, 30 percent of the debt was intercompany lending, and 72 percent of the debt was of long maturity. In 2021, short-term debt (excluding intercompany debt) amounted to 17 percent of total debt (9 percent of GDP) and consisted mostly of liabilities issued by banks (currency and deposits) and the nonfinancial private sector (trade credit). Automatic debt dynamics, helped by Next Generation EU grants, along with GDP growth, are projected to reduce the negative NIIP in the medium term.

Assessment. While sizable external debt is a vulnerability, rollover risk is mitigated by the large share of long-term debt and intercompany lending that tends to be automatically rolled over. The NIIP has improved markedly in recent years, both in size (as a percent of GDP) and structure, indicating less reliance on portfolio and short-term financing and more on FDI, a more stable source of financing. Adequate reserves reduce residual rollover risk from short-term debt (gross reserves stood at about 162 percent of short-term debt in 2021).

2021 (% GDP)	NIIP: –38	Gross Assets: 55.5	Reserve Assets: 25	Gross Liab.: 93.4	Gross External Debt: 54

Current Account

Background. The CA moved from large deficits toward surplus between 2008 and 2020. Poland's CA balance swung to a deficit of 0.6 percent of GDP in 2021, from a (revised) surplus of 2.9 percent in 2020. The main drivers of the 2021 external balance were (1) lower exports due to global supply-chain disruptions, (2) higher import growth due to higher energy prices and recovering domestic demand, and (3) the normalization of the primary income deficit. In the medium term, in the context of a domestic-demand-led economic expansion, the use of the Next Generation EU grants, and a projected increase in defense-related government expenditures, the CA deficit is expected to reach 2 percent of GDP.

Assessment. The EBA CA model estimates a cyclically adjusted CA of –0.3 percent of GDP and a CA norm of –2.4 percent of GDP, with a standard error of 0.4 percent of GDP. An adjustment of –0.6 percent of GDP to the cyclically adjusted CA balance has been made for transitory pandemic-related factors. This COVID-19 adjustment consists of +0.3 percentage points to reflect the contraction in travel services net exports, +0.2 percentage point to reflect net exports of medical supplies triggered by the health emergency, and –1.1 percentage points to reflect shifts in household consumption composition from services toward consumer goods. The resulting IMF staff CA gap of 1.4 (±0.4) percent of GDP includes identified policy gaps of 2.7 percent of GDP and an unexplained residual of –0.6 percent of GDP.

2021 (% GDP)	CA: –0.6	Cycl. Adj. CA: –0.3	EBA Norm: –2.4	EBA Gap: 2.1	COVID-19 Adj.: –0.6	Other Adj.: 0	Staff Gap: 1.4

Real Exchange Rate

Background. The annual averages of the NEER and REER depreciated by 2.1 percent and 0.4 percent, respectively, compared with the 2020 averages. Unlike during the global financial crisis, movements in the NEER and REER during the pandemic have been muted. In nominal terms, the average annual exchange rate in 2021 appreciated by 1 percent against the US dollar and depreciated by 2.7 percent against the euro compared with the 2020 average. Over the same period, inflation in Poland was only slightly higher than in its trading partners. As of May 2022, the REER was 0.2 percent below the 2021 average.

Assessment. The EBA REER index and level models estimate a REER gap of –1 and –20.2 percent, respectively. Consistent with the IMF staff CA gap, the IMF staff assesses the REER as undervalued in 2021 in the range of –4.4 to –2.5 percent, with a midpoint of –3.5 percent (using an estimated elasticity of 0.41).

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital account, dominated by inflows of EU funds, has averaged about 2 percent of GDP over the past 10 years. The capital account surplus declined to 1.6 percent of GDP in 2021 from 2.3 percent in 2020. Over the medium term, it is projected to gradually decline to 1 percent of GDP, with its trajectory mainly supported by Next Generation EU inflows and other EU transfers. As the profitability of foreign companies normalizes, FDI inflows are projected to strengthen and financial flows to revert to historical norms. Financial account inflows in 2021 amounted to 2.1 percent of GDP. Foreign holdings of domestic government securities have declined significantly since 2016 and by the end of 2021 represented 15.2 percent of the total.

Assessment. The capital account is projected to remain a strong source of support for investment, reflecting EU cooperation frameworks. The foreign holdings of government debt are not negligible at 4.8 percent of GDP and could pose some volatility risk, especially if Poland is viewed by some investors as a proxy for the broader region. However, the diversified foreign investor base is a mitigating factor, and the central bank has the tools to manage bouts in volatility.

FX Intervention and Reserves Level

Background. FX reserves increased by about US$12 billion, to US$166 billion by the end of 2021, with the IMF's SDR allocation in August 2021 contributing an increase of US$5.6 billion in reserve assets. Net reserves, which net out the central bank's repo operations (part of its reserve management strategy) and government FX deposits, stood at about US$151 billion by the end of 2021, reflecting in part the central bank's conversion of a portion of EU funds received by the government to zloty. This is consistent with the central bank's strategy of building an adequate precautionary reserve buffer. The zloty is free floating.

Assessment. At about 141.4 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: *The external position in 2021 was stronger than the level implied by medium-term fundamentals and desirable policies.* This assessment is based on data and information before the war in Ukraine, and it does not include the effects of sanctions imposed on Russia, Russia's remedial actions in response to sanctions, and the related international spillovers. This year, the CA surplus is projected to double to 11.9 percent of GDP due to highly favorable terms of trade and a sharp decline in imports. The range of uncertainty around the projections, however, is very large.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP declined to US$ 483.4 billion or 27.2 percent of GDP at the end of 2021, from a peak of 34.9 percent of GDP in 2020, but remained well above its 2018 level (23 percent of GDP) and the near-balance position in 2010. Over 2018–21, gross assets increased from 81 to 93 percent of GDP, though liabilities also increased from 59 to 65 percent of GDP, with external debt at the end of 2021 at 27 percent of GDP. As of the third quarter of 2021, slightly more than a quarter of the external debt was in domestic currency, and there were no obvious maturity mismatches between the gross asset and liability positions. The share of nonresidents' holdings of domestic government debt fell from 32.2 percent at the end of 2019 to 17.8 percent in February 2022.

Assessment. Before the war, the projected CA surpluses helped maintain Russia's positive NIIP, lowering risks to external stability, while the sizable official external assets, accumulated since the introduction of the new fiscal rule, provided an important buffer against oil revenue fluctuations and enhanced Russia's ability to smooth exchange rate fluctuations. It should be noted that as a result of sanctions, a significant share of reserves (that is, foreign assets) is now frozen.

2021 (% GDP)	NIIP: 27.2	Gross Assets: 93	Res. Assets: 35.5	Gross Liab.: 65	Debt Liab.: 27

Current Account

Background. In line with the sharp increase in oil and gas prices and demand, and the sharp increase in other commodity prices, the CA surplus increased to US$122 billion (6.9 percent of GDP) in 2021 from US$36 billion (2.4 percent of GDP) in 2020. The increase from 2020 was driven mostly by the increase in the gross national savings (from 25.3 to 29.3 percent of GDP), supported by the return to the fiscal rule, while gross national investment remained broadly unchanged (from 23.5 to 22.5 percent of GDP). In 2022, the current account reached a surplus of US$110 billion in the year to May, more than three times the surplus in January–May last year. The reasons for the large increase include highly favorable terms of trade, export volumes that at least until April have remained resilient despite sanctions, and a sharp decline in imports. As of June 30, the 2022 surplus is projected at US$265 billion (about 12 percent of GDP), much higher than the US$120 billion surplus in 2021. The range of uncertainty around the projection is very large however, including through the possibility of further sanctions.

Assessment. The EBA CA model estimates a norm of 4.4 percent of GDP for 2021 and a cyclically adjusted CA surplus of 7.1 percent of GDP. After a COVID-19 adjustment of –0.6 percent of GDP, reflecting a temporary adjustment for tourism service imports (–0.8 percent of GDP) and higher transport costs (0.1 percent of GDP), the IMF staff assesses the CA gap at 2.1 percent of GDP, with a range from 1.2 to 3 percent of GDP. Identified policies contributed 1.8 percent of GDP to the gap. About a fifth of the total policy gap is due to fiscal policy, reflecting larger consolidation needs in the rest of the world compared with Russia.

2021 (% GDP)	CA: 6.9	Cycl. Adj. CA: 7.1	EBA Norm: 4.4	EBA Gap: 2.6	COVID-19 Adj.: –0.6	Other Adj.: 0	Staff Gap: 2.1

Real Exchange Rate

Background. The average REER depreciated by 1.1 percent in 2021 and by 13.2 percent over 2017–21. Since the Russian invasion of Ukraine, the ruble has been very volatile, first depreciating by some 50 percent against the dollar amid a selloff in Russian assets, but later retracing all its losses and now standing well above its pre-war value, as the current account balance has increased while capital flow measures have limited outflows. As of May 2022, the REER was 38 percent above the 2021 average.

Assessment. The IMF staff CA gap implies a REER undervaluation of 10.6 percent in 2021 (applying an estimated elasticity of 0.19). The EBA REER index and level model estimates point to a REER undervaluation of 11.2 and 33.8 percent, respectively. Consistent with the IMF staff CA gap, the IMF staff assesses the REER as undervalued in 2021 in the range of 6 to 15.2 percent, with a midpoint of 10.6 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Reflecting the impact of the pandemic, Russia experienced a period of high volatility accompanied by moderate outflows by both the banking and nonbanking private sectors in 2020 and in early 2021. Through 2021, the volatility abated in line with the strengthening recovery, though moderate capital outflows continued, reflecting the accumulation of foreign assets by the nonbanking private sector and some further bank deleveraging. Since the beginning of the war in Ukraine, the central bank of Russia first increased the interest rate to 20 percent, but later lowered it to 9.5 percent, and broad capital flow measures have been introduced to stave off capital outflows.

Assessment. In recent years, large FX reserves and the floating exchange rate regime have provided substantial buffers to help absorb shocks. Following the sanctions, Russia has introduced, and later relaxed, broad capital flow measures, including inter alia a ban on selling securities by nonresidents, a ban on FX lending to nonresidents, a limit on residents placing FX in foreign bank accounts, a requirement to obtain permission to lend rubles and sell securities and real estate to nonresidents (residents of the sanctioning countries), and restrictions on the ability of nonresidents to transfer money abroad.

FX Intervention and Reserves Level

Background. Before the war, interventions were limited, and reserve accumulation was driven mostly by the fiscal rule and oil prices above the fiscal reference level, except in the acute phase of the pandemic in 2020, when the central bank engaged in some reserve sales and halted previously ongoing schedules of FX purchases. In 2021, the central bank resumed the FX purchases under the fiscal rule (US$63.5 billion), which boosted international reserves further to US$632.2 billion by the end of 2021 from US$596.8 billion at the end of 2020. Reserves fell by US$24.2 billion from the end of 2021 to US$606.4 billion by the end of March 2022 as the central bank sold foreign currency to support the ruble.

Assessment. Before the war, international reserves in 2021 were equivalent to 339 percent of the IMF's reserve adequacy metric. Considering Russia's vulnerability to oil price shocks, an additional commodity buffer of US$77 billion is appropriate, translating into a ratio of reserves to the buffer-augmented ARA metric of 239 percent. While considerably above the adequacy range of 100 to 150 percent, the level of reserves was assessed as appropriate, considering Russia's exposure to other external shocks. It should be noted that, as a result of sanctions, a significant share of international reserves has been frozen, complicating any assessment of reserve adequacy.

Table 3.21. Saudi Arabia: Economy Assessment

Overall Assessment: *The external position in 2021 was broadly in line with medium-term fundamentals and desirable policies.* The external balance sheet remains strong. Reserves remain adequate considering standard IMF metrics. Under the current fiscal balance path, the central government's non-oil primary balance would be on an improving trend while the net financial asset position would turn positive in 2024, earlier than expected. The pegged exchange rate continues to provide Saudi Arabia with a credible policy anchor. Given the close link between the fiscal and external balance and the structure of the economy, external adjustment will be driven primarily by fiscal policy. **Potential Policy Responses:** Continued fiscal consolidation will help align the CA with its norm, including by delinking spending decisions from international oil price fluctuations. This should be supported by continued implementation of important structural fiscal reforms that have been initiated over the past few years, including the VAT rate increase, broad-based improvement of public financial management, and energy price reform. The authorities have announced their intention to continue with most of those policies while pursuing ambitious structural reforms to help diversify the economy and boost the non-oil tradable sector, which will be necessary to keep the external position in balance.	
Foreign Asset and Liability Position and Trajectory	**Background.** Net external assets are estimated at 73.5 percent of GDP at the end of 2021, down from 85.2 percent of GDP in 2020 and down from 105.4 percent in 2015. Only broad categories are available on the composition of external assets. Portfolio and other investments, reserves, and FDI respectively account for 51 percent, 37 percent, and 12 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.
2021 (% GDP)	NIIP: 73.5 | Gross Assets: 150.3 | Res. Assets: 54.6 | Gross Liab.: 76.8 | Debt Liab.: 34.4
Current Account	**Background.** The CA balance registered a surplus of 5.3 percent of GDP in 2021, compared to a deficit of 3.2 percent in 2020 (which itself followed a surplus of 4.8 percent of GDP in 2019). The trade balance is estimated to have improved by 9.6 percent of GDP as the price and volume of oil exports increased. For the projections, oil production is assumed to follow the OPEC+ Agreement. Oil prices are assumed to be US$105.9 a barrel in 2022. The terms of trade are estimated to have improved by 48.4 percent. The CA is expected to register a large surplus in 2022 (17.2 percent of GDP) as oil revenues further increase in part due to higher oil price projections linked to the war in Ukraine (the terms of trade are projected to improve by 37 percent). **Assessment.** Saudi Arabia's reliance on oil further complicates the application of standard external assessment methodologies, given the wide swings of oil prices in 2020 and 2021. The EBA-Lite methodology estimates a CA gap of –1.0 percent of GDP using the CA regression approach. An upward adjustor is applied to the CA to account for the temporary impact of the COVID-19 crisis of 1.1 percent of GDP regarding travel services trade (0.87 percent of GDP), transportation (0.05 percent of GDP), and a shift of consumption towards tradable goods (0.19 percent of GDP). The Consumption Allocation Rules suggest a CA gap of 4.3 percent of GDP for constant real annuity rules and 0.1 percent of GDP for constant real per capita annuity allocation rules. The Investment Needs Model suggests a CA gap of 5.2 percent of GDP. IMF staff assess a CA gap of –1.0 percent of GDP, with a range from –2.8 to 0.8 percent of GDP in 2021.[1]
2021 (% GDP)	CA: 5.3 | Cycl. Adj. CA: 5.4 | EBA Norm: — | EBA Gap: — | COVID-19 Adj.: 1.1 | Other Adj.: — | Staff Gap: –1.0
Real Exchange Rate	**Background.** The riyal has been pegged to the US dollar at a rate of 3.75 since 1986. The REER depreciated by 1.9 percent in 2021 and was 4 percent above its 10-year average. The REER depreciation was driven by the decline of the US dollar versus trading partner currencies, with the inflation differential remaining contained. As of May 2022, the REER was 4.1 percent above the 2021 average. **Assessment.** Exchange rate movements have a limited impact on competitiveness in the short run, as most exports are oil or oil-related products and there is limited substitutability between imports and domestically produced products, which in turn have significant imported labor and intermediate input content. Consistent with the IMF staff CA gap and based on an elasticity of 0.2, the IMF staff assesses the REER to be overvalued by 4.1 percent, with a range of –4.9 and 13.1 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net financial outflows continued in 2021 as the PIF and other entities invested abroad. The equity market saw inflows as oil prices recovered and prospects regarding COVID-19 improved towards the end of 2021. **Assessment.** Analysis of the financial account is complicated by the lack of detailed information on the nature of the financial flows. The strong reserves position limits risks and vulnerabilities to capital flows.
FX Intervention and Reserves Level	**Background.** Total reserve assets declined to US$453.7 billion at the end of 2020, down from US$499.6 billion by the end of 2019, and from US$732.4 billion in 2014. This trend was largely driven by the 2014–16 oil price decline and subsequent oil price shocks until the COVID-19 pandemic in 2020, as well as transfers from SAMA to the Public Investment Fund in 2020. While total reserves increased during 2021, reaching US$455.4 billion, net foreign assets declined from US$449.2 billion to US$438.2 billion (52.6 percent of GDP, 22 months of imports, and 254 percent of the ARA metric), largely due to an increase in foreign liabilities. Going forward, reserves are expected to increase significantly in the wake of rising oil export revenues.[2] **Assessment.** Reserves play a dual role: they are savings for both precautionary motives and for future generations. Reserves are adequate for precautionary purposes (measured by the IMF's metrics). Nevertheless, fiscal prudence is needed over the medium term to strengthen the CA and increase savings for future generations.

Table 3.22. Singapore: Economy Assessment

Overall Assessment: *The external position in 2021 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. In the near term, the war in Ukraine is expected to narrow the CA surplus due to a related negative terms-of-trade shock for Singapore. Over the medium term, the CA surplus is projected to narrow gradually alongside an increase in household consumption as the share of the prime working-age population actively saving for retirement declines, capital-related imports recover, and public spending increases.

Potential Policy Responses: The planned implementation of major green infrastructure projects should help reduce external imbalances in the near term. Over the medium term, Singapore's economy will be undergoing structural transformation in light of a rapidly aging population and a transition to a green and digital economy. Higher public investment addressing these issues, including spending on health care, green and other physical infrastructure, and human capital, would help reduce external imbalances over the medium term by lowering net public saving.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP stood at 256.4 percent of GDP in 2021, down from 280.8 percent of GDP in 2020 but above the average level of 231.1 percent of GDP over 2016–20. 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 third are in the form of currency and deposits. The CA surplus has been a main driver since the global financial crisis, but valuation effects were material in some years. 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 (477.9 percent of GDP in 2021)—predominantly cross-border deposit-taking by foreign bank branches—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.

2021 (% GDP)	NIIP: 256.4	Gross Assets: 1,240	Res. Assets: 105.3	Gross Liab.: 983.6	Debt Liab.: 383.9

Current Account

Background. The CA surplus was 18.1 percent of GDP in 2021, up from 16.8 percent in 2020. This reflects larger surpluses in both the goods and services balances. The CA balance has been higher than the average of 16.7 percent since 2016 and significantly 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 deficit in the income account balance.[1] Structural factors and policies that boost savings, such as Singapore's status as a financial center, consecutive fiscal surpluses in most years, and the rapid pace of aging—combined with a mandatory defined-contribution pension program (with assets amounting to about 94.8 percent of GDP in 2021)—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 2021, public saving increased—although it remained in negative territory as the fiscal deficit narrowed—and private saving increased as well.

Assessment. Guided by the EBA framework, the IMF staff assesses the 2021 CA gap to be in the range of 3.4 to 7 percent of GDP, with a midpoint of 5.2 percent.[2] The identified policy gaps remained close to zero in 2021, reflecting a less expansionary fiscal policy adopted in that year compared with the rest of the world and low but efficient public health care expenditure.

2021 (% GDP)	CA: 18.1	Cycl. Adj. CA: 18.8	EBA Norm: —	EBA Gap: —	COVID-19 Adj.: –1.4	Other Adj.: —	Staff Gap: 5.2

Real Exchange Rate

Background. The REER depreciated by 0.3 percent in 2021, reflecting the depreciation of the NEER by 0.4 percent. This followed a depreciation of the REER by 2.3 percent and an appreciation of the NEER by 0.2 percent, both cumulative, between 2018 and 2020. As of May 2022, the REER had appreciated by 4.1 percent relative to the 2021 average.

Assessment. Consistent with the staff CA gap, the IMF staff assesses the REER as undervalued in the range of 6.8 to 14 percent, with a midpoint of 10.4 percent, in 2021 (applying an estimated elasticity of 0.5).[3]

Capital and Financial Accounts: Flows and Policy Measures

Background. Singapore has an open capital account. As a trade and financial center in Asia, Singapore can be significantly affected by changes in market sentiment. 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 2021, the capital and financial account switched to outflows of 2.1 percent of GDP from temporary inflows of 4.6 percent in 2020 (outflows ranged from 9.5 to 18 percent over 2016–20).

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. With Singapore being a financial center, prudential motives call for a larger NIIP buffer. Official reserves held by the Monetary Authority of Singapore (MAS) reached US$417.9 billion (105.3 percent of GDP) in 2021. Aggregate data on FX intervention operations have been published since April 2020.

Assessment. In addition to FX reserves held by the MAS, Singapore also has access to other official foreign assets managed by Temasek and the Government of Singapore Investment Corporation.[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 2021 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* The exceptional CA surplus in 2021 (3.7 percent of GDP) is explained by the sharp increase in commodity prices and a number of pandemic-related factors, and is expected to be temporary. If the war in Ukraine subsides and commodity prices normalize, the CA is expected to return to its structural deficit.

Potential Policy Responses: Tackling external imbalances will require a combination of bold implementation of structural reforms and gradual but substantial fiscal consolidation while providing space for infrastructure and social spending to help reduce poverty and inequality. Reform efforts should focus on improving governance, the efficiency of key product markets (to promote private sector participation), and the functioning of labor markets. These reforms are expected to help attract less volatile and longer-term capital inflows, such as FDI, and to boost exports. Seizing opportunities to accumulate international reserves, should they arise, would strengthen the country's ability to deal with shocks.

Foreign Asset and Liability Position and Trajectory

Background. With large gross external assets and liabilities (132 and 107 percent of GDP, respectively, in the fourth quarter of 2021), South Africa is highly integrated into international capital markets. The NIIP improved markedly from 7.8 percent of GDP in 2019 to 25 percent of GDP in the fourth quarter of 2021, mainly due to nonresident capital outflows and valuation adjustments from depreciation of the rand, as valuation effects have a larger impact on South Africa's foreign assets than on its foreign liabilities, including for the banking sector. The NIIP is expected to moderate over the medium term as the CA balance is projected to return to a deficit in 2023 and beyond. Gross external debt rose from 47.8 percent of GDP in 2019 to 50.8 percent of GDP in 2020 (as GDP contracted) and then declined to 38.3 percent of GDP by the fourth quarter of 2021 on the back of the GDP rebound and the rand/US dollar appreciation. Short-term external debt (on a residual maturity basis) was about 10 percent of GDP at the end of 2021.

Assessment. Risks from large gross external liabilities are mitigated by a large external asset position and the liability composition (mostly in equities; external debt is mostly in rand).

2021 (% GDP)	NIIP: 25.0	Gross Assets: 132	Debt Assets: 18.0	Gross Liab.: 107	Debt Liab.: 38.3

Current Account

Background. The CA balance turned into a surplus for the first time in nearly two decades in 2020, reaching 2 percent of GDP, due to pandemic-related factors. The CA surplus further increased to 3.7 percent of GDP in 2021. Continued buoyancy in terms of trade and commodity exports more than offset imports from the recovery in domestic demand and a weaker income and services balance, as dividend payments picked up from 2020 and tourism remained subdued. In addition, private investment remained anemic in 2021. The CA balance is projected to remain positive in 2022 at 1.5 percent of GDP, as the war in Ukraine has led to a further increase in commodity prices that more than offsets a higher oil import bill. The CA deficit will gradually widen to about 2 percent of GDP over the medium term as the trade balance deteriorates.

Assessment. The IMF staff estimates a CA gap in the range of –2.4 to –1 percent of GDP in 2021. The IMF staff's cyclically adjusted CA is estimated at 0.2 percent of GDP in 2021, accounting for COVID-19–related adjustors of –2.7 percent of GDP to take account of the unique impact of the pandemic on gold and other mineral exports, travel services (including tourism), medical spending imports, and still lower dividend payments (compared with pre-pandemic levels),[1] as well as the statistical treatment of transfers and income accounts.[2] The adjusted CA norm (2 percent of GDP) for 2021 is obtained by subtracting 0.6 percentage point from the EBA CA norm (2.6 percent of GDP) to reflect lower life expectancy relative to other countries in the regression sample.[3]

2021 (% GDP)	CA: 3.6	Cycl. Adj. CA: 1.3	EBA Norm: 2.6	EBA Gap: –1.3	COVID-19 Adj.: –2.7	Other Adj.: 2.2	Staff Gap: –1.7

Real Exchange Rate

Background. After depreciating during 2019–20, the CPI-based REER further depreciated by 4.5 percent in 2021, mainly driven by the nominal depreciation in the last months of 2021 from a worsening external environment. As of May 2022, the REER was 1.5 percent below the 2021 average.

Assessment. The IMF staff CA gap implies an overvalued REER with a midpoint of 7.3 percent for 2021 (applying an estimated elasticity of 0.23). The two REER-based regressions point to overvaluation in a range of 1.2 percent (index approach) to 15.9 percent (level approach). Based on the CA approach, the IMF staff assesses the REER to be overvalued by 7.3 percent, with a range between 4.3 and 10.3 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net FDI increased significantly in 2021 (from 1.5 percent of GDP in 2020 to 9.7 percent in 2021), while net portfolio investment recorded substantially larger outflows (–13 percent of GDP). These significant flows in 2021 can largely be attributed to Prosus N.V. acquiring about 45 percent of Naspers Ltd N ordinary shares from existing Naspers Ltd shareholders (direct investment inflows) and to both resident and nonresident investors exchanging Naspers Ltd N ordinary shares for Prosus N.V. ordinary shares (portfolio investment outflows). Gross external financing needs stood at 6.4 percent of GDP in 2021.

Assessment. In 2021, COVID-19–related financial market volatility in emerging markets persisted despite overall favorable market sentiment and a search for yield. This followed large capital outflows and asset sell-offs during the pandemic in spring 2020 and the corresponding significant rand depreciation. Despite the projected CA surplus in 2022, risks from large reliance on non-FDI inflows for external financing and sizable nonresident holdings of local financial assets are mitigated by a flexible exchange rate, relatively small currency mismatches in the economy, 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. The South African authorities obtained US$4.3 billion (100 percent of quota) under the IMF's Rapid Financing Instrument in July 2020.

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. In 2021, international reserves were about 13.8 percent of GDP, 214.7 percent of gross external financing needs, and 5.6 months of imports. Reserves stand below the IMF's composite adequacy metric (80.8 percent of the metric without considering existing CFM measures and 89.3 percent of the metric after considering them).

Assessment. If conditions allow, reserve accumulation would be desirable over the medium term to strengthen the external liquidity buffer, subject to maintaining the primacy of the inflation objective. South Africa received US$4.2 billion as part of the IMF's SDR allocation in August 2021.

Table 3.24. Spain: Economy Assessment

Overall Assessment: *The external position in 2021 is broadly in line with the level implied by medium-term fundamentals and desirable policies.* The IMF staff assesses Spain's CA norm to be relatively high due to external sustainability risks from a large negative NIIP. Even though the NIIP improved in 2021, strengthening it further will require sustaining a relatively high CA surplus over the coming years. In the baseline, the CA is expected to recover and reach 1.5 percent of GDP in the medium term, supported by a full resumption of foreign tourism flows and the resolution of global supply bottlenecks. However, there are significant downside risks associated with the impact of the war in Ukraine on trading partners' growth and energy prices.

Potential Policy Responses: Keeping the CA balance in line with its norm will require a combination of fiscal consolidation efforts and higher private saving. The latter could be achieved through productivity gains, which will require continued wage flexibility, addressing labor market duality, and actions to enhance education outcomes and encourage innovation. The recovery plan that is currently being implemented foresees investments and reforms in these areas, as well as specific measures to diversify and improve the quality of tourism services.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP improved to –70.4 percent of GDP at the end of 2021, reversing the decline that occurred in 2020. This increase reflected a net increase in financial assets and significant positive valuation effects. Gross liabilities—of which nearly 70 percent correspond to external debt—declined to 283.1 percent of GDP at the end of 2021 including due to negative valuation effects. The negative NIIP is largely attributed to the general government and the central bank, with TARGET2 liabilities amounting to 42.6 percent of GDP at the end of 2021.

Assessment. Despite its projected decline, the large negative NIIP comes with external vulnerabilities, including from large gross financing needs and potentially adverse valuation effects, depending on the pace of tightening of global financial conditions and policy responses globally. Mitigating factors are the favorable maturity structure of outstanding sovereign debt (averaging almost eight years), the limited share of debt denominated in foreign currency (9.5 percent of total external debt), and current ECB measures that keep the cost of debt low.

2021 (% GDP)	NIIP: –70.4	Gross Assets: 212.8	Debt Assets: 96.3	Gross Liab.: 283.1	Debt Liab.: 173.2

Current Account

Background. Following a significant decline in 2020, the CA surplus increased slightly in 2021 (from 0.8 to 0.9 percent of GDP), supported by an improvement in the services surplus, most notably from tourism, which was partially offset by a widening of the goods deficit. Higher public savings were enough to offset the rise in public investment and the drawdown of excess private savings generated during the pandemic. Despite limited direct trade and financial linkages with Russia, Spain has been negatively impacted by the war in Ukraine via higher energy prices, trading partners' reduced growth, and some erosion of confidence. In the first quarter of 2022, the trade balance deteriorated due to a sharp increase in imports associated with high energy prices, which was only partially offset by strong growth of services exports. The CA is projected to gradually recover in the medium term with a full resumption of foreign tourism flows and the resolution of global supply bottlenecks, which are expected to offset the increase in imports driven by stronger domestic demand, including due to investments funded by Next Generation EU funds.

Assessment. The 2021 cyclically adjusted CA balance is –0.1 percent of GDP. However, this mainly reflects the pandemic's transitory impact due to shocks not captured by the EBA model, which amount to 1.6 percent for travel services (including tourism), 0.2 percent for transport, 0.3 percent for medical goods, and –0.4 percent for the global shift of household consumption from services to consumer goods. Adjusting for these effects, the 2021 cyclically adjusted CA balance is 1.6 percent of GDP, which is larger than the norm suggested by the EBA CA model. However, given external sustainability considerations, including potentially adverse NIIP valuation effects, the IMF staff assesses the CA norm to be 1.7 percent of GDP, with a range of 1 to 2.4 percent of GDP. This yields a CA gap range of –0.8 to 0.6 percent of GDP, with a midpoint of –0.1 percent of GDP.[1]

2021 (% GDP)	CA: 0.9	Cycl. Adj. CA: –0.1	EBA Norm: 0.0	EBA Gap: –0.1	COVID-19 Adj.: 1.7	Other Adj.: –1.7	Staff Gap: –0.1

Real Exchange Rate

Background. In 2021, the CPI-based REER appreciated by 0.9 percent and the ULC-based REER depreciated by 1.7 percent relative to 2020. Both indicators show at least a partial reversal of the significant appreciation from euro entry in 1999–2008. As of May 2022, the REER was 1.5 percent below the 2021 average.

Assessment. The EBA REER models estimate an overvaluation of 8.8 percent (index) to 26.4 percent (level) for 2021. Based on the IMF staff CA gap range and using an elasticity of 0.26, the IMF staff assesses the REER gap range to be –2.3 to 3 percent, with a midpoint of 0.4 percent.[2]

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account balance increased from 1.6 to 2.4 percent of GDP in 2021. Outflows by the Bank of Spain partially offset net inflows by the other resident sectors, particularly in portfolio investment. The capital account surplus increased due to the flows associated with Next Generation EU funds.

Assessment. Large external financing needs leave Spain vulnerable to sustained market volatility, although the ECB's policies to maintain favorable liquidity conditions and monetary accommodation remain a mitigating factor.

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 3.25. Sweden: Economy Assessment

Overall Assessment: *The external position in 2021 remains stronger than the level implied by medium-term fundamentals and desirable policies, despite a decrease in the CA by 0.6 percentage point to 5.5 percent of GDP.* While Sweden has limited direct exposure to Russia, second-round effects from main trading partners (notably Germany) could weigh on economic activity and the current account in 2022. Over the medium term, the CA surplus is expected to decline further to its long-term average, as domestic and global fiscal policies normalize and structural reforms are undertaken.

Potential Policy Responses: There is scope for greener and growth-enhancing private and public investments to facilitate structural transformation of the economy. Once the recovery is well underway, past imbalances and policy distortions will need to be addressed through implementation of reforms that raise productive investment and thereby potential output. Policies to lower household debt would safeguard the economy from a severe consumption shock following a crisis.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP is estimated to have increased by 1.3 percentage points to reach 16.8 percent of GDP in 2021. The increase is lower than the CA balance due to valuation effects. It is expected to rise further in the medium term, reflecting the outlook for continued CA surpluses. However, these projections are subject to uncertainty as IIP data include large errors and omissions that have averaged –2.2 percent of GDP over the past 10 years.

Assessment. Gross liabilities increased to 279.5 percent of GDP in 2021, with a bit more than half being gross external debt (173 percent of GDP). Other financial institutions, which are mostly pension funds, hold the bulk of net foreign assets (82 percent of GDP), followed by social security funds (24 percent of GDP), households (20 percent of GDP), and the central bank (7 percent of GDP), while nonfinancial corporations (70 percent of GDP), monetary financial institutions (39 percent of GDP), and the government (6 percent of GDP) are net external debtors. Although rollovers of external debt (which include banks' covered bonds) pose some vulnerability, risks are moderated by the banks' ample liquidity and large capital buffers.

2021 (% GDP)	NIIP: 16.8	Gross Assets: 296.3	Debt Assets: 84.9	Gross Liab.: 279.5	Debt Liab.: 173

Current Account

Background. The CA surplus decreased to 5.5 percent of GDP in 2021, compared with 2020 (6.1 percent of GDP), driven mainly by a decline in primary income from investments and stronger growth of imports than exports as the recovery boosted domestic demand, leading to a negative contribution of net exports to growth since 2017. Although demand for tourism services imports picked up in 2021, it is still below pre-pandemic levels. These still-lower-than-usual imports of tourism services are estimated to have kept the CA surplus higher by about 0.3 percentage point (see the COVID-19 adjustor). While Sweden has limited direct exposure to Russia (exports and imports are less than 0.4 percent of GDP each), second-round effects from main trading partners (notably Germany) could weigh on economic activity and the current account in 2022. Over the medium term, the CA is projected to return to its long-term average of 3.5 percent of GDP as domestic and global policies normalize and structural reforms are undertaken.

Assessment. The cyclically adjusted CA is estimated at 5.3 percent of GDP in 2021, 4.1 percentage points above the cyclically adjusted EBA norm of 1.2 percent of GDP. However, the estimated EBA norm for Sweden is low and has been 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 (with a high share of workers age 65 or older), may also be driving Sweden's saving-investment balances. Taking into account temporary COVID-19 adjustments for travel (–0.4 percent of GDP), transport (–0.1 percent of GDP), medical imports (+0.1 percent of GDP), and household consumption (0 percent of GDP), which were affected by the COVID-19 crisis, the IMF staff assesses the CA gap at 3.6 percent of GDP in 2021, with an estimated range of 3.2 to 4 percent of GDP. Policies that would explain this gap make up 0.2 percentage point, with fiscal policy, which was not as expansionary as in the rest of the world, accounting for 1 percent and partially offset by gaps in health (–0.1 percent), reserves (–0.1 percent), and credit (–0.6 percent). Complementary EBA tools suggest that Sweden's labor market regulation, which is more flexible than average, along with its pension system, could explain about 1.5 percentage points of the gap.

2021 (% GDP)	CA: 5.5	Cycl. Adj. CA: 5.3	EBA Norm: 1.2	EBA Gap: 4.1	COVID-19 Adj.: –0.5	Other Adj.: —	Staff Gap: 3.6

Real Exchange Rate

Background. The krona appreciated by 3.6 percentage points in real effective terms (ULC-based) in 2021 relative to its average level in 2020, partly reflecting financial inflows and a stronger economic rebound than in main trading partners (real GDP growth increased from –2.8 percent in 2020 to 4.8 percent in 2021). As of May 2022, the REER was 6.3 percent below the 2021 average.

Assessment. The IMF staff CA gap implies a REER gap of –10.7 percent in 2021 (applying an estimated elasticity of 0.34), with a range between –9.5 and –11.8 percent (using the model's standard error of ±0.4 percent of GDP). The REER index and level models suggest a gap of –11.1 percent and –14.8 percent, respectively, for 2021. The ULC-based REER index using Organisation for Economic Co-operation and Development data in 2021 was 4.4 percent below its 29-year average (since the krona was floated in 1993). Because this indicator has fluctuated around a broadly stable level since the currency was floated, it provides a useful indication of valuation, which the IMF staff prefers to use. Overall, the IMF staff assesses the krona to be valued between +0.6 and –9.4 percent, with a midpoint of –4.4 percent as guided by the ULC-based REER index and its standard deviation.[1] This REER gap may continue to decline further once the situation, including monetary policy, normalizes.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account declined by almost half in 2021, to 2.2 percent of GDP (from 3.7 percent in 2020), driven by a reversal in other investments (from 2.2 to –3.9 percent of GDP) and FDI (which decreased from 0.9 to –1.1 percent of GDP), while portfolio investments more than tripled from 2.2 to 7.5 percent of GDP.

Assessment. Given their size, interconnectedness, and funding model, Sweden's large banks are vulnerable to liquidity risks stemming from global wholesale markets. However, banks have improved their structural liquidity positions in recent years. Also, the authorities have strengthened regulation by introducing liquidity coverage ratio requirements in foreign and domestic currency in addition to the overall liquidity coverage ratio. This created substantial buffers before the COVID-19 crisis and, together with the swift and strong policy response that provided support until recently, eased liquidity and funding pressures for banks in 2020 and 2021.

FX Intervention and Reserves Level

Background. The exchange rate is free floating. Foreign currency reserves increased by US$4.5 billion to stand at US$62 billion in December 2021, which is equivalent to 21 percent of the short-term external debt of monetary and financial institutions (primarily banks), about 10 percent of GDP, and 2.8 months of imports. The increase in reserves reflects the increase in the general SDR allocation that became effective in August 2021. There were no FX interventions in 2021.

Assessment. In view of the high dependence of Swedish banks on wholesale funding in foreign currency and the disruptions in such funding that have occurred at times of international financial distress, Sweden should maintain adequate foreign reserves. A US$60 billion swap facility was agreed upon with the US Federal Reserve to address risks on dollar funding related to the COVID-19 crisis. The swap facility was extended three times before expiring by the end of 2021, and although it was not used, it provided an important backstop function.

Table 3.26. Switzerland: Economy Assessment

Overall Assessment: *Switzerland's external position in 2021 was assessed as broadly in line with the level implied by medium-term fundamentals and desirable policies.* However, complex measurement issues and data lags complicate the assessment.[1] The current account is expected to remain in a large, surplus position (about 7 percent of GDP) in the medium term, with relatively limited exposure to oil and gas from Russia.

Potential Policy Responses: To maintain a broadly balanced external position, fiscal policy should remain broadly balanced in structural terms, in line with the authorities' debt-brake rule framework, accommodating additional spending related to the war in Ukraine (for example, accommodation of refugees) and continuing COVID-19 support to vulnerable households/firms where needed. The required offset of extraordinary COVID-19–related spending via future fiscal surpluses should be extended to avoid excessive headwinds to sustained recovery. With risks of persistently higher inflation rising, the Swiss National Bank (SNB) should closely monitor inflation developments and prospects, including at the international level, and stand ready to adjust FX market operations and policy interest rates if needed. Inflation gaps versus the euro area and the United States suggest possible room for franc appreciation to ease inflation pressures. If significant downside risks materialize (for example, large safe haven inflows or a deep and/or sustained downturn), the authorities should consider targeted FX interventions to mitigate disruptive volatility and allow full operation of the structural-balance fiscal rule and/or temporary discretionary fiscal stimulus. Macroprudential policies should focus on containing real estate imbalances and reducing financial sector risks. Medium-term policies should be geared toward ensuring balanced domestic and external contributions to growth while improving the public-private mix in financial outflows, thereby easing pressures on the franc. Although the impact on Switzerland's external position from the war in Ukraine will likely be moderate in the medium term, efforts to promote green transition and energy security should continue.

Foreign Asset and Liability Position and Trajectory

Background. Switzerland is a major financial center with a large, positive NIIP of 89.8 percent of GDP and large gross foreign asset and liability positions of 753.1 percent and 663.3 percent of GDP, respectively, as of the end of 2021. The NIIP reflects both a history of large CA surpluses and valuation changes.[2] 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.[3] Compared with 2020, the NIIP declined in 2021 by 18.5 percentage points of GDP, mainly driven by negative valuation effects due to price changes. Projections of the NIIP in 2022 and beyond are complicated by heightened uncertainty: because of the large gross positions and compositional differences among assets and liabilities, even modest changes in exchange rates, asset prices, and returns may have a material effect on the NIIP.

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 CHF denomination of about two-thirds of external liabilities.

2021 (% GDP)	NIIP: 89.8	Gross Assets: 753.1	Reserve Assets: 136.5	Gross Liab.: 663.3	Debt Liab.: 205.6

Current Account

Background. Switzerland's CA surpluses averaged 7.2 percent of GDP during 2011–20.[4] The CA surplus increased from 2.8 percent in 2020 to 9.3 percent of GDP in 2021, reflecting reversal of some COVID-19–linked shocks (for example, watch exports, precious metals trade), continued strong pharmaceutical sector performance, and a surge in the surplus of merchanting trade, likely related to the sharp rise of commodity prices. In 2022, the CA surplus is expected to moderate to 6.7 percent of GDP, slightly below the medium-term average.

Assessment. The EBA CA norm of 6.8 percent of GDP for 2021 is higher than the previous year's norm. Based on a cyclically adjusted CA surplus of 9.9 percent and the norm, the overall EBA-estimated CA gap equaled +3.1 percent of GDP in 2021.[5] Domestic policy gaps accounted for –0.9 percentage points and included excessive private sector credit (–1.8 percentage points) and fiscal underspending (0.2 percentage point). Policy gaps in the rest of the world contributed +0.9 percentage points. The CA gap was reduced to –0.9 percent of GDP (±0.8 percentage points) due to adjustments related to (1) 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) and retained earnings on portfolio equity investment (–0.1); and (2) transitory impacts of the COVID-19 pandemic (–0.6).[6]

2021 (% GDP)	CA: 9.3	Cycl. Adj. CA: 9.9	EBA Norm: 6.8	EBA Gap: 3.1	COVID-19 Adj.: –0.6	Other Adj.: –3.4	Staff Gap: –0.9

Real Exchange Rate

Background. Appreciation pressure on the Swiss franc eased in 2021 with recovery of the global economy and the expectation that major central banks, including the US Federal Reserve, might hike policy rates to tackle high inflation. Relative to 2020, the average NEER stayed virtually unchanged, while the CPI- and producer-price-index (PPI)-based REERs depreciated by 2.4 and 8.9 percent, respectively.[7] In the first quarter of 2022, while the average NEER appreciated by 2.7 percent, the PPI-based REER depreciated by 9.6 percent. As of May 2022, the CPI-based REER was 2.7 percent below the 2021 average. From a long-term perspective, the NEER has appreciated by 38 percent since 2010, while the CPI- and PPI-based REERs have appreciated by 6 percent and depreciated by 9 percent, respectively (reflecting lower domestic inflation).

Assessment. The IMF staff CA gap implies REER overvaluation of 1.9 percent in 2021 (applying an elasticity of 0.47). The EBA REER index and level models suggest that the average REER in 2021 was overvalued by 10.5 and 16.8 percent, respectively, with policy gaps accounting for a small amount of the total gap. This finding largely reflects a "reversion to trend" property of the empirical model in the context of prior rapid appreciation episodes. However, due to measurement issues, the results may not fully capture a secular improvement in productivity, especially in knowledge-based sectors. Consistent with the IMF staff CA gap, the IMF staff assesses the REER gap in 2021 to be in the range of +0.2 to +3.6 percent (overvalued), with a midpoint of +1.9 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net financial outflows totaled 3.7 percent of GDP in 2021, including private inflows of 2.3 percent of GDP and an increase in SNB reserve assets of 6 percent of GDP. During 2009–20, net private inflows averaged 2.9 percent of GDP, while the average annual increase in SNB reserves was 10.5 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 have declined and, on average, turned into net capital inflows, adding to appreciation pressures.

FX Intervention and Reserves Level

Background. Official reserve assets (including gold) amounted to US$1.11 trillion (136.5 percent of GDP) at the end of 2021, up US$26 billion from the end of 2020 (including valuation changes). The SNB purchased CHF 21 billion of FX (net) through FX interventions in 2021, down from CHF 110 billion in 2020.

Assessment. Reserves are large relative to GDP, but more moderate in comparison with short-term foreign liabilities. The high level of reserves also reflects monetary operations aimed at avoiding persistent undershooting of inflation as a result of FX inflow surges and given the limited scope for significant easing via other monetary policy tools. The supply of domestic assets for purchase is limited, and the marginal interest rate on bank deposits at the SNB of –0.75 percent is already the lowest in the world. The SNB's initiation of quarterly publication of (net) FX intervention information in 2020 was an important step to enhance transparency.

Table 3.27. Thailand: Economy Assessment

Overall Assessment: *The external position in 2021 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.* The CA balance turned negative due to a collapse in the tourism-driven services balance and a surge in shipping costs due to the COVID-19 shock. While both goods exports and imports bounced back, the sharp rise in oil prices led to a slight deterioration of the trade balance. The CA balance is expected to narrow to –0.8 percent of GDP in 2022 as tourism receipts recover and return to a surplus of around 3 percent of GDP in the medium term.

Potential Policy Responses: A more gradual consolidation of pandemic era policy stimulus alongside structural reforms should support domestic demand and bring the CA balance more in line with medium-term fundamentals and desirable policies. Public expenditures should be focused on targeted social transfers to mitigate the effects of the pandemic on the most vulnerable, as well as infrastructure investment to support a green recovery and reorientation of affected sectors, while undertaking revenue mobilization reform to keep the deficit and debt sustainable. 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 savings and support consumption.

Foreign Asset and Liability Position and Trajectory

Background. Thailand's NIIP weakened in 2021 to 9.5 percent of GDP (from 11.5 percent in 2020). Gross assets declined from 122 to 120 percent of GDP (48 percent of GDP being reserve assets) while gross liabilities remained stable at around 110 percent of GDP, dominated by direct (about half) and portfolio (a quarter) investment. Net direct investment assets increased by 3 percentage points of GDP, while portfolio and net other investment assets declined by 1 and 2 percentage points of GDP, respectively.

Assessment. The NIIP is projected to remain in a small creditor position over the medium term given current account surpluses. External debt remained stable at 39 percent of GDP, of which short-term debt (on a remaining maturity basis) amounts to 14 percent of GDP. External debt stability and liquidity risks are limited.

2021 (% GDP)	NIIP: 9.5	Gross Assets: 120.1	Debt Assets: 23.3	Gross Liab.: 110.6	Debt Liab.: 39.0

Current Account

Background. Thailand's CA balance declined from 4.2 percent of GDP in 2020 to –2.2 percent of GDP in 2021, reflecting the impact of the pandemic. The services account collapsed as international tourist arrivals fell to around 1 percent of their pre-pandemic level and shipping costs surged due to supply-chain disruptions caused by the pandemic. Goods exports bounced back with a recovery in global demand, and goods imports (particularly raw material and intermediate goods) increased as demand for intermediate inputs increased with rising exports. Fuel imports also increased markedly with the rapid rise in oil prices. Overall, the trade balance weakened by 0.3 percent of GDP. Despite the negative impact from the increase in food and oil prices due to the war in Ukraine, the CA balance in 2022 is projected to improve to –0.8 percent of GDP as tourism strengthens.

Assessment. The EBA CA model estimates a cyclically adjusted CA of –2.8 percent of GDP and a CA norm of 1.4 percent of GDP for 2021. The CA gap of –4.2 percent of GDP consists of an identified policy gap of –1.2 percent of GDP and an unexplained residual of –3 percent of GDP, which partly reflects the unique nature of the COVID–19 shock as well as structural factors not captured by the EBA model. In this regard, adjustors of 4.4 percent and 1.9 percent of GDP, respectively to account for the large shocks to the travel and transport sectors are applied, as those shocks are not accounted for by the standard EBA cyclical adjustment.[1] Further adjustments are also applied to reflect the global shift in private spending composition from services towards consumer goods and the related increase in consumer goods exports from Thailand (–0.9 percent of GDP) and net exports of medical supplies triggered by the pandemic (0.1 percent of GDP). Overall, the IMF staff assesses the CA gap to be in the 0.7 to 2.1 percent of GDP range, with a midpoint of 1.4 percent of GDP. This CA gap is expected to narrow over the medium term as domestic demand recovers and steps are taken to reform the social protection system.

2021 (% GDP)	CA: –2.2	Cycl. Adj. CA: –2.8	EBA Norm: 1.4	EBA Gap: –4.2	COVID-19 Adj.: 5.6	Other Adj.: 0	Staff Gap: 1.4

Real Exchange Rate

Background. The baht has been on a gradual real appreciation trend since the mid-2000s, despite occasional bouts of volatility. However, in 2021, owing to both the tightening of global financial conditions as recovery in advanced economies gained a stronghold and still weak prospects in Thailand, the REER depreciated by 7.6 percent by the end of the year relative to its 2020 average. As of May 2022, the REER was 0.6 percent above the 2021 average.

Assessment. Using an elasticity of 0.44 and based on the IMF staff CA gap, the IMF staff assesses the REER to be undervalued in the 1.6 to 4.8 percent range, with a midpoint of 3.2 percent. The EBA index REER gap in 2021 is estimated at 6 percent, and the EBA level REER gap is estimated at –2.8 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2021, the capital and financial account balance strengthened to –0.4 percent of GDP from –2.4 percent in 2020, driven by the recovery in inward direct investment (from –1 percent in 2020 to 2.2 percent of GDP in 2021). Other net investments declined from 4.9 to 3.2 percent of GDP.

Assessment. Since 2013, Thailand has experienced episodes of volatility reflecting external financial conditions, political uncertainty, and, most recently, the COVID-19 shock. Nevertheless, Thailand has been able to weather such episodes well, given strong external buffers and fundamentals. IMF staff welcome the Bank of Thailand's removal of the limits on nonresident baht accounts for qualifying nonresident firms to facilitate baht liquidity management, and IMF staff recommend additional phasing out of the remaining capital flow management (CFMs) 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 slightly from 57.3 percent in 2020 to 55.2 percent of GDP in 2021, which is more than three times the short-term debt and 12 months of imports, and over 200 percent of the IMF's standard reserve adequacy metric. The exchange rate has been allowed to adjust in response to the COVID-19 shock, with some FX sales in outflow episodes.

Assessment. While official intervention data are not published, estimates suggest two-sided intervention for the year. 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, with FX intervention limited to tackling disorderly market conditions.

Table 3.28. Türkiye: Economy Assessment

Overall Assessment: *The external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA deficit narrowed as exports (including tourism revenues) rebounded, while imports were contained by official restrictions on gold imports. Türkiye's negative NIIP position, while remaining large, narrowed significantly as a result of a steep decline in the value of FDI liabilities. The REER is estimated to have remained undervalued, as the non-energy CA continues to adjust, although significant uncertainties remain surrounding the scale of that undervaluation. Monetary conditions sharply eased, leading to a sharp depreciation of the lira—reversing some of the reserve gains made earlier in the year—and rising inflation. Türkiye's vulnerability to shocks remains high amid still-elevated gross external financing needs. Over the medium term, the CA deficit is projected to narrow as the REER undervaluation feeds through and as commodity price pressures ease.

Potential Policy Responses: While Türkiye's external position is assessed to be broadly in line with fundamentals and desirable policies, strengthening the policy framework would help underpin external sustainability going forward. Tighter monetary policy would help lower inflation and anchor inflation expectations and would help strengthen policy credibility. Credit growth should be monitored carefully. A broadly neutral fiscal stance, with a focus on targeted measures that protect the most vulnerable, should be accompanied by a credible medium-term fiscal plan. This overall tightening of the policy stance and the rebuilding of policy credibility would help contain demand and reduce imports, thus improving the CA. It would also help sustain capital inflows, support de-dollarization, and allow for a needed buildup of reserves over time, paving the way for the relaxation of gold import restrictions and CFM measures.

Foreign Asset and Liability Position and Trajectory

Background. Türkiye's NIIP averaged –44 percent of GDP over 2017–21, declining to –53 percent in 2020. The NIIP increased to –31 percent of GDP in 2021, driven largely by a marked decrease in FDI equity liabilities (overall liabilities fell from 89 to 65 percent of GDP) due to a decline in the stock market in dollar terms. External debt decreased from 60 to 56 percent of GDP. Almost 70 percent of external debt is held by the private sector, while less than a third is short term (on a remaining maturity basis). Debt is expected to remain sustainable over the medium term.

Assessment. The size and composition of 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. While the FX exposure of nonfinancial corporations is high, it has improved in recent years, and the short-term net FX position is positive, providing some liquidity buffer. The NIIP is projected to remain at about –30 percent of GDP through 2027.

2021 (% GDP)	NIIP: –31.4	Gross Assets: 35.7	Debt Assets: 16.4	Gross Liab.: 67.1	Debt Liab.: 48.9

Current Account

Background. The CA deficit narrowed from 4.9 percent of GDP in 2020 to 1.7 percent of GDP in 2021. The improvement was driven by an increase in goods exports (+4.5 percent of GDP) and net services (+1.5 percent of GDP) due to tourism, while the overall increase in goods imports (+2.8 percent of GDP) was driven by oil imports (+2.3 percent of GDP) and contained by the decline in gold imports (–2.8 percent of GDP) following new regulations. Higher commodity prices resulting from the war in Ukraine are expected to widen the CA deficit in 2022.

Assessment. The EBA CA model norm for Türkiye is estimated at –0.8 percent of GDP, with a standard error of ±0.6 percent of GDP. The actual CA deficit of 1.7 percent of GDP in 2021 narrows to 0.6 percent of GDP after cyclical and terms-of-trade adjustment. Adjusting for temporary pandemic-related shocks (travel, 0.8 percent of GDP; transport, –0.5 percent; household consumption shift, –0.4 percent; medical, –0.1 percent) results in a 0 percent of GDP gap. Reflecting uncertainty around this assessment, the IMF staff assesses a CA gap in the range of –0.6 to 0.6 percent of GDP, with a midpoint of 0.

2021 (% GDP)	CA: –1.7	Cycl. Adj. CA: –0.6	EBA Norm: –0.8	EBA Gap: 0.2	COVID-19 Adj.: –0.2	Other Adj.: 0.0	Staff Gap: 0.0

Real Exchange Rate

Background. The REER remained undervalued in 2021, having depreciated by an annual average of 9.4 percent over 2017–21. The average REER depreciated by 9 percent in 2021, with an average nominal depreciation against the US dollar of 27 percent. As of May 2022, the REER was 1.4 percent below the 2021 average.

Assessment. Any assessment of the lira currency valuation is fraught with uncertainty. The IMF staff estimate of the CA gap implies a REER gap of 0 percent in 2021 (applying an estimated elasticity of 0.26). However, the EBA REER index and level approaches suggest the REER was undervalued in 2021 by 41.1 and 50.5 percent, respectively. Giving more weight to the EBA REER approaches as the non-energy CA continues to adjust, the IMF staff assesses the lira to be undervalued by about 20 to 25 percent in 2021, with large uncertainties surrounding these estimates.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net capital inflows rebounded in 2021 from US$8 billion to US$28 billion. This was mainly on account of one-off flows, including US$6.4 billion from Türkiye's SDR allocation, large positive errors and omissions of US$10 billion, and increases in bilateral swap line agreements. Positive net inflows were also driven by FDI, while net portfolio inflows weakened further over the year. Two CFM measures remain, albeit each with some modifications: (1) limits to bank swaps and other derivative transactions with foreign counterparties (introduced in August 2018) and (2) export surrender/repatriation requirements (introduced in 2018). In early 2022, among others, a new requirement for exporters to convert 25 percent of their export earnings within 180 days was introduced, which was later increased to 40 percent.

Assessment. While net capital inflows rebounded in 2021, much of these were either one-off transactions or of unknown origin. With annual gross external financing needs projected at about 25 percent of GDP on average over 2022–27 (22 percent of GDP in 2021), Türkiye remains vulnerable to adverse shifts in global investor sentiment. CFM measures should be phased out as conditions improve to increase market liquidity and support de-dollarization.

FX Intervention and Reserves Level

Background. The de jure exchange rate is classified as free floating. After declining due to significant central bank intervention in 2020, gross reserves increased from US$93.5 billion at the end of 2020 to US$109.5 billion by the end of 2021, with one reason being the US$6.4 billion SDR allocation from the IMF. Central bank FX intervention increased toward the end of 2021 as the currency came under pressure. Net international reserves dropped further to US$10.8 billion by the end of 2021.[1]

Assessment. Gross reserves increased from 77 to 91.2 percent of the IMF's ARA metric during 2021, still below the floor of the recommended 100 to 150 percent range and covering 89 percent of short-term external debt (at remaining maturity). In addition, the quality of reserves remains an issue, with non-SDR-basket currencies continuing to account for a large share of the central bank's FX reserves. Steady reserve accumulation over the medium term is needed given Türkiye's large external liabilities, dependence on short-term and portfolio funding, and large domestic FX deposits.

Table 3.29. United Kingdom: Economy Assessment

Overall Assessment: *The external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA deficit was stable in 2021, reflecting continued high public borrowing to combat economic fallout from the COVID-19 crisis, offset by private saving. The war in Ukraine and continued global supply disruptions could further increase inflation in the UK, weaken exports, and worsen the CA in the near term. Over the medium term, the CA deficit would narrow as exports gradually recover. The uncertainty around this assessment remains significant, reflecting pandemic-related factors, measurement issues, the evolving impact on growth and trade and capital flows of the new EU-UK Trade and Cooperation Agreement, and continuing outstanding issues between the EU and UK on financial services.

Potential Policy Responses: Gradual fiscal consolidation, while maintaining sufficient targeted fiscal support to lower-income quintiles to cushion the impact of the escalating cost of living, should help balance rising public saving with slowly recovering private investment net of saving, and preserve a CA gap close to zero. In the medium term, implementing structural reforms to boost the UK's productivity in the tradables sector and international competitiveness (including via upgrading the labor skill base to support labor reallocation to fast-growing sectors) would help balance a need for rising public investment in support of the climate transition.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP declined to –32 percent of GDP in 2021 from –22.5 percent of GDP in 2020. A negative valuation effect led to a larger deterioration of the NIIP than the CA deficit.[1] Other investment (212 percent of GDP in assets and 200 percent in liabilities) and portfolio investment (134 percent of GDP in assets and 171 percent in liabilities) constitute a large part of gross assets and liabilities. The United States, other European countries, and Japan account for about 75 percent of total UK external assets and liabilities, and external liabilities have a larger share denominated in pounds than do external assets.[2] The IMF staff projects the NIIP to be broadly stable over the medium term, although large and volatile valuation effects make these estimates particularly uncertain.

Assessment. Since 2000, valuation gains have offset more than half of the effect of CA flows on the NIIP (largely driven by the unrecorded impact of inflation differentials and retained earnings bias on portfolio investment and depreciation of the pound since the 2016 Brexit decision). Fluctuations in large gross stock positions could be a potential source of vulnerability (including derivatives—both gross assets and gross liabilities exceed 500 percent of GDP). However, the UK's net liability position in domestic currency and exchange rate flexibility would offer some insurance against external crises.

2021 (% GDP)	NIIP: –32	Gross Assets: 533	Debt Assets: 278	Gross Liab.: 565	Debt Liab.: 317

Current Account

Background. The CA deficit remained at about 2.6 percent of GDP in 2021. The lower trade balance due to strong domestic demand was offset by a higher income balance. Gross saving and investment both increased marginally. At the same time, private saving declined, offsetting lower public borrowing.

Assessment. The EBA CA model estimates a norm of –0.7 percent of GDP and a CA gap of –1.3 percent of GDP. Adjustments to the EBA estimates are warranted to account for the COVID-19 crisis, totaling 0.3 percent of GDP. These include a decline in net imports of travel services (including tourism) during the pandemic (–0.4 percent of GDP), an increase in transport balances (0.3 percent of GDP), an increase in imports due to shifts in the composition of household consumption (0.2 percent of GDP), and imports of medical goods (0.1 percent of GDP). The post-Brexit adjustment (–0.1 percent of GDP) affected the CA temporarily and may not be adequately captured in the cyclical components of the CA, warranting an adjustment (the opposite of the pre-Brexit stockpiling adjustment applied for 2020).[3] In addition, the unrecorded impact of inflation differentials (0.6 percent of GDP) and the retained earnings bias on portfolio equity assets (0.3 percent of GDP) also contribute to an underestimation of the underlying CA.[4] Overall, the IMF staff assesses the CA gap in the range of –1.1 to 0.9 percent of GDP, with a midpoint of –0.1 percent of GDP.

2021 (% GDP)	CA: –2.6	Cycl. Adj. CA: –2	EBA Norm: –0.7	EBA Gap: –1.3	COVID-19 Adj.: 0.3	Other Adj.: 0.9	Staff Gap: –0.1

Real Exchange Rate

Background. The pound appreciated in real effective terms in 2021 by 3.8 percent relative to its average level in 2020, driven entirely by nominal appreciation, partly reflecting dissipation of previously high uncertainty over post-Brexit arrangements with the EU. Overall, the pound has depreciated since mid-2016 by about 3.4 percent. This depreciation reflects an unwinding of past overvaluation as well as market expectations of more restricted access to the EU market under post-Brexit trade arrangements. As of the end of May 2022, the REER had depreciated by 1.4 percent compared to the 2021 average.

Assessment. The IMF staff CA gap implies a REER gap of 0.5 percent in 2021 (applying an estimated elasticity of 0.24). EBA REER level and index approaches suggest a gap of 5.6 and –7.5 percent, respectively, for 2021. Consistent with the staff CA gap, the IMF staff assesses the REER gap to be 0.5 percent, in a range of –3.6 to 4.6 percent.

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 was financed in 2021 by net portfolio investment of 5.4 percent of GDP, while other investment and net FDI declined by 0.8 and 1 percent of GDP, respectively. Access to finance has remained favorable during the COVID-19 crisis, aided by the Bank of England's support to the financial sector.

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 sound financial regulation and supervision and a strong financial sector. An additional risk is that FDI and portfolio investment inflows may decelerate, driven by the change in the trade relationship with the EU and the shift of some financial services to the EU.

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 4.5 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 2021 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* The decline in the trade balance, led by the increase in imports of goods, widened the CA deficit to 3.6 percent of GDP. Although uncertainty and terms-of-trade changes caused by the war in Ukraine may affect the near term, the CA deficit is projected to decline below 2 percent of GDP over the medium term based on an increase in public saving due to gradual fiscal consolidation, reflected in a lower trade deficit.

Potential Policy Responses: Over the medium term, suggested fiscal consolidation aimed at a medium-term general government structural primary deficit of about 1 percent of GDP should broadly stabilize the debt-to-GDP ratio and address the CA gap. Structural policies to increase competitiveness include upgrading infrastructure; enhancing the schooling, training, and mobility of workers; supporting the working poor; and implementing policies to increase growth in the labor force (including skill-based immigration reform). Tariff barriers 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, which averaged about –46 percent of GDP during 2016–19, strengthened slightly from –67.1 percent of GDP in 2020 to –79 percent of GDP in 2021. Under the IMF staff's baseline scenario, the NIIP is projected to remain broadly unchanged through the medium term on the back of developments in portfolio assets and liabilities as the CA balance reverts to its pre–COVID-19 average. **Assessment.** Financial stability risks 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. This 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. About 60 percent of US assets are in the form of FDI and portfolio equity claims.
2021 (% GDP)	NIIP: –79 | Gross Assets: 153 | Debt Assets: 17.7 | Gross Liab.: 232 | Debt Liab.: 56.0
Current Account	**Background.** The US CA deficit increased from 2.9 percent of GDP in 2020 to 3.6 percent in 2021 (from 2.7 to 3.2 percent in cyclically adjusted terms), compared with a deficit of 2.1 percent of GDP in 2016. On the trade side, its evolution since 2016 is explained mostly by deterioration in the non-oil and income balances. In 2021, the trade balance declined moderately from 2020 (–3.2 versus –3.7 percent of GDP), mostly due to the changes in imports of goods, while the income account remained unchanged. Both national saving and investment increased as a percentage of GDP from 2016 to 2021 (with a massive increase in public dissaving due to the pandemic), resulting in the stated increase in the CA deficit. The CA deficit is expected to decline slightly below 2 percent of GDP over the medium term. **Assessment.** The EBA model estimates a cyclically adjusted CA balance of –3.2 percent of GDP and a cyclically adjusted CA norm of –1.3 percent of GDP. The EBA model CA gap is –1.9 percent of GDP for 2021, reflecting policy gaps (–1.1 percent of GDP, half of which, –0.7 percent, corresponds to fiscal policy) and an unidentified residual (about –0.8 percent of GDP) that may reflect structural factors not included in the model. On balance, the IMF staff assesses the 2021 cyclically adjusted CA to be 1.1 percent of GDP lower than the level implied by medium-term fundamentals and desirable policies, with a range between –1.7 and –0.5 percent of GDP. This assessment includes an IMF staff adjustor of 0.8 percent of GDP to account for the effects of COVID-19 on the travel (0.2 percent of GDP), transport (0.1 percent of GDP), and medical (0.1 percent of GDP) balances, as well as the shift in the composition of household consumption (0.4 percent of GDP). The estimated standard error of the CA norm is 0.6 percent of GDP.
2021 (% GDP)	CA: –3.6 | Cycl. Adj. CA: –3.2 | EBA Norm: –1.3 | EBA Gap: –1.9 | COVID-19 Adj.: 0.8 | Other Adj.: 0.0 | Staff Gap: –1.1
Real Exchange Rate	**Background.** After appreciating by 1.6 percent in 2020, the REER depreciated by 3.8 percent in 2021. The depreciation in 2021 brought the REER to the average level that prevailed in 2016. As of May 2022, the REER was 8.6 percent above the 2021 average. **Assessment.** Indirect estimates of the REER (based on the IMF staff's current account assessment) imply that the exchange rate was overvalued by 8.7 percent in 2021 (applying the estimated elasticity of 0.12). The EBA REER index model suggests an overvaluation of 1.6 percent, and the EBA REER level model suggests an overvaluation of 8.9 percent. Considering all the estimates and their uncertainties, the IMF staff assesses the 2021 midpoint REER overvaluation to be 8.7 percent, with a range of 3.8 to 13.6 percent, where the range is obtained from the CA account standard error and the corresponding CA elasticity.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The financial account balance was about –3.1 percent of GDP in 2021, compared with –3.5 percent of GDP in 2020. This was due to a decrease in net direct investment from 0.5 to 0.2 percent GDP, with the changes in portfolio investment (–2.3 to –10 percent) and other investments (–1.3 to –2.5 percent) broadly canceling each other out. **Assessment.** The United States has an open capital account. Vulnerabilities are limited by the 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 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]A band of ±1 percent of GDP (two standard errors of the CA norm) is applied to account for the elevated country-specific uncertainty in the context of external vulnerabilities.
[2]This includes the effect of the SDR allocation of US$4.3 billion in 2021.
[3]Based on the program definition of net international reserves. See https://www.imf.org/en/Publications/CR/Issues/2022/03/25/Argentina-Staff-Report-for-2022-Article-IV-Consultation-and-request-for-an-Extended-515742.
[4]To smooth the temporary effect of the sharp reductions in short-term debt and of a collapse in the valuation of debt portfolio investments in the wake of the sovereign debt restructuring, the adjusted measure uses a four-year average.

Belgium

[1]Methodological and source data changes led to major revisions of the 2015–20 CA, distorting comparison with previous assessments.

Brazil

[1]Under operation since the first decade of the 2000s, Repetro was a Brazilian special tax regime that generated exports of oil-related products, mainly oil platforms, in accounting terms only without equipment crossing borders. Since 2018, when the tax benefits were delinked from exports, the oil enterprises reimported platforms and other equipment, again in accounting terms only. The term of Repetro ended on December 31, 2020, as established by Normative Instruction RFB 176, generating a lagged temporary increase in imports in 2021.

Canada

[1]The estimates of the temporary impact of the COVID-19 crisis on travel, transport, household consumption composition, and trade in medical products are –0.4, 0.1, 0.2, and 0.2 percent of GDP, respectively, with a net impact of 0.1 percent of GDP.
[2]The statistical treatment of retained earnings on portfolio equity and inflation is estimated to generate a downward bias in the income balance of the current account of the order of 0.7 and 0.8 percent of GDP, respectively, totaling 1.5 percent of GDP.
[3]The semielasticity of the CA with respect to the REER is set to 0.25.

China

[1]See "IMF 2021 Taxonomy of Capital Flow Management Measures" for a list of China's existing CFMs and related policy advice.

Euro Area

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

France

[1]The adjustor is derived by estimating the loss for aeronautics net exports in value-added terms during 2021 (that is, the difference between domestic value added of exports and non-reexported imports using data on global value chains). The final adjustor reflects only the temporary component of the total loss and deducts the extent of loss that is expected to persist through the medium term.

Hong Kong SAR

[1]Hong Kong SAR is not in the EBA sample as it is an outlier along many dimensions of EBA analysis. Thus, one possibility—though with obvious drawbacks—is to use EBA-estimated coefficients and apply them to Hong Kong SAR. Following this approach, the CA norm in 2021 is estimated to be 20.6 percent of GDP, implying a CA gap of –9.4 percent of GDP, which is almost entirely explained by the model residuals. The EBA CA gap is overstated, as it does not properly reflect the measurement issues that are relevant for Hong Kong SAR, for which three adjustments are made. First, an adjustment of 4.7 to 6.7 percentage points, with a midpoint of 5.7 percentage points, is made to the EBA's implied contribution of the NIIP position. This is because the positive NIIP contribution in the 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 that of other peer economies due to a persistently higher share of debt instruments on the asset side than on the liability side. Second, the opening of the Precious Metals Depository has resulted in a decline of 4 to 4½ percentage points, with a midpoint of 4¼ percentage points, in the gold trade balance that does not reflect changes in wealth, but rather the increased physical settlement of gold futures contracts. Third, mainland China's increased onshoring has led to a decline in logistics and trading activities in Hong Kong SAR (1 to 1½ percentage points, with a midpoint of 1¼ percentage points), which 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 China's demand. See "People's Republic of China—Hong Kong Special Administrative Region: Selected Issues" (IMF Country Report 17/12) for more details.

[2]The range is calculated by applying the average semielasticities of Hong Kong SAR and similar economies.
[3]The financial linkages with mainland China have deepened in recent years with the increase in cross-border bank lending, capital market financing, and the internationalization of the renminbi. As of the end of 2021, banking system claims on mainland China nonbank entities amounted to HK$6.7 trillion, or about 234 percent of GDP, down by about 4 percentage points from the end of 2020.

Indonesia

[1]The 2021 assessment includes an adjustment for travel services (including tourism), transport, the global shift in the composition of household consumption from services toward consumer goods, and medical equipment. As Indonesia is among the few outlier countries regarding adult mortality rates, the demographic indicators are adjusted to account for the younger average prime age and workforce exit age (this results in an adjustor of –0.4 percentage point to the CA norm).
[2]A range of ±0.5 percent is added to reflect the fact that the EBA regression estimates are subject to uncertainty (the standard error of the EBA norm for Indonesia is 0.5 percent).
[3]The semielasticity of the CA-to-GDP ratio with respect to the REER is estimated to be 0.14 for Indonesia.

Japan

[1]In line with IMF staff policy advice, Japan would require continued accommodative monetary and financial policies in order to achieve the 2 percent inflation target and facilitate productive investment. Consistent with this advice, the IMF staff recommends allowing the estimated credit-to-GDP gap to decline gradually over the medium term from its currently estimated level of 18.9 percent of GDP with a corresponding policy setting (P*) for the credit-to-GDP gap in five years of 9 percent of GDP. This decline in the credit gap over five years is similar to the reduction envisaged in the *2021 External Sector Report*.

Malaysia

[1]On December 2, 2016, the Financial Markets Committee announced a package of measures aimed at facilitating onshore FX risk management and enhancing the depth and liquidity of onshore financial markets. Two of these measures were classified as CFM measures under the IMF's institutional view on capital flows. In addition, the authorities' strengthened enforcement of regulations on resident banks' noninvolvement in offshore ringgit transactions was considered enhanced enforcement of an existing CFM measure. Over the course of 2017–19, additional measures were announced to help deepen the onshore financial market and facilitate currency risk management.

Saudi Arabia

[1]EBA models do not include Saudi Arabia. Staff considered three approaches in the EBA-Lite methodology, including two that incorporate the special intertemporal considerations that are dominant in economies in which exports of nonrenewable resources are a very high share of output and exports. Using the CA regression approach, the cyclically adjusted CA norm is estimated at 7.5 percent of GDP (slightly higher than the CA norm of 6.5 percent of GDP in 2020). The Consumption Allocation Rules assume that the sustainability of the CA trajectory requires that the net present value (NPV) of all future oil and financial/investment income (wealth) be equal to the NPV of imports of goods and services net of non-oil exports. Estimated CA norms from the Consumption Allocation Rules were 1.0 percent of GDP and 5.3 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 5.2 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 2021 of –1.0 percent of GDP represents the staff's overall assessment which is anchored on the CA-regression based approach. The range for the gap is calculated using the estimates from Norway, a comparable oil-rich economy in the EBA sample.
[2]Total reserves include gold at national valuation.

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 14.8 percent of GDP in 2021 (including the multilateral consistency adjustor). However, using this approach understates the CA gap. In order to account for Singapore's specificities, several adjustments are needed. First, a downward adjustment of 1.2 percentage points is made to the 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 and current public health expenditure is significantly lower than in other EBA countries. Second, the EBA model does not

include the impact of the COVID-19 shock on the CA, so a total –1.4 percent of GDP adjustment is applied to account for this transitory impact, including (1) a travel adjustor of –1.3 percent of GDP, (2) a transport adjustor of 0.7 percent of GDP, (3) a household consumption shift adjustor of –0.8 percent of GDP, and (4) a medical goods adjustor of 0 percent of GDP. Third, a downward adjustment of 3.7 percentage points to the norm is made to better account for the effect of net foreign assets (NFA) composition and component-specific return differentials on the CA. Fourth, notwithstanding possible partial double counting with the NFA components adjustor, a downward adjustment of –2.4 percentage points of GDP is applied to the underlying CA to account for measurement biases due to inflation and portfolio equity retained earnings (–4.9 and +2.5 percent of GDP, respectively). Adjusting for these factors, the CA gap estimated by the IMF staff is about 5.2 percent of GDP, to which the fiscal gap contributes about 0.6 percent of GDP, the credit gap about –0.5 percent of GDP, public health spending about –0.1 percent of GDP, and reserves about 0.0 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 (Government of Singapore Investment Corporation and Temasek) amount to at least 100 percent of GDP.

South Africa

[1]The South Africa–specific COVID-19 adjustors for 2021 of –2.7 percent of GDP are composed of adjustments for travel services (including tourism exports) (0.9 percent of GDP), medical spending imports (–0.3 percent of GDP), transportation (0.2 percent of GDP), consumption shift to tradable goods (–0.2 percent of GDP), gold and other mineral exports (–2.8 percent of GDP), and an improved income balance (–0.5 percent of GDP). The gold and other mineral exports adjustor reflects the temporary surge in mineral export prices and volumes and the importance for South Africa of some mineral exports (for instance, rhodium and palladium), which are not included in the IMF EBA model (terms-of-trade adjustment).

[2]Net current transfers related to the Southern African Customs Union (SACU) in 2021 are assessed to have a net negative impact on the CA, are not accounted for in the regression model, and warrant an adjustment to the cyclically adjusted CA by 0.7 percent of GDP. In addition, measurement issues pertaining to the income balance are likely to contribute to an underestimation of the CA by 0.9 percent of GDP in 2021 overall.

[3]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. This results in an adjustor of –0.6 percent of GDP to the model-based CA norm for 2021.

Spain

[1]The EBA model suggests a cyclically adjusted CA norm of 0 percent of GDP, with a standard error of 0.7 percent of GDP. However, given external risks from a large and negative NIIP, the IMF staff's assessment puts more weight on external sustainability and is guided by the objective of raising the NIIP to at least –50 percent over the medium term. Under current policies, the NIIP is projected to reach this target, though with high uncertainty as zero valuation effects are assumed. Allowing for a safety margin, the IMF staff therefore considers a CA norm of 1.7 percent of GDP, with a range of 1 to 2.4 percent of GDP.

[2]The REER gap midpoint is obtained from the IMF staff–assessed CA gap and an estimated semielasticity of the CA to the REER of 0.26. The range of the REER gap is ±2.7 percent, which is obtained from Spain's estimated standard error of the EBA CA norm (0.7 percent of GDP) and the aforementioned CA-to-REER semielasticity.

Sweden

[1]The upper and lower range is derived by subtracting the standard deviation of the ULC-based REER index (which is 5 percent) from the average outcome, which is the midpoint.

Switzerland

[1]Due to large revisions to historical balance of payments (BOP) and international investment position (IIP) data, particular caution is needed when comparing external sector assessments for different periods. For example, in the December 2021 BOP release (after the publication of the 2021 *External Sector Report*), net incurrence of direct investment liabilities in 2020 was revised from CHF 129 billion in the March 2021 BOP release (prior to the publication of the 2021 *External Sector Report*) to CHF 245 billion, contributing to a large downward adjustment to the end-of-2020 direct investment foreign liabilities in the IIP. See also the 2021 *External Sector Report* for details on major BOP and IIP revisions in 2020.

[2]Other stock-flow adjustments include changes in statistical sources, such as changes in the number of entities surveyed and items covered, although their quantitative importance is not known.

[3]As a result, an appreciation (depreciation) of the Swiss franc has a negative (positive) effect on the NIIP, whereas a symmetric percentage increase in share prices in Switzerland and abroad would reduce the NIIP.

[4]At the time of the previous assessment, this average was 8.2 percent of GDP. The change was due to revisions to historical balance of payments data.
[5]Part of the positive EBA CA gap may reflect institutional pension features in Switzerland, such as replacement and coverage rates, rather than other economic policy gaps.
[6]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 portfolio equity retained earnings bias) under the sixth edition of the IMF *Balance of Payments and International Investment Position Manual* (BPM6) 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 portfolio equity retained earnings 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. In addition, the CA balance is adjusted for transitory impacts of the COVID-19 pandemic on trade in goods and services, including adjustors for (1) travel services (0 percentage point); (2) transport (–0.1 percentage point); (3) household consumption composition shift (–0.5 percentage point); and (4) medical products (0 percentage point). Adjusting for these COVID-19–related effects, the underlying CA would need to be reduced by about 0.6 percent of GDP.
[7]Prices of energy products, especially gas prices, were a main driver underlying the producer price index (PPI) inflation differentials between Switzerland and other advanced economies, such as the euro area and the United States. If core PPIs excluding energy products were used, the depreciation of the PPI-based franc REER in 2021 and early 2022 would be smaller.

Thailand

[1]For Thailand, the change in the transport services balance between 2020 and 2021 was –2.8 percent of GDP. In the staff's view, this change is too large relative to Thailand's net imports of global transportation services. Using an average of percentage change in transport balances of comparable countries, the staff estimates the impact of high freight costs on Thailand's transport service balance and current account to be a worsening of around 65 percent (1.93 percent of GDP). Therefore, staff proposes a transportation adjustor of 1.93 percent.

Türkiye

[1]Net international reserves are defined as gross international reserves minus the central bank's FX liabilities to banks, including the Reserve Option Mechanism.

United Kingdom

[1]The official NIIP data may understate the true position—estimates of FDI stocks at market values imply a much higher NIIP. Market value estimates of FDI assets assume their valuations move in line with those of equity market indices in the United Kingdom and abroad. These estimates are highly uncertain, as actual FDI market values could evolve differently across different equity markets.
[2]Estimates in Bénétrix and others (2019) suggest that, in 2017, about 90 percent of external assets were denominated in foreign currency compared with 60 percent for external liabilities.
[3]The post-Brexit adjustment (–0.1 percent of GDP) represents an offset of the 0.1 percent of GDP adjustment for the stockpiling that occurred before Brexit, which generated an adjustor applied in the 2020 external sector assessment.
[4]The total COVID-19–related adjustment includes adjustors for travel services balance, transport balance, compositional change of consumption, and medical goods imports.

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