INTERNATIONAL MONETARY FUND

EXTERNAL SECTOR REPORT

Global Imbalances in a Shifting World

2025

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Errata

August 14, 2025

This web version of the External Sector Report has been updated to reflect the following changes to the PDFs published online on July 22, 2025:

- The Preface, Executive Summary, IMF Executive Board Discussion Summary, Chapter 1, Chapter 2, and Chapter 3 PDFs were replaced with the typeset versions.
- In the Background paragraph of the Real Exchange Rate section of Table 3.28. Türkiye: Economy Assessment, the annual average by which the CPI-based real effective exchange rate depreciated was changed from 5.7 percent over 2020–23 to 6.1 percent over 2020–23.

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Corrections and Revisions

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

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PREFACE

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

Chapter 1, "External Positions and Policies," discusses the evolution of global external positions in 2024, key risks to external sector stability, and policy priorities for reducing excess imbalances over the medium term. Chapter 2, "International Monetary System: Currencies in a Changing World," is the first of periodic monitoring of the international monetary system (IMS). It documents historical developments, provides some conceptual foundations, and proposes indexes to track the IMS. Chapter 3, "2024 Individual Economy Assessments," provides details on the overall external assessments for 30 economies and associated policy recommendations. This year's external assessments are based on the latest version of the IMF's External Balance Assessment methodology, external sector data as of May 27, 2025, and IMF staff projections in the April 2025 *World Economic Outlook*.

This report was prepared under the overall guidance of Pierre-Olivier Gourinchas, IMF Economic Counsellor and Director of Research, and under the direction of the External Sector Coordinating Group, comprising staff from the IMF's area departments (African, Asia and Pacific, European, Middle East and Central Asia, and Western Hemisphere) and several functional departments (Fiscal Affairs; Statistics; Strategy, Policy, and Review; Monetary and Capital Markets; and Research): Ali Jawad Al-Eyd, Rudolfs Bems, Helge Berger, Pelin Berkmen, Yan Carriere-Swallow, Nigel Chalk, Jiaqian Chen, Mariana Colacelli, Borys Cotto, Ela Dabla-Norris, Mai Dao, Christopher Erceg, Davide Furceri, Kristy Howell, Kenneth Henry Kang, Vitaliy Kramarenko, Jaewoo Lee (Chair), Huidan Lin, Amine Mati, Christian Mumssen, Erin Nephew, Dragana Ostojic, Stephane Roudet, Christian Saborowski, Mustafa Saiyid, Haruko Sakai, Mika Saito, Carlos Sánchez-Muñoz, Martin Sommer, Antonio Spilimbergo, Ara Stepanyan, Hui Tong, Anita Tuladhar, and Sebastian Weber.

Rudolfs Bems and Jiaqian Chen led the preparation of the report, which draws on contributions from Cian Allen, Martin Caruso Bloeck, Eugenio Cerutti, George Cui, Ernesto Crivelli, Melih Firat, Giovanni Ganelli, Martina Hengge, Ting Lan, Yang Liu, Roman Merga, Marcello Miccoli, Racha Moussa, Dirk Muir, Josef Platzer, Rafael Portillo, Cyril Rebillard, Marco Reuter, and Hélène Rey (external consultant). Chapter 2 benefited from comments by Maurice Obstfeld, internal seminar participants, as well as collaboration with colleagues from the Bank for International Settlements for data sharing. Important input was provided by country teams as well as David Coble, Oliver Exton, Bada Han, David Florián Hoyle, Wenjie Li, Svitlana Maslova, Murad Omoev, Zhibo Tan, and Marco Rodriguez Waldo. Excellent research and editorial assistance were provided by Santiago Gomez, Jane Haizel, Jaewon Lee, David Guio Rodriguez, Jair Rodriguez, and Brian Hyunjo Shin.

Cheryl Toksoz from the Communications Department led the editorial team for the report, with production support from Absolute Service, Inc.

The analysis benefited from comments and suggestions by staff members from other IMF departments, as well as by the IMF's Executive Directors following their discussion of the report on July 11, 2025. However, both projections and policy considerations are those of the IMF staff and should not be attributed to Executive Directors or to their national authorities.

EXECUTIVE SUMMARY

Current accounts in major economies diverged significantly in 2024. The deficits widened in the United States, Brazil and Australia, while surpluses increased in China, the euro area, Japan and Korea. As a result, global current account balances widened by 0.6 percentage points of world GDP, constituting a sizable reversal from the post-pandemic narrowing. Domestic macro imbalances—due to structural factors, cyclical conditions, and policies—drove the widening of global balances. From the saving-investment perspective, changes in investment rates contributed the most to diverging current accounts, as the investment rate increased in the United States, but decreased in China, the euro area, and Japan, reflecting diverging domestic economic conditions. Meanwhile, domestic saving compensated only part of the investment change. Global real interest rates remained stable in 2024, with excess saving in key surplus countries matching saving shortfall in deficit countries. Net capital inflows into emerging markets, excluding China, remained stable, while China saw increasing net outflows. Net external creditor and debtor stock positions reached a new high, owing to both valuation changes and widening CA balances. The United States sustained a large valuation loss in the external stock position amid its strong stock market and the exchange rate that had hit a historical high in 2024 before depreciating in 2025 amid rising uncertainty.

Excess current account balances, measured as the sum of the absolute value of IMF staff-assessed current account gaps, account for about two-thirds of the widening in global headline current account balances. Changes in desirable current account balances (i.e., CA norms and the applied staff adjustments) explain the remaining increase. The assessed increase in excess CA balances is the largest in a decade, with major economies—China, the United States, and the euro area—driving the increase. Such rapid and globally sizable increase in excess CA balances in major economies can generate significant negative cross-border spillovers.

In 2025 and over the medium term, a delay in macroeconomic adjustments to correct the post-pandemic domestic imbalances could result in continued current account divergence in major economies. A model-based risk scenario reveals that domestic macroeconomic forces are the largest contributors to external sector developments in China, the United States, and the euro area. Addressing domestic imbalances could thus bring about a convergence of major current account balances. A further escalation of trade tensions, including with tariffs, would have significant negative macroeconomic effects, with limited efficacy in correcting global imbalances.

Policy efforts, in both excess surplus and deficit economies, are required to promote external rebalancing. Durable market-oriented structural reforms can boost insufficient domestic demand in surplus countries and lift medium-term growth prospects, promoting investment. In deficit countries, appropriate fiscal consolidation can help rebuild fiscal buffers and increase saving. Pragmatic international cooperation remains vital in sustaining global growth and mitigating cross-country spillovers.

IMF EXECUTIVE BOARD DISCUSSION SUMMARY

The following remarks were made by the Acting Chair at the conclusion of the Executive Board's discussion of the External Sector Report *on July 11, 2025.*

Executive Directors generally agreed with the findings of the 2025 External Sector Report (ESR) and its policy recommendations. Directors observed that global current account balances widened in 2024 with current accounts in major economies diverging significantly. They noted that excess global current account balances increased by the largest amount in a decade, driven by the increase in excess current account balances in the largest economies.

Directors observed that domestic macro imbalances drove the widening global balances in 2024, with changes in investment rates contributing the most to diverging current accounts from the saving-investment perspective. They agreed that state interventions and other non-market policies and practices affect trade flows, but the impact on external imbalances is harder to quantify, in part due to lack of comprehensive data. A few Directors stressed that state interventions and other non-market policies can distort the composition of savings and investment that underpins the current account. A few other Directors emphasized the risks from delayed fiscal consolidation and rising debt levels in major external deficit advanced economies. They called for a greater focus in these areas.

Directors observed that the US dollar was broadly stable in the first three quarters of 2024, appreciated sharply in the last quarter of 2024 reflecting optimism about the US economy and favorable terms of trade, and depreciated in early 2025 amid rising uncertainty. Net capital inflows to emerging market economies in 2024 showed a similar pattern to 2023.

Directors generally welcomed the first of a periodic monitoring of the International Monetary System (IMS). They concurred that US dollar dominance has characterized the IMS over recent decades, underpinned by network externalities, complementarities among various uses of the dollar and its safe asset status. Directors took note of emerging trends in the IMS, including increasing geopolitical fragmentation concerns, a greater use of RMB in international trade and finance, a softening in the role of the US as world banker and insurer, and the emergence of alternative payment systems and private digital assets. They however noted that none of these trends currently alter the central role of the US dollar in the IMS.

Directors noted that global current account balances are projected to narrow over the medium term, underpinned by a reduction in current account balances in key surplus economies. They cautioned that this outlook is subject to unusually high uncertainty, reflecting the fluid prospects for the trade and economic relationship among major economies.

Directors reiterated that excess global current account balances could exacerbate the risks of sudden stops and disruptive currency and capital flow movements, while contributing to deepening geoeconomic fragmentation and raising trade barriers. In this context, they agreed, however, that the impact of tariffs on the current account is likely limited with a few Directors considering their negative impact on value chains. Directors encouraged both excess surplus and deficit economies to take steps to promote external rebalancing, in order to reduce the risk of financial crisis, improve resource allocation, and help preserve support for multilateralism.

Directors underscored that policies to promote external rebalancing differ with positions and needs of individual economies. They considered that in economies in which excess current account deficits partly reflect the need to reduce high public debt levels, policies should focus on a credible fiscal consolidation. In economies where excess current account surpluses persist, prioritizing policies aimed at promoting investment and diminishing excess saving, including through expanded social safety nets or higher fiscal deficits—where feasible—is warranted. Directors also emphasized that economies where external positions are broadly in line

with fundamentals should continue to address domestic imbalances to prevent the buildup of excessive external imbalances; in many cases fiscal consolidation is needed to maintain external balance, along with structural reforms to improve productivity and increase investment.

Directors underscored that pragmatic international cooperation remains vital in sustaining global growth and mitigating cross-country spillovers. Directors agreed that trade tensions should be resolved to promote clarity and transparency and deepen economic integration through nondiscriminatory reductions in trade barriers or by pursuing comprehensive free trade agreements at the regional, plurilateral or multilateral level. In addition, industrial policies should be consistent with international obligations and be limited to specific objectives in sectors where externalities or market failures prevent effective market solutions and should undergo comprehensive cost-benefit analyses in the context of limited fiscal space. Directors stressed that ensuring an adequate global financial safety net, with the Fund at its core, will be essential in navigating a global economy with heightened uncertainty and the associated increase in risks. In this regard, the approval of the 16th General Review of Quotas further fortifies liquidity in the global financial system. Directors noted that this needs to be followed up by members consenting to their respective quota increase to ensure that the IMF is adequately resourced to serve as an anchor of the global financial safety net.

Directors reiterated the need to ensure transparency, consistency, and evenhandedness of external assessments across countries. A few Directors expressed disagreement with the assessments of a few individual countries. Directors stressed the importance of continued caution in interpreting and communicating the assessment results. Noting their limitations, Directors encouraged further exploration of possible improvements to enhance the EBA methodologies.

CHAPTER 1

EXTERNAL POSITIONS AND POLICIES

This overview chapter discusses the evolution of current accounts and other external sector developments in 2024 and summarizes IMF staff external sector assessments for the medium term on the basis of the 2024 information, with detailed country assessments presented in Chapter 3. The forward-looking part of this opening chapter analyzes key risks affecting global current account balances and discusses policy priorities for promoting external rebalancing.

External Sector Developments in 2024

Current Accounts

Current accounts of major economies diverged significantly in 2024. The deficit in the United States widened by $228 billion to $1.13 trillion (1.0 percent of world GDP). Meanwhile, surpluses in China and the euro area increased by $161 billion to $424 billion and by $198 billion to $461 billion, respectively. Within the euro area, current accounts increased in all large member states, while Ireland provided the largest contribution to the increase in the surplus (Figure 1.1, panel 1). Among other major economies, surpluses increased in Japan and Korea, and deficits widened in Brazil and Australia. Overall, of the 30 countries covered in the *External Sector Report* (ESR), 22 reported widening current account deficits or surpluses (Table 1.1).

Global current account balances widened by 0.6 percentage point of world GDP. Major economies drove the widening global current account balances in 2024. Contributions from China and advanced economies accounted for most of the increased global current account surpluses, which were matched by an increased US contribution to global current account deficits (Figure 1.1, panel 2). Global balances widened despite a decline in oil exporters' current account surplus, reflecting lower commodity prices in 2024.[1] The negative contribution from oil-exporting countries in 2024 is notable, because this country group contributed significantly to all previous major widening episodes, including during 2003–06 and 2021–22.

The widening in global balances in 2024 might signal a shift in the underlying trend. The historical significance of this widening is partly obscured by the external sector volatility during 2020–22, stemming from the COVID-19 pandemic and the spike in commodity prices. Once these events are adjusted for, two key findings emerge (Figure 1.2 and the note). First, the contributions of the pandemic and Russia's war shocks to global balances fully receded by 2023.[2] Second, 2024 saw the largest increase in global balances since the pre-Global Financial Crisis boom, halting the downward trend that prevailed in the aftermath of the Global Financial Crisis.

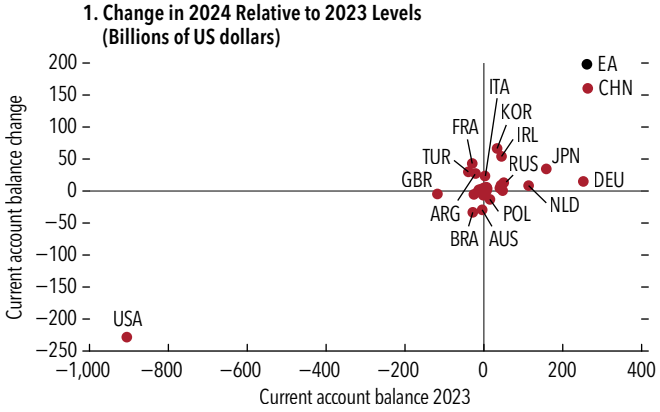
Domestic macro imbalances—due to structural factors, cyclical conditions, and policies—drove the widening global balances in 2024. Saving-investment decomposition of the current account changes in key economies sheds light on these developments (Figure 1.3). Changes in investment rates uniformly contributed to widening saving-investment gaps, with an increased investment rate in the United States widening the current account deficit, and a decrease in key surplus regions (China, the euro area, and Japan) expanding the surpluses. These changes in investment partly reflect divergent domestic demand conditions in 2024 relative to 2023: continuing real estate correction and weaker demand in China, deteriorating conditions in the euro area, and strong growth in the United States. Changes in medium-term growth prospects and productivity trends also contributed to these investment trends, with stronger productivity growth in the United States, in contrast to decelerating productivity growth projected in surplus advanced economies and China (2025 April *World Economic*

The authors of this chapter are Cian Allen, Rudolfs Bems (lead), Martin Caruso Bloeck, Ting Lan, Roman Merga, Racha Moussa, Josef Platzer, and Cyril Rebillard, in collaboration with Dirk Muir and Rafael Portillo, and under the guidance of Jaewoo Lee. Santiago Gomez, Jane Haizel, Jaewon Lee, David Guio Rodriguez, Jair Rodriguez, and Brian Hyunjo Shin provided excellent research and editorial assistance.

[1]Average global prices in 2024 declined for oil (by 4.5 percent), gas (16.2 percent), metals (4.7 percent), and food (5.9 percent).

[2]For additional analysis of the contributions of the COVID-19 shock and the 2022 commodity price spike to global current account balances, see the 2024 *External Sector Report*.

Figure 1.1. Diverging Current Account Balances in 2024



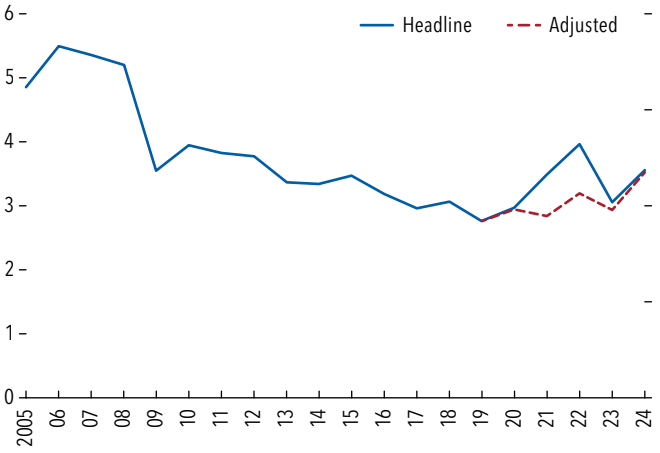
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Data labels in the figure use International Organization for Standardization country codes. AE = advanced economy; EA = euro area; EMDE = emerging market and developing economy.

[1]Overall balance is the sum of absolute values of current account surpluses and deficits. AE commodity exporters comprise Australia, Canada, and New Zealand; deficit EMDEs comprise Brazil, Chile, India, Indonesia, Mexico, Peru, South Africa, and Türkiye; oil exporters comprise World Economic Outlook definition plus Norway; surplus AEs comprise Hong Kong SAR, Korea, Singapore, Sweden, Switzerland, and Taiwan Province of China. Other deficit (surplus) comprise all other economies running current account deficits (surpluses).

Figure 1.2. Global Current Account Balances

(Percent of world GDP)

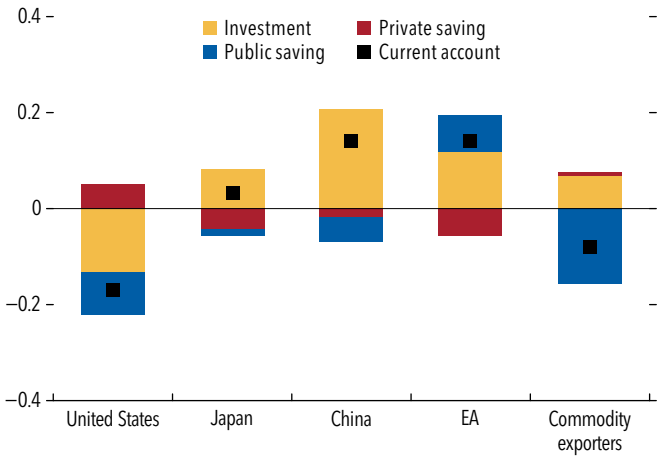


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: "Adjusted" series removes from the 2020–24 headline global current account balance the impact of (1) COVID-19 pandemic factors as identified in Figure 1.3 of the 2024 *External Sector Report*, and (2) commodity price fluctuations, identified by removing fluctuations in "oil exporters" group's current account balances relative to the group's average surplus over the preceding decade. Oil exporters comprise World Economic Outlook definition plus Norway.

Figure 1.3. Decomposition of Changes in Current Account into Contributions from Saving and Investment, 2023–24

(Percent of world GDP)

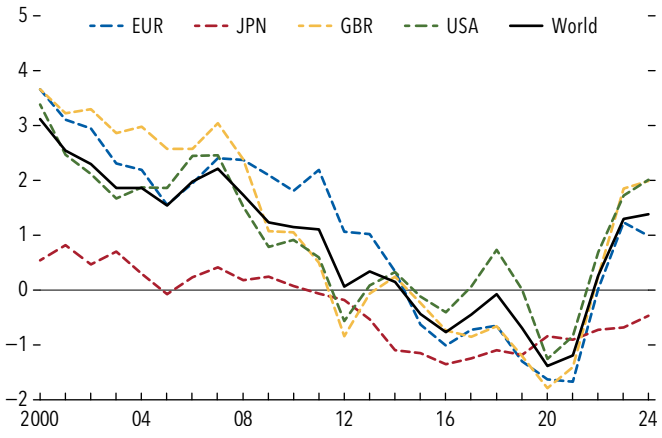


Sources: IMF, April 2025 *World Economic Outlook*; and IMF staff calculations.

Note: The estimated changes in contributions include the impact of changes in countries' shares in world GDP, including because of exchange rate effects. Investment is displayed as a negative value. The private saving rate is calculated as the residual from the current account balance, investment, and the public saving rate. EA = euro area.

Outlook). The divergence in investment rates was accommodated partly by changes in private saving, which are estimated to have increased in the United States and decreased in the surplus countries—China, euro area, and Japan. However, in all cases, private saving compensated for only 10 percent to 50 percent of the investment change. Meanwhile, change in public

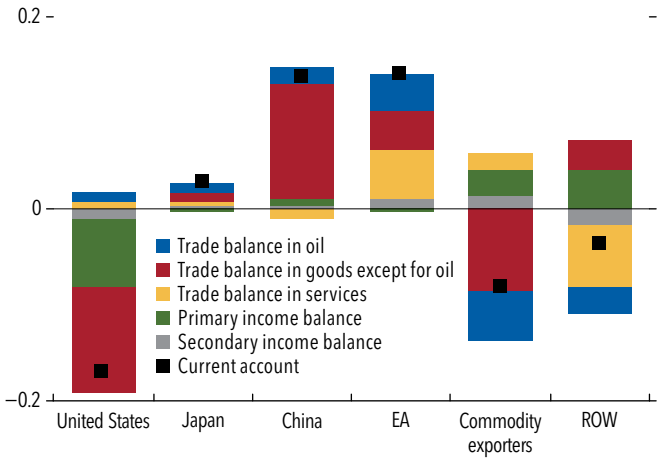
Figure 1.4. Real Interest Rates
(Percent per year)



Sources: *Consensus Economics*; Organisation for Economic Co-operation and Development; IMF, World Economic Outlook database; and IMF staff calculations.

Note: Real interest rates are calculated using nominal 10-year government bond yields and long-term inflation expectations from *Consensus Forecasts*. World real interest rate is calculated as average of EUR, GBR, JPN, and USA, weighted by GDP weights adjusted for purchasing power. Data labels in the figure use International Organization for Standardization country codes.

Figure 1.5. Decomposition of Changes in Current Account by External Flow Components, 2023–24
(Percent of world GDP)



Sources: IMF, April 2025 *World Economic Outlook*; and IMF staff calculations.

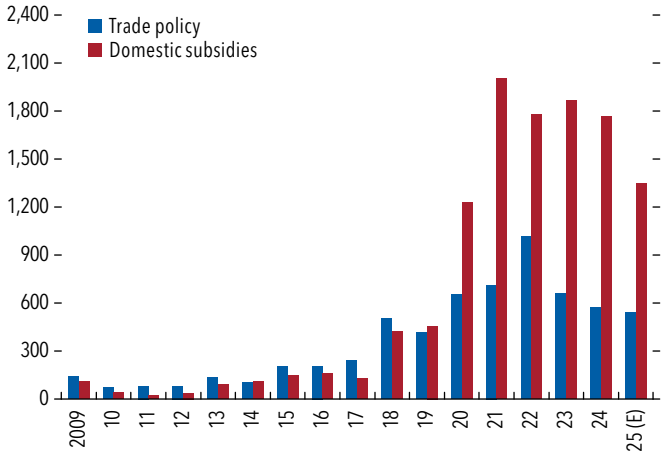
Note: The estimated changes in contributions include the impact of changes in countries' shares in world GDP, including because of exchange rate effects. EA = euro area; ROW = rest of the world and statistical discrepancy for each balance of payment component.

saving magnified domestic imbalances through dissaving in the United States and higher public saving in the euro area, while contributing to narrowing domestic imbalances in China. With temporarily compressed commodity prices, commodity exporters smoothed the negative impact on income by decreasing public saving, thus running smaller current account surpluses relative to 2023.

Global real interest rates remained stable in 2024, with excess saving in key surplus countries matched by dissaving in deficit countries. Globally, both investment and saving decreased as a share of GDP. Concurrently, global real interest rates remained broadly stable in 2023–24 (Figure 1.4). A key implication is that broadly offsetting drivers of saving and investment were behind the increase in global current account balances in 2024. Weak domestic demand in China and the resulting excess saving were broadly matched by the dissaving in the United States. These underlying drivers of widening global current account balances have so far had more muted global effects than in the years leading up to the global financial crisis, when excess global saving contributed to the widening global balances and declining global interest rates (April 2023 *World Economic Outlook*, Chapter 2; Bernanke 2005; Caballero, Farhi, and Gourinchas 2008, 2016, 2017a, 2017b, 2021). Persistently elevated real interest rates since 2023 could mark a break from previous trends, after a large decline in the past 20 years.

Among external flows, diverging trade balances for goods contributed the most to the widening global current account balances. In the United States, expansion of the trade deficit in goods accounted for 63 percent of the decrease in the current account, with a surge in imports of goods driving the widening deficit (Figure 1.5). A reduction in the primary income balance accounted for the remaining increase in the deficit. In China, 87 percent of the current account increase came from a stronger goods balance, underpinned by a weakness in imports reflecting deteriorating domestic demand and a surge in exports potentially reflecting stronger foreign demand or excess domestic supply (Rotunno and Ruta 2024; Garcia-Macia and others, forthcoming). In the euro area, an increase in the services balance contributed sizably, partly because exports of intellectual property from Ireland were unusually high. An increase in the goods balance was significant, mainly resulting from an improved trade balance for oil, reflecting lower energy import prices and broadly offset by corresponding reduced surpluses for oil exporters. The "rest of the

Figure 1.6. Number of Net Harmful New Trade-Restrictive Measures by Policy Instrument, 2009–25

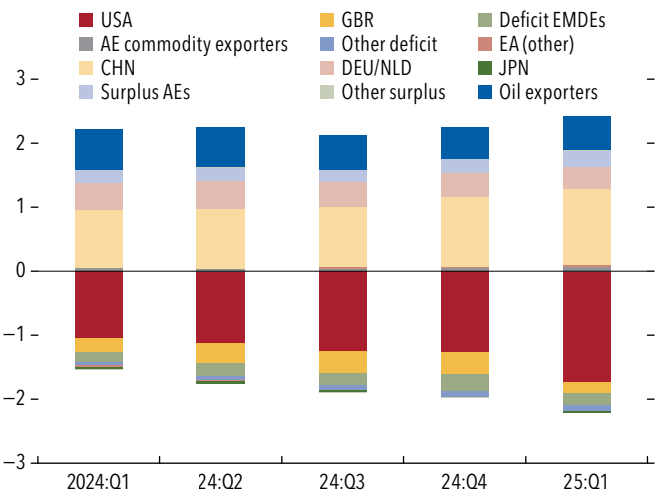


Sources: Global Trade Alert database; and IMF staff calculations.

Note: Domestic subsidies policies are those non-tariff measures interventions cataloged in Chapter L by the classification adopted in UNCTAD (2013). Trade interventions are those cataloged as tariff measures or under chapters B–E, I, M, P, or D in UNCTAD (2013). Net new interventions are counted each year. The reported time series is adjusted for time-series comparison. The year 2025 reports expected interventions, using implemented interventions until May 21, and linelay interpotlating them for the rest of the year. Net interventions are the number of harmful (red) minus liberalizing (green) interventions as published in the Global Trade Alert database. Results are based on data published on May 22, 2025. E = Estimate.

Figure 1.7. High-Frequency Global Balances Indicator Based on Trade Balances

(Percent of world GDP)



Sources: IMF, World Economic Outlook database; national statistical offices; and IMF staff calculations.

Note: Data labels in the figure use International Organization for Standardization country codes. AE = advanced economy; EA = euro area; EMDE = emerging market and developing economy.

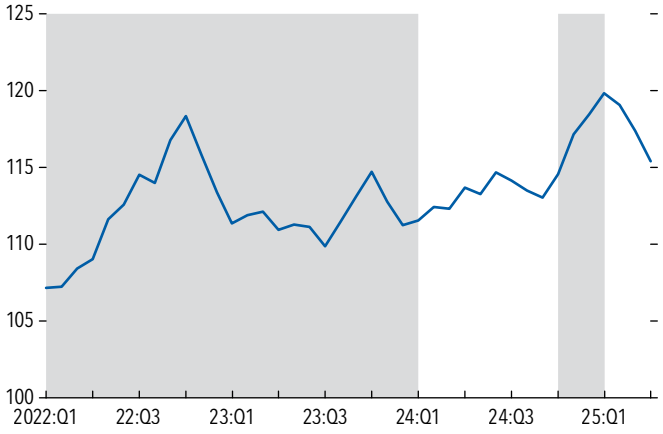
world" group also played a significant role and was the main counterparty to the primary income deficit in the United States and the service trade surplus in the euro area.[3] With increasingly complex cross-border transactions in trade and finance, these balance-of-payments external flow components, including trade balance in goods and primary income balance, can contain significant measurement errors, which could impact headline current accounts and global balances (see Box 1.1).

State interventions and other non-market policies and practices affect trade flows, but the impact on aggregate external imbalances is harder to quantify. The number of new policy measures restricting trade continued to accumulate during 2024 at a high pace (Figure 1.6), with their effective size accelerating in 2025 (Figure 1.27). Data from the Global Trade Alert show that between 2009 and 2022 new restrictions have increased rapidly in the United States and euro area, though from low levels. Over the same period, China accounted for about two-thirds of all subsidy measures adopted by G20 advanced economies combined (IMF 2024, Box 7; Gourinchas and others 2024). Rotunno and Ruta (2024) find that subsidies of products in China can have a small but non-negligible impact by expanding exports and suppressing imports, thus potentially contributing to external imbalances. However, the impact on aggregate trade balance remains unclear. A lack of up-to-date and comprehensive data on subsidy policies in many countries hinders further analysis of their role in driving current account imbalances in 2024.

Early data for 2025 signal highly volatile external balances. Monthly merchandise trade flows data from customs for January-March show a large increase in the US deficit, countered by an expanded surplus in China (Figure 1.7). This likely reflected consumers and businesses frontloading trade in anticipation of tariff increases, and gold imports for the United States. The temporary nature of such activities could signal more volatility going forward.

[3]The unbalanced contribution of goods and services to changes in current accounts could partly reflect higher barriers to trade in services, despite technological advances disproportionately reducing trade costs for this trade component. A further reduction of trade barriers for services could play a role in external rebalancing, as empirical evidence indicates that service balances have been systematically offsetting global trade balances for goods (Li and others, forthcoming).

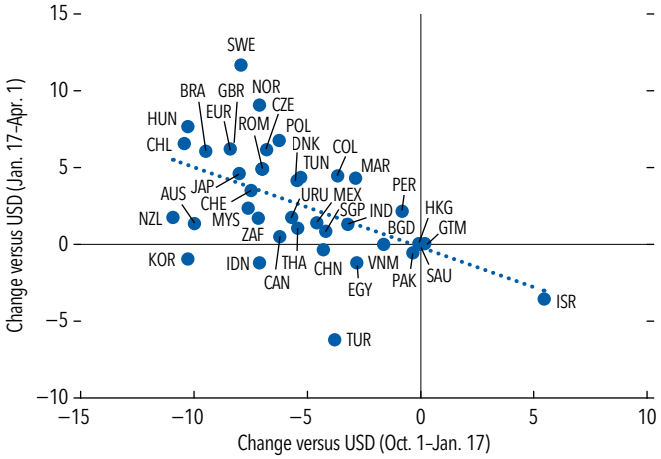
Figure 1.8. US Dollar Volatility during 2024–2025:Q1
(US REER, 2000–25 average = 100; increase = appreciation)



Source: Haver Analytics.

Note: Shaded areas indicate pre-2024 period and 2024:Q4. REER = real effective exchange rate.

Figure 1.9. Currency Movements in EMs and AEs, 2024–25
(Percent, increase = appreciation)



Source: Haver Analytics.

Note: Currencies are of countries in the External Balance Assessment model sample. Argentina and Russian Federation were ommitted. Data labels in the figure use International Organization for Standardization country codes. AE = advanced economy; EM = emerging market.

Currencies, Financial Flows and Balance Sheets

Exchange Rates

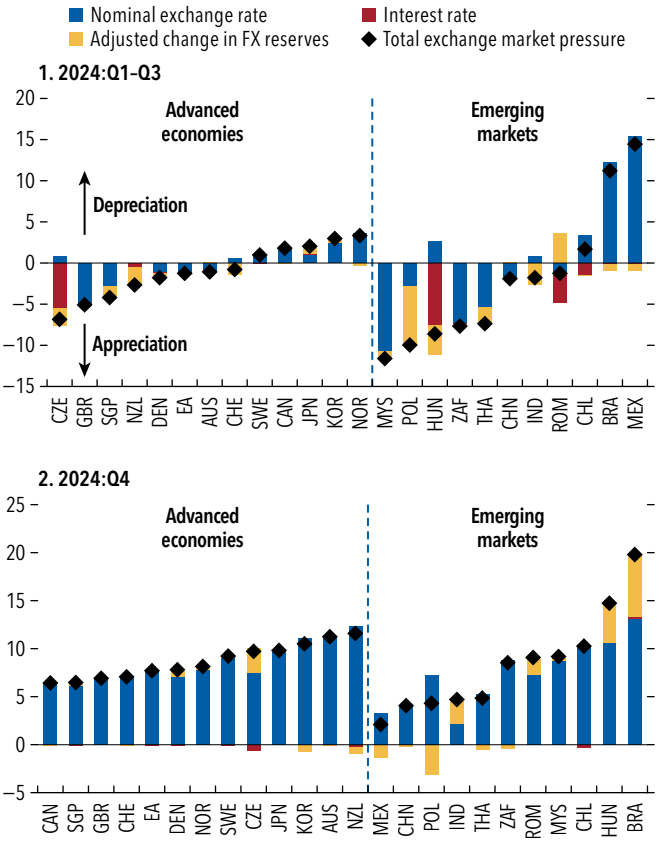
The US dollar hit a historic high in 2024, followed by a depreciation amid rising uncertainty in 2025. During the first three quarters of 2024, the US dollar was broadly stable at 13 percent above the post-2000 average (Figure 1.8). The limited appreciation in effective terms during this period (1.3 percentage points), was entirely due to appreciation against the Mexican peso. In the fourth quarter of 2024, as the US presidential election came into focus, the US dollar appreciated sharply against all major advanced economy and emerging market currencies (x-axis in Figure 1.9). By the end of the year, the US dollar reached its highest since September 1985 in real effective terms, at 18.5 percent above the post-2000 average. The surge reflected broad-based optimism about the strength of the US economy, favorable terms-of-trade developments, and still tight monetary policy. After peaking in January, the US dollar depreciated sharply in the first quarter of 2025, reversing the broad-based appreciation in the fourth quarter of 2024. The depreciation was attributed to weaker economic growth prospects for the United States amid tariff hikes and policy uncertainty. Currencies that depreciated more in the fourth quarter of 2024 tended to appreciate more in the first quarter of 2025 (Figure 1.9). Despite the depreciation, as of April 2025, the US dollar remained at 15 percent above its post-2000 average value.

Other reserve currencies had diverse movements in real effective terms. The nominal exchange rate of the Chinese renminbi has been broadly stable against the US dollar, thus the adjustment in the real exchange rate is through relative prices. The currency continued to depreciate in 2024 (2.3 percent) and the first quarter of 2025 (1.6 percent), reflecting lower inflation in China relative to its trading partners and extending the cumulative depreciation since 2022 to 13 percent. The Japanese yen depreciated in 2024 by 5.3 percent, reflecting the yen's nominal depreciation against major currencies, mainly as a result of continued wide interest rate differentials, but it strengthened by 2.4 percent in the first quarter of 2025. The euro was broadly unchanged, appreciating slightly by 0.6 percent in 2024, relative to 2023, but depreciating by 1.4 percent in the first quarter of 2025. The pound sterling appreciated by 5.3 percent during 2024 and the first quarter of 2025, driven primarily by nominal exchange rate appreciation, as interest rates remain on average higher in the United Kingdom than across other advanced economies.

In several economies, policy rate changes or adjusted changes in foreign exchange (FX) reserves also

contributed to addressing broader exchange market pressure in 2024. In addition to nominal exchange rate movements, exchange market pressure can be cushioned by short-term interest rate changes or adjusted changes in FX reserves, which often reflect FX intervention.[4] During the first three quarters of 2024, exchange rate changes were the main outlet for addressing exchange market pressure, especially in countries that experienced significant depreciation pressure, such as Brazil and Mexico (Figure 1.10.1). Adjusted changes in FX reserves also contributed to absorbing both appreciation pressure (Poland, Hungary) and depreciation pressure (Japan, Korea). Monetary policy rates were lowered in 17 of the 24 sample economies but had a smaller impact on addressing exchange market pressure. This reflected both limited easing as inflation proved sticky globally and the comparatively low elasticity of exchange market pressure to interest rates in the ESR sample. During the fourth quarter of 2024, the broad-based depreciation pressure in emerging market and advanced economies was addressed mostly by exchange rate changes, with notable contributions from adjusted changes in FX reserves in some countries (Brazil, Hungary, India). The contribution from policy rates during this episode was subdued (Figures 1.10.2).

Figure 1.10. Exchange Market Pressure and its Components
(Percent change, + = depreciation pressure)



Sources: Adler and others (2024); Goldberg and Krogstrup (2023); IMF, International Financial Statistics database; and IMF staff calculations.

Note: The Exchange Market Pressure Index is based on Goldberg and Krogstrup (2023, updated). It combines pressures observed in exchange rate adjustments with model-based estimates of incipient pressures that are masked by changes in FX reserves and policy rate adjustments. Positive values correspond to exchange market pressure that would depreciate the nominal exchange rate. Values of adjusted changes in FX reserves and interest rate changes are expressed in terms of counterfactual exchange rate adjustments that would have occurred if no changes in FX reserves or policy rates had occurred. Changes in FX reserves are adjusted for valuation changes, income flows, and changes in other foreign currency balance sheet positions by Adler and others (2024, updated). This measure often reflects FX intervention, but it can sometimes be dominated by other changes in the central bank's foreign currency position. Central banks can also intervene through derivatives, which have been increasingly used in some economies. Country sample includes selected External Balance Assessment economies covered by Goldberg and Krogstrup (2023). Missing ESR economies are Argentina, Indonesia, and Türkiye; the Russian Federation is excluded as an outlier. The United States is not reported because the reference currency is the US dollar. Data labels in the figure use International Organization for Standardization country codes. EA = euro area; ER = exchange rate; ESR = External Sector Report; FX = foreign exchange.

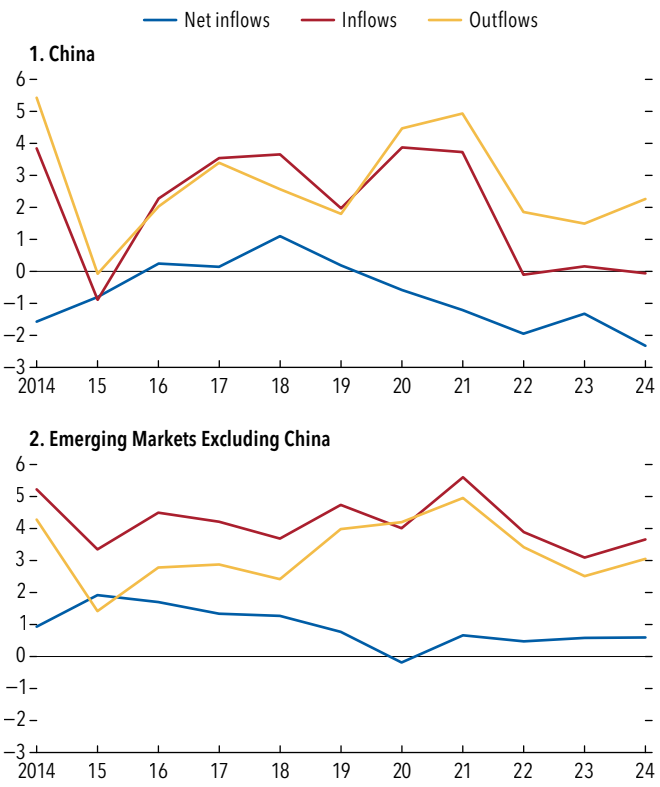
Global Financial Flows

Net capital inflows to emerging market economies in 2024 showed a similar pattern to 2023.

- In China, net capital outflows continued accelerating to reach a new decade-high (Figure 1.11, panel 1). Increased net outflows in 2024 were driven by higher gross capital outflows while gross inflows remained close to zero. The increase in gross outflows was driven by a surge in gross portfolio and other outflows, while gross foreign direct investment (FDI) outflows declined slightly relative to 2023 (Figure 1.12). On the gross inflow side, all components remained subdued, continuing the pattern from 2023.
- In other emerging markets, net inflows remained positive and stable, but significantly below levels observed a decade ago. Both gross inflows and gross outflows grew in 2024 relative to 2023 (Figure 1.11, panel 2), with contributions from portfolio flows on the inflow side and "other" flows on the outflow side (Figure 1.12). Changes in net inflows over the past decade stem mostly from increasing gross outflows, especially gross portfolio outflows. FDI declined on both the inflow and outflow sides, with a limited impact on net capital inflows. The overall stability of

[4]See the note to Figure 1.10 for more details.

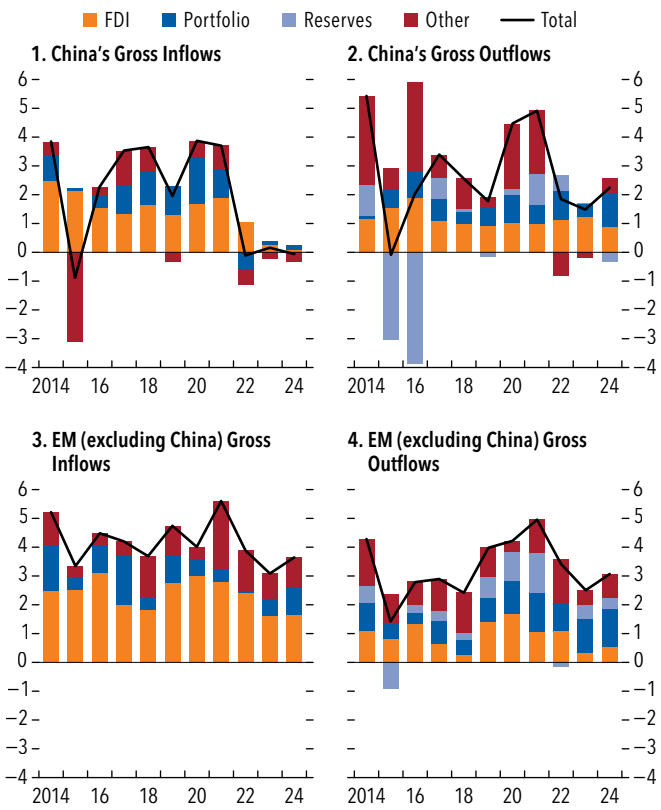
Figure 1.11. Aggregate Net and Gross Capital Inflows to Emerging Markets, 2014–2024
(Percent of GDP)



Sources: Haver Analytics; IMF, International Financial Statistics database; and IMF staff calculations.

Note: Sample includes emerging market economies, subject to data availability. Reserve accumulation is included in outflows; derivatives are excluded.

Figure 1.12. Gross Capital Flows to Emerging Markets by Component, 2014–24
(Percent of GDP)



Sources: IMF, Balance of Payments database; and IMF staff calculations.

Note: Sample includes emerging market economies, subject to data availability. Derivatives are excluded. EM = emerging market; FDI = foreign direct investment.

net inflows to emerging markets, excluding China, hides sizable regional heterogeneity. Net inflows grew in the Middle East and North Africa region and were flat in Latin America and the Caribbean, emerging and developing Europe, and emerging and developing Asia. However, they declined in the Caucasus and Central Asia and sub-Saharan Africa country groups.

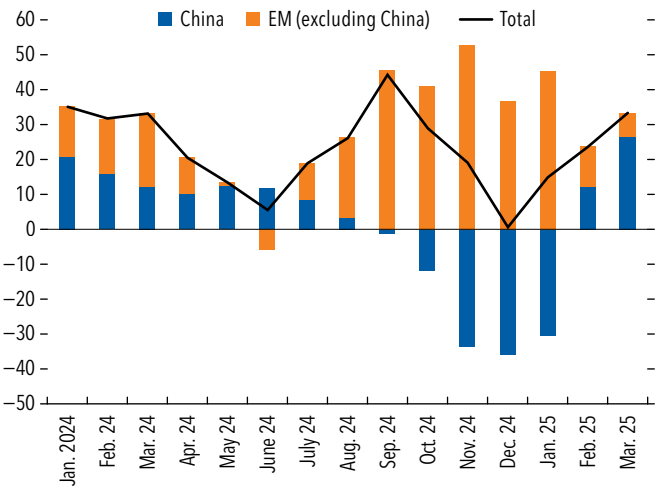
The observed patterns in emerging market capital flows in 2024 could be attributed to both global and local factors. Easing of global financial conditions has likely contributed to the recovery of gross portfolio inflows in emerging markets. Sustained geopolitical fragmentation pressures continued to restrain gross FDI flows (2024 *External Sector Report*, Box 1.1). Diverging growth prospects could have contributed to the heterogeneity in capital flows between China and other emerging markets, and across other regions.

In the first quarter of 2025, higher frequency data signal a potential recovery in gross portfolio inflows to China and continued inflows to other emerging market economies (Figure 1.13). The renewed gross portfolio inflows into China were driven primarily by debt flows, with inflows increasing in February and March. Inflows to other emerging markets remained positive, increasing for the Latin America and the Caribbean group and decreasing in emerging and developing Asia. These patterns were also driven mainly by debt flows, while gross portfolio equity inflows remained small.

Global Balance Sheets

External balance sheets remained broadly stable in gross terms. External assets and liabilities in percent of world GDP were slightly larger in 2024 than at

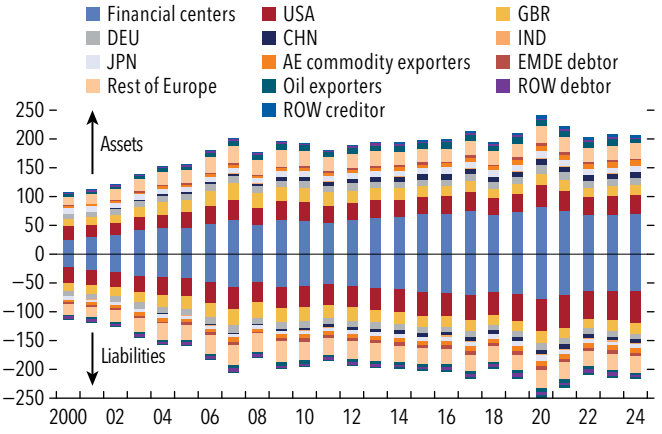
Figure 1.13. High-Frequency Gross Portfolio Inflows to Emerging Markets, January 2024–March 2025
(Three month moving average, billions of US dollars)



Sources: Institute of International Finance; and IMF staff calculations.

Note: EM = emerging market.

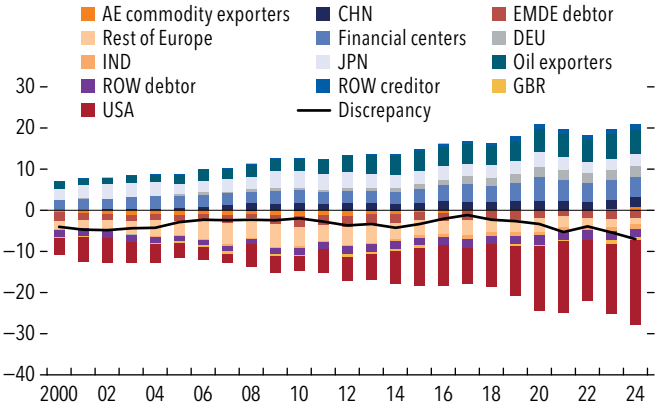
Figure 1.14. Gross Assets and Liabilities, 2000–24
(Percent of world GDP)



Sources: External Wealth of Nations database; IMF, April 2024 *World Economic Outlook*; and IMF staff calculations.

Note: Liabilities are shown on a reverse scale. Data labels in the figure use International Organization for Standardization country codes. AE commodity exporters include Australia, Canada, and New Zealand. EMDE debtors include Brazil, Chile, Indonesia, Mexico, Peru, South Africa, and Türkiye. Financial centers include Belgium, Bermuda, Bahrain, The Bahamas, Barbados, British Virgin Islands, Cayman Islands, Curaçao, Cyprus, Guernsey, Hong Kong SAR, Ireland, Isle of Man, Jersey, Luxembourg, Malta, Mauritius, the Netherlands Antilles, Panama, Singapore, Switzerland, Taiwan Province of China, and Turks and Caicos. Oil exporters include Algeria, Angola, Azerbaijan, Bahrain, Brunei, Chad, Republic of Congo, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kazakhstan, Kuwait, Libya, Nigeria, Norway, Oman, Qatar, Russian Federation, Saudi Arabia, South Sudan, Timor-Leste, Trinidad and Tobago, Turkmenistan, United Arab Emirates, Venezuela, and Yemen. AE = advanced economy; EMDE = emerging market and developing economy; ROW = rest of the world.

Figure 1.15. Net International Investment Positions, 2000–24
(Percent of world GDP)



Sources: External Wealth of Nations database; IMF, April 2024 *World Economic Outlook*; and IMF staff calculations.

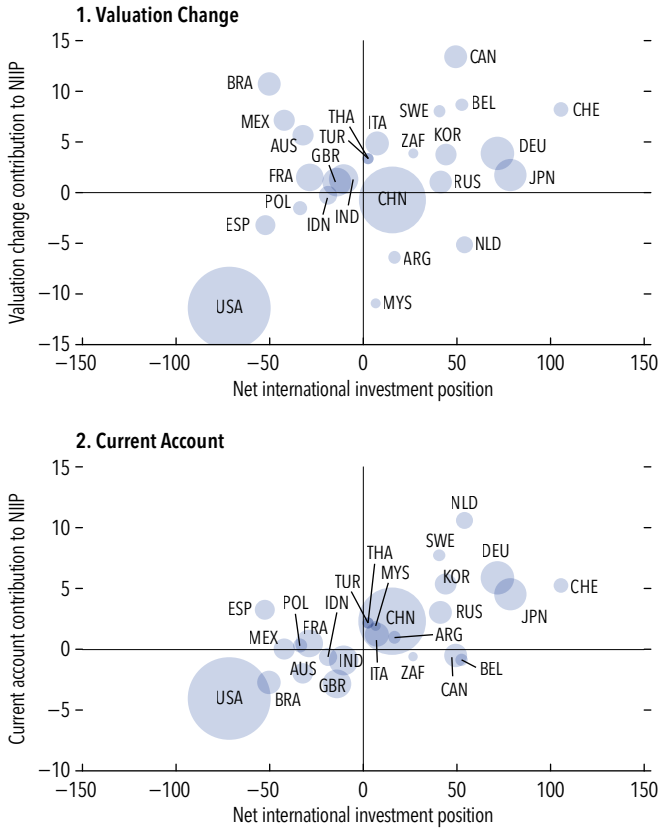
Note: Liabilities are shown on a reverse scale. Data labels in the figure use International Organization for Standardization (ISO) country codes. AE commodity exporters include Australia, Canada, and New Zealand. EMDE debtors include Brazil, Chile, Indonesia, Mexico, Peru, South Africa, and Türkiye. Financial centers include Belgium, Bermuda, Bahrain, The Bahamas, Barbados, British Virgin Islands, Cayman Islands, Curaçao, Cyprus, Guernsey, Hong Kong SAR, Ireland, Isle of Man, Jersey, Luxembourg, Malta, Mauritius, the Netherlands Antilles, Panama, Singapore, Switzerland, Taiwan Province of China, and Turks and Caicos. Oil exporters include Algeria, Angola, Azerbaijan, Bahrain, Brunei, Chad, Republic of Congo, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kazakhstan, Kuwait, Libya, Nigeria, Norway, Oman, Qatar, Russian Federation, Saudi Arabia, South Sudan, Timor-Leste, Trinidad and Tobago, Turkmenistan, United Arab Emirates, Venezuela, and Yemen. AE = advanced economy; EMDE = emerging market and developing economy; ROW = rest of the world.

the end of 2023 (Figure 1.14). Following a rapid expansion during 2000–07, gross cross-border asset holdings as a share of global GDP have remained broadly unchanged over the past decade. Financial centers[5] continued to play an outsized role in global cross-border balance sheets, representing 31 percent of global foreign assets and liabilities but only 5 percent of world GDP.

Within outwardly stable gross positions, net external creditor and debtor positions reached a new high. The expansion of the external debtor side is entirely accounted for by the United States. Its net international investment position (NIIP) in 2024, relative to 2023, decreased by 3.6 percentage points of world GDP (Figure 1.15). All other major economies and country groups—creditors and debtors—reported an increase in their NIIP positions amounting to

[5]For a list of countries included in financial centers see the note to Figure 1.14.

Figure 1.16. Contributions of Valuation Changes and Current Account to Net International Investment Position, 2024
(Percent of GDP)



Sources: IMF, International Financial Statistics database; and IMF staff calculations.

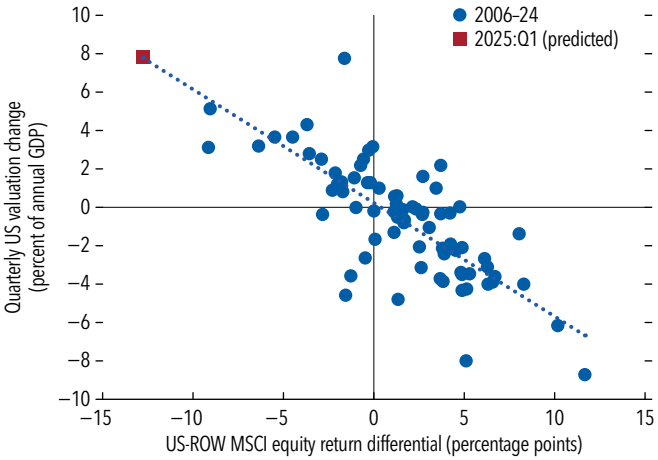
Note: Valuation changes are calculated as the difference between the change in net international investment position over the 2023:Q4–2024:Q4 period and current account balance, in percent of GDP. Sample includes economies covered in the External Balance Assessment regression model, subject to data availability. Bubble sizes are proportional US dollar GDP. Data labels in the figure use International Organization for Standardization country codes. NIIP = net international investment position.

2.0 percentage points.[6] The discrepancy between the debtor and credit sides also widened to a new high, amounting to one-quarter of the global net external creditor position (Table 1.2). These NIIP developments in 2024 are representative of the past decade, during which the NIIP gradually decreased in the United States, while that of other debtors and creditors increased.

Valuation changes and widening current account balances both contributed to the expansion of global net creditor and debtor positions. Valuation losses were particularly large for the United States with the

[6]The oil exporters country group was an exception; its NIIP was unchanged in 2024.

Figure 1.17. Equity Relative Performance and US Valuation Changes



Sources: MSCI; IMF, International Financial Statistics Database; and IMF staff calculations.

Note: Valuation changes are calculated as the difference between the quarterly change in net international investment position and quarterly current account balance, in percent of annual GDP. ROW = rest of the world.

outperformance of its stock markets and the stronger US dollar magnifying the negative contribution of the current account deficit to its NIIP position (Figure 1.16).[7] It is part of a decade-long trend, with the United States accumulating valuation losses that can be partly explained by the strong performance of US equities, of which foreigners hold a sizable share (Chapter 2, Figure 2.14, panel 1). The role of valuation changes has likely reversed in the first quarter of 2025, with US equity markets significantly underperforming a global benchmark (Figure 1.17). China also reported a small valuation loss in 2024. In all other larger creditor countries, including Germany, Canada, and Japan, valuation gains increased their net creditor positions. As expected, current accounts were also tightly linked to the expansion of net creditor and debtor positions (Figure 1.16.2), accounting for 43 percent of the expansion of net external creditor and debtor positions in 2024, relative to 2023.

[7]For the US NIIP in 2024, asset price changes accounted for 66 percent of the valuation loss, while the exchange rate accounted for 20 percent, with other statistical changes contributing the rest (data are from US Bureau of Economic Analysis, "Table 1.3. Change in the US Net International Investment Position").

Assessment of External Positions in 2024

This report represents multilaterally consistent individual assessments of external positions for 30 of the world's largest economies, representing 88 percent of global GDP.[8] Annex Tables 1.1.2, 1.1.3, 1.1.4, and 1.1.5 summarize the IMF staff–assessed current account and real effective exchange rate (REER) gaps and external sector assessments for these economies.

Methodology

The models in the External Balance Assessment (EBA) methodology produce medium-term current account and real exchange rate benchmarks (called norms) that are consistent with country fundamentals and desirable policies (Figure 1.18).[9] The norms are compared with realized current account and real exchange rate levels after adjusting for cyclical and other short-term factors, to derive gaps. These gaps are a measure of excess external balances, with greater weight given to the current account model, because real exchange rates tend to be more volatile and difficult to explain econometrically. The model inputs are then combined with other external indicators, analytically grounded adjustments, and country-specific insights to reach a holistic IMF staff assessment of external sectors.

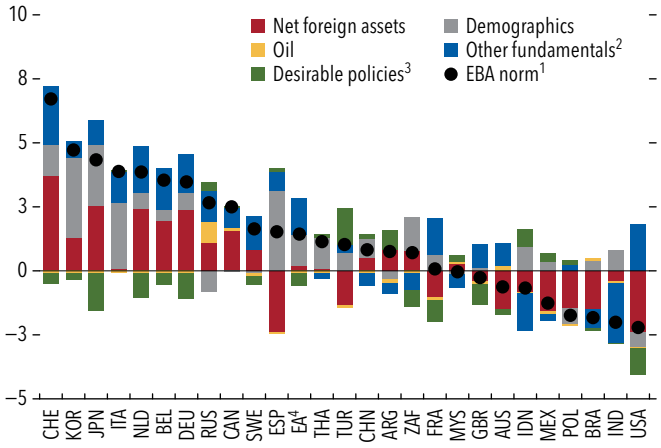
IMF staff judgment plays a critical role in the assessment as the models may not capture all relevant country characteristics and potential policy distortions, as well as being subject to statistical uncertainty.[10]

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

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

[10]Allen and others (2023) include details on the current vintage of the EBA methodology. References therein contain working papers that document earlier methodologies, chronicling periodic updates of the methodology which are a routine element of the ESA work stream. A succinct description of the external assessment process can also be found in Obstfeld (2017).

Figure 1.18. External Balance Assessment Current Account Norms, 2024
(Percent of GDP)



Source: IMF, External Balance Assessment estimates.

Note: Figure excludes Hong Kong SAR, Saudi Arabia, and Singapore, because they are not included in the EBA regression model. Data labels use International Organization for Standardization country codes. EA = euro area; EBA = External Balance Assessment.

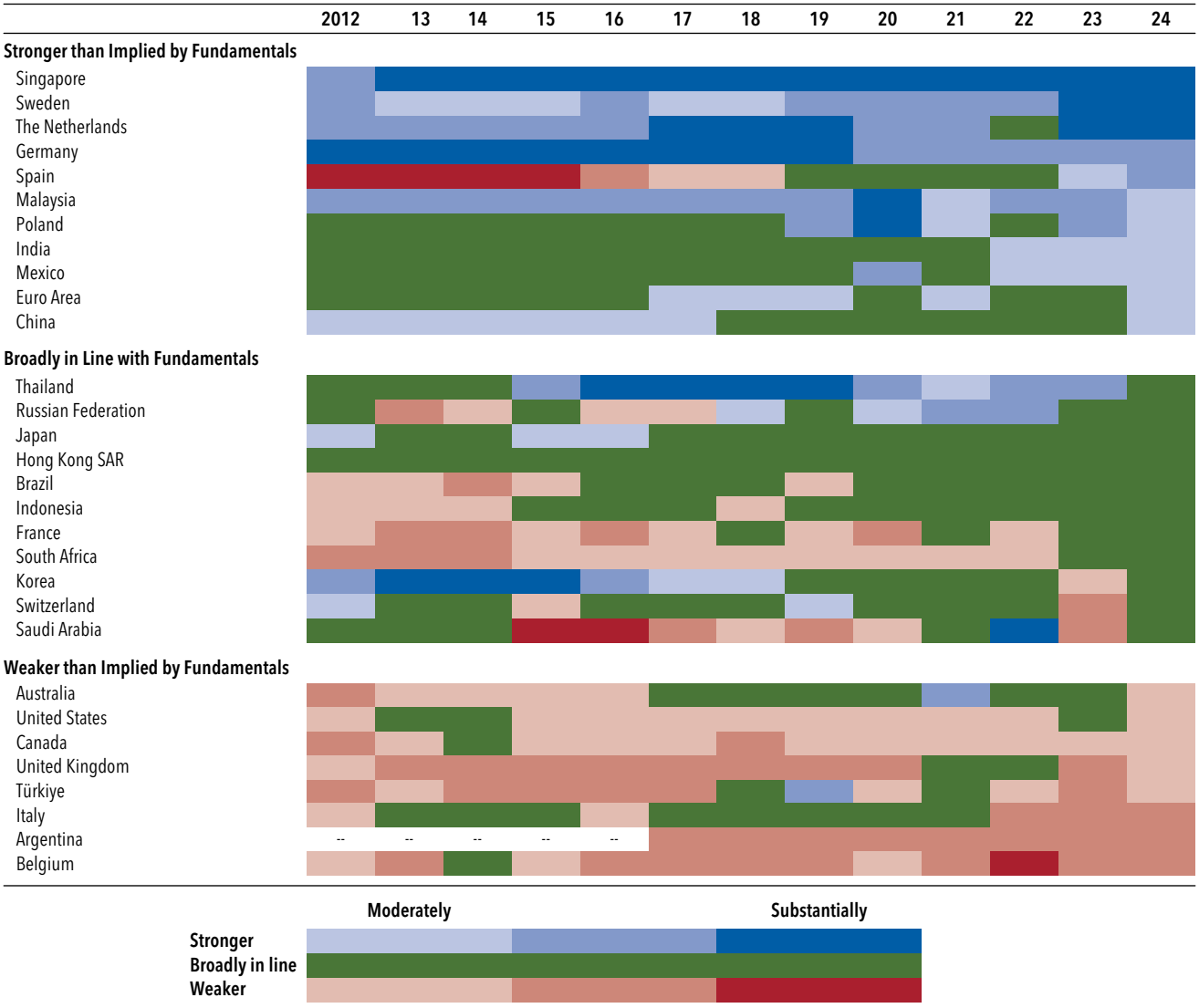
[1]The EBA current account norm is multilaterally consistent and cyclically adjusted.
[2]Other fundamentals include output per worker, expected GDP growth, and International Country Risk Guide.
[3]Desirable policies include desirable credit gap, desirable fiscal balance, desirable foreign exchange intervention, desirable health, and constant and multilaterally consistent adjustment.
[4]The current account norm is corrected for reporting discrepancies in intra-area transactions, because the current account of the entire euro area is about 0.84 percent of GDP less than the sum of the individual 11 countries' balances (for which no such correction is available).

Adjustors for country-specific factors, such as measurement issues, demographic factors, and net international investment position considerations, have been included. The number of adjustors decreased when compared to 2023. Annex Table 1.1.3 reports the overall set of IMF staff adjustments.

Assessment Results for 2024

Assessments changed for 13 of the 30 ESR economies in 2024, with the three largest economies moving farther away from the "broadly in line" category. Figure 1.19 summarizes each country's assessment since 2012. In 2024, the assessment changed from broadly in line to moderately weaker for the United States and to moderately stronger for China and the euro area. While the assessments for two other countries (Australia, Spain) also moved farther away from broadly in line, the assessments for eight countries switched to broadly in line (Korea, Saudi Arabia,

Figure 1.19. Evolution of External Sector Assessments, 2012–24



Source: IMF staff assessments.

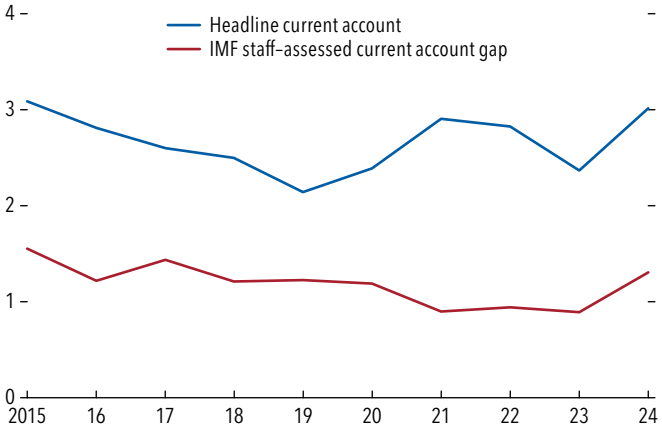
Note: Grouping and ordering are based on economies' excess imbalance during 2024. Coverage of Argentina in the *External Sector Report* started in 2018.

Switzerland, Thailand) or moved closer to it (Malaysia, Poland, Türkiye, the United Kingdom).

Changes in the headline current accounts drove up excess current account balances by the largest amount in a decade. Measured as the sum of the absolute values of IMF staff–assessed current account gaps, excess current account balances increased in 2024 to 1.3 percent of ESR economy GDP, by about 0.4 percentage point relative to 2023 (Figure 1.20). Meanwhile, the sum of the absolute value of headline current account balances (the same concept as the global current account balance, but for the ESR sample) increased to 3.0 percent of the ESR group GDP in 2024, up 0.6 percentage point from 2023.[11] Therefore, the estimated excess CA balances account for about two-thirds of the increase in global headline current account balances. Changes in CA norms also contributed, with the summed absolute value of CA norms increasing by 0.1 percent of ESR group GDP. A reduction in the applied adjustments accounted for another 0.1 percentage point increase in

[11]The increase is close to the global increase reported in Figure 1.1, panel 2, indicating that the ESR country sample was representative of changes in global current account balances in 2024.

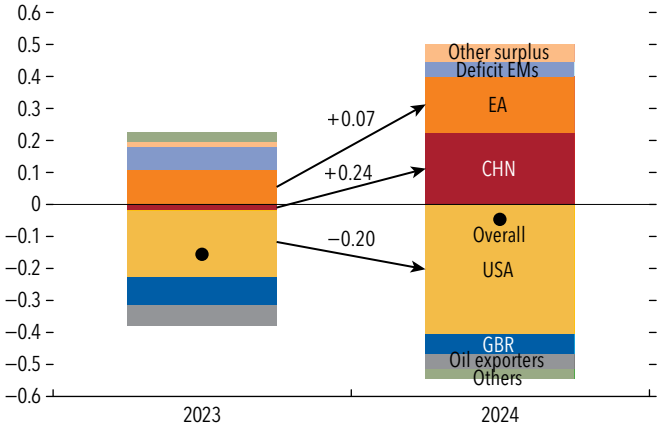
Figure 1.20. Current Account Balance of ESR Countries and IMF Staff Current Account Gaps
(Percent of ESR economy GDP)



Source: IMF staff calculations.

Note: "IMF staff–assessed current account gaps" is a measure of excess current account balances for ESR countries, calculated as the sum of the absolute values of IMF staff–assessed current account gaps. ESR = *External Sector Report*.

Figure 1.21. Excess Current Account Balances
(Percent of ESR GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Data labels in the figure use International Organization for Standardization country codes. Deficit EMs: Brazil, India, Indonesia, Mexico, South Africa, and Türkiye; oil exporters: Canada, Russian Federation, and Saudi Arabia; others: Argentina, Australia, and Poland; other surplus: Hong Kong SAR, Japan, Korea, Malaysia, Singapore, Sweden, Switzerland, and Thailand. EA = euro area; EM = emerging market.

global current account balances. The estimated contribution of cyclical factors remained broadly unchanged relative to 2023.

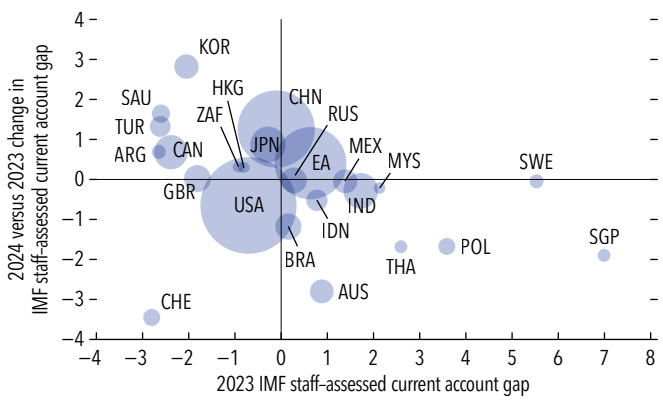
China, the United States, and the euro area drove the significant increase in excess current account balances. Figure 1.21 reports main country-level contributions to global excess current account balances. The largest change in the excess current account in 2024 was in China, increasing by 0.24 percentage point of ESR group GDP, from an excess current account deficit of 0.02 percent in 2023 to an excess surplus of 0.22 percent in 2024. In the United States, the assessed excess current account deficit increased by 0.2 percentage point, approximately doubling in size. In the euro area, the excess surplus increased by 0.07 percentage point. In other smaller ESR countries, the contribution to global excess current account surpluses and deficits remained broadly unchanged.[12] However, their excess current account balances narrowed when expressed relative to own GDP (Figure 1.22).

The globally sizable and excessively large increase in CA balances in major economies, as estimated for 2024, can generate significant negative cross-border spillovers (Box 1.2). Globally sizable deficits can fuel financial crises with costly global consequences. Extensive literature has studied causes and consequences of large deficits (Blanchard and Milesi-Ferretti 2011; Gourinchas and Obstfeld 2012; Obstfeld 2012a, 2012b). Negative spillovers from globally sizable surpluses are equally concerning, contributing to the buildup of systemic macrofinancial risks, but have been studied less. On the policy side, excess current account surpluses alter policy trade-offs in partner countries, with potentially negative implications for economic activity. On the real side, the rapid increase in globally sizable excess current account surpluses, as opposed to a more gradual adjustment, can magnify the negative impact on employment and incomes in more exposed regions or sectors. On the financial side, large and persistent surpluses can depress real interest rates, leading to a buildup of vulnerabilities as investors tilt toward riskier assets and increase leverage. For all these reasons, excessive current account surpluses (especially if persistent) can create inefficiencies and risks.

In sum, global current account balances have widened sizably in 2024, in part due to assessed increase in excess balances in China, the United States, and

[12]The sum of excess surpluses for ESR countries in 2024 broadly matched the sum of excess deficits. They do not add to zero, because the exercise is implemented for a broader EBA sample, and current accounts for EBA countries can have a discrepancy.

Figure 1.22. Change in IMF Staff Current Account Gaps, 2024 versus 2023
(Percent of GDP)[1]



Source: IMF staff calculations.

Note: Data labels in the figure use International Organization for Standardization country codes. EA = euro area; ESR = *External Sector Report*.

[1]Bubble sizes are proportional to 2024 GDP in US dollars.

the euro area. The underlying drivers of the observed changes in saving and investment reveal a configuration, whereby factors driving excess saving in China and the euro area were broadly offset by factors driving dissaving in the United States, leaving the global real interest rate stable. The next section examines risks to these three major economies. The motivation for this focus is twofold. First, these economies account for the bulk of the increase in excess balances in 2024 and thus are central to efforts to rebalance the global economy. Second, each of these economies is large enough to create systemic risks. If they postpone adjustments, global imbalances and resulting negative cross-border spillovers could continue to accumulate.

Outlook and Risk Scenarios[13]

Global current account balances are projected to narrow in 2025 in the reference forecast of the April 2025 *World Economic Outlook* (Table 1.1) but are subject to unusually high uncertainty. It is driven by reduced current account balances in key surplus countries, including China, Japan and Germany. While this reference forecast implies the possibility that the 2024 widening of global balances could be reversed, the projection comes with unusually large uncertainty, reflecting the fluid prospects for the trade and economic relationship among major economies.[14] Importantly, the analysis presented in this report do not draw on this highly uncertain external sector outlook. To better analyze the effects that different paths of policy and economic shocks would have on external sector developments, several risk scenarios are considered. These scenarios, presented next, focus on deviations from the model baseline, anchored in observed outcomes for 2024.

Four types of risks, examined through model-based scenarios, can be summarized as follows: (i) lack of needed domestic macroeconomic adjustment in key surplus and deficit economies could lead to a further divergence of current account balances, widening global current account balances; (ii) conversely, a coordinated effort to address the domestic imbalances could set the global economy on a path of narrowing global current account balances; (iii) increase in trade barriers and intensifying fragmentation could have significant negative macroeconomic effects but a more limited impact on imbalances in key economies, only modestly narrowing global current account balances; (iv) prolonged high policy uncertainty would also be detrimental to global economic prospects, with sizable cross-country variation in uncertainty heightening external sector risks in the most affected economies. Persistent current account imbalances increase further imbalances in NIIPs, with attendant macro-financial risks.

Growing Domestic Imbalances

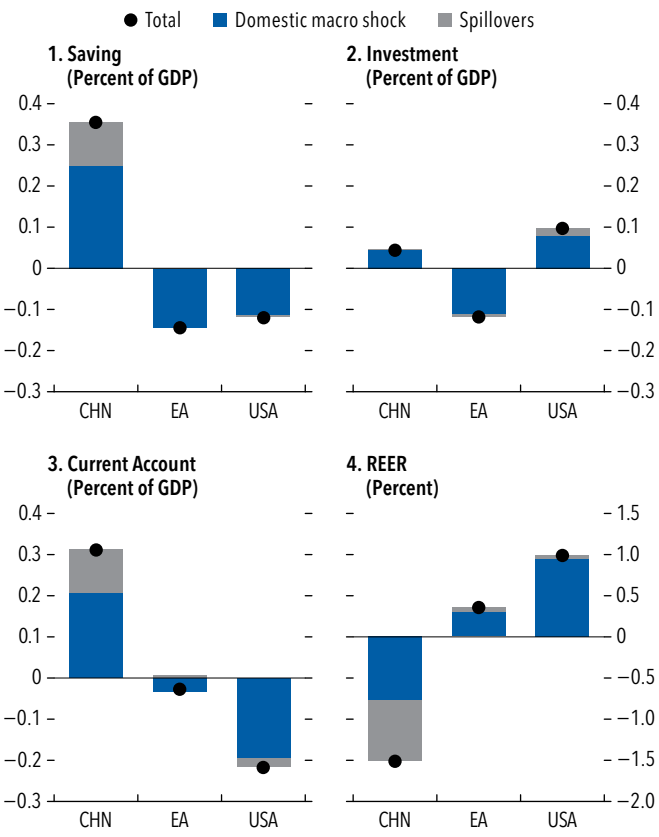
Growing domestic imbalances in key countries would propel continued current account divergence.[15] With the United States, China, and the euro area accounting for 80 percent of the increase in global CA balances in 2024, if domestic macroeconomic adjustments were delayed, current accounts might diverge further. This risk is examined by a model-based scenario with continued widening of domestic imbalances

[13]This subsection's discussion of risks does not affect the external sector assessment of this report, which is based on actual current account balances in 2024, not on the projected balances in 2025.

[14]One symptom of such uncertainty is the implied decline in the global current account discrepancy in 2025, which indicates that the counterparts for the narrowing current account surpluses have not been fully accounted for.

[15]Policies in model-based risk scenarios are illustrative and should not be interpreted as comprehensive policy advice for individual countries or regions.

Figure 1.23. Medium-Term Impact of Widening Domestic Imbalances
(Deviations from baseline)



Source: IMF staff calculations.

Note: The figure shows medium-term responses for selected macro variables, captured in the model at the five-year horizon. All responses are reported as percentage point deviations from baseline. For each country, "domestic macro shock" reports the response to domestic shock: weaker domestic demand for China, fiscal expansion for the United States, and lower productivity for the euro area. "Spillovers" shows total domestic impact from foreign shocks. Reported model responses are for three countries/regions: (1) China, (2) the euro area, and (3) the United States. Other countries/regions included in the model are not shown. Data labels in the figure use International Organization for Standardization country codes. REER = real effective exchange rate, with a decrease representing a depreciation.

in key economies—weaker domestic demand in China, fiscal expansion in the United States and lower productivity in Europe (see Scenario A in Box 1.1 of the April 2025 *World Economic Outlook* for details).[16] In China, compression of demand and the resulting policy response leads to the depreciation of its REER and the increase in the saving rate (Figure 1.23).[17] The relative price adjustment supports export growth and reduces import demand, increasing China's current account surplus. Reverse forces drive external sector outcomes in the United States. Strong domestic demand, underpinned by continued fiscal expansion, decreases saving. Through tax cuts, including for businesses, fiscal expansion stimulates business activity, increasing investment and imports. The domestic demand boom appreciates the REER, leading to a fall in exports. The current account deficit in the United States widens. For the euro area, a decline in productivity lowers investment, but also saving, resulting in a slight decrease in the current account and subdued REER appreciation. Macroeconomic adjustments in this scenario are a continuation of recent macroeconomic trends (Figure 1.3). Assessed external sector effects are limited in economic terms, but postponing the adjustments could magnify the effects. The scenario increases global current account balances by 0.11 percentage point of world GDP by 2030, with comparable contributions from China and the United States and a limited contribution from the euro area (Figure 1.24).

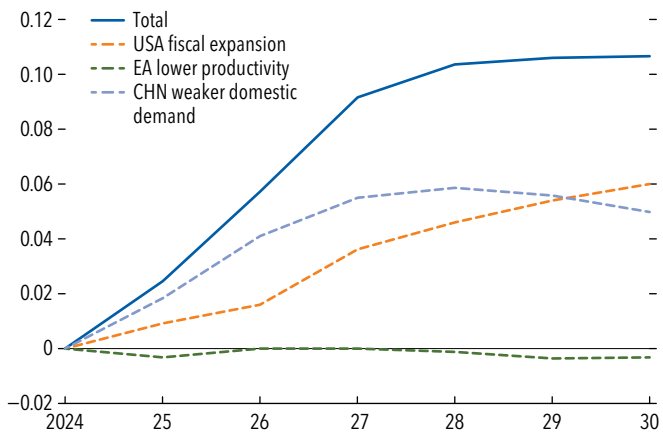
Domestic macro forces drive external imbalances in each country, with a muted effect on the global interest rate. A decomposition into country contributions reveals that two-thirds of the expansion in the medium-term current account surplus in China is the result of weaker domestic demand. For the United States and the euro area, domestic macro forces explain an even larger share of the change in the current account (Figure 1.23).[18] Globally, domestic imbalances in China and the United States have offsetting effects on global interest rates—China's increased saving reduces interest rates, while in the United States public dissaving increases them. The overall effect is a muted rise in global interest rates by 0.04 percentage point. This contrasts starkly with the pre-global financial crisis era of saving glut and depressed global interest rates. Finally, there is the heterogeneous impact on trade openness. While in China, REER depreciation and the surge in exports increases its trade exposure to the rest of the global economy, reverse forces are at work in the

[16]Further quantitative details about the shocks hitting each economy as well as broader short-term and longer-term macroeconomic effects of the shocks for each country and the global economy are presented in Box 1.1 in the April 2025 *World Economic Outlook*.

[17]Saving is private saving less government dissaving and investment is the sum of private and public investment.

[18]The reported sum of spillover effects in Figure 1.23 understates the impact of individual foreign factors, as positive and negative effects can partly cancel out.

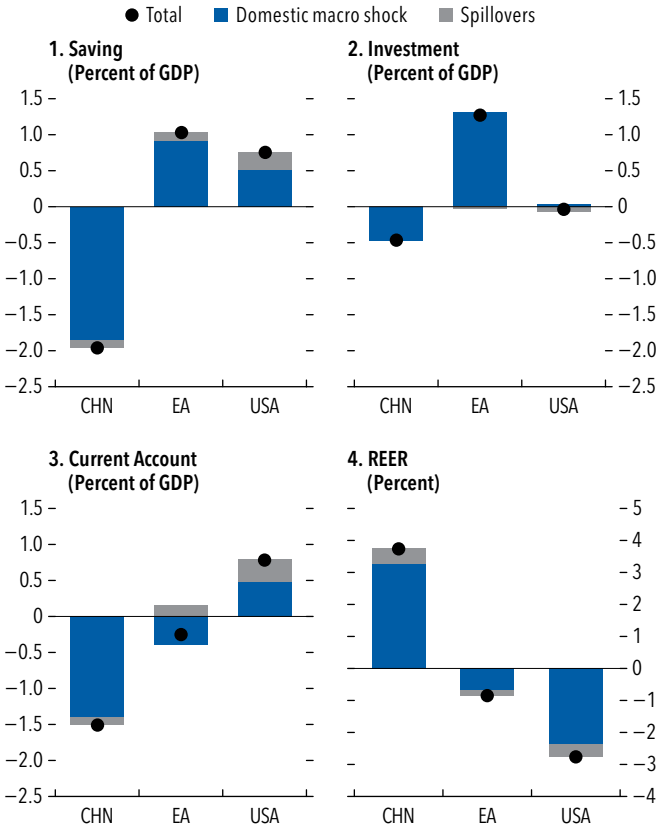
Figure 1.24. Impact of Widening Domestic Imbalances on Global Current Account Balance
(Percent of world GDP)



Sources: IMF, World Economic Outlook database; and IMF staff estimates (Global Integrated Monetary and Fiscal Model).

Note: "Total" is the sum of the individual components "USA fiscal expansion;" "EA lower productivity," and "CHN weaker domestic demand." The figure shows the results from simulations using the IMF's Global Integrated Monetary and Fiscal model. The global current account balance is calculated as the sum of absolute values of current accounts across countries. Data labels in the figure use International Organization for Standardization country codes. EA = euro area.

Figure 1.25. Medium-Term Impact of Narrowing Domestic Imbalances
(Deviations from baseline)



Source: IMF staff calculations.

Note: The figure shows medium-term responses for selected macro variables, captured in the model at the five-year horizon. All responses are reported as percentage point deviations from baseline. For each country "domestic macro shock" reports the response to domestic shock: rebalancing and productivity gains for China, fiscal consolidation for the United States, and higher public spending for the euro area. "Spillovers" shows total domestic impact from foreign shocks. Reported model responses are for three countries/regions: (1) China, (2) the euro area, and (3) the United States. Other countries/regions included in the model are not shown. Data labels in the figure use International Organization for Standardization country codes. REER = real effective exchange rate, with a decrease representing a depreciation.

United States, with exports declining and the economy becoming less open.

Beyond the examined risk scenario, prolonged domestic imbalances could increase external sector vulnerabilities and risks. A delay of fiscal consolidation efforts and fiscal policy uncertainty could deteriorate global risk sentiment and elevate global financial stress, with negative implications for both debtor and creditor countries, with creditor countries experiencing substantial valuation losses. Given the centrality of the United States in the international monetary system (IMS), a sustained erosion of confidence in its fiscal capacity could trigger significant ripple effects (Chapter 2). Similarly, persistent reliance on a current account surplus to accommodate domestic imbalances poses risks of additional backlash from countries absorbing global imbalances and perceiving to be exposed to beggar-thy-neighbor policies. A further spiral of retaliation and escalation could splinter the world economy, with profound effects on cross-border trade, financial flows, and the IMS.

Narrowing Domestic Imbalances

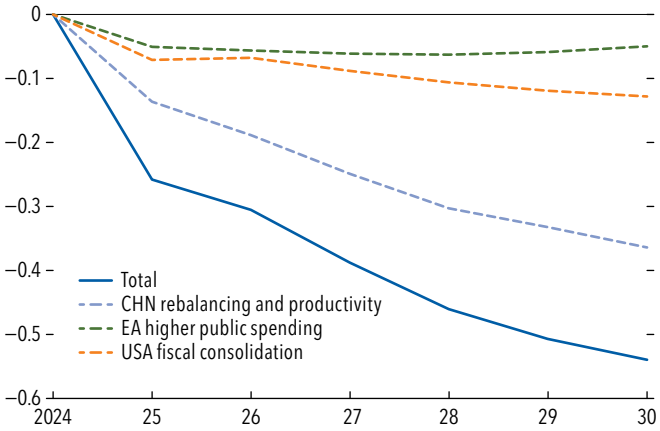
Homegrown surpluses and deficits can be met with homegrown solutions. To discuss external sector implications of such an event, a scenario with an alternative set of policies—rebalancing and productivity gains in China, lower US government debt, and higher public spending in the euro area—is examined (April 2025 *World Economic Outlook*, Box 1.1, scenario B).

Addressing domestic imbalances would lead to a convergence of current account balances (Figure 1.25). In China, structural reforms and strengthening of social safety nets lead to increased market dynamism and productivity gains, boosting demand at short and medium horizons. As a result, private consumption

booms and the saving rate falls significantly in the medium term. Economic activity shifts from the public sector to the private sector, with the investment rate of the public sector declining. The demand boom appreciates China's REER, supporting import growth and dampening exports. China's current account surplus decreases substantially, reflecting the reduction in the saving rate. In the United States, a sustained revenue-neutral fiscal consolidation leads to a substantial reduction in government dissaving, increasing the domestic saving rate in the medium term. The growth-friendly nature of the fiscal consolidation ensures that negative effects on output are avoided, with the medium-term investment rate broadly unchanged, following an initial decline. Fiscal consolidation depreciates the REER, supporting exports and constraining imports. Reflecting the higher saving rate, the current account increases in the medium term. The euro area implements a sustained increase in public investment on infrastructure and spending on defense, which widens the government deficit and increases debt. Higher public spending is financed partially through reallocation of existing spending, and partially through a higher government deficit. This pushes up aggregate demand in the short term and increases interest rates. The higher rates induce higher private saving, and the domestic saving rate goes up. The resulting higher stock of public capital raises the economy's productivity and potential output permanently. Public investment crowds out private investment in the short term, but the aggregate investment rate increases in the medium term. REER appreciation pressure from the stimulus is contained, leaving the medium-term REER broadly unchanged. The public stimulus boosts imports and reduces the current account surplus.

Domestic macro forces remain the largest contributors to external sector adjustments in each economy, along with sizable spillovers. The large and sustained decline in saving and current account surplus in China, induced by domestic rebalancing and productivity gains, increases current account balances in the euro area and the United States, accounting for 30 percent of the increase for the latter. In contrast to the previous scenario of diverging domestic imbalances, the convergence scenario significantly reduces medium term global current account balances by about ½ percentage point of world GDP. The large decline in the saving rate in China contributes 68 percent to the overall decline by 2030, with the US and euro area fiscal policies providing significant additional contributions (Figure 1.26).

Figure 1.26. Impact of Narrowing Domestic Imbalances on Global Current Account Balance
(Percent of world GDP)



Sources: IMF, World Economic Outlook database; and IMF staff estimates (Global Integrated Monetary and Fiscal Model).

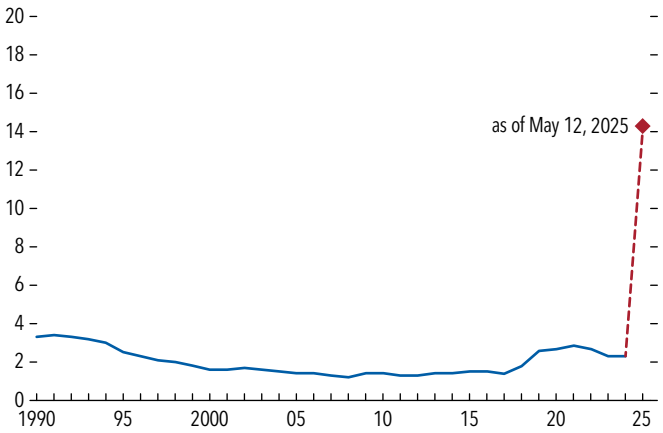
Note: "Total" is the sum of the individual components "USA fiscal consolidation;" "EA higher public spending," and "CHN rebalancing and productivity gains." The figure shows the results from simulations using the IMF's Global Integrated Monetary and Fiscal model. The global current account balance is calculated as the sum of absolute values of current accounts across countries. Data labels in the figure use International Organization for Standardization country codes. EA = euro area.

Rising Trade Barriers and Geopolitical Tensions

Tariff surges through the first five months of 2025 or a further escalation of the trade war would have significant negative macroeconomic effects (Figure 1.27).[19] In the short term, tariffs would reduce global demand, lead to a negative supply shock (especially for the imposing countries), and add to inflationary pressures through rising import prices. Discriminatory tariffs are expected to divert trade away from the tariff-imposing countries and toward third markets, potentially prompting further protectionist responses (Rotunno and Ruta, forthcoming). Depending on the breadth of the rising tariffs and retaliatory dynamics, there could be scope for trade diversion, with some regions temporarily benefit-

[19]For a more detailed illustration of the macroeconomic effects of rising import tariffs, see the discussion of the tariff war layer in the April 2025 *World Economic Outlook*, Box 1.1.

Figure 1.27. US Effective Tariff Rates on All Imports
(Percentage points)



Sources: US International Trade Commission; and IMF staff calculations.

Note: The figure shows the US effective tariffs, defined as government import duties over total Imports. For the year 2025, tariffs are calculated as traded weighted tariffs for each product-country pair, based on announcements until May 12.

ing (Schulze and Xin, forthcoming). However, such positive effects would be short-lived. Over time, the impact on economic activity would become uniformly negative across countries, as rising trade costs lead to reduced capital accumulation, resource misallocation, and loss of efficiency and knowledge hubs (Aiyar and others 2023; Campos and others 2023; Gopinath and others 2024). Rising geopolitical tensions could open up the possibility of changes in the IMS, with potential implications for macro-financial stability (Chapter 2).

The impact of tariffs on the current account is likely limited. Tariffs can discourage imports, which, taken in isolation, would increase the trade balance and the current account. However, this direct trade effect is only part of the complex effects that tariffs can have on the external balance. Their full effects on current account ultimately work through aggregate saving and investment. Box 1.3 illustrates the effects using a model-based scenario calibrated to the April 2025 escalatory tariff episode between the United States and China. The box finds that import tariffs do not have a robust impact on the gap between aggregate saving and investment, with varying short-term and longer-term current account responses in major economies. Furthermore, even for very large tariffs, the response of the current account is limited in economic terms.[20] Consistent with the model-based findings, existing empirical research finds that tariffs have had a limited impact on external balances in recent decades (Furceri and others 2022; Boz, Li, and Zhang 2019; April 2019 *World Economic Outlook*, Chapter 4).[21] Nor did the tariffs in the United States in 2018 have a major impact on the US current account balance. During this period, the current account was instead impacted by US fiscal policy, highlighting the role of domestic macro policies in driving external balances (2021 *External Sector Report*, Chapter 2).

Import tariffs are likely to have a limited impact on global imbalances. Illustrative results from a tariff scenario in Box 1.3 reveal that a major escalation in tariffs between the United States and China would widen the global current account balances in the short term and narrow them modestly in the medium term. Quantitative model results suggest that the April 2025 tariff hikes between the United States and China would reduce medium-term global balances by 0.12 percent of world GDP. Furthermore, this reduction in global balances is accompanied by significant negative macroeconomic effects (April 2025 *World Economic Outlook*, Box 1.1).

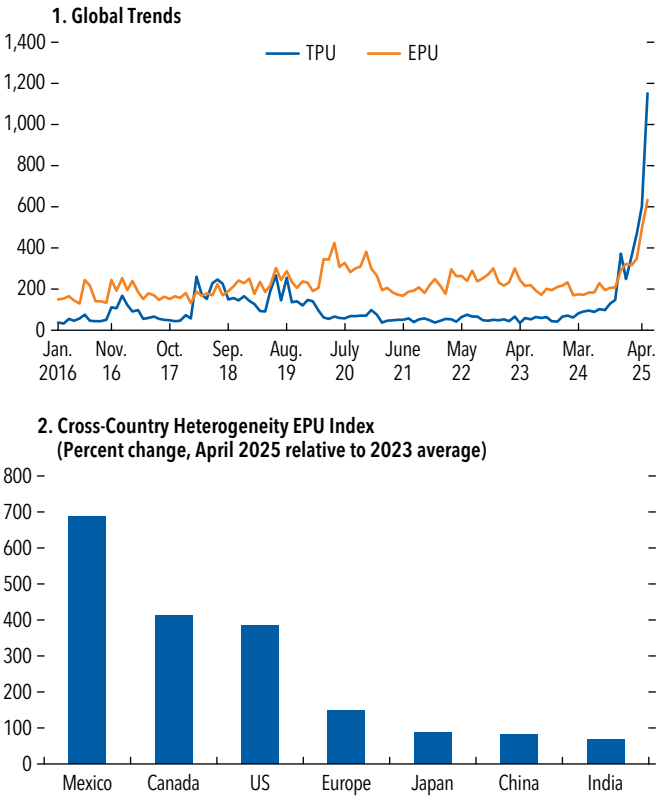
Prolonged High Trade Policy Uncertainty

Beyond the risk of higher trade barriers, policy uncertainty—especially that related to trade policy—continues to surge to unprecedented levels (Figure 1.28.1). Unpredictability about tariffs poses risks to global investment and growth, separate from the level of tariffs (April 2025 *World Economic Outlook*, Box 1.1; Caldara and others 2020). It can diminish domestic demand by undermining consumer and business confidence, increase financial market volatility, and lead to persistent appreciations of the US

[20]Beyond a model scenario, responses of aggregate saving and investment can be sensitive to the exact nature of the rising trade costs, including their breadth, perceived permanence, accompanying uncertainty, speed of implementation, and retaliation or escalation, including through non-market policies. Another key complication stems from the responses of macroeconomic policies, in particular fiscal and monetary policies, which can significantly influence external sector outcomes.

[21]Several recent model-based examinations of the topic reach similar conclusions. Costinot and Werning (2025) argue that the effect of tariffs on the current account balance is likely moderate. Quantitatively, Barattieri, Cacciatore, and Ghironi (2021) and Kalemli-Özcan, Soylu, and Yildirim (2025) find small effects of tariffs on the current account in the presence of retaliation.

Figure 1.28. Surging Policy Uncertainty



Sources: Baker, Bloom and Davis (2016); Davis (2016); Zalla (2016), Hardouvelis, and others (2018); Arbatli, and others (2019); Davis, Liu, and Sheng (2019); Ghirelli, Perez, and Urtasun (2019); and IMF staff calculations.

Note: The global EPU is calculated as the GDP-weighted average of the 15 national EPU index values for which there is information until April 2025, using GDP data of 2023 from the IMF World Economic Outlook database. EPU = economic policy uncertainty; TPU = trade policy uncertainty.

dollar, with negative spillovers to economic activity in emerging markets (Handley and Limão 2017; Allen and others 2025; Albrizio and others, forthcoming). Prolonging the policy uncertainty will magnify these effects.

The degree of increase in uncertainty varies significantly across economies, potentially affecting current account balances. Cross-economy variation will depend on the exposure to protectionist measures through trade and financial linkages as well as broader geopolitical linkages (Figure 1.28.2). This variation in policy uncertainty could pose distinct external sector risks, with domestic demand and investment rates falling disproportionately, and current accounts increasing in countries that are more exposed and decreasing in economies that are relatively less exposed (Box 1.4). With its effective tariff rates increasing the most, if the United States is disproportionately exposed to the prolonged trade policy uncertainty, the result would be a somewhat narrower US current account deficit, temporarily mitigating global imbalances. On the other hand, if current account surplus economies are disproportionately affected, the prolonged uncertainty would temporarily increase the surpluses, which could be an added headwind for efforts to rebalance the global economy. However, the quantitative findings in Box 1.4 indicate that even for a large and heterogeneous surge in uncertainty, the impacts on external balances are limited.

Policy Priorities for Promoting External Rebalancing

Intensifying trade tensions have brought to light one of the risks that excessive global balances pose. Current account deficits and surpluses are not in themselves undesirable, but those in excess of what is warranted by country fundamentals and desirable policies carry risks. Excess current account balances could reflect the inefficient allocation of resources, exacerbate the risk of sudden stops and reversals in capital inflows where the NIIP is negative, contribute to exacerbating geoeconomic fragmentation, or increase trade tensions.

Promoting external rebalancing requires both excess current account surplus and deficit economies to act collectively. As emphasized in the April 2025 *World Economic Outlook*, domestic macroeconomic policies are key to addressing excessive external balances. Durable market-oriented structural reforms can boost insufficient domestic demand and lift medium-term growth prospects, promoting investment. Fiscal consolidation, where warranted, can help rebuild fiscal buffers and increase saving. While trade policies have a limited direct effect on external rebalancing, underlying trade tensions should be resolved, to promote clarity and transparency, and deepen economic integration through nondiscriminatory reductions in trade barriers or by pursuing comprehensive free trade agreements at the regional, plurilateral or multilateral level. Industrial policies should be limited to specific objectives in sectors where externalities or market failures prevent effective market solutions and should undergo comprehensive cost-benefit analyses in the context of limited fiscal space. Industrial policies must also be consistent with international obligations. Pragmatic international cooperation remains vital in sustaining global growth

Table 1.1. Selected Economies: Current Account Balance, 2022–25

	Billions of US Dollars				Percent of World GDP				Percent of GDP			
	2022	2023	2024	2025 Reference Scenario	2022	2023	2024	2025 Reference Scenario	2022	2023	2024	2025 Reference Scenario
Advanced Economies												
Australia	6	–5	–35	*–54*	0.01	0.00	–0.03	*–0.05*	0.4	–0.3	–1.9	*–3.1*
Belgium	–8	–4	–6	*–7*	–0.01	0.00	–0.01	*–0.01*	–1.3	–0.7	–0.9	*–1.1*
Canada	–7	–14	–11	*–3*	–0.01	–0.01	–0.01	*0.00*	–0.3	–0.6	–0.5	*–0.1*
France	–33	–30	12	*6*	–0.03	–0.03	0.01	*0.01*	–1.2	–1.0	0.4	*0.2*
Germany	160	252	267	*249*	0.16	0.24	0.24	*0.22*	3.8	5.6	5.7	*5.2*
Hong Kong SAR	37	32	53	*48*	0.04	0.03	0.05	*0.04*	10.2	8.5	12.9	*11.4*
Italy	–36	3	27	*22*	–0.04	0.00	0.02	*0.02*	–1.7	0.1	1.1	*0.9*
Japan	90	159	193	*142*	0.09	0.15	0.17	*0.13*	2.1	3.8	4.8	*3.4*
Korea	26	33	99	*63*	0.03	0.03	0.09	*0.06*	1.4	1.8	5.3	*3.5*
The Netherlands	69	114	122	*130*	0.07	0.11	0.11	*0.11*	6.6	9.9	9.9	*10.2*
Singapore	94	89	96	*96*	0.09	0.08	0.09	*0.09*	18.4	17.7	17.5	*17.1*
Spain	5	43	52	*44*	0.00	0.04	0.05	*0.04*	0.4	2.7	3.0	*2.4*
Sweden	27	41	45	*42*	0.03	0.04	0.04	*0.04*	4.7	7.0	7.4	*6.8*
Switzerland	72	47	47	*48*	0.07	0.04	0.04	*0.04*	8.7	5.2	5.1	*5.0*
United Kingdom	–66	–118	–97	*–141*	–0.06	–0.11	–0.09	*–0.12*	–2.1	–3.5	–2.7	*–3.7*
United States	–1012	–905	–1134	*–1138*	–0.99	–0.85	–1.03	*–1.01*	–3.9	–3.3	–3.9	*–3.7*
Emerging Market and Developing Economies												
Argentina	–4	–22	6	*–3*	0.00	–0.02	0.01	*0.00*	–0.6	–3.4	1.0	*–0.4*
Brazil	–42	–28	–61	*–49*	–0.04	–0.03	–0.06	*–0.04*	–2.2	–1.3	–2.8	*–2.3*
China	443	263	424	*363*	0.44	0.25	0.38	*0.32*	2.4	1.4	2.3	*1.9*
India[1]	–67	–26	–31	*–40*	–0.07	–0.02	–0.03	*–0.03*	–2.0	–0.7	–0.8	*–0.9*
Indonesia	13	–2	–9	*–21*	0.01	0.00	–0.01	*–0.02*	1.0	–0.1	–0.6	*–1.5*
Malaysia	13	6	6	*7*	0.01	0.01	0.01	*0.01*	3.2	1.5	1.4	*1.6*
Mexico	–18	–6	–6	*–8*	–0.02	–0.01	–0.01	*–0.01*	–1.2	–0.3	–0.3	*–0.5*
Poland	–16	14	2	*–3*	–0.02	0.01	0.00	*0.00*	–2.3	1.8	0.2	*–0.3*
Russian Federation	238	49	62	*33*	0.23	0.05	0.06	*0.03*	10.4	2.4	2.9	*1.6*
Saudi Arabia	150	35	–5	*–38*	0.15	0.03	0.00	*–0.03*	12.1	2.9	–0.5	*–3.1*
South Africa	–2	–6	–2	*–5*	0.00	–0.01	0.00	*0.00*	–0.5	–1.6	–0.6	*–1.2*
Thailand	–17	7	11	*6*	–0.02	0.01	0.01	*0.01*	–3.5	1.4	2.1	*1.2*
Türkiye	–46	–40	–10	*–17*	–0.05	–0.04	–0.01	*–0.02*	–5.1	–3.5	–0.8	*–1.2*
Memorandum Items:[2]												
Euro Area	–15	263	461	*384*	0.0	0.2	0.4	*0.3*	–0.1	1.7	2.8	*2.3*
Global Current Account Balance	4,039	3,250	3928	*3734*	4.0	3.1	3.6	*3.3*	. . .	. . .	. . .	. . .
Statistical Discrepancy	425	312	532	*46*	0.4	0.3	0.5	*0.0*	. . .	. . .	. . .	. . .
Overall Surpluses	2,232	1,781	2215	*1883*	2.2	1.7	2.0	*1.7*	. . .	. . .	. . .	. . .
Of which: Advanced Economies	985	1,130	1437	*1294*	1.0	1.1	1.3	*1.1*	. . .	. . .	. . .	. . .
Overall Deficits	–1,807	–1,469	–1684	*–1837*	–1.8	–1.4	–1.5	*–1.6*	. . .	. . .	. . .	. . .
Of which: Advanced Economies	–1,260	–1,121	–1324	*–1384*	–1.2	–1.1	–1.2	*–1.2*	. . .	. . .	. . .	. . .

Source: IMF, April 2025 *World Economic Outlook*; and IMF staff calculations.

Note: ". . ." indicates that data are not available or not applicable; SAR = Special Administrative Region.

[1] For India, data are presented on a fiscal year basis.

[2] The global current account balance is the sum of absolute deficits and surpluses. Overall surpluses and deficits (and the "of which" advanced economies) include non–*External Sector Report* economies.

Table 1.2. Selected Economies: Net International Investment Position, 2021–24

	Billions of US Dollars				Percent of World GDP				Percent of GDP			
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Advanced Economies												
Australia	–613	–644	–544	–431	–0.6	–0.6	–0.5	–0.4	–37.0	–37.3	–31.2	–24.0
Belgium	402	334	332	400	0.4	0.3	0.3	0.4	67.2	56.2	51.5	60.1
Canada	1,086	776	1,074	1,388	1.1	0.8	1.0	1.3	53.7	35.4	49.4	61.9
France	–951	–698	–865	–643	–1.0	–0.7	–0.8	–0.6	–32.0	–25.0	–28.3	–20.3
Germany	2,922	2,932	3,169	3,668	3.0	2.9	3.0	3.3	67.2	70.4	70.0	78.7
Hong Kong SAR	2,111	1,769	1,759	2,044	2.2	1.7	1.7	1.8	574.0	491.8	460.5	499.9
Italy	132	89	168	363	0.1	0.1	0.2	0.3	6.0	4.2	7.3	15.3
Japan	3,678	3,101	3,257	3,589	3.8	3.0	3.1	3.2	75.6	74.9	79.6	89.8
Korea	685	801	810	1,102	0.7	0.8	0.8	1.0	35.3	44.5	44.1	59.0
The Netherlands	714	562	611	731	0.7	0.6	0.6	0.7	67.7	53.7	52.9	59.6
Singapore	1,004	871	906	804	1.0	0.9	0.9	0.7	229.9	171.0	179.3	146.9
Spain	–969	–840	–838	–758	–1.0	–0.8	–0.8	–0.7	–66.3	–58.0	–51.7	–44.0
Sweden	126	197	233	403	0.1	0.2	0.2	0.4	19.8	34.0	39.8	66.0
Switzerland	867	787	918	1,180	0.9	0.8	0.9	1.1	106.5	95.0	102.6	126.0
United Kingdom	–391	–369	–461	–357	–0.4	–0.4	–0.4	–0.3	–12.4	–11.8	–13.7	–9.8
United States	–18,833	–16,264	–19,853	–26,232	–19.3	–16.0	–18.7	–23.8	–79.5	–62.5	–71.6	–89.9
Emerging Market and Developing Economies												
Argentina	124	123	108	67	0.1	0.1	0.1	0.1	25.6	19.5	16.8	10.6
Brazil	–601	–825	–1,102	–751	–0.6	–0.8	–1.0	–0.7	–36.0	–42.3	–50.3	–34.6
China	2,186	2,422	2,851	3,296	2.2	2.4	2.7	3.0	12.0	13.2	15.6	17.6
India	–377	–376	–370	–369	–0.4	–0.4	–0.3	–0.3	–12.2	–11.2	–10.5	–9.6
Indonesia	–277	–250	–258	–245	–0.3	–0.2	–0.2	–0.2	–23.4	–19.0	–18.8	–17.6
Malaysia	22	12	22	–3	0.0	0.0	0.0	0.0	5.8	3.0	5.4	–0.6
Mexico	–552	–614	–758	–590	–0.6	–0.6	–0.7	–0.5	–41.9	–41.9	–42.3	–31.8
Poland	–266	–244	–275	–258	–0.3	–0.2	–0.3	–0.2	–38.6	–35.1	–33.8	–28.2
Russian Federation	487	768	856	949	0.5	0.8	0.8	0.9	26.6	33.5	41.6	43.6
Saudi Arabia	704	778	765	735	0.7	0.8	0.7	0.7	71.6	62.8	62.8	59.4
South Africa	102	82	102	115	0.1	0.1	0.1	0.1	24.3	20.3	26.7	28.8
Thailand	40	–24	13	43	0.0	0.0	0.0	0.0	7.9	–4.9	2.5	8.2
Türkiye	–238	–358	–311	–295	–0.2	–0.4	–0.3	–0.3	–29.4	–39.5	–27.5	–22.3
Memorandum Items:												
Euro Area	–66	308	483	1,736	–0.1	0.3	0.5	1.2	–0.4	2.1	3.1	10.9
Statistical Discrepancy	–6,999	–5,433	–7,645	–9,225	–7.2	–5.3	–7.2	–8.4	. . .	. . .		
Overall Creditors[1]	20,942	19,883	21,895	25,485	21.5	19.5	20.6	23.1	. . .	. . .		
Of which: Advanced Economies	16,996	15,405	16,883	19,952	17.4	15.1	15.9	18.1	. . .	. . .		
Overall Debtors[1]	–27,941	–25,316	–29,540	–34,711	–28.6	–24.9	–27.8	–31.4	. . .	. . .		
Of which: Advanced Economies	–23,248	–20,265	–23,988	–29,674	–23.8	–19.9	–22.6	–26.9	. . .	. . .		

Source: IMF, April 2025 *World Economic Outlook*; US Bureau of Economic Analysis; and IMF staff calculations.

Note: ". . ." indicates that data are not available or not applicable; SAR = Special Administrative Region.

[1] Overall creditors and debtors (and the "of which" advanced economies) include non–*External Sector Report* economies.

and mitigating cross-country spillovers. This is best pursued through multilateral initiatives on challenges facing the global commons, while seeking flexible plurilateral or regional solutions to address trade issues, modernizing trade rules where necessary, and avoiding unilateral trade restrictions.

Sustaining liquidity in the global financial system will be essential in navigating a global economy with heightened uncertainty and the associated increase in risks. Monetary policy needs to be carefully calibrated as uncertainty intensifies the trade-offs faced by central banks. A well-functioning IMS needs to keep providing global public goods, including the global financial safety net, that underline balanced growth and financial stability. Disruptive financial volatility and foreign exchange movements should be mitigated, and the IMF's Integrated Policy Framework provides guidance on policy responses based on country-specific factors. The approval of the 16th General Review of Quotas further fortifies liquidity in the global financial system and needs to be followed up by members consenting to their respective quota increase.

Policies to promote external rebalancing are tailored for the external position and needs of individual economies. These policies are detailed in the individual economy assessments in Chapter 3 (and summarized in Annex Table 1.1.6).

- *Economies with stronger than warranted external positions* should focus on policies that promote investment and limit excess saving. In China, expansionary fiscal policy, to support consumption by scaling up social spending, and market-oriented structural reforms, including a scale-back of industrial policies, would help reduce excess saving. Structural policies that promote investment, for example by improving the business environment, liberalizing the FDI regime (India) and easing regulatory hurdles (Poland) can help external rebalancing. In some cases, expansionary fiscal policy is needed to invest in transportation and energy (Germany), and to spend on health care and human capital (Singapore). Improving social safety nets where needed would promote private consumption and help decrease the need for excess saving.
- *Economies with weaker than warranted external positions* should focus on policies that boost saving and competitiveness. In the United States, fiscal consolidation, that together with growth-enhancing easing of regulatory burden puts the debt-to-GDP ratio on a downward path, would increase public saving, supporting rebalancing. Structural policies that boost competitiveness and can help external rebalancing include promoting and investing in research and development (Australia, Canada, Italy) and reforming labor and product markets (Belgium).
- *Economies with external positions broadly in line with fundamentals* should continue to address domestic imbalances to head off excessive external imbalances. In many cases, fiscal consolidation is needed to maintain external balance (Brazil, France, Hong Kong SAR, Japan, Saudi Arabia, South Africa) along with structural reforms to improve productivity and increase investment (France), increase competitiveness (Brazil, South Africa), and diversify the economy (Saudi Arabia). Over the medium term, increasing the fiscal space would help address the needs of an aging population (Korea).

Box 1.1. Measuring Current Account Balance

This box discusses two challenges in measuring current account data, which is essential for monitoring and assessing external sector developments in a multilaterally consistent manner. Measurement and consistency challenges have increased with the deepening of cross-border transactions in both trade and finance, including via the operation of multinational enterprises (MNEs), and the implementation in full of the Balance of Payments (BoP) change-of-ownership principle in some countries.

1. **Trade Balance Estimates under Complex Production Chains.** Exports and imports in the BoP should capture change in ownership of goods between residents and non-residents.[1] As production arrangements and corporate structures become increasingly complex, the BoP concept of trade increasingly diverges from the customs concept, as the latter only captures the physical movement of goods across borders rather than actual changes of ownership. This can potentially result in large gaps between trade in goods estimates from BoP statistics and Customs data. In particular, the adoption of the BoP statistical framework increases the number of adjustments to customs data needed to make it consistent with BoP principles, as adjustments for factors such as merchanting, goods-for-processing and factoryless goods production (outsourcing of physical manufacturing activities) are added to earlier adjustments for traditional items such as transport and insurance margins on imports. In principle, the sum of these adjustments—which typically require collecting the necessary information directly from company surveys—should be equivalent to the difference between the customs data and BOP data. The challenge is to correctly and consistently measure trade following the BOP principles when change in ownership can often occur without goods crossing borders.
2. **Expanding Primary Income Flows.** International balance sheets have grown significantly and become more complex in recent decades. In addition, global primary income flows have expanded markedly following monetary policy normalization in 2022 and the associated rise in interest rates (Donato and Tille 2025). The expanded income flows should be correctly reflected in the current account data.

[1]If a country compiles its BoP trade in goods statistics directly from customs data—reflecting the physical movement of goods—without adjusting for the change-of-ownership principle prescribed by the BoP Manual, the recorded transactions may not reflect actual cross-border ownership changes, ultimately causing discrepancy between the current and financial accounts that results in errors and omissions.

Customs-BoP Trade Flow Differences

The analysis compares customs-BoP trade flow differences for countries with available data over the last two decades. To examine the current account impact of customs-BoP trade flow differences, BoP-based current account identity is rearranged to identify the term of interest:

$$CA_{BOP} = TB^{G}_{BOP} + TB^{S}_{BOP} + IB_{BOP}$$

$$CA_{BOP} = \underbrace{TB^{G}_{BOP} - TB^{G}_{CUS}}_{\text{Customs-BOP difference}} + TB^{G}_{CUS} + TB^{S}_{BOP} + IB_{BOP}$$

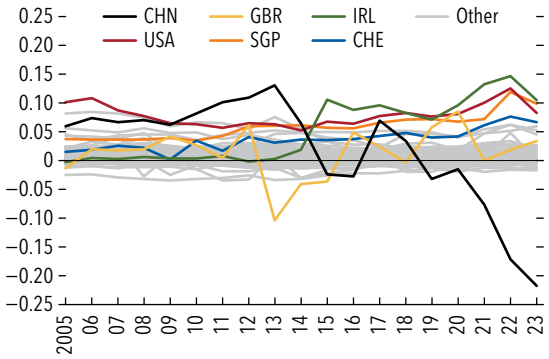
where TB and IB denote trade and income balances, subscripts—BoP and CUS—denote BoP and customs as data sources, and superscripts G and S denote the goods and services components of the trade balance. To focus on globally significant cases, the difference in trade balances as measured in customs and BoP data is normalized by global GDP, $\left(TB^{G}_{BOP} - TB^{G}_{CUS}\right)/GDP^{Global}$.

Country-level customs-BoP differences—measured in percent of global GDP—exhibit a three-fold increase in their cross-country variance after 2020 (see Figure 1.1.1). This rise in variance follows relative stability in the prior period and has been driven by several countries, including China, Ireland, Singapore, Switzerland, the United Kingdom and the United States. The most globally sizable change since 2020 has been China.

The sources of these customs-BoP differences are complex. Both BoP statistical practices and the degree of global supply chain participation could affect these gaps. A gap does not necessarily imply a measurement error, nor does the absence of a gap imply no measurement error. For instance, a sizable gap between goods changing ownership versus goods crossing borders

Box 1.1 *(continued)*

Figure 1.1.1. Customs-BOP Trade Balance Adjustments
(Percent of global GDP)



Sources: IMF, International Financial Statistics database; and WEO IMF: Haver Analytics.

Note: Based on a sample of 179 countries with available data. To address data coverage gaps, customs data from the IFS for Singapore, was supplemented with data from Haver Analytics.

can be expected for a country that implements the change-of-ownership principle and is significantly engaged in global supply chains. For countries that are still resorting to adjusting customs data (rather than entity surveys) to measure trade by the change of ownership, the difference between customs and BoP data could be small because they are not fully capturing the change-of-ownership principle. Yet, absence of a gap in such a case need not be a sign of mismeasurement either, especially in the case of a limited global supply chain participation.

Steps should be taken by the authorities to improve the measurement of trade data in BoP statistics and to dispel concerns of potential measurement errors. All countries should aim to implement the latest international standards and measure trade in goods on a change-of-ownership basis in the BoP. For countries with large gaps between customs and BoP trade data, conducting further analysis on drivers of the gap (e.g. trends in factoryless goods production) can help improve transparency and dispel data concerns. While in some cases (e.g. Ireland), bilateral partner data are available and select countries report the contribution of merchanting to the overall adjustment, broader cross-country coverage from all countries is needed to validate the multilateral consistency of adjustments implemented by individual countries.[2] The absence of such information leaves open risks of mismeasuring current account data in globally systemic countries and thus mis-representing the evolution in global imbalances.

Rising Interest Rates and Primary Income Balance

The issue is examined by comparing implied yields on foreign assets for the 10 largest economies and by examining the global adding-up constraint for primary income flows.

Consistent with the global rise in interest rates, implied yields from BoP primary income flows after 2021 increased in all major economies, except China. The top 10 largest economies saw implied yields on assets (and liabilities) increase significantly during 2022-24 relative to 2021, as expected. In contrast, China experienced a sizable decline in the implied yield on assets, which in 2024 is estimated to have remained below the 2021 level (Figure 1.1.2, panel 1). Further analysis of the decline in yields in China is hindered by the lack of detailed primary income flow data.[3]

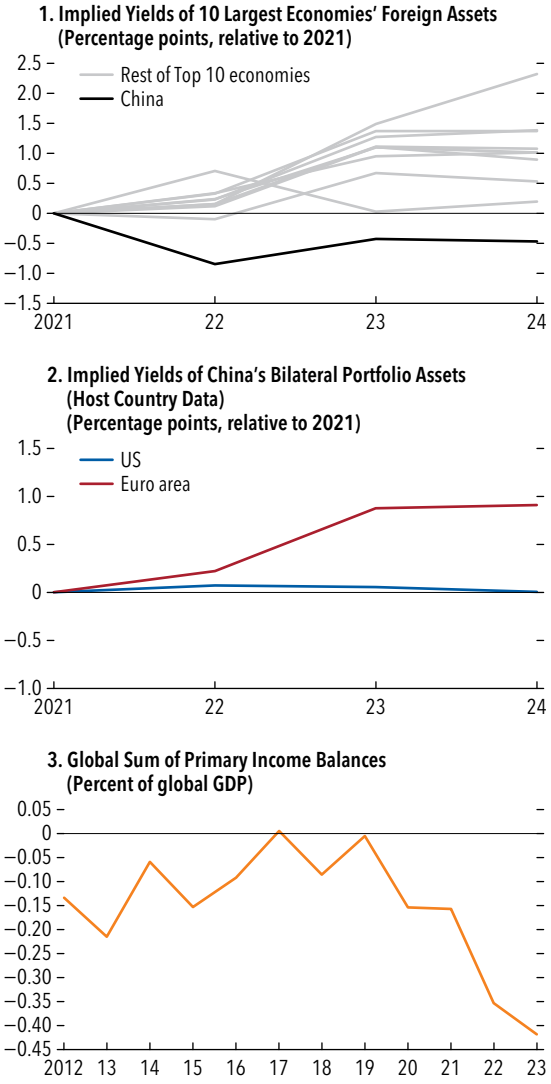
An analysis of mirror bilateral primary income flow data and the global discrepancy in primary income flows does not support the recent declining yields in China. In the absence of detailed data for China, two alternative avenues are pursued. First, examination of bilateral implied yields from the United States and the euro area—two major partners that report detailed bilateral flows and account for 31 percent of China's foreign portfolio assets—jointly show increasing yields

[2]For further details, see Central Statistics Office of Ireland, 2018.

[3]After 2004, China stopped reporting primary income flow credit and debit breakdowns into items of the BoP (such as FDI, portfolio or other investment).

Box 1.1 *(continued)*

Figure 1.1.2. Primary Income Yields and Global Discrepancy



Sources: IMF, International Financial Statistics database; IMF, World Economic Outlook; Bureau of Economic Analysis; US Treasury; European Central Bank.

Note: Change relative to 2021 in yields calculated as primary income credit divided by the lag of total foreign assets. Yields on bilateral portfolio assets derived with the same approach. Top 10 economies include United States, China, Germany, Japan, India, the United Kingdom, France, Italy, Brazil, and Canada.

of China's portfolio assets, which does not support the decline implied by China's BoP data (Figure 1.1.2, panel 2). Second, the global discrepancy in primary income flows has widened after 2021 beyond levels observed over the previous decade (Figure 1.1.2, panel 3). This widening discrepancy could be related to declining primary income yields in China but could also stem from measurement issues in the rest of the world. Overall, these findings reveal uncertainty about the size of China's primary income balance credit flows and, hence, its primary income balance and the current account. Steps should be taken by the authorities to address these data gaps.

Implications for Global Current Account Balances and External Balance Assessment (EBA)

Current account mismeasurement in systemic countries could adversely impact the monitoring of global current account balances or the EBA assessment. In the current juncture, proper monitoring of external sector risks calls for improving the transparency and confidence in the data quality, especially for globally systemic countries.

Box 1.2. Spillovers from Large Current Account Surpluses and Deficits

This box discusses potential spillovers from current account balances that are large relative to the global economy. For both deficits and surpluses, such large imbalances have repercussions on the rest of the world, going beyond the effects on their own domestic economy.[1]

While large current account imbalances—both surpluses and deficits—can contribute to systemic macrofinancial risks, the implications are more straightforward for deficits than for surpluses (Blanchard and Milesi-Ferretti 2011; Gourinchas and Obstfeld 2012; Obstfeld 2012a). When large relative to an economy's size, the current account deficit is subject to market discipline, either gradually through a slow rise in spreads or rapidly through a balance of payments crisis. Foreign capital inflow often fuels excessive borrowing in these episodes, sowing the seeds of eventual fiscal or financial crises, which would have both national and global consequences when the host economy has a large weight in the global economy. For example, Morelli, Ottonello, and Perez (2022) identify a strong correlation between emerging market bond premiums and the net worth of global banks following the collapse of Lehman Brothers in the United States in 2008. However, few obvious countervailing market forces apply to large surpluses, be it large ones relative to the national or global economy. The 2017 *External Sector Report* and Edwards (2008) find that surplus adjustments are infrequent and tend to be more protracted than deficit adjustments. Similarly, Blanchard and Milesi-Ferretti (2011) argue that, while persistent current account surpluses may be undesirable, they are largely sustainable. As a result, large surpluses can have prolonged global consequences without mid-course corrections by market forces.

For the first set of consequences, large and persistent surpluses in some economies (by suppressing global real interest rates) can magnify deficits in others and generate spillovers that ultimately spill back to large surplus economies themselves. Excess savings from globally sizable surpluses depress the global interest rate (Bernanke 2005; Caballero, Farhi, and Gourinchas 2008), encouraging risk-taking (Chodorow-Reich 2014; Becker and Ivashina 2015; Dell'Ariccia, Laeven, and Suarez 2017) and excessive leverage in deficit countries (Rey 2015). While such conditions heighten the risk of external crises in deficit countries (Calvo, Izquierdo, and Mejía 2004; Cubeddu, Hannan, and Rabanal 2023), large surplus countries can also be exposed to crises in deficit countries, not only through net exposure but also (and more important) through gross exposure (Obstfeld 2012b). By creating indirect financial linkages among borrowing deficit countries, large surplus countries can inadvertently exacerbate financial contagion of such crises in deficit countries. For example, Kaminsky and Reinhart (2000) document sizable cross-country exposure among Asian countries through their largest common creditor, Japan, on the eve of the Asian financial crisis. They argue that the progression of the crisis in Thailand caused Japanese commercial banks to restrict credit to Indonesia, Korea, Malaysia, the Philippines, and Thailand, resulting in a broader reversal of capital flows. Acharya and Steffen (2015) and Frey and Weth (2019) document similar common creditor behavior in European periphery countries before the European debt crisis, noting that these creditors also markedly reduced their exposure to periphery sovereign bonds as the crisis unfolded. Large surpluses and the accumulation of external claims can also be the symptom of domestic distortions (such as financial repression at home that depresses real returns) or create new financial vulnerabilities when external positions grow too large to be effectively hedged, potentially increasing the risk of a domestic crisis that in turn would reverse external flows and add financial pressure to counterpart deficit countries.

Second, increasing current account surplus in large economies can alter policy trade-offs for trading partners, potentially generating negative spillovers on economic activity. Negative aggregate demand shocks in large surplus countries can have negative spillovers when trade partners are constrained by the effective lower bound and thus are unable to offset the shock by easing monetary policy (for example, Eggertsson, Mehrotra, and Summers 2016; Caballero, Farhi, and Gourinchas 2021). By contrast, terms-of-trade shocks arising from export promoting policies, such as subsidies or industrial policy, can have both positive and negative spillovers. While the resulting disinflationary effect can ease policy trade-offs in trade-partner countries facing domestic inflationary pressures, it may also exacerbate internal imbalances in countries where aggregate demand is weak or import-competing

This box was prepared by Martin Caruso Bloeck and Ting Lan.

[1]Although the box discusses current accounts that are large relative to the global economy, the negative spillovers arise primarily from current account balances that exceed the levels consistent with medium-term fundamentals and desirable policies.

Box 1.2 *(continued)*

industries suffer. The potential beggar-thy-neighbor nature of these spillovers raises risks of trade retaliation, leading to outcomes in which all countries are worse off.

Lastly, a rapid increase in large surpluses can have unduly negative effects on bilateral trade partners or sectors, as the speed of adjustment interacts with existing frictions. Such surges, even if ultimately desirable, can materially impact employment and incomes in more trade-exposed industries and regions.[2] Empirical studies find asymmetric effects of trade liberalization, with regions that lose tariff protection experiencing more adverse outcomes than the rest (Topalova, 2010; Kovak, 2013; Dix-Carneiro and Kovak, 2017). Similar effects have been found for industries and regions more exposed to Chinese import competition following its WTO accession (Autor, Dorn and Hanson, 2013; Foliano and Riley, 2017; Donoso, Martín, and Minondo, 2015). When an economy faces large shocks and the adjustment becomes increasingly difficult, a gradual adjustment could be socially more efficient than a fast one. Lehr and Restrepo (2022) illustrate that the speed of adjustment is critical, with gradual adjustments generating less adverse distributional effects in the short term.

[2]The labor dislocations due to rapid increase in large surpluses come on top of large shocks due to rapid technological progress.

Box 1.3. Import Tariffs, Current Accounts, and Global Balances

This box discusses the impact of tariff increases on current account balances of major economies, using the IMF's Global Integrated Monetary and Fiscal model. It expands on the scenario analysis in Box 1.2 of the April 2025 *World Economic Outlook* that was motivated by tariff announcements in April 2025.

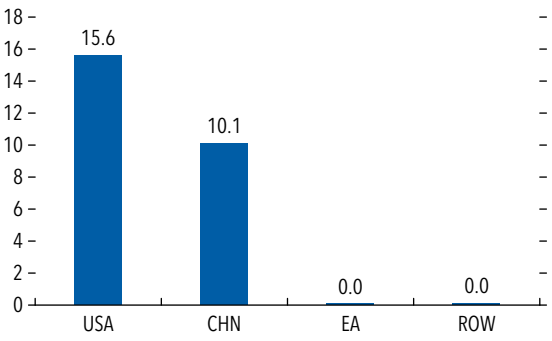
Tariff scenario. Tariff assumptions are based on a set of tariffs introduced during April 2–9, 2025. The United States imposes permanent tariffs including a baseline 10 percent tariff on most imports and an escalated 125 percent tariff on imports from China. China is the only country imposing retaliatory tariffs of 84 percent. As a result, effective import tariffs increase by 15.6 percent in the United States and by 10.1 percent in China, while remaining at zero for the rest of the world (Figure 1.3.1).

The impact on the current account depends on how tariffs affect the saving-investment balance with different effects in the short and medium terms.

Investment. Tariffs decrease investment rates (Figure 1.3.2, panel 1). On net, higher tariffs are a negative supply shock for the imposing countries, offsetting the underlying substitution effect from imports to domestic production. Tariffs reduce efficiency and expected investment returns, while simultaneously increasing investment costs by raising prices of imported capital goods (and imported inputs in production of domestic capital goods). Tariffs are also a negative demand shock for the tariffed countries. Economies that are more exposed to tariffs—particularly the United States and China—are more negatively affected. In those economies, the fall in the investment rate is gradual, partly because of short-term reallocations of capital induced by the permanently higher tariffs. Economies that are subject to tariffs and do not retaliate benefit from an accompanying real effective exchange rate depreciation, which attenuates the negative effect of tariffs on investment, leading to a marginal increase in medium-term investment rate in the euro area.[1]

Saving. The response of saving rates to tariffs varies significantly across countries and is driven by private saving (Figure 1.3.2, panel 2). Impacts are front-loaded to accommodate tariff-induced short-term economic disruption in the most affected economies:

Figure 1.3.1. Effective Tariff Changes
(Percentage point deviation from baseline)



Source: IMF staff estimates.

Note: The figure shows the impact of April 2–9 tariffs on effective tariffs by 2030, based on the simulations using the IMF Global Integrated Monetary and Fiscal model. Effective tariffs are defined as government import duties over total imports. Data labels in the figure use International Organization for Standardization country codes. EA = euro area, ROW = rest of the world, excluding the euro area, China and the United States.

the United States and China. Both see a large initial drop in saving rates because of larger short-term declines in output and income that lead consumers to save less. Subsequently, saving rates partially recover. By contrast, in the euro area the saving rate initially increases, as resources are channeled to the more affected economies, followed by a decline. Globally, saving rates and interest rates fall to align with the fall in investment.

Current account. The effect of tariffs on the current account mirrors the response of saving (Figure 1.3.2, panel 3). In the United States and China, where the decline in saving is front-loaded, current account initially falls, but in the medium term reverts toward zero (China) or increases (the United States). The reverse forces are at work in euro area, with an initial increase followed by a decrease. Despite sizable tariffs, quantitative impacts are limited, amounting to no more than one-tenth of reference current account balances.

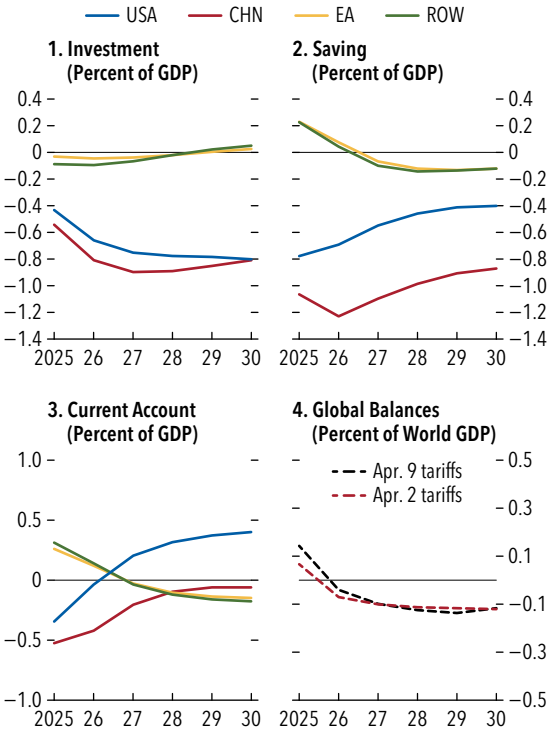
Global balances. Tariffs have a limited effect on global current account balances (Figure 1.3.2, panel 4). On impact, the model predicts that global current account balances, as a share of world GDP, will increase by 0.15 percentage point. This increase is driven by the larger initial current account deficit in the United States and higher current account surplus

This box was prepared by Roman Merga and Dirk Muir.

[1]See Box 1.2 in the April 2025 *World Economic Outlook* for more discussion on the effect of tariffs on exchange rates.

Box 1.3 *(continued)*

Figure 1.3.2. Impact of Tariffs on Investment, Saving, Current Account and Global Balances
(Deviations from baseline)



Source: IMF staff estimates.

Note: The figure shows results from tariff simulations using the IMF's Global Integrated Monetary and Fiscal model for the first five years by country. Baseline refers to the April 2025 *World Economic Outlook* projections. Panels 1–3 report results from the scenario with April 2–9 tariffs. Panel 4 compares the results of the April 2–9 tariff scenarios. Data labels in the figure use International Organization for Standardization country codes. EA = euro area, ROW = rest of the world, excluding the euro area, China, and the United States.

in the euro area, which more than offset a reduced surplus in China. In the medium term, all three major economies contribute to narrowing global current account balances, with the current account deficit in the United States declining and current account surpluses in China and the euro area also narrowing. However, despite the sizable tariffs, the magnitude of their narrowing effect on global balances is small at 0.12 percentage point. Figure 1.3.2, panel 4 also reports the effects of tariffs on global balances from an alternative scenario, capturing tariff announcements on April 2, 2025.[2] The results reveal essentially an identical impact on medium-term global balances. To put these model-based effects in context, in 2023–24 alone global balances increased by 0.6 percent of world GDP (Figure 1.1, panel 2), after declining by more than 2 percent of world GDP in the aftermath of the global financial crisis.

The assessment presented in this box may not capture all relevant channels through which tariffs can affect external balances. Some missing important factors include the degree of assumed tariff permanence, increased tariff uncertainty (Box 1.4), valuation effects on existing stocks of external assets and liabilities (Itskhoki and Mukhin 2025), and "tariff-jumping" through the cross-border reallocation of production. Nevertheless, the presented model scenario usefully conveys the complex general equilibrium effects which, through aggregate investment and saving rates, govern the effect of tariffs on current accounts.

[2]Relative to the April 9 tariff scenario, the alternative excludes the United States-China tariff escalation, with bilateral import tariffs at 35 percent, and the pause on the tariffs on 57 countries. Effective import tariffs are reduced to 9.5 percent in the United States and to 3.3 percent in China.

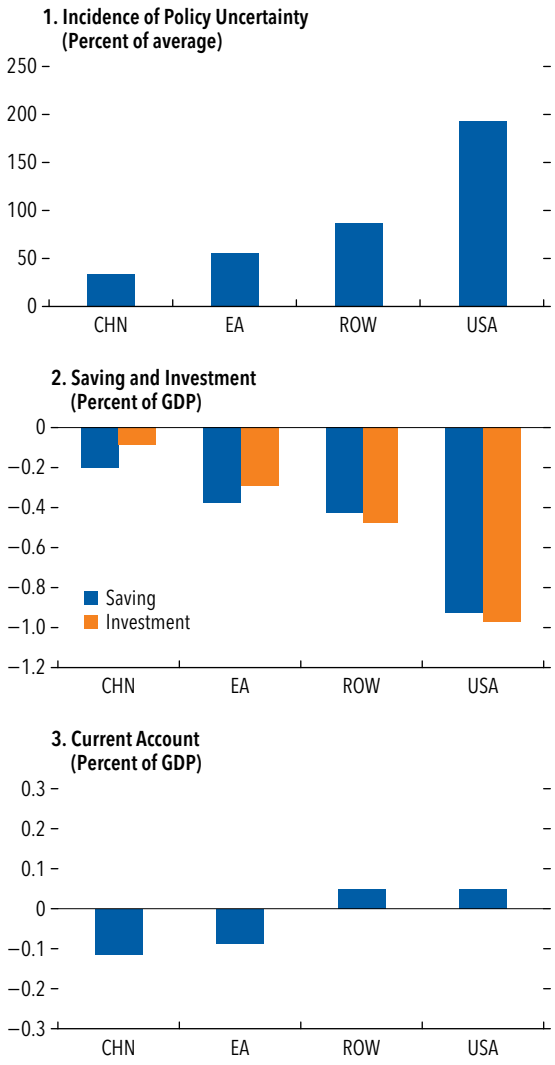
Box 1.4. Policy Uncertainty and External Balances

This box explores the effect of policy uncertainty on external balances in major economies using IMF's Global Integrated Monetary and Fiscal model scenario, building on scenario A in Box 1.1 of the April 2025 *World Economic Outlook*.[1]

Model scenario. Tariff shocks in April 2025 led to a large jump in global uncertainty—about 50 percent larger than the spike observed in 2018–19 and equivalent to a three-standard-deviation increase in the global economic policy uncertainty (EPU) measure in Davis (2016). The incidence of global uncertainty on US trading partners varies with the intensity of bilateral trade linkages with the United States. For the United States, the relevant trade linkage is that with the rest of the world. This country-specific exposure to trade policy uncertainty is very different across major economies, with uncertainty in the United States about six times higher than in China and three times higher than in the euro area (Figure 1.4.1, panel 1). Such differences are broadly consistent with the varying surge in uncertainty by April 2025, as captured by policy uncertainty indexes (Figure 1.28 and references therein).

The surge in global uncertainty has significant, negative global macroeconomic effects. In the short term, global investment falls by 3.3 percent at its trough in 2026, leading to a 0.9 percent decline in global output relative to the baseline.[2] Global consumption contracts accordingly and reduced global investment is matched by a decline in saving, accompanied by a fall in the global interest rate. Along with compressed economic activity, uncertainty has a negative effect on global trade flows, with trade openness falling in all economies.

Figure 1.4.1. Impact of Policy Uncertainty
(Deviations from baseline)



Sources: IMF, World Economic Outlook database; and IMF staff estimates (Global Integrated Monetary and Fiscal model simulations).

Note: The figure shows responses for selected macro variables, captured in the model at the two-year horizon. All responses are reported as percentage point deviations from baseline. Reported model responses are for four countries/regions: (1) China, (2) the euro area, (3) the United States, and (4) the rest of the world. Data labels in the figure use International Organization for Standardization country codes. EA = euro area.

This box was prepared by Dirk Muir and Josef Platzer.

[1]The scenario is implemented in a Global Integrated Monetary and Fiscal model specification with 10 countries and regions, with results presented in this box further aggregated to three major economies (the United States, China, and the euro area) and the rest of the world. See Box 1.1 of the April 2025 *World Economic Outlook* for further discussion of the scenario.

[2]See Box 1.1 of the April 2025 *World Economic Outlook* for more details.

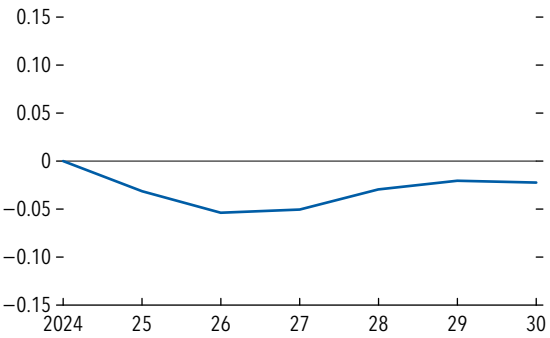
Box 1.4 *(continued)*

Model-based external sector outcomes of the policy uncertainty shock convey risk-sharing across countries. Figure 1.4.1, panel 2 reports the investment and saving responses, with countries ranked in ascending order by the incidence of the underlying uncertainty.[3] Investment falls in all economies, but more so in countries more exposed to the uncertainty, with global demand rebalancing toward less affected economies. Qualitatively, the same result holds for domestic income and saving. Consumption falls relatively less than income, also supported by lower interest rates, implying a lower saving rate in all regions. However, the fall in saving varies less across countries than the fall in investment because of the global risk sharing aspect of the shock response, as capital flows to equilibrate the global interest rate. The United States, being the most exposed to the uncertainty, exhibits the largest fall in investment rate, but a somewhat smaller fall in saving. At the other end of the spectrum, China is least exposed to the uncertainty, as its trade with the United States constitutes a smaller share of its GDP. Consequently, China sees the smallest fall in the investment rate, but saving falls by more than investment. A key implication is that current account temporarily increases in countries more affected by policy uncertainty and decreases in less-affected economies (Figure 1.4.1, panel 3). Quantitative effects on current accounts in major economies are limited. As a result of policy uncertainty, two years after the shock, the US current account increases by 0.05 percentage point of GDP, while in China it decreases by 0.11 percentage point and in the euro area it falls by 0.08 percentage point. Current account effects in smaller and more open economies with a disproportionate incidence of the uncertainty can be considerably larger. A larger or more persistent uncertainty shock would magnify these external sector findings.

The varying exposure to uncertainty contributes to narrowing the global current account balances, but its quantitative impact is limited (Figure 1.4.2). The deficit in the United States decreases, as do surpluses in China and the euro area, narrowing the dispersion of their current accounts. Quantitatively, global current account balances decline by 0.05 percentage point of world GDP by 2026. The limited effect is temporary, with global balances widening again as the uncertainty dissipates.

[3]Saving is private saving less government dissaving, and investment is the sum of private and public investment. In addition to the bilateral trade exposure to the United States, country-specific characteristics, such as relative size of the service sector or the size of fiscal multipliers, contribute to heterogeneity in investment and saving responses.

Figure 1.4.2. Impact of Uncertainty Shock on Global Current Account Balance
(Percent of world GDP)



Sources: IMF, World Economic Outlook database; and IMF staff estimates (Global Integrated Monetary and Fiscal model simulations).

Note: The figure shows the results from simulations using the IMF's Global Integrated Monetary and Fiscal model. The global current account balance is calculated as the sum of absolute values of current accounts across countries.

Annex Table 1.1.1. Selected Economies: Foreign Reserves, 2021–24[1]

	Gross Official Reserves[2] (Billions of US Dollars)				Gross Official Reserves[2] (Percent of GDP)				IMF Staff–Estimated Change in Official Reserves[3] (Percent of GDP)				Gross Official Reserves, 2024 (Percent of ARA metric)[4]	FXI Data Publication
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024		
Advanced Economies														
Australia	58	57	62	54	3.5	3.3	3.5	3.0	1.0	–0.1	0.0	0.1	. . .	Yes, daily
Canada	107	107	118	124	5.3	4.9	5.4	5.5	1.0	0.5	0.3	0.2	. . .	Yes, monthly
Euro Area	1,196	1,185	1,267	1,448	8.0	8.2	8.0	8.8	1.1	0.3	–0.2	0.0	. . .	Yes, quarterly
Hong Kong SAR	497	424	426	422	135.1	117.8	111.4	103.5	–0.3	–13.1	–2.7	–2.8	. . .	Yes, daily
Japan	1,406	1,228	1,295	1,160	27.9	28.8	30.7	28.8	1.2	–1.1	0.7	–1.6	. . .	Yes, daily
Korea	463	423	420	416	23.9	23.5	22.8	22.2	0.4	–1.6	–0.4	–0.2	. . .	Yes, quarterly
Singapore	425	297	360	384	97.4	58.3	71.2	70.1	4.8	–25.7	10.6	5.6	. . .	Yes, semiannually
Sweden	62	64	61	64	9.7	11.1	10.4	10.5	0.9	1.3	–0.9	0.5	. . .	Yes, weekly
Switzerland	1,110	924	864	822	136.2	111.5	96.5	87.8	7.2	–1.8	–14.5	2.5	. . .	Yes, quarterly
United Kingdom	194	176	178	149	6.2	5.6	5.3	4.1	0.9	0.0	–0.1	0.1	. . .	Yes, monthly
United States	716	707	773	910	3.0	2.7	2.8	3.1	0.5	0.0	0.0	0.0	. . .	Yes, quarterly
Emerging Market and Developing Economies														
Argentina	40	45	23	24	8.2	7.1	3.6	3.9	0.7	–2.5	–4.8	1.2	43	Yes, daily
Brazil	362	325	355	330	21.7	16.6	16.2	15.2	–0.8	–1.2	0.9	–1.4	126	Yes, daily
China	3,428	3,307	3,450	3,265	18.8	18.1	18.9	17.4	1.0	0.5	0.0	–0.3	67	No
India	634	563	622	636	20.5	16.8	17.6	16.5	1.6	–1.6	1.6	0.1	107	Yes, monthly
Indonesia	145	137	146	156	12.2	10.4	10.7	11.2	1.3	–0.3	0.0	0.5	125	No
Malaysia	117	115	113	116	31.3	28.1	28.4	27.6	2.4	–1.7	–0.4	0.1	105	No
Mexico	208	201	214	232	15.8	13.7	11.9	12.5	0.8	–0.1	0.4	0.7	129	Yes, monthly
Poland	166	167	194	223	24.1	24.0	23.9	24.5	2.8	1.9	2.6	3.2	156	No
Russian Federation	631	582	599	609	34.5	25.3	29.1	28.2	3.6	–0.3	–0.5	–0.2	318	Yes, daily
Saudi Arabia	455	460	437	437	46.3	37.1	35.9	35.3	0.2	0.4	–1.9	0.0	. . .	No
South Africa	58	61	62	67	13.7	14.9	16.4	16.7	–0.1	–0.7	0.6	1.1	96	No
Thailand	246	217	224	237	48.6	43.7	43.5	45.0	–0.5	–2.9	0.7	1.6	208	No
Türkiye	111	129	141	155	13.8	14.2	12.5	11.7	2.7	0.4	–0.3	3.6	72	No
Memorandum Items:														
Aggregate[5]	12,834	11,898	12,404	12,439	13.1	11.7	11.7	11.3	0.9	–0.2	0.0	0.0	…	…
AEs	6,234	5,591	5,822	5,952	6.4	5.5	5.5	5.4	0.5	–0.2	–0.1	0.0	…	…
EMDEs	6,600	6,306	6,581	6,486	6.7	6.2	6.2	5.9	0.4	0.0	0.0	0.0	…	…

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

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

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

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

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

[4] The ARA metric reflects potential balance of payments FX liquidity needs in adverse circumstances and is used to assess the adequacy of FX reserves against potential FX liquidity drains (see IMF 2015). The ARA metric is estimated for selected EMDEs and includes adjustments for capital controls for China.

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

Annex Table 1.1.2. External Sector Report Economies: Summary of External Assessment Indicators, 2024

		Current Account (Percent of GDP)		IMF Staff CA Gap (Percent of GDP)		IMF Staff REER Gap (Percent)		International Investment Position (Percent of GDP)			CA NFA Stabilizing	SE of CA Norm
Economy	Overall Assessment	Actual	Cycl. Adj.	Midpoint	Range	Midpoint	Range	Net	Liabilities	Assets	(Percent of GDP)	(Percent)
Argentina	Weaker	1.0	–0.5	–2.0	±1	12.2	±6.3	11	71	81	0.6	0.5
Australia	Moderately weaker	–1.9	–2.5	–1.9	±0.5	10.7	±2.8	–24	185	161	–1.2	0.5
Belgium	Weaker	–0.9	–0.5	–4.0	±0.4	5.9	±0.6	60	352	412	2.2	0.4
Brazil	Broadly in line	–2.8	–2.9	–1.0	±0.5	7.6	±3.8	–35	82	47	–2.0	0.5
Canada	Moderately weaker	–0.5	–0.9	–1.8	±0.5	6.6	±1.7	62	261	322	3.1	0.5
China	Moderately stronger	2.3	2.0	1.2	±0.6	–8.5	±4.6	18	37	54	1.2	0.6
Euro area[1]	Moderately stronger	2.8	2.9	1.0	±0.8	–3.1	±2.4	11	249	260	0.5	0.6
France	Broadly in line	0.4	0.3	0.3	±0.4	–1.0	±1.4	–20	393	373	–0.8	0.4
Germany	Stronger	5.7	5.5	2.1	±0.5	–6.6	±1.6	79	233	312	3.2	0.5
Hong Kong SAR	Broadly in line	12.9	12.8	–0.5	±0.5	1.5	±1.6	500	1,154	1,654	. . .	. . .
India	Moderately stronger	–0.8	–0.6	1.4	±0.7	–7.9	±4	–10	38	28	–0.9	0.7
Indonesia	Broadly in line	–0.6	–0.9	0.3	±0.5	–1.6	±3.1	–18	55	37	–1.4	0.5
Italy	Weaker	1.1	1.3	–2.6	±0.7	10.4	±2.9	15	168	183	0.3	0.7
Japan	Broadly in line	4.8	4.9	0.6	±1.1	–3.3	±6.3	90	184	274	3.2	1.1
Korea	Broadly in line	5.3	5.5	0.8	±0.9	–2.4	±2.6	59	75	134	2.9	0.9
Malaysia	Moderately stronger	1.4	1.9	1.9	±0.5	–3.7	±1	–1	129	128	1.0	0.5
Mexico	Moderately stronger	–0.3	0.1	1.3	±0.4	–4.1	±1.2	–32	75	43	–2.1	0.4
The Netherlands	Substantially stronger	9.9	10.1	4.0	±0.5	–6.2	±0.8	60	829	889	2.5	0.5
Poland	Moderately stronger	0.2	0.2	1.9	±0.4	–4.8	±1.1	–28	88	60	–1.8	0.4
Russian Federation	Broadly in line	2.9	2.9	0.3	±0.8	–1.7	±5.1	44	28	71	1.8	0.8
Saudi Arabia	Broadly in line	–0.5	–0.4	–1.0	±2	4.7	±9.9	59	62	121	. . .	. . .
Singapore	Substantially stronger	17.5	18.0	5.1	±2	–10.2	±4	147	933	1,080	. . .	. . .
South Africa	Broadly in line	–0.6	–1.0	–0.6	±0.9	2.5	±3.6	29	98	127	1.4	0.9
Spain	Stronger	3.0	3.5	2.0	±0.9	–7.3	±3.1	–44	245	201	–2.0	0.9
Sweden	Substantially stronger	7.4	7.1	5.5	±0.4	–14.7	±6.8	66	280	346	3.0	0.4
Switzerland	Broadly in line	5.1	5.1	–6.2	±0.8	11.5	±1.4	126	512	638	5.3	0.8
Thailand	Broadly in line	2.1	2.0	0.9	±0.7	–1.8	±1.3	8	115	123	0.4	0.7
Türkiye	Moderately weaker	–0.8	–0.3	–1.3	±0.6	5.2	±2.4	–22	50	28	–1.5	0.6
United Kingdom	Moderately weaker	–2.7	–2.7	–1.7	±0.3	6.5	±1	–10	519	509	–0.6	0.3
United States	Moderately weaker	–3.9	–3.6	–1.4	±0.7	11.9	±5.8	–90	213	123	–4.6	0.7

Sources: IMF, *International Financial Statistics*; IMF, *April 2025 World Economic Outlook*; US Bureau of Economic Analysis; and IMF staff assessments.

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

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

Annex Table 1.1.3. External Sector Report Economies: Summary of IMF Staff–Assessed Current Account Gaps and IMF Staff Adjustments, 2024

(Percent of GDP)

Economy	Actual CA Balance [A]	Cycl. Adj. CA Balance [B]	EBA CA Norm [C]	EBA CA Gap[1] [D = B − C]	IMF Staff–Assessed CA Gap[2] [E = D + F]	IMF Staff Adjustments[3]			Comments on adjustments
						Total [F = G − H]	Other		
							CA [G]	Norm [H]	
Argentina	1.0	–0.5	0.7	–1.3	–2.0	–0.7	0.0	0.7	Weak reserves coverage/external sustainability (norm)
Australia	–1.9	–2.5	–0.6	–1.9	–1.9	0.0	0.0	0.0	
Belgium	–0.9	–0.5	3.5	–4.0	–4.0	0.0	0.0	0.0	
Brazil	–2.8	–2.9	–1.9	–1.0	–1.0	0.0	0.0	0.0	
Canada	–0.5	–0.9	2.5	–3.4	–1.8	1.6	1.6	0.0	Measurement biases
China	2.3	2.0	0.8	1.2	1.2	0.0	0.0	0.0	
Euro Area[4]	2.8	2.9	1.4	1.4	1.0	–0.4	–0.4	0.0	Measurement biases
France	0.4	0.3	0.1	0.3	0.3	0.0	0.0	0.0	
Germany	5.7	5.5	3.5	2.1	2.1	0.0	0.0	0.0	
India	–0.8	–0.6	–2.0	1.4	1.4	0.0	0.0	0.0	
Indonesia	–0.6	–0.9	–0.7	–0.2	0.3	0.5	0.0	–0.5	Demographics (high mortality rate, norm)
Italy	1.1	1.3	3.9	–2.6	–2.6	0.0	0.0	0.0	
Japan	4.8	4.9	4.3	0.6	0.6	0.0	0.0	0.0	
Korea	5.3	5.5	4.7	0.8	0.8	0.0	0.0	0.0	
Malaysia	1.4	1.9	–0.1	1.9	1.9	0.0	0.0	0.0	
Mexico	–0.3	0.1	–1.3	1.3	1.3	0.0	0.0	0.0	
The Netherlands	9.9	10.1	3.8	6.2	4.0	–2.2	–2.2	0.0	Measurement biases
Poland	0.2	0.2	–1.7	1.9	1.9	0.0	0.0	0.0	
Russian Federation	2.9	2.9	2.6	0.3	0.3	0.0	0.0	0.0	
South Africa	–0.6	–1.0	0.7	–1.7	–0.6	1.1	0.0	–1.1	Demographics (high mortality rate, norm)
Spain	3.0	3.5	1.5	2.0	2.0	0.0	0.0	0.0	
Sweden	7.4	7.1	1.6	5.5	5.5	0.0	0.0	0.0	
Switzerland	5.1	5.1	6.7	–1.6	–6.2	–4.6	–4.6	0.0	Measurement biases
Thailand	2.1	2.0	1.1	0.9	0.9	0.0	0.0	0.0	
Türkiye	–0.8	–0.3	1.0	–1.3	–1.3	0.0	0.0	0.0	
United Kingdom	–2.7	–2.7	–0.3	–2.4	–1.7	0.7	0.7	0.0	Measurement biases
United States	–3.9	–3.6	–2.2	–1.4	–1.4	0.0	0.0	0.0	
Hong Kong SAR	12.9	12.8	. . .	. . .	–0.5	10.2	0.0	–10.2	NIIP and gold trade
Singapore	17.5	18.0	. . .	. . .	5.1	2.3	–2.1	–4.4	Measurement biases, NFA composition, health spending
Saudi Arabia	–0.5	–0.4	. . .	. . .	–1.0	0.0	0.0	0.0	
Absolute sum of excess surpluses and deficits[5]	. . .	. . .	. . .	1.3	1.3	. . .	. . .	. . .	
Discrepancy[6]	. . .	. . .	. . .	. . .	–0.05	. . .	. . .	. . .	

Source: IMF staff estimates.

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

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

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

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

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

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

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

Annex Table 1.1.4. External Sector Report Economies: Summary of IMF Staff-Assessed Real Effective Exchange Rate and External Balance Assessment Model Gaps, 2024

Economy	IMF Staff-Assessed REER Gap[1]	REER Gap Implied by IMF Staff-Assessed CA Gap[2]	EBA REER-Level Gap	EBA REER-Index Gap	CA/REER Elasticity[3]	REER (Percent change)	
						Average 2024/ Average 2023	March 2025/ Average 2024
Argentina	12.2	12.2	8.7	18.9	0.16	1.5	10.3
Australia	10.7	10.7	19.8	–3.7	0.18	1.8	–3.6
Belgium	5.9	5.9	17.5	8.3	0.68	1.0	0.9
Brazil	7.6	7.6	–15.5	–31.2	0.13	–4.2	–4.3
Canada	6.6	6.6	–13.0	3.2	0.27	–0.9	–3.8
China	–8.5	–8.5	–0.7	–1.1	0.14	–2.6	–1.9
Euro Area	–3.1	–3.1	1.7	4.1	0.33	0.5	–0.1
France	–1.0	–1.0	0.0	–7.8	0.28	–0.1	–1.3
Germany	–6.6	–6.6	–11.4	5.8	0.32	0.3	–0.1
India	–7.9	–7.9	4.1	5.4	0.18	2.3	–2.7
Indonesia	–1.6	–1.6	–16.8	0.3	0.16	–2.2	–4.2
Italy	10.4	10.4	3.7	4.5	0.25	–1.1	0.0
Japan	–3.3	–3.3	–35.4	–38.9	0.18	–5.4	4.1
Korea	–2.4	–2.4	–7.2	–6.5	0.33	–2.2	–5.4
Malaysia	–3.7	–3.7	–30.6	–27.9	0.51	1.1	3.7
Mexico	–4.1	–4.1	24.3	5.7	0.33	0.2	–9.0
The Netherlands	–6.2	–6.2	6.2	19.1	0.65	1.2	1.2
Poland	–4.8	–4.8	–15.6	16.3	0.40	7.5	3.8
Russian Federation	–1.7	–1.7	–44.6	–23.8	0.16	1.3	7.6
South Africa	2.5	2.5	–7.8	–15.4	0.24	4.0	1.4
Spain	–7.3	–7.3	20.4	4.9	0.28	0.6	0.3
Sweden	–14.7	–14.1	–19.1	–15.3	0.39	1.3	3.0
Switzerland	11.5	11.5	22.5	16.9	0.54	1.4	–1.5
Thailand	–1.8	–1.8	–2.7	6.7	0.50	–0.1	2.8
Türkiye	5.2	5.2	–42.6	–29.0	0.25	12.0	10.2
United Kingdom	6.5	6.5	8.7	1.5	0.26	4.2	2.6
United States	11.9	11.9	20.9	10.9	0.11	2.4	2.8
Hong Kong SAR	1.5	1.5	. . .	. . .	0.32	2.4	1.3
Singapore	–10.2	–10.2	. . .	. . .	0.50	2.9	0.2
Saudi Arabia	4.7	4.7	. . .	. . .	0.20	0.6	1.2
Discrepancy[4]	1.7	. . .	. . .	. . .	. . .	. . .	. . .

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

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

[1] Refers to the midpoint of the IMF staff-assessed REER gap.
[2] Implied REER gap = –(IMF staff-assessed CA gap/CA-to-REER elasticity).
[3] CA-to-REER semielasticity used by IMF country teams.
[4] GDP-weighted average sum of IMF staff-assessed REER gaps.

Annex Table 1.1.5. Selected External Sector Report Economies: External Balance Assessment Current Account Regression Policy Gap Contributions, 2024

(Percent of GDP)

	EBA Gap				Fiscal Gap					Public Health Expenditure Gap					Private Credit Gap					Foreign Exchange Intervention and Capital Controls Gap						
						Domestic					Domestic					Domestic					Domestic					
Economy	Total[1]	Identified	Dom[2]	Residual	Total[1]	Dom[3]	Coeff	P	P*	Total[1]	Dom[3]	Coeff	P	P*	Total[1]	Dom[3]	Coeff	P	P*	Total[1]	Dom[3]	Coeff	FXI P	FXI P*	KC P	KC P*
Argentina	–1.3	1.2	1.0	–2.4	1.6	0.6	0.3	2.5	0.5	0.0	0.1	–0.3	6.3	6.5	–0.7	0.0	–0.1	–0.5	0.0	0.3	0.3	0.6	1.2	1.5	0.7	0.3
Australia	–1.9	1.1	0.9	–3.0	0.4	–0.6	0.3	–2.9	–1.0	0.0	0.1	–0.3	7.0	7.2	0.7	1.4	–0.1	–14.6	0.0	0.0	0.0	0.6	0.1	0.0	0.1	0.1
Belgium	–4.0	1.5	1.3	–5.5	–0.1	–1.1	0.3	–4.7	–1.1	–0.2	–0.1	–0.3	8.2	7.9	1.8	2.6	–0.1	–26.7	0.0	–0.1	–0.1	0.6	–0.6	0.0	0.1	0.1
Brazil	–1.0	–1.5	–1.7	0.5	–0.1	–1.1	0.3	–7.0	–3.5	–0.1	0.0	–0.3	4.5	4.4	–1.0	–0.2	–0.1	2.4	0.0	–0.3	–0.3	0.6	–1.4	0.0	0.4	0.3
Canada	–3.4	0.9	0.8	–4.3	0.5	–0.5	0.3	–1.9	–0.4	–0.3	–0.3	–0.3	7.9	7.0	0.7	1.5	–0.1	–15.4	0.0	0.0	0.0	0.6	0.2	0.0	0.1	0.1
China	1.2	–0.6	–0.8	1.8	–0.3	–1.3	0.3	–7.0	–2.7	0.2	0.3	–0.3	3.3	4.3	–0.3	0.4	–0.1	–4.2	0.0	–0.2	–0.2	0.6	–0.3	0.0	0.7	0.3
Euro Area[4]	1.4	0.6	0.5	0.8	0.4	–0.6	0.3	–3.1	–1.1	–0.1	0.0	–0.3	8.3	8.3	0.3	1.1	–0.1	–11.6	–0.3	0.0	0.0	0.6	0.0	0.0	0.1	0.1
France	0.3	0.3	0.1	0.0	–0.3	–1.3	0.3	–5.4	–1.1	0.0	0.1	–0.3	8.9	9.3	0.6	1.3	–0.1	–13.5	0.0	0.0	0.0	0.6	0.0	0.0	0.1	0.1
Germany	2.1	–0.3	–0.4	2.3	0.7	–0.3	0.3	–2.2	–1.4	–0.2	–0.2	–0.3	10.1	9.6	–0.7	0.0	–0.1	0.1	0.0	0.0	0.0	0.6	0.0	0.0	0.3	0.3
India	1.4	–0.1	–0.2	1.5	0.5	–0.5	0.3	–7.4	–5.8	0.0	0.1	–0.3	1.4	1.8	–0.6	0.1	–0.1	–1.0	0.0	0.0	0.0	0.6	0.1	0.0	0.8	0.3
Indonesia	–0.2	1.0	0.8	–1.2	1.0	0.0	0.3	–2.2	–2.2	0.4	0.5	–0.3	1.5	3.0	–0.6	0.2	–0.1	–1.7	0.0	0.2	0.2	0.6	0.5	0.0	0.5	0.3
Italy	–2.6	1.1	0.9	–3.6	0.1	–0.9	0.3	–3.5	–0.5	0.1	0.2	–0.3	6.2	6.8	0.9	1.7	–0.1	–17.2	0.0	0.0	0.0	0.6	0.1	0.0	0.0	0.0
Japan	0.6	–0.4	–0.6	1.0	0.8	–0.2	0.3	–2.5	–2.0	–0.2	–0.1	–0.3	9.5	9.1	–0.9	–0.2	–0.1	6.1	4.0	–0.1	–0.1	0.6	–1.6	0.0	0.1	0.1
Korea	0.8	1.1	0.9	–0.3	0.8	–0.2	0.3	–0.6	0.0	0.6	0.7	–0.3	6.2	8.5	–0.4	0.4	–0.1	–3.9	0.0	0.0	0.0	0.6	–0.2	0.0	0.1	0.1
Malaysia	1.9	0.7	0.5	1.2	0.5	–0.5	0.3	–4.2	–2.5	0.4	0.5	–0.3	2.5	4.1	–0.2	0.5	–0.1	–5.1	0.0	0.0	0.0	0.6	0.1	0.0	0.6	0.3
Mexico	1.3	–0.1	–0.2	1.4	0.0	–1.0	0.3	–5.9	–2.7	0.2	0.3	–0.3	2.7	3.7	–0.5	0.2	–0.1	–2.3	0.0	0.2	0.2	0.6	0.7	0.0	0.4	0.3
The Netherlands	6.2	4.1	3.9	2.1	1.2	0.2	0.3	–1.4	–2.0	0.0	0.1	–0.3	8.5	8.8	2.9	3.6	–0.1	–37.9	0.0	0.0	0.0	0.6	–0.6	0.0	0.0	0.0
Poland	1.9	1.2	1.0	0.8	–0.3	–1.3	0.3	–6.1	–2.0	0.2	0.3	–0.3	5.7	6.6	0.4	1.1	–0.1	–16.7	–5.0	0.9	0.9	0.6	3.2	0.0	0.4	0.3
Russian Federation	0.3	0.7	0.6	–0.5	0.4	–0.6	0.3	–2.9	–1.0	0.0	0.1	–0.3	5.3	5.5	0.4	1.1	–0.1	–11.9	0.0	–0.1	–0.1	0.6	–0.2	0.0	0.6	0.3
South Africa	–1.7	0.7	0.6	–2.4	0.1	–0.9	0.3	–6.0	–3.1	0.7	0.7	–0.3	4.1	6.6	–0.5	0.3	–0.1	–2.9	0.0	0.4	0.4	0.6	1.1	0.0	0.6	0.3
Spain	2.0	–0.4	–0.5	2.4	0.0	–1.0	0.3	–4.1	–1.0	–0.3	–0.2	–0.3	7.2	6.5	–0.1	0.6	–0.1	–7.6	–1.0	0.0	0.0	0.6	0.1	0.0	0.2	0.2
Sweden	5.5	1.0	0.8	4.5	0.5	–0.5	0.3	–1.2	0.3	–0.8	–0.8	–0.3	11.5	9.0	1.2	2.0	–0.1	–20.6	0.0	0.1	0.1	0.6	0.5	0.0	0.2	0.2
Switzerland	–1.6	1.5	1.3	–3.1	1.5	0.5	0.3	0.7	–1.0	–0.1	–0.1	–0.3	8.2	8.0	–0.2	0.5	–0.1	–5.4	0.0	0.3	0.3	0.6	2.5	0.0	0.2	0.2
Thailand	0.9	1.2	1.0	–0.3	1.5	0.5	0.3	–1.1	–2.7	0.1	0.2	–0.3	3.9	4.4	–0.9	–0.2	–0.1	1.7	0.0	0.5	0.5	0.6	1.6	0.0	0.5	0.3
Türkiye	–1.3	1.8	1.6	–3.1	0.6	–0.4	0.3	–5.4	–4.0	0.0	0.1	–0.3	3.3	3.6	0.5	1.2	–0.1	–25.7	–12.8	0.7	0.7	0.6	3.6	1.2	0.4	0.3
United Kingdom	–2.4	0.5	0.3	–2.9	0.0	–1.0	0.3	–5.6	–2.4	–0.4	–0.3	–0.3	8.9	7.9	0.8	1.6	–0.1	–16.2	0.0	0.0	0.0	0.6	0.1	0.0	0.1	0.1
United States	–1.4	–0.5	–0.7	–0.8	–0.6	–1.6	0.3	–7.6	–2.5	–0.1	0.0	–0.3	8.4	8.4	0.1	0.9	–0.1	–9.1	0.0	0.0	0.0	0.6	0.0	0.0	0.2	0.2

Source: IMF staff estimates.

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

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

[2]Includes the contribution of domestic policy gaps to the identified gap. The total foreign policy gap contribution is constant and equal to 0.2 percent for all countries. Foreign contributions are estimated as follows (in percent of GDP): fiscal = 1.0; public health = –0.1; private credit = –0.7; foreign exchange intervention = 0.0.

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

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

Annex Table 1.1.6. 2024 Individual Economy Assessments: Summary of Policy Recommendations

Economy	Overall 2024 Assessment	Policy Recommendations
Argentina	Weaker	Implement the newly approved EFF program, which includes a strong fiscal anchor, more robust monetary and FX regime with active measures to rebuild international reserves, and competitiveness-enhancing reforms. Increase exchange rate flexiblity and gradually ease remaining FX restrictions, multiple currency practices (MCPs) and capital flow management measures (CFMs).
Australia	Moderately weaker	Implement the planned gradual medium-term fiscal consolidation. The commitment to structural policies that boost competitiveness, including via promoting R&D, reducing barriers to labor mobility, upgrading competition policies, and stimulating innovation, would help improve export quality, reduce unit labor costs, foster high-value industries, and contribute to medium-term external rebalancing.
Belgium	Weaker	Rebuild fiscal buffers through a credible, expenditure-led consolidation, while preserving or ideally increasing public investment. Strengthen competitiveness through significant structural reforms, including of the wage-setting mechanism, pension and social benefits, taxation, and the labor and product markets.
Brazil	Broadly in line	Implement efforts to raise national savings, providing room for a sustainable expansion in investment. Fiscal consolidation should continue contributing to increase net public savings. Structural reforms that improve efficiency and reduce the cost of doing business would help strengthen competitiveness.
Canada	Moderately weaker	Boost competitiveness in non-fuel and services exports by investing in R&D and physical capital including infrastructure and other measures to improve labor productivity, removing internal trade barriers, focusing on high multiplier public spending, and promoting FDI including outflows. Government support to ease adjustment costs to households and businesses should strike a balance with supporting external rebalancing and ensuring medium-term fiscal sustainability.
China	Moderately stronger	Boost domestic demand, and expand fiscal policy to support consumption and the property sector. Further ease monetary policy and increase exchange rate flexibility and accompany with a strong fiscal and structural package so as not to rely unduly on the exchange rate to close the domestic output gap. Implement structural reforms that reduce household savings, boost investment in the services sector, and scale back industrial policies.
Euro Area	Moderately stronger	Support productivity and lift investment, potential growth, and private domestic demand through reforms to boost energy security, enhance the EU budget for efficient public goods investment, and improve the business environment. Deepen the EU single market by lowering firms' regulatory burdens, reducing administrative barriers, streamlining trade procedures, enhancing labor mobility, and better integrating financial services to create a more productive and resilient domestic economy. See additional member country–specific recommendations on reducing internal and external imbalances.
France	Broadly in line	Implement sustained fiscal consolidation over the medium term to help maintain the external position in line with medium-term fundamentals, together with structural reforms to support productivity and attract higher private investment to facilitate the green and digital transitions.
Germany	Stronger	Implement planned policies aimed at promoting investment and diminishing excess saving, including through higher fiscal deficits in the medium term to increase public investment in defence, transportation, energy and digitization. Implement structural reforms to foster innovation and enhance employability of older workers, which could also extend working lives and reduce the need for excess saving.
Hong Kong SAR	Broadly in line	Implement a gradual fiscal consolidation to secure a balanced recovery and help ensure that the external position remains broadly in line with fundamentals by raising public savings to offset stronger private investment over the medium term; maintain policies that support wage and price flexibility that are crucial to ensure adjustment of the real exchange rate, and hence support the smooth functioning of the currency board arrangement; continue to implement reforms to create a vibrant and well-regulated financial ecosystem.
India	Moderately stronger	Further reduce import restrictions, especially on intermediate goods, while continuing to improve the business environment to boost private investment and liberalize the FDI regime. Develop trade infrastructure and expand trade networks.
Indonesia	Broadly in line	Enhance productivity and promote trade through structural reforms including higher infrastructure investment, higher social spending that fosters human capital development and strengthens the social safety net, reducing or eliminating restrictions on inward FDI and external trade, promoting greater labor market flexibility. Maintain flexibility of the exchange rate.
Italy	Weaker	Implement comprehensive reforms to encourage private investment to modernize the capital stock, boost productivity, competitiveness, and potential growth. Increase public sector saving, supported by continued strong fiscal adjustment efforts.
Japan	Broadly in line	Implement policies focused on structural reforms and fiscal sustainability through a credible and specific medium-term fiscal consolidation plan. Shift the drivers of the economy to one driven by the private sector and raise Japan's potential growth over the medium term. Implement labor market and fiscal reforms that support private demand, raise potential growth, and promote digital and green investment.
Korea	Broadly in line	Over the medium term, increase fiscal space to meet aging related needs, orderly deleverage private debt, boost innovation to maintain exports competitiveness, and diversify export destinations and supply chains. Exchange rate flexibility, with intervention limited to preventing disorderly market conditions, would help the economy absorb external shocks.
Malaysia	Moderately stronger	Preserve exchange rate flexibility to facilitate external adjustments that are driven by fundamentals. Over the medium term, implement policies to strengthen social safety nets and public healthcare, including through a reorientation of fiscal spending, to reduce precautionary household savings and shift toward private consumption. Implement structural policies to encourage private investment and improve productivity growth.

Annex Table 1.1.6. 2024 Individual Economy Assessments: Summary of Policy Recommendations *(continued)*

Economy	Overall 2024 Assessment	Policy Recommendations
Mexico	Moderately stronger	Implement structural reforms to boost investment in the medium and long term and maintain external sustainability, including by tackling infrastructure and governance gaps, reducing informality, promoting financial deepening, and increasing private sector participation in the energy sector. Ensuring fiscal sustainability is also vital to buttress external stability. The floating exchange rate should continue to serve as a shock absorber. The IMF's Flexible Credit Line with Mexico continues to provide an added buffer against global tail risks.
The Netherlands	Substantially stronger	Boost public investment and foster private investment in infrastructure and housing. Address growth bottlenecks from nitrogen and electricity grid congestion.
Poland	Moderately stronger	Support private investment through gradual monetary policy normalization. Ease regulatory hurdles to private investments to help catalyze investment and financing additional to the Next Generation EU grants to address infrastructure gaps and support the climate transition.
Russian Federation	Broadly in line	. . .
Saudi Arabia	Broadly in line	Implement fiscal consolidation, including through enhanced revenue mobilization and energy price reforms, to help raise public saving. Implement the structural reform agenda to diversify the economy, which is expected to support private investment and stimulate domestic consumption.
Singapore	Substantially stronger	Execute planned major high-quality and resilient infrastructure projects and continue strengthening social safety nets to help reduce external imbalances in the near term. Higher public investment is also expected to catalyze private investment. Over the medium term, the government should increase public investment to address the structural transformation brought about by a rapidly aging population and a transition to a green and digital economy, including spending on health care, green and other physical infrastructures, and human capital.
South Africa	Broadly in line	Implement structural reforms supporting competitiveness, jobs, and growth, that address energy and logistics bottlenecks, and improve the business environment, governance, and the functioning of labor markets. Implement ambitious fiscal consolidation to put debt on a sustained downward path, while protecting vulnerable groups. The flexible exchange rate should remain the main shock absorber, and maintaining an adequate level of international reserves can further support resilience to shocks.
Spain	Stronger	Reduce the still sizable negative NIIP position. Implement sustained fiscal consolidation to rebuild fiscal space and raise aggregate savings. Accelerate domestic structural reforms that boost productivity and facilitate the diversification of export products and destinations, including further efforts to complete the single Spanish market, invest in innovation, enhance education outcomes and reduce energy dependence. Complement with policies to facilitate the reallocation of workers across sectors while providing an adequate social safety net.
Sweden	Substantially stronger	Enhance both private and public investment in productivity-enhancing projects, the green transition, and the health sector. These structural measures will boost domestic absorption and imports, reducing external imbalances, while enabling Sweden to maintain its high living standards amid demographic pressures and support meeting the country's ambitious climate goals.
Switzerland	Broadly in line	Support the ongoing economic recovery and address low inflation. Use substantial fiscal policy space to support growth if downside risks materialize. Over the medium-term implement a comprehensive medium-term plan to address increasing structural fiscal needs on aging, climate, and defense. Monetary policy should continue to pursue price stability and avoid the risk of inflation settling at very low or negative rates.
Thailand	Broadly in line	Implement policies that promote investment, diminish precautionary saving, liberalize the services sector, and minimize tax incentives and subsidies that distort competition. Fiscal policy should be prudent and parsimonious given the elevated public debt levels. Efforts to reform and expand social safety nets, notably the fragmented pension schemes, should continue, and measures to address widespread informality could help reduce precautionary saving and support consumption.
Türkiye	Moderately weaker	Strengthen the policy framework to underpin external sustainability going forward. Tighten both the monetary and fiscal policy stance to contain demand, bring down inflation, make medium-term growth more sustainable, and help pave the way for lower CA deficits over the medium-term. Remove discretionary credit allocation that favors exports to enhance competition. These policies would allow for a welcome accumulation of international reserves.
United Kingdom	Moderately weaker	Implement fiscal consolidation plans and the structural reform agenda to contain import growth and boost competitiveness. Progress in the net zero transition to help to mitigate risks of further energy-related ToT shocks.
United States	Moderately weaker	Implement fiscal consolidation aimed at achieving a general government primary surplus of about 1 percent of GDP to put the debt-to-GDP ratio on a downward path. Trade policies should seek to constructively resolve trade tensions, promote a clear, stable and predictable trade environment, and pursue pragmatic cooperation and deeper integration through regional/cross-regional trade agreements or nondiscriminatory reduction of trade barriers.

Source: IMF, 2024 Individual External Balance Assessments.

Note: "…" indicates that data are not available or not applicable. CFM = capital flow management measure; EU = European Union; FDI = foreign direct investment; FX = foreign exchange; MCP = macroprudential measure; R&D = research and development.

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CHAPTER 2

INTERNATIONAL MONETARY SYSTEM: CURRENCIES IN A CHANGING WORLD

Over several decades, the international monetary system (IMS) has remained broadly stable and centered on the US dollar, despite momentous global changes. This stability has been accompanied by rising asymmetries between the global economic and monetary system as economies deepened specialization in trade or finance, while the US dollar is used as the primary global currency across various areas. However, recent geopolitical and economic developments could weaken this stability, warranting a recurrent monitoring of the evolving system. This chapter—the first of periodic monitoring of the IMS—documents historical developments, provides some conceptual foundations, and proposes indices to track key trends in the IMS.

Introduction

The IMS is a critical foundation of the global economy. A stable IMS provides the orderly underlying conditions that are necessary for financial and economic stability (IMF 2016). Since at least the late 19th century, the country at the center has contributed to its stability by providing various global public goods (Kindleberger 1973, 1976, 1981; Koehane 1980). These include promoting open trade and a steady flow of capital, coordinating macroeconomic policies, and last resort lending. From the 1940s onwards, that country has been the United States (Kindleberger 1976; Irwin and Obstfeld 2024), with the US dollar playing a critical role in each of these functions—serving as the vehicle for international trade and finance, the benchmark for exchange rate stabilization, and the global safe asset (Gourinchas 2019; Rey 2024).

The central role of the US dollar has been resilient, or even strengthened, despite profound transformations over the past several decades. These have included the collapse of the Bretton Woods system of fixed exchange rates, the end of the Cold War, and the creation of the euro. Such developments have repeatedly reignited public discussion over the IMS and speculation about reforms (Figure 2.1). Yet, the dollar dominance has endured—transitioning from de jure to de facto anchor of the system after 1971—underpinned by complementarities among various uses and network externalities—as all users benefit from using the same currency as others. In addition, the unparalleled depth and liquidity of US financial markets and the safe asset status of US Treasuries have further reinforced its dominance.[1] The dollar-centric IMS has in turn supported global financial and economic stability and trade and financial liberalization in the 21st century, not least by lowering transaction costs and reducing exchange risks.

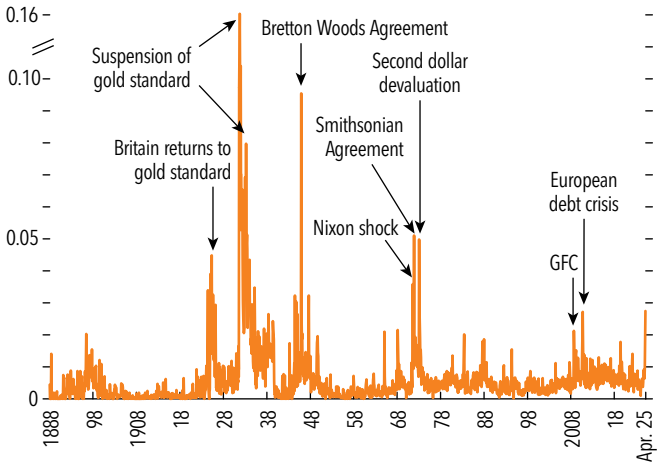
Nonetheless, recent geopolitical and economic shifts could weaken network externalities, creating potential vulnerabilities in the system. These developments include rising geopolitical fragmentation concerns, the rise of new trade or financial centers including China, the changing role of the United States as world banker and insurer, and rapid advances in digital payment technologies. Albeit gradual so far, these changes could lead to some reshaping of the IMS, with potential far-reaching implications for the global economy (Nurkse 1944; Farhi, Gourinchas, and Rey 2011; Eichengreen 2011a; Rey 2024; Rogoff 2025). Incidentally, the public discussion of the IMS in recent months has reached the highest level since the end of the Bretton Woods fixed exchange rate system in early 1973 (Figure 2.1).

Given these considerations and the IMF's mandate to ensure an effectively operating IMS (IMF 2011, 2012, 2016), this chapter takes stock of key trends of the IMS and, critically, proposes new indices, with a view to monitoring them periodically. While

The authors of the chapter are Cian Allen, Jiaqian Chen, Yang Liu, and Ting Lan with contributions by Eugenio Cerutti, George Cui, Ernesto Crivelli, Melih Firat, Martina Hengge, Marcello Miccoli, and Marco Reuter under the guidance of Jaewoo Lee. Jaewon Lee, David Guio Rodriguez, Jair Rodriguez, and Brian Hyunjo Shin provided excellent research assistance. Hélène Rey was the external consultant. The chapter benefited from comments by Maurice Obstfeld, internal seminar participants, and reviewers as well as collaboration with colleagues from the Bank for International Settlements for data sharing

[1]See among others Krugman (1980,1984); Kindleberger (1981); Matsuyama, Kiyotaki, and Matsui (1993); Rey (2001); Chinn and Frankel (2007); Frankel (2012); Maggiori (2013); Maggiori (2017); Farhi and Maggiori (2018); Gourinchas (2019); Gopinath and Itskhoki (2022); Gopinath and Stein (2021); Chahrour and Valchev (2022).

Figure 2.1. Keyword Occurrences in FT Articles over 1888–2025
(Share of total number of articles)



Sources: Financial Times; and IMF staff calculations.

Note: Keywords include Triffin dilemma, Bretton Woods, international monetary system, dollar dominance, international financial system, global monetary order, gold standard, gold parity, Plaza Accord, Louvre Accord, and Smithsonian Accord (see Online Annex 2.5 for the full list). FT = Financial Times; GFC = global financial crisis.

the definition of the IMS is very broad, this chapter and its sequel will focus on one aspect of it, centered around international currencies and payment systems.[2] This narrower focus reflects the critical role played by the center country and its currency in ensuring global economic and financial stability, as discussed earlier. An appreciable change in the role of international currencies will also constitute an early signal of significant shifts in the IMS in its broad sense. Moreover, the IMF will continue to occasionally update its comprehensive analysis of the IMS, including broader aspects of the IMS and vast policy issues that are excluded from this monitoring chapter.

This chapter asks three main questions. (1) What were the salient features behind the rise of the US dollar's dominance and what is its current state? (2) What have been the economic transformations that lay behind the dollar-centered IMS and how have they been interacting with the use of international currencies? (3) What are the ongoing evolutions of the IMS? These questions are answered in the following key points:

- The dollar's dominance in the IMS has come about gradually and once established, has been remarkably resilient, underpinned by the strength of the US economy and the depth of its financial markets. Geopolitical developments—such as the collapse of the Soviet Union—further entrenched its de facto central role.
- The dollar plays a central role across various areas, over and above the US economic weight. A new composite index of international currency usage underscores the stability of its global role, attesting to network externalities and strategic complementarities across the dollar's various international functions.
- Supported by the stable dollar-centered IMS, global trade and finance have achieved a remarkable integration in the 21st century. In the process, economies have become increasingly specialized, leading to shifts in the centrality of the largest economies in global trade and finance networks. This has contributed to growing asymmetry among economies' centrality in these networks and the international use of their currencies. Both the centrality and asymmetry are measured by new indices proposed in this chapter.
- Against the backdrop of stable dollar dominance, the rise in the asymmetry index suggests that network externalities remain strong, reinforcing the stability of the dollar-centric IMS and facilitating economic specialization. Most recently, however, geopolitical and economic developments could weaken network externalities down the road, signaling potential changes in the IMS. These developments underscore the need to closely monitor current developments that could ultimately affect the IMS.
- Four such developments are explored in more detail:
  - First, *rising geopolitical fragmentation concerns* have reoriented trade flows to take place within geopolitical groups of countries rather than between them. Trade fragmentation has also led to reallocation of investment flows across countries (Gopinath and others 2025).
  - Second, *the growing use of the renminbi (RMB) in international trade and finance*. The motives for currency invoicing choice by firms in China are examined using a large language model analysis of Chinese data. Policy initiatives and, more recently, geopolitical factors are found to have been among key motives.

[2]The IMS comprises: (1) the rules governing exchange arrangements between countries and the rates at which foreign exchange is purchased and sold; (2) the rules governing the making of payments and transfers for current international transactions between countries; (3) the rules governing the regulation of international capital movements; and (4) the arrangements under which international reserves are held, including official arrangements through which countries have access to liquidity through purchases from the Fund or under official currency swap arrangements (IMF 2012).

- Third, *potential changes in the US role as a global banker and insurer*. Several indicators, including the US treasury premium, the US excess return on external assets, and the demand for gold, provide tentative signs of relative softening in the US global banker and insurer role, although the United States remains the dominant provider.
- Fourth, *the role of technological innovation in creating new rails for cross-border payments.* While central bank digital currencies (CBDCs) are still in the experimental stage for cross-border use, the international use of private crypto assets, especially stablecoins backed by US dollars, has been increasing. This is confirmed by several indicators of their growing presence. The rising popularity of US-dollar-backed stablecoins could reinforce the dollar's dominant role in the IMS, though their scale remains modest compared to traditional dollar-denominated assets. Moreover, broader retail adoption could bring about financial stability risks.

The rest of the chapter is organized as follows. After providing a very brief history on the rise of US dollar dominance, this chapter presents indicators that show the continued dominance of the US dollar. It next discusses the major global transformations of international trade and finance in the 21st century. The chapter then discusses four main currents that lead the ongoing evolution of the IMS and ends with a brief conclusion.

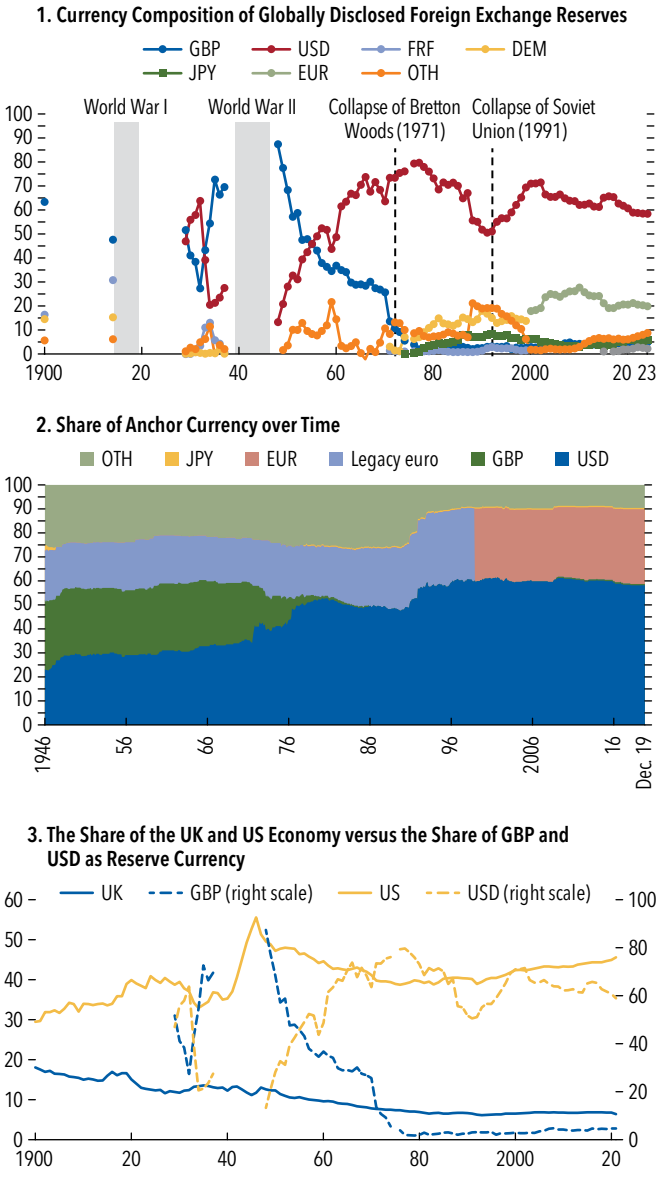
The Rise of US Dollar Dominance

The US dollar dominance emerged through a gradual process, shaped by economic and geopolitical forces, and has endured through major global events.

The US dollar's ascent to being the dominant global reserve currency was a gradual and multifaceted process shaped by economic, financial, and geopolitical dynamics throughout the 20th century (Eichengreen 2011a). In the late 19th and early 20th centuries, the pound sterling was the global reserve currency, although other currencies such as the French franc also played an important role in certain regions (Figure 2.2).[3] However, sterling dominance started to wane after World War I as the United Kingdom faced mounting fiscal

[3]During the interwar period, gold was the most important reserve asset, accounting for at least 80 percent of reserves, so the choice between the US dollar and sterling was a more marginal decision than today (Ghosh, Ostry, and Tsangarides 2011).

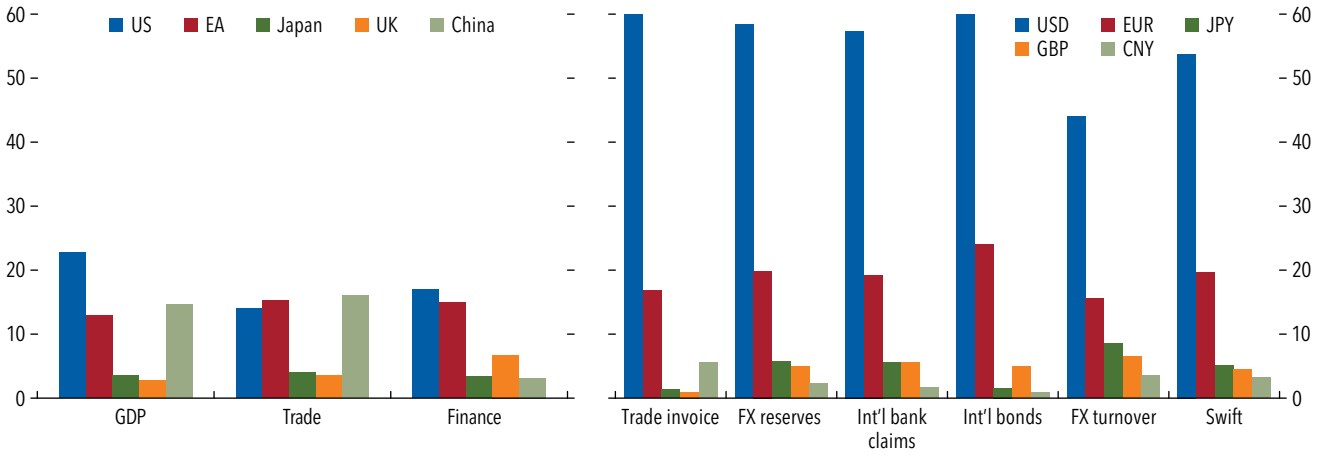
Figure 2.2. The Rise of US Dollar Dominance
(Percent)



Sources: Extension of Eichengreen, Chitu, and Mehl (2016) using Currency Composition of Official Foreign Exchange Reserves data set; Jordà, Schularick, and Taylor (2017); Ilzetzki, Reinhart, and Rogoff (2019); and IMF staff calculations.

Note: In panel 2, other currencies include the currencies of Australia, Brazil, Canada, Egypt, India, Mexico, New Zealand, the Russian Federation, Singapore, South Africa, Switzerland, and Türkiye, and also special drawing rights. DEM = Deutsche mark; EUR = euro; FRF = French franc; GBP = British pound sterling; JPY = Japanese yen; OTH = other currencies; USD = US dollar.

Figure 2.3. Share in Global Economy and Currency Composition in 2023
(Percent)



Source: IMF staff calculations.

Note: See Online Annex 2.4 for more details on data sources and assumptions. CNY = Chinese yuan; EA = euro area; EUR = euro; FX = foreign exchange; GBP = British pound sterling; JPY = Japanese yen; Swift = Society for Worldwide Interbank Financial Telecommunication; USD = US dollar.

pressures, weakening competitiveness, and significant war-related debt. At the same time, the United States had already emerged as the world's largest economy and the US dollar had overtaken the sterling as the leading form of trade credit (Chitu, Eichengreen, and Mehl 2014), laying the foundation for the dollar to gain traction as the global reserve currency. In addition, the establishment of the Federal Reserve in 1913 and the development of deep and liquid financial markets made the dollar even more attractive for international transactions and reserves. Although the dollar was gaining prominence, sterling remained significant, especially among Commonwealth countries.

Their coexistence reflects the inertia in the reserve currency use, as the shift away from sterling was delayed by historical ties and the incumbent advantage resulting from network externalities.

After World War II, the prominence of the dollar increased further. Early on, the establishment of the Bretton Woods system institutionalized the dollar's role as the de jure anchor currency for global exchange rates (Figure 2.2). The development of the Eurodollar market, which was in response to the exchange controls under the Bretton Woods system in the late-1960s and 1970s and facilitated by the Federal Reserve's swap lines with the Bank for International Settlements (BIS), also played a key role (McCauley and Schenk 2020). Remarkably, even after the collapse of the Bretton Woods system of fixed exchange rates, the dollar remained front and center, now as the de facto anchor currency.[4] In the late 1980s and 1990s, the collapse of the Soviet Union and the subsequent integration of former Eastern bloc economies further cemented the dominance of the dollar. Despite major geopolitical shifts, dollar dominance prevailed and the dollar-centered IMS provided global public goods, which helped bring in a new era of geoeconomic integration via trade and finance.

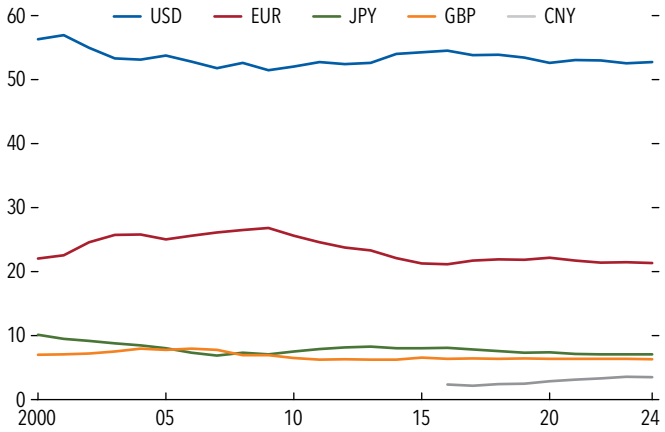
Current State: The US Dollar at the Center

Today, the US dollar remains widely used across a broad range of areas, with its role showing remarkable stability over time.

As of 2023, the US dollar was dominant across various areas: trade, foreign exchange reserves, international loans, international debt, foreign exchange turnover, and global payment. The share of the US dollar in these areas considerably exceeds the US economic weight in global GDP, trade, and finance (Figure 2.3).

[4]A number of observers at the time raised concerns over weakening confidence in the US dollar's international role, driven by geopolitical developments, such as the oil crisis in 1973, and economic factors, such as the sharp dollar depreciation in the early 1970s and the declining share of the United States in world output (Rueff 1971; Aliber 1973; McKinnon 1974). Amid declining confidence in the US dollar, a Substitution Account was proposed that would have allowed central banks to convert the dollar into the IMF's special drawing right. However, the proposal has never emerged as a viable alternative, in part due to the various political, economic, and technical constraints to operationalize the Substitution Account (McCauley and Schenk 2015).

Figure 2.4. An Index of International Currency Usage



Sources: Allen and Juvenal (2025); IMF staff calculations based on analysis in Boz and others (2025) and expanded and updated data from Boz and others (2022); Currency Composition of Official Foreign Exchange Reserves data set; External Wealth of Nations database (2025); Eurostat; and HM Revenue & Customs.

Note: Excludes intra-euro area holdings. Index is a simple average of each currency's share of global disclosed foreign exchange reserves (25 percent weight), trade invoicing (25 percent weight), foreign exchange turnover (25 percent) and global balance sheets (25 percent weight). Global balance sheets represent the sum of foreign assets and liabilities (excluding reserves) in each currency over total foreign assets and foreign liabilities. CNY = Chinese yuan; EUR = euro; GBP = British pound sterling; JPY = Japanese yen; USD = US dollar.

The euro—a regional dominant currency whose share also exceeds the economic footprint—is a distant second, ahead of the Japanese yen and the British pound, while the RMB share in international markets remains smaller than China's economic footprint.

The dollar has held this dominant position for a long time (Figure 2.4). The index of international currency usage summarizes the use of currencies across various functions and helps compare the role of international currencies and monitor their changes over time.[5] The dollar has maintained its dominant role, followed by the euro, the Japanese yen, the British pound, and the RMB. The dollar share has remained broadly stable in the 2000s, although with a moderate decrease since 2015, reflecting a declining share of the dollar in global reserves (Arslanalp, Eichengreen, and Simpson-Bell 2022). The euro share was increasing in the run-up to the global financial crisis (GFC) but has since declined.[6]

This stability of the dollar's dominant status has been underpinned by strategic complementarities across its various functions (Krugman 1984; Gopinath and Stein 2021; Chahrour and Valchev 2022; Mukhin 2022). For instance, the dollar is widely used to invoice and settle cross-border trade, reflecting the dominance of the US economy, the prevalence of dollar pegs, and complementarities in price setting at the firm-level. Greater use of the dollar in trade, in turn, can incentivize households and firms to hold dollar-denominated assets to finance future consumption or as a store of value and to issue liabilities in dollars, as the demand for dollar deposits lowers interest rates which facilitates dollar borrowing. This prevalent use in trade and finance strengthens incentives for central banks to monitor the dollar exchange rate, intervene in currency markets in dollars, or accumulate more dollar reserves. Conversely, a more stable dollar exchange rate and a larger stock of dollar reserves can make it more appealing to invoice or to borrow in dollars for banks or non-banks. These mutually reinforcing dynamics between trade and finance are facilitated by the unparalleled depth and liquidity of US financial markets (enabling large transactions with minimal market impact) as well as the US Treasuries' distinguished property as safe assets (anchored in trust and purchasing power stability) (Figure 2.5). All these factors create a strong inertia in favor of the incumbent currency that is hard to displace.

Global Transformations in the 21st Century: Trade and Financial Liberalization and Globalization

The steady dollar dominance over the past several decades has cut a contrast with transformative developments in global trade and finance, giving rise to certain asymmetries.

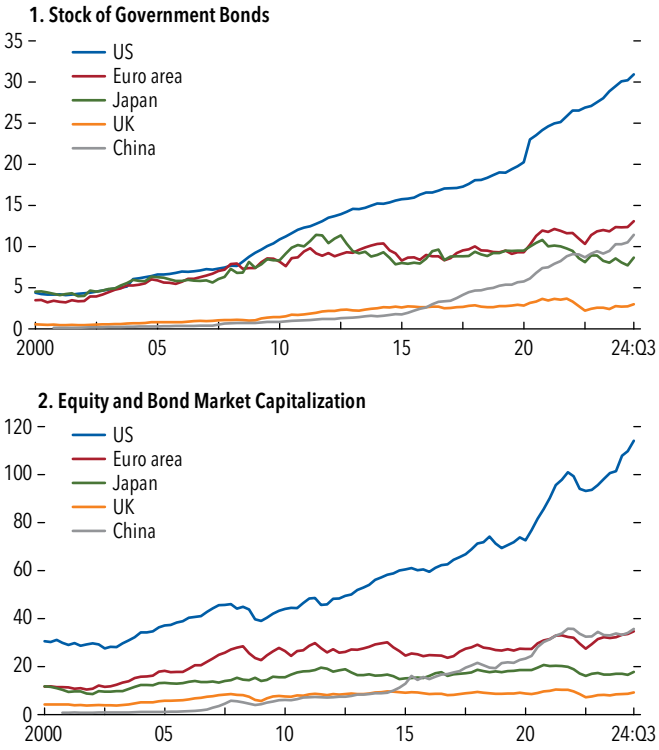
The stability of dollar-centered IMS has underpinned international integration of trade and finance in the 21st century. The widespread use of the US

[5]For other examples of a composite index of currency use, see Bertaut, von Beschwitz, and Curcuru (2023), ECB (2025), and PBoC (2023). Other indices can also capture specific aspects of the IMS, such as the currency composition of external balance sheets or exchange rate centrality using co-movement of currencies (Frankel and Wei 1994) (see Online Annex 2.1)

[6]For further details on the drivers of the moderate decline in the US dollar share in global reserves see Arslanalp, Eichengreen, and Simpson-Bell (2022); Iancu and others (2022); Chinn, Frankel, and Ito (2024), and Goldberg and Hannaoui (2024). For more details on currency shares in international banking, bonds and derivatives markets, see McGuire, von Peter, and Zhu (2024).

Figure 2.5. Depth of US Financial Market

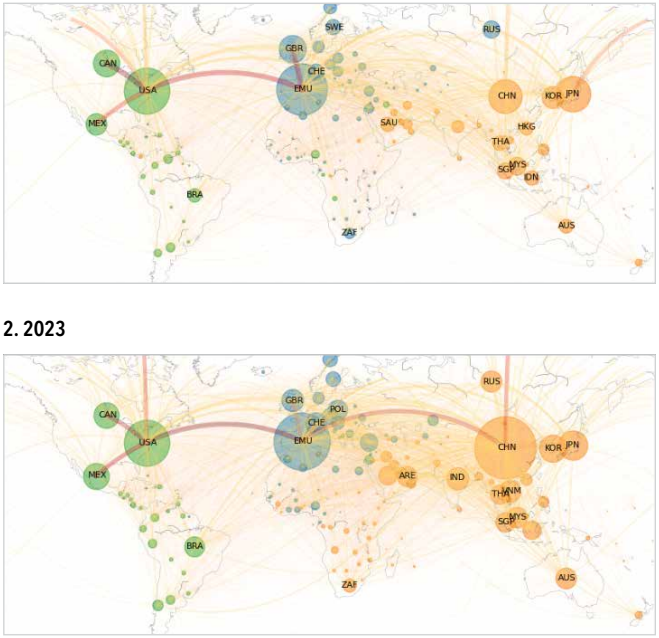
(Trillions of US dollars)



Sources: Bank for International Settlements Debt Statistics; CEIC Data; Thomson Reuters Datastream; Haver Analytics; and IMF staff calculations.

Note: Panel 1 reports debt securities issued by the general government in all markets, at all maturities, denominated in all currencies at nominal value stocks (except UK, which uses market value stocks due to data availability).

Figure 2.6. Trade Network in 2001 and 2023



Sources: Gaulier and Zignago (2010); and IMF staff calculations.

Note: Merchandise exports in percent of world GDP. Only values exceeding US$10 billion are displayed. Data labels in the figure use International Organization for Standardization codes. Color coding denotes clusters of economies that are identified following Clauset, Newman, and Moore (2004). The figure builds on Miranda-Agrippino, Nenova, and Rey (2025), who describe the evolution of these networks and explore the implications of the changes in network for the international transmission of monetary policies. EMU = European Monetary Union.

dollar has helped lower transaction costs and reduce exchange risks, thereby supporting greater cross-border trade and financial integration, while economies have become increasingly specialized in trade or finance (Goldberg and Tille 2008; Gopinath and others 2020). In turn, this globalization in trade and finance strengthened the international role of the dollar and sustained its dominance through network externalities (Krugman 1980; Matsuyama, Kiyotaki, and Matsui 1993). At the same time, however, the resulting transformation in the landscape of cross-border trade and financial flows sowed the seeds for potential evolution in the dollar-centered IMS itself.

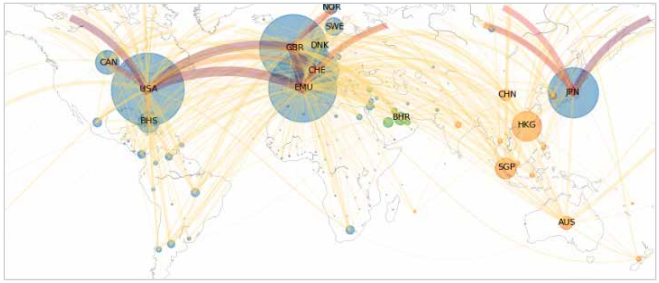
Between 2001 and the GFC in 2008, the pace of trade integration gathered momentum with global cross-border trade of goods and services rising by about 15 percentage points of global GDP in the lead up to the GFC in 2008 (Online Annex Figure 2.3.1). Since then, however, global trade has largely plateaued. Over this period, China has become a key participant in global trade, along with the United States and the euro area (Figure 2.6). Other emerging market economies in Asia—notably India—have also gained in prominence.[7]

Cross-border holdings of financial assets also rose significantly in the run-up to the GFC, almost doubling as a share of global GDP, before flattening in the aftermath (Online Annex Figure 2.3.2). Advanced economies, particularly the United States, the euro area, and the United Kingdom, continue to account for the bulk of cross-border holdings of portfolio and banking

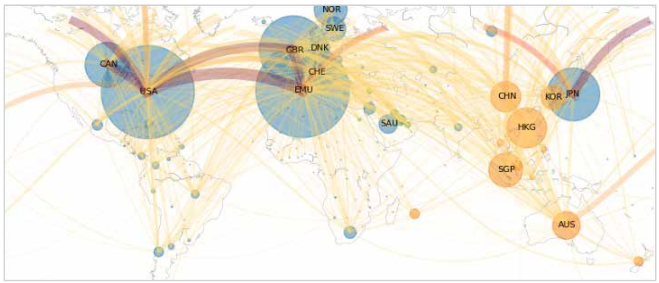
[7]Trade is defined as merchandise trade. Including services may change the relative importances of the main economies.

Figure 2.7. Financial Network in 2001 and 2023

1. 2001



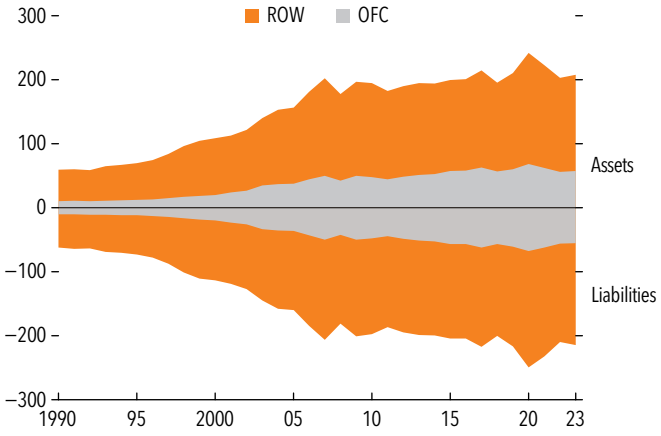
2. 2023



Sources: Bank for International Settlements Locational Banking Statistics; Portfolio Investment Positions by Counterpart Economy data set; Coppola and others (2021); and IMF staff calculations.

Note: The sum of total portfolio assets and banks' loans and deposit claims is in percent of world GDP. Mirror data are used to fill missing data whenever available. Portfolio holdings are corrected for the role of offshore financial centers using the rescaling matrix of Coppola and others (2021). Data labels in the figure use International Organization for Standardization codes. Color coding denotes clusters of economies that are identified following Clauset, Newman, and Moore (2004). Intra-EMU holdings are excluded. The figure builds on Miranda-Agrippino, Nenova, and Rey (2025), who describe the evolution of these networks and explore the implications of the changes in network for the international transmission of monetary policies. EMU = European Monetary Union.

Figure 2.8. Increase in Share of Offshore Financial Centers in Global Finance



Sources: External Wealth of Nations database; and Maggiori, Neiman, and Schreger (2020).

Note: The sum of total assets and liabilities (liabilities are shown on reverse scale) is by group. "Offshore financial centers" is defined following Maggiori, Neiman, and Schreger (2020), and includes Aruba, Bahrain, Barbados, Belize, Bermuda, the Cayman Islands, Costa Rica, Curaçao, Cyprus, Djibouti, Gibraltar, Grenada, Hong Kong SAR, Ireland, Jordan, Lebanon, Liberia, Liechtenstein, Luxembourg, Macao SAR, Maldives, Malta, the Marshall Islands, Mauritius, Nauru, The Netherlands, Panama, Seychelles, Singapore, The Bahamas, and Turks and Caicos Islands. OFC= offshore financial centers; ROW = rest of the world.

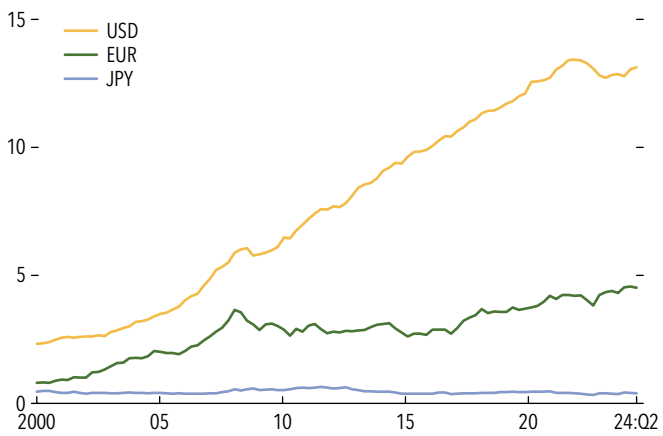
assets (Figure 2.7).[8,9] Looking at deposit and loan claims of banks, the United Kingdom accounts for the largest share with one-fifth of total holdings, followed closely by the United States and the euro area. These economies also hold more than one half of global foreign direct investment (FDI) assets. At the same time, China has become an increasingly important source of FDI, with large exposure intermediated through Hong Kong Special Administrative Region (Online Annex Figure 2.3.3). Bilateral gross financial exposures between advanced and emerging market economies have remained broadly stable (Online Annex Figures 2.3.4 and 2.3.5), although there are early indications that rising geopolitical tensions have shifted investment patterns across countries (Gopinath and others 2025).

Two other notable financial developments are the rising role of offshore financial centers (OFCs) and non-bank financial institutions in intermediating cross-border flows. The share of OFCs in global cross-border holdings has doubled over the past 30 years (Figure 2.8 and Online Annex Figure 2.3.6). This pattern is linked to the increased complexity of the corporate structures of multinational firms, which can considerably complicate the attribution of bilateral financial holdings data (Coppola and others 2021; Damgaard, Elkjaer, and Johannesen 2024). Reallocating security holdings channeled through offshore financial centers does not only change the bilateral exposure between economies, but it can also change aggregate

[8]Portfolio holdings are adjusted using the rescaling matrix of Coppola and others (2021) for nine economies (the United States, the euro area, the United Kingdom, Canada, Switzerland, Sweden, Denmark, Norway, and Australia). Other economies are not adjusted. Despite large differences in financial market depth (Figure 2.5), the United States and the euro area each account for a similar share of global cross-border portfolio holdings, at just over 30 percent after adjusting for offshore financial centers, followed by Japan and the United Kingdom, which each represent about 10 percent.

[9]Figure 2.6 and Figure 2.7 depict directed networks using exports (for trade) and portfolio and bank assets (for finance). For the undirected networks using the sum of bilateral exports and imports (for trade) and the sum financial assets and liabilities (for finance), see Online Annex 2.6.

Figure 2.9. Foreign Currency Credit to Nonbank Borrowers by Currency
(Trillions of US dollars)



Sources: Bank for International Settlements Global Liquidity Indicators; and IMF staff calculations.

Note: Foreign currency credit is by currency of denomination to nonbank borrowers (includes loans extended by banks and funding from global bond markets through the issuance of international debt securities). EUR = euro; JPY = Japanese yen; USD = US dollar.

foreign holdings. For instance, when looking through these centers, total foreign holdings of the United States decrease, as foreign investment is reclassified as domestic investment, whereas overall foreign holdings increase in the euro area and the United Kingdom. At the same time, cross-border borrowing by non-bank financial institutions has expanded, reflecting their rising role in intermediating global capital flows (Figure 2.9).

Although trade and financial networks are still organized around a few key hubs, new centers have emerged and the overall degree of global interconnectedness has remained stable in the last 25 years. In 2001, the global trade network was organized around three main hubs: the United States, the euro area, and Japan.[10] In recent years, China has emerged as the center of the Asian trading hub, resulting in a more concentrated network structure anchored around a few large poles. By contrast, the global financial network has continued to be centered around advanced economies—notably the United States, the euro area, the United Kingdom, and Hong Kong Special Administrative Region—although several other Asian economies have gained importance. Over time, trade flows and financial holdings have increased within country clusters but remained broadly unchanged across clusters (Online Annex Figure 2.3.7).

[10]See Clauset, Newman, and Moore (2004) for the detailed methodology to identify clusters of economies.

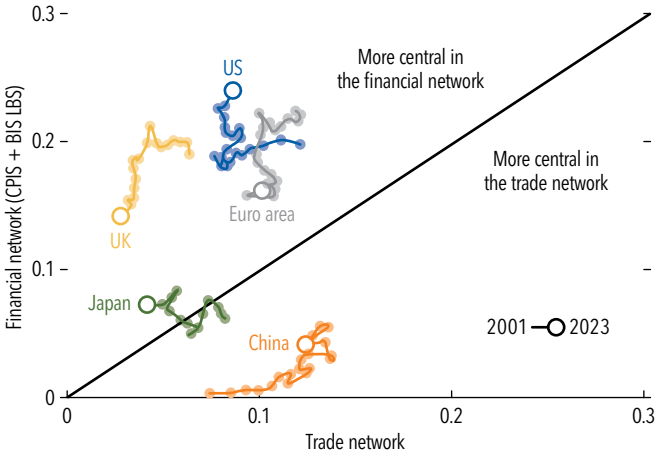
The role of major economies within trade and financial networks evolved as shown by the centrality index (see Text Box 2.1 and Figure 2.10).[11] The United States has become more central in the financial network, reflecting larger foreign holdings of US portfolio and banking assets, whereas its dominance in the trade network has declined.[12] Similarly, Japan has become more central in the financial network, driven by an increase in foreign investment in the Japanese banking sector, while its centrality in the trade network has declined. The euro area and the United Kingdom, on the other hand, have experienced a decline in their centrality in both trade and financial networks. Meanwhile, China has substantially increased its role in the global trade network, though its role in the financial network remains limited.

This chapter proposes an asymmetry index to measure the difference from a symmetric configuration among the roles of major economies and their currencies in the global economy. The main source of asymmetry is the fact that currency shares have remained broadly stable while the centrality of major economies has evolved as they become increasingly specialized in trade or finance. Figure 2.11 illustrates this point, that is, how currency shares and network centrality differ from each other and have changed between 2001 and 2023. For instance, the decreased centrality of the United States and the euro area in trade has increased asymmetry with its currency share as the latter remained broadly stable—as illustrated by the growing divergence from the 45-degree line. Another example is the rise in China's centrality in trade and finance, which has outpaced the increase in the use of RMB. These asymmetries are aggregated over major economies of the world to generate a global measure of asymmetry between economic centrality and currency use. Figure 2.12.1 shows these indices for trade and finance, illustrating the steady increase in asymmetry in trade but stability in finance. This movement in turn reflects a greater change in economic centralities than in the patterns of currency use over the past two decades, especially in trade. Figure 2.12.2 shows

[11]Recent work, such as Miranda-Agrippino, Nenova, and Rey (2025), uses network methods to trace the evolving structure of global trade and financial networks and assess their role in the transmission of monetary policy. Earlier applications focused on characterizing the topology of these networks themselves (for example, De Benedictis and others 2013; Glasserman and Young 2016).

[12]Despite having a much larger financial market, the United States accounts for a similar share of global cross-border portfolio holdings as the euro area. As such, the centrality of the United States in the financial network is slightly above the euro area.

Figure 2.10. Country Centrality in Trade and Financial Network over 2001–23[1]

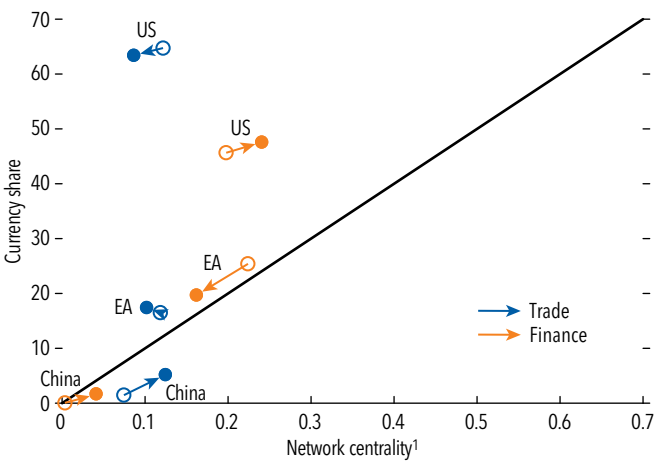


Sources: Bank for International Settlements Locational Banking Statistics; Portfolio Investment Positions by Counterpart Economy data set; Coppola and others (2021); Gaulier and Zignago (2010); and IMF staff calculations.

[1]Each dot represents the annual value of the centrality measure of a country in the trade and financial network (see Text Box 2.1). "Financial network" represents the sum of cross-border holdings of portfolio assets and banks' loans and deposit claims. Mirror data are used to fill missing data whenever available. Portfolio holdings are corrected for the role of offshore financial centers using the rescaling matrix of Coppola and others (2021). Intra-European Monetary Union holdings and trade are excluded.

Figure 2.11. Country Centrality and Currency Use in Trade and Financial Network in 2001 → 2023

(Percent)



Sources: Bank for International Settlements Locational Banking Statistics; Portfolio Investment Positions by Counterpart Economy data set; Coppola and others (2021); Gaulier and Zignago (2010); Allen and Juvenal (2025); IMF staff calculations based on analysis in Boz and others (2025) and expanded and updated data from Boz and others (2022); and Eurostat.

[1]Measured by eigenvector centrality (see Text Box 2.1). Intra-EMU holdings and trade are excluded. EA = euro area; US = United States.

Text Box 2.1. Network Analysis of World Trade and Cross-Border Financial Holdings

Network analysis offers a lens through which to study how economies are structurally interconnected through global trade and finance. Unlike traditional bilateral approaches, network analysis captures both direct and indirect linkages—revealing the broader web of interdependencies that shape international spillovers.

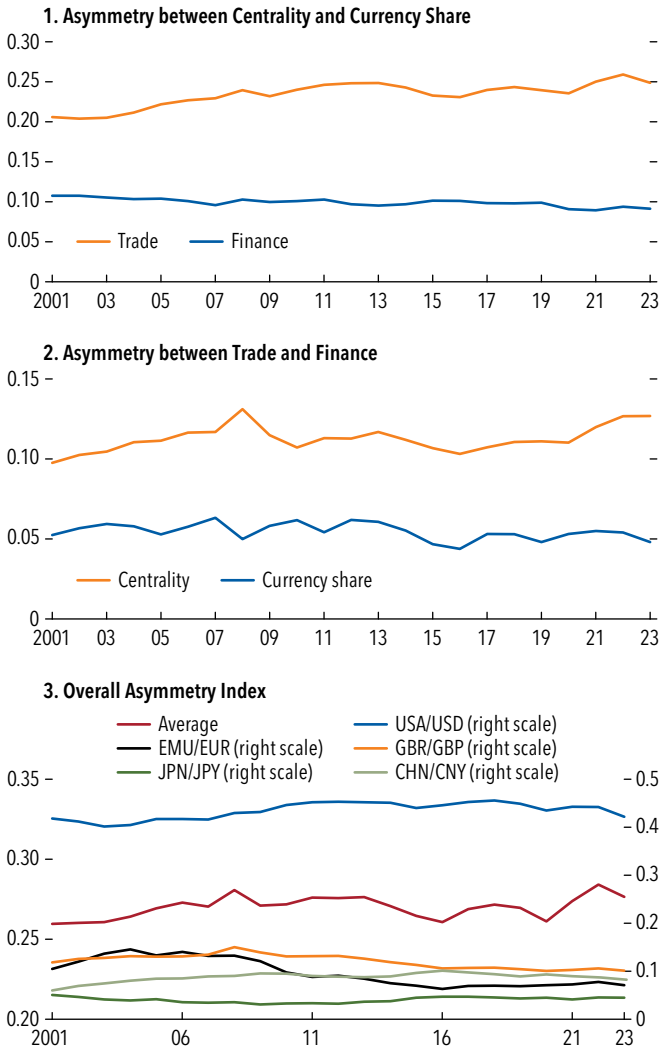
The centrality index quantifies the importance of each economy ("node") in the network, not only reflecting both direct and indirect linkages but also giving higher weights to linkages with other economies of importance in the network (see the Online Annex 2.2 for mathematical details).

increasing asymmetry between trade and finance centralities that contrasts with a near constant asymmetry between currency use in trade and finance. This rise in asymmetry between trade and financial networks reflects an increasing specialization in trade or finance.

A natural benchmark for overall asymmetry is a fully symmetrical equilibrium, in which a country can be expected to have an equal degree of centrality in international trade and finance networks, with its currency used proportionally in cross-border transactions. Deviations from this full symmetry can be measured by the overall asymmetry index (Text Box 2.2), which is illustrated in Figure 2.12.3. Over much of the sample period, the index indicates a modest increase in asymmetry, reflecting in part China's increasing centrality in trade, alongside a relatively limited use of the RMB in trade. Were network externalities strong enough, a natural monopoly in currency use—one vehicle currency—would result. More generally, the asymmetry index would tend to increase with the strengthening of dominance of one or a few currencies over and above their issuers' economic weights, while tending to decline with the weakening of such dominance.

The extent of asymmetry is related to the contrast between a unipolar and multipolar IMS configuration. A high asymmetry index—a unipolar world characterized by the dominant use of a currency exceeding its issuer's weight in trade or finance—may reflect strong network externalities and the center country continues to play the role of world banker and insurer (Kindleberger 1965; Mendoza, Quadrini, Rios-Rull 2009). However, this configuration can change if the network externalities weaken—whether due to increasing geopolitical fragmentation or a diminished

Figure 2.12. Asymmetry Indexes



Source: IMF staff calculations.

Note: See Text Box 2.2 for the methodology. Data labels in the figure use International Organization for Standardization (ISO) country codes. EMU = European Monetary Union; USD = US dollar; EUR = euro; JPY = Japanese yen; GBP = British pound sterling; CNY = Chinese yuan.

capacity of the center country to backstop the supply of safe assets (Triffin 1966; Farhi, Gourinchas, and Rey 2011). In such a case, the IMS could gradually transition toward a more symmetric—multipolar—configuration of currency use and economic centralities, with an attendant decline in the asymmetry index. A multipolar system could increase the global supply of safe assets by resorting to multiple suppliers, enhancing stability for the global system (Eichengreen 2011a, 2019, 2023). But the multiplicity of safe assets could bring about fragilities by increasing the risk of volatile capital flows or exchange rate movements among them, induced by small shifts in fundamentals or self-fulfilling

Text Box 2.2. Overall Asymmetry Index Algebra

Let $b_{i,t}^{T}$ and $b_{i,t}^{F}$ denote the centrality of country i in trade (T) or financial (F) network, respectively and $c_{i,t}^{T}$ and $c_{i,t}^{F}$ denote the share of country i's currency in trade (T) or finance (F) at time t, where i = United States, euro area, United Kingdom, China, Japan, and Rest of the World. Each centrality ($b_{i,t}^{T,F}$) and currency share ($c_{i,t}^{T,F}$) is bounded between 0 and 1 and sum to 1 across the six economies. Let $X_t = (x_{i,t}) = (b_{i,t}^{T}, b_{i,t}^{F}, c_{i,t}^{T}, c_{i,t}^{F})$ denote a vector of centrality measures and currency shares and $\bar{x}_t = \frac{1}{4}\left(b_{i,t}^{T} + b_{i,t}^{F} + c_{i,t}^{T} + c_{i,t}^{F}\right)$. For each country/currency, let $y_{i,t} = \left(\sum_{i=1}^{4}(x_{i,t} - \bar{x}_t)^2\right)^{1/2}$, which measures the distance from the main diagonal (in the 4-dimensionsal space).Then the overall asymmetry index is $Y_t = \sum_{i=1}^{6} \omega_{i,t}\, y_{i,t}$, where $\omega_{i,t}$ is the average of an economy's share in global trade and finance (See Online Annex 2.7 for further details).

capital flight (Farhi, Gourinchas, and Rey 2011; Farhi and Maggiori 2018; He, Krishnamurthy, and Milbradt 2019). The relative stability of a unipolar or multipolar configuration thus depends on the underlying shocks and institutional frameworks. When the single reserve currency issuer retains a robust framework that supports a deep and liquid capital market, ensures price stability, and maintains strong fiscal capacity to meet the global safe-asset demand, a unipolar system will likely remain stable, free from the risk of inter-currency volatility of the multipolar system. Both unipolar and multipolar configurations can thus serve as a stable backstop for the global economy. However, risks of volatility and potential instability would rise during the transition between configurations, even when they would each be stable once the transition has been completed. The asymmetry index can help monitor signs of such transitions.

The increase in asymmetry over the past decade, however, does not offer a definitive signal on the stability of the current IMS on its own and additional information should be considered. In the past, forces such as declining trade costs, increased financial integration, the collapse of the Soviet Union, and China's accession to the World Trade Organization supported deeper global integration and strengthened network externalities, reinforcing a stable near-unipolar structure centered on the dollar. Driven by these forces, the rising asymmetry was consistent with a strengthening of network externality and dollar dominance. Recently, however, new

dynamics—including geopolitical fragmentation—could work in the opposite direction, with possible shifts in the relative importance of international currencies, if complementary factors such as a deep and liquid capital market were to develop for other currencies. The chapter now turns to four developments that could influence such a change including one outside the legacy monetary system.

Ongoing Developments in the IMS

Although the dollar-centric IMS has prevailed over several transformative changes in the past, newly rising trends warrant attentive monitoring for their potential effects on the IMS. Of various economic, technological, and geopolitical shifts, this section discusses four currents that could materially affect the IMS configuration, if sustained.

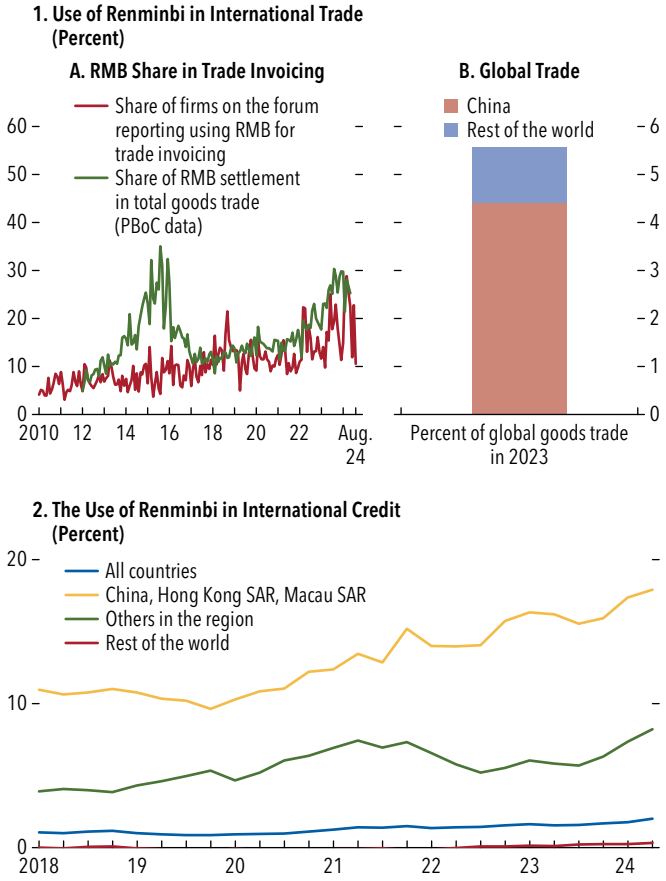
Rising Concerns on Geopolitical Fragmentation

Brexit, rising trade tensions, and Russia's invasion of Ukraine have intensified geopolitical tensions. There has been a considerable increase in barriers to trade, including trade-restrictive measures and distortive subsidies. Increasingly, global trade is taking place within geopolitical groups of countries rather than between them (IMF 2025). Similarly, recent research has highlighted a reallocation of investment flows across countries—in particular FDI—in response to increasing trade barriers (Gopinath and others 2024, 2025).[13,14] The rising geopolitical fragmentation has entrenched the ongoing retreat from cross-border economic integration that began more than a decade ago after the GFC (Gopinath and others 2025. Moreover, there are already signs that geopolitical factors are affecting currency choices for trade, cross-border payments and central bank demand for gold (see discussions below and ECB 2025). Were geopolitical tensions to rise further and deepen trade and financial fragmentation, networks would shrink in size and network externalities could weaken, bringing about relative shifts in the usage of international currencies.

[13]In more comprehensive bilateral balance-of-payments data, similar evidence was documented in Box 1.1 of the 2024 *External Sector Report*. However, the interpretation of these flows remains challenging as a significant share of FDI flows to financial centers and hence cannot be allocated to its ultimate destination.

[14]Despite the decline in inter-bloc trade, aggregate trade as a share of global GDP remained constant. Moreover, bilateral gross financial holdings have so far remained broadly stable and net international investment positions between large creditor and debtor economies has changed little so far (Online Annex Figures 2.3.8 and 2.3.9).

Figure 2.13. International Role of RMB



Sources: IMF staff calculations based on analysis in Boz and others (2025) and expanded and updated data from Boz and others (2022); People's Bank of China accessed via Haver Analytics; Bank for International Settlements Locational Banking Statistics; People's Bank of China; and IMF staff calculation.

Note: In panel 1, right panel looks at the use of RMB in global trade. See Online Annex 2.4 for more details. In panel 2, "Others in the region" includes Brunei, Cambodia, Democratic People's Republic of Korea, Indonesia, Japan, Korea, Lao P.D.R., Malaysia, Mongolia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. PBoC = People's Bank of China; RMB = renminbi.

Increasing RMB Use in China's Trade and Finance

The international use of RMB has more than doubled since 2012, though it remains geographically concentrated in China's trading partners and only accounts for a small share of global trade (Figure 2.13.1). The use share that was estimated from online forum data has shown a steady increase since 2012, consistent with the official data except for the mid-2010s, and reached just over one-quarter of China's goods trade in 2023 (Box 2.1). Policies introduced by the Chinese authorities since 2009 have promoted the use of the RMB for trade invoicing and settlement. Initially, the 2009 pilot program allowed designated foreign banks to access the onshore RMB, thereby

reducing the cost of using the RMB for trade. Later on, a new Cross-border Interbank Payment System and swap lines with the People's Bank of China were introduced. More recently, geopolitical factors, including escalating trade tensions, have been frequently cited by Chinese firms as the key reasons for their shift to the RMB in trade.

The RMB has also seen broader adoption in international bank credit, with Chinese banks increasingly playing a prominent role in global financing (Figure 2.13.2). However, unlike the US dollar, the RMB's use among third parties outside China remains limited in part due to China's capital account restrictions as well as its lack of a large and liquid domestic bond market. The share of RMB in global allocated reserve assets has also remained relatively low and stable (Arslanalp, Eichengreen and Simpson-Bell 2022).

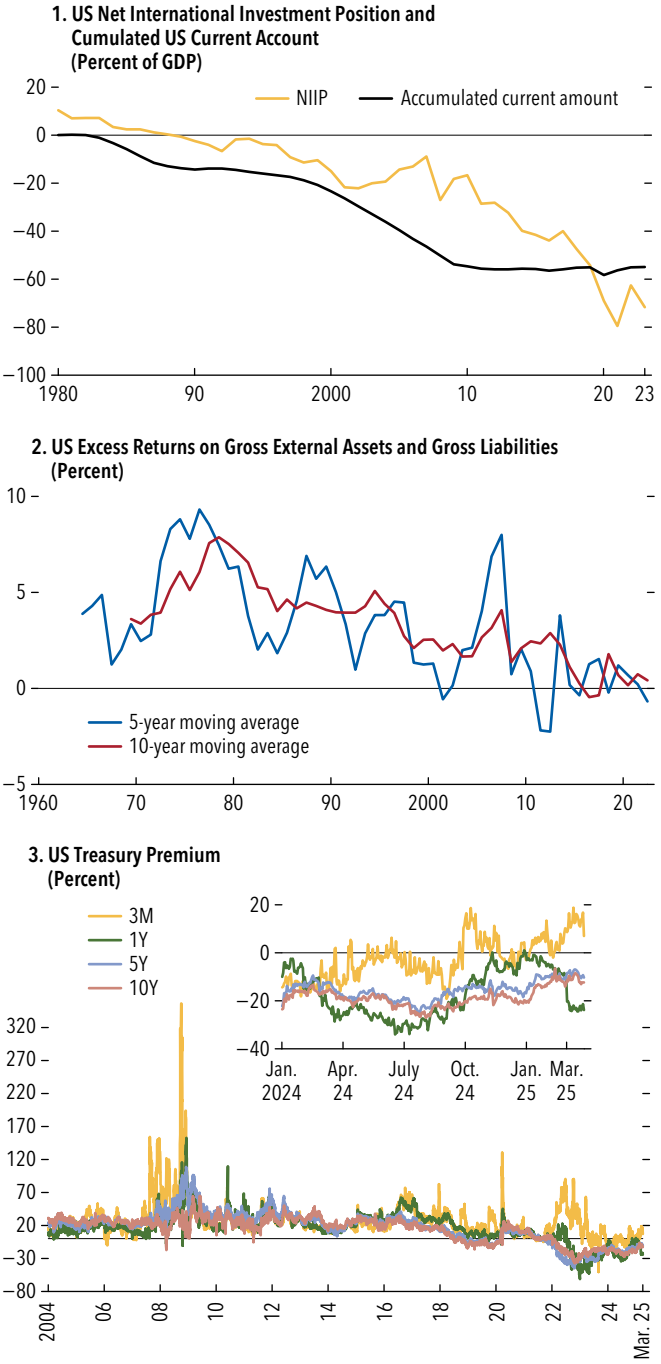
The US Dollar as Global Safe Asset

The global provision of dollar-denominated safe assets has been a key building block of the current IMS. These securities, mostly in the form of debt claims, deliver relatively higher returns during global downturns, providing a secure store of value for international official and private sector investors (Jiang, Krishnamurthy, and Lustig 2024). The consequent demand for US assets has relaxed the US external constraint ("exorbitant privilege"), as reflected in consistent positive valuation gains on its net external assets, an excess return of its foreign assets over its foreign liabilities, and a convenience yield for Treasury securities until recently (Figure 2.14).[15,16] The structure of the external balance sheet also exposes the United States

[15]There are many definitions of the "exorbitant privilege," a term coined by the French Finance Minister Valéry Giscard d'Estaing in 1965, when he summarized the United States' ability to finance current account deficits by issuing securities that are always in high demand by the rest of the world. Different aspects of this exorbitant privilege have been characterized in the literature. For instance, exorbitant privilege refers to the United States' positive return differential on its foreign assets relative to liabilities and the associated valuation channel of adjustment in Gourinchas and Rey (2007a;b); the insurance fee being paid in normal times in exchange for insurance transfers during crisis times in Gourinchas and others (2012); a monopoly rent that the United States can extract as the sole issuer of international currency in Farhi and Maggiori (2018); and the convenience yield for US Treasury securities in Jiang, Krishnamurthy, and Lustig (2021).

[16]Typically, convenience yield is estimated for a given level of debt issuance. But recent studies suggest that convenience yield declines with more debt issuance in equilibrium (Choi and others 2024; Jiang and others 2025).

Figure 2.14. The United States' Exorbitant Privilege



Sources: U.S. Bureau of Economic Analysis, Table 1.1. U.S. International Transactions; US Integrated Macroeconomic Accounts; Bloomberg Finance L.P.; Thomson Reuters Datastream; Du and Schreger (2016); Du and others (2018); and IMF staff calculations.

Note: In panel 1, the difference between the two series is a measure of the cumulated valuation gains and losses on the US external balance sheet. Panel 2 reports the difference between the implicit return on gross external assets and gross external liabilities. Five-year and 10-year moving average, centered on end point.

to valuation losses during periods of market stress or financial crises when the value of its foreign assets may decline, thereby fulfilling what has been described as its "exorbitant duty."[17] As consequence, the US external balance sheet exhibits characteristics of a world banker and insurer, namely a long position in risky foreign claims and a short position in safe dollar debt claims (Gourinchas and Rey 2007b; Gourinchas, Rey, and Andreolli 2025).

However, recent developments signaled some weakening of the United States' exorbitant privileges and duties, suggesting potential changes in the global insurer role of the United States. First, the net international investment position (NIIP) has sharply deteriorated in the past decade, due to accumulated valuation losses that can be partly explained by the strong performance of US equities, of which foreigners hold a sizable share (Atkeson, Heathcote, and Perri, forthcoming). Second, the return differential between overall foreign assets and liabilities has decreased markedly over recent years. While the strong relative performance of the US equity market in recent years can again be part of the story, returns on the US external balance sheet have been on a low-frequency downward trend for a couple of decades, pre-dating the stock market boom (Gourinchas 2023).[18] Third, the convenience yield on Treasury securities, proxied by the US Treasury premium, has declined markedly in recent years, turning negative across different maturities. Potential explanations include the large increase in debt issuances (Jiang and others 2025) or more structural factors resulting from regulatory changes since the GFC (Du and others 2018). This comes as the US government debt has risen to a historically high level and is projected to increase further (IMF 2025).[19]

The safe-haven effects on US assets have also shown somewhat anomalous movements in 2025. Typically, during times of global market distress, demand for safe assets rises, leading the price of Treasuries to increase and the US dollar to appreciate (Figure 2.15). This typical pattern also arose when geopolitical uncertainty surged after Russia's invasion of Ukraine. Gold prices have also increased, reflecting a shift by some investors toward gold as a safe store of value. Central banks further increased their gold holdings, elevating gold to the second largest global reserve asset at market value in 2024, after the US dollar (ECB 2025). However, in the most recent episode of heightened global uncertainty and market distress in early April 2025, marked by a surge in trade policy uncertainty, a somewhat different pattern emerged in the prices of US assets. The spread between US Treasuries and the sovereign bonds of other major advanced economies widened and the US dollar depreciated (Figure 2.15), suggesting that the demand for US Treasuries had weakened. The observed weaker demand could reflect concerns about the US fiscal trajectory, rising risk premium on heightened policy uncertainty in the United States, or, more broadly, investors seeking to diversify their portfolios. Nonetheless, developments so far suggest that these concerns may prove transient. The depreciation of the dollar has been smooth and moderate, still only partially reversing the strong appreciation since 2021, and the yields on US Treasuries remain relatively low by historical standards.

Cross-Border Payments and Digital Innovation

Cross-border payments are a critical pillar of the IMS, providing the key infrastructure and mechanisms that enable the smooth and secure flow of funds for international trade and finance. The system includes links among correspondent banks, messaging systems, money transfer operators and credit card networks, as well as foreign exchange markets and arrangements between central banks. Messaging systems, including the most-used Society for Worldwide Interbank Financial Telecommunication (Swift) network, relay the information related to international payments (Box 2.3). Currently, most of cross-border payments are settled through a network of correspondent banks, resulting in high transaction costs and lengthy processing times especially for countries that are not well integrated into the international financial system (BIS 2018; FSB 2020).

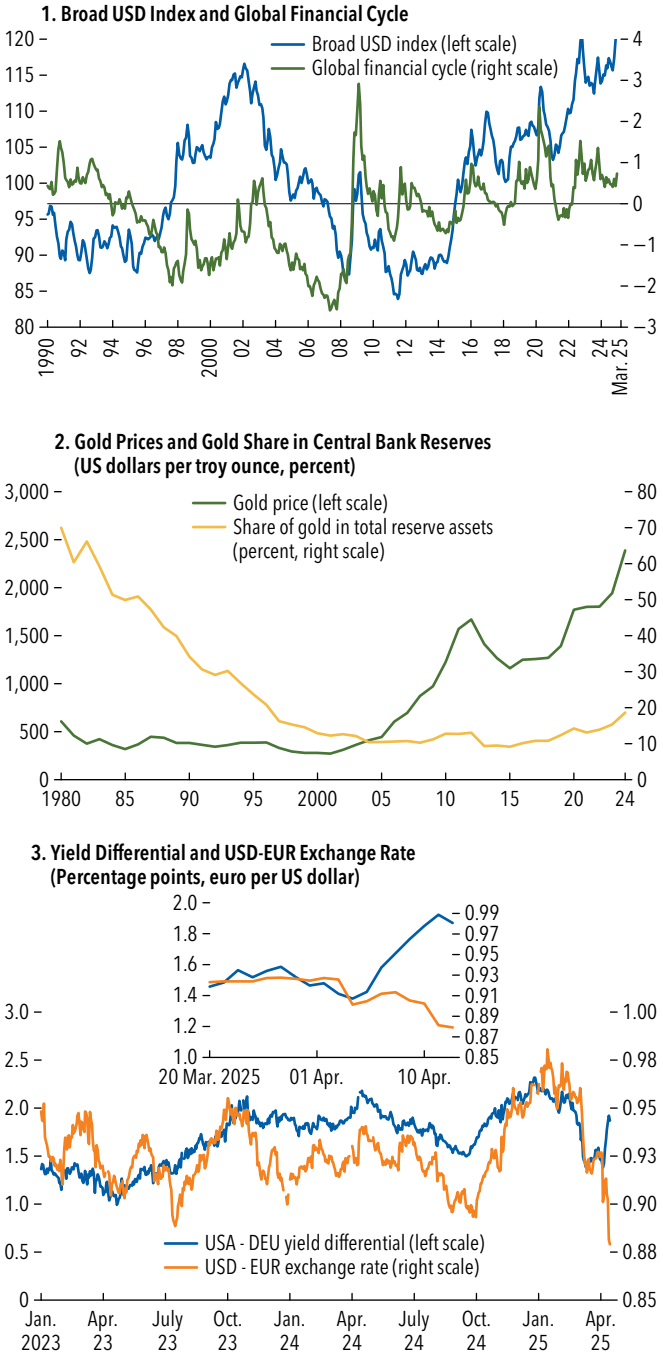
Technological advances have long influenced the evolution of cross-border payments. For instance, the advent of the telegraph in the late 19th century and innovations in computing—originating in part from

[17]In addition, the global financial safety net continues to be a critical component of the IMS, providing countries with insurance against shocks (see Box 2.2).

[18]Estimates of the return differential using macro data can be imprecise and suffer from well-documented measurement issues (Curcuru, Dvorak, and Warnock 2008; Bertaut, von Beschwitz, and Curcuru 2023). More precise "bottom-up" estimates based on confidential high-quality, security-level data show an excess return that is large and positive in normal times but large and negative during global crises (Bertaut and others 2024).

[19]These dynamics have also been linked to the well-known Triffin dilemma (Farhi, Gourinchas and Rey 2011, Farhi and Maggiori 2018).

Figure 2.15. Safe-Haven Effects on US Assets

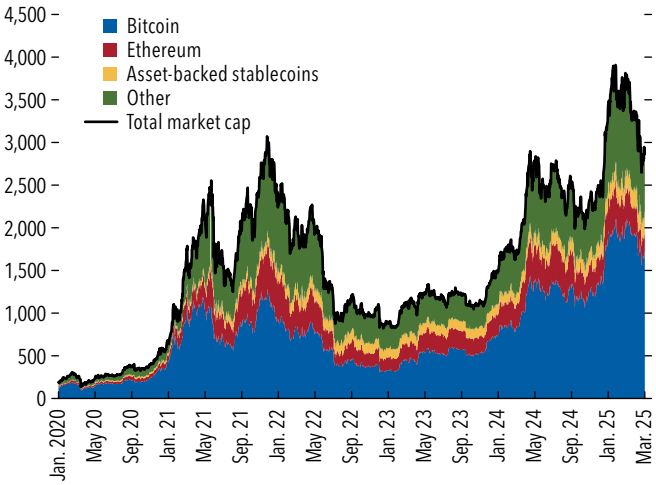


Sources: Board of Governors of the Federal Reserve System (US); Miranda-Agrippino, Nenova, and Rey (2020); Bloomberg Finance L.P.; Tullett Prebon Information Ltd. via Haver Analytics; European Central Bank; and IMF staff calculations.

Note: In panel 1, the global financial cycle correlates with global risk appetite. The measure is inverted from the original series such that an increase denotes decreasing investor risk appetite. In panel 3, "USA -DEU yield differential" refers to the difference in 10-year government bond yields between the US and Germany. EUR = euro; USD = US dollar.

Figure 2.16. Market Capitalization of Crypto Assets

(Billions of US dollars)



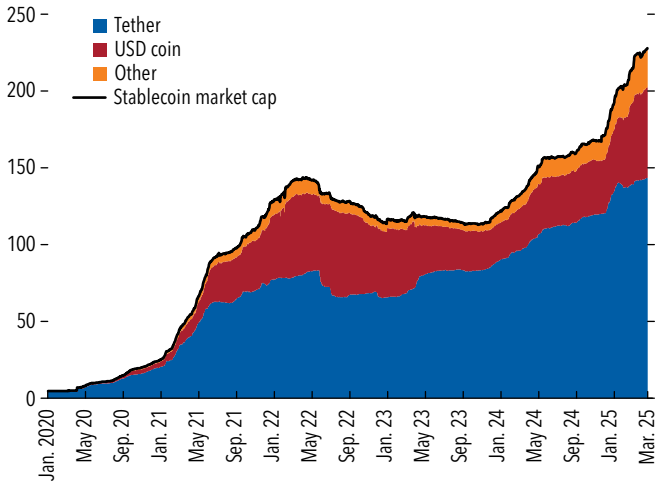
Sources: CoinGecko; and IMF staff calculations.

wartime code-breaking efforts—have enabled faster transmission of cross-border financial information and flows. More recently, advances in digital technology, such as tokenization, encryption, and programmability have enabled alternative means of cross-border payment arrangements. These include public options such as CBDCs, a digital version of central bank money, and private ones such as stablecoins. While they both offer potential to facilitate cross-border payments outside the traditional systems, currently no existing CBDC can be used for cross-border payments, but explorative projects are ongoing.[20]

In contrast, privately issued crypto assets can be used for cross-border payments without separate design enhancements. They are secured by cryptography and deployed using distributed ledger technology without the backing by a central bank. And they comprise unbacked and backed crypto assets. Unbacked crypto assets represent the majority of the private crypto market capitalization with the two largest being Bitcoin and Ether (Figure 2.16). Despite being highly volatile in value and thus a poor form of money, unbacked crypto assets have been used widely, by about 90 countries, for cross-border transactions (Cerutti, Chen, and Hengge 2024). While the amounts are sizable in some countries (Cardozo and others, 2024), there is limited evidence of substitution between fiat money-based and

[20]According to Di Lorio, Kosse, and Mattei (2024), 81 out of 86 surveyed central banks are exploring or piloting CBDC, either retail or wholesale, or both (see Online Annex Table 2.3.2).

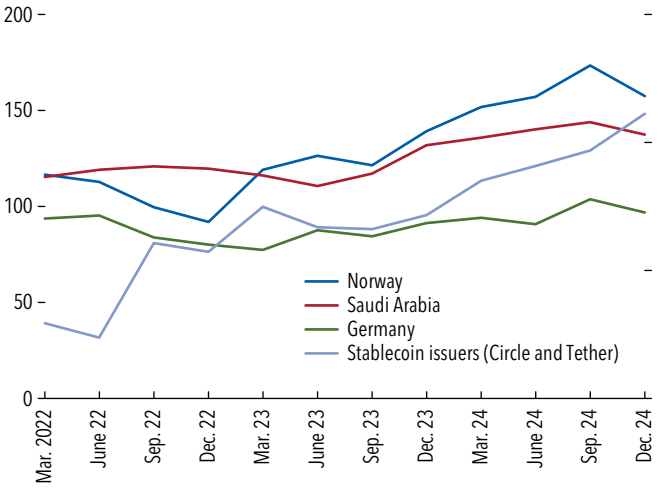
Figure 2.17. Stablecoin Market Capitalization
(Billions of US dollars)



Sources: CoinGecko; and IMF staff calculations.

Note: Asset-backed stablecoin only. "Other" includes euro backed and denominated stablecoins which has a market capitalization of $415 million as of April 2025, amounting to 0.2 percent of total market capitalization. The largest euro stablecoin is Euro Coin which was launched in 2022 with a market capitalization of $186 million as of April 1, 2025. USD = US dollar.

Figure 2.18. Holdings of US Treasuries
(Selected countries and stablecoin issuers, billions of US dollars)



Sources: US Treasury; Circle; Tether; and IMF staff calculations.

Note: For stablecoin issuers, the chart includes outright holdings of US Treasuries and repos with US Treasuries, which are loans to financial insitutions collateralized with US Treasuries.

crypto-based cross-border flows (Cerutti, Chen, and Hengge 2024), in part because unbacked crypto assets tend to be used for noneconomic reasons, such as to circumvent capital flow management measures (Graf von Luckner, Koepke, and Sgherri 2024).[21]

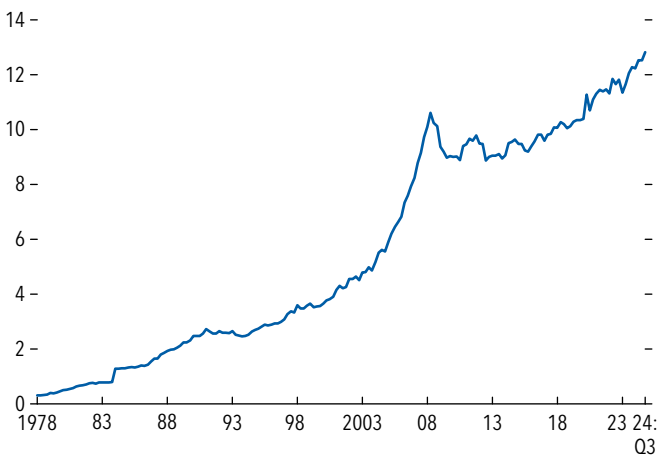
Stablecoins (backed crypto assets) have gained popularity, including for cross-border transactions. They aim to anchor their value to a specific currency denomination by holding reserves—an amount of financial assets on their balance sheet equal to the value of stablecoins issued.[22] The market capitalization of the major stablecoins has increased almost tenfold since the beginning of 2021, with US-dollar-backed stablecoins accounting for the largest share (Figure 2.17). US-dollar-backed stablecoins could perform many of the functions of the US dollar as international currency, namely means of payment, store of value, and unit of account. Indeed, there is emerging evidence for their increasing use for cross-border transactions by private businesses and individuals (Box 2.4). Furthermore, preliminary evidence points to foreign demand for US-dollar-backed stablecoins broadly mirroring the traditional drivers of demand for US dollar-denominated assets (Reuter, 2025).

US-dollar-backed stablecoins share several qualitative features of the Eurodollar deposits. Both offer dollar deposits—that is, a promise to pay a fixed amount of dollars—to offshore non-US residents, which can function as a means of settlement without directly accessing "onshore" dollars. Increased use of US-dollar-backed stablecoins could reinforce the US dollar's dominant role in the IMS and increase the demand for US Treasuries, unless stablecoins based on other international currencies were to expand at a faster pace. Indeed, the volume of US Treasuries held by the two largest stablecoin issuers, Circle and Tether, is comparable to that of large countries, ranking collectively as the 17th largest holder of US Treasuries globally (Figure 2.18). However, their market capitalization remains significantly smaller

[21]Unbacked crypto assets are pseudo-anonymous. Determining the nationality of their holders, and thus the flows between countries, in publicly available information on transactions can only be done heuristically. Data collection frameworks by country authorities on crypto are only in their infancy. The recently released *Balance of Payments Manual (BPM7)* provides a framework for collecting data on the cross-border positions and flows of crypto assets, but it could take several years until a full-fledged view on the use of crypto assets emerges. Further, as part of the G20 Data Gaps Initiative, efforts are underway to develop data reporting templates to meet the needs of both Balance of Payments as well as Monetary and Financial statistics of these countries.

[22]Stablecoins backed by non-financial assets exist, such as those backed by crypto assets, or that rely on algorithms to calibrate supply and try to maintain a stable value. They are usually less successful in providing a stable value. Indeed, some of these types of stablecoins have not been able to maintain their stable value and have collapsed (for example, TerraUSD).

Figure 2.19. US Dollar Liabilities of Non-US Banks Outside the US
(Trillions of US dollars)



Sources: Bank for International Settlements Locational Banking Statistics; and IMF staff calculations.

than that of other dollar-denominated assets, including the size of the Eurodollar deposit (Figure 2.5 and Figure 2.19). A broader adoption of US-dollar-backed stablecoins can also present risks. Unlike Eurodollar deposits, stablecoins do not travel through financial intermediaries, and their issuers currently operate without access to central bank liquidity or regulatory oversight in many countries—though regulatory standards are emerging. Were it to grow larger and without proper regulation, it can appreciably increase the likelihood of dollarization and currency substitution for vulnerable countries, and of financial integrity risks.

Conclusion

Over recent decades, the dominance of the US dollar in trade, finance, reserve currency, and global payments has characterized the IMS. The share of the US dollar in these areas had considerably exceeded the US economic weight in global GDP, trade, and finance. Its dominance has endured through major shifts in the global economy, including the end of the Bretton Woods era that was triggered by a run on the dollar. The continued dollar dominance was underpinned by network externalities, complementarities among various uses of the dollar, and its safe asset status, which are hard to displace.

At the same time, emerging trends are impacting the IMS, with possible implications for the use of international currencies. Prominent among them are increasing geopolitical fragmentation concerns, a greater use of RMB in international trade and finance, a softening in the United States' role as world banker and insurer, and the emergence of alternative payment systems and private digital assets. While none seem set to alter the central role of the US dollar, not least due to the lack of a viable alternative given the unmatched depth of US financial markets, a fragmented capital, banking and broader EU single market, and the presence of capital account restrictions in China, they could eventually catalyze a gradual reconfiguration of the use of international currencies. As such, this chapter lays the groundwork for a continued monitoring of the IMS, including by proposing new indexes of international currency usage and of the asymmetry among centralities and currency use. The latter, combined with economic and geopolitical developments, could signal potential changes in the system. Meanwhile, countries can enhance resilience by strengthening macroeconomic fundamentals, including building fiscal space, maintaining credible monetary and exchange rate frameworks, and bolstering external buffers—such as maintaining adequate international reserves and access to financing arrangements available under the global financial safety net.

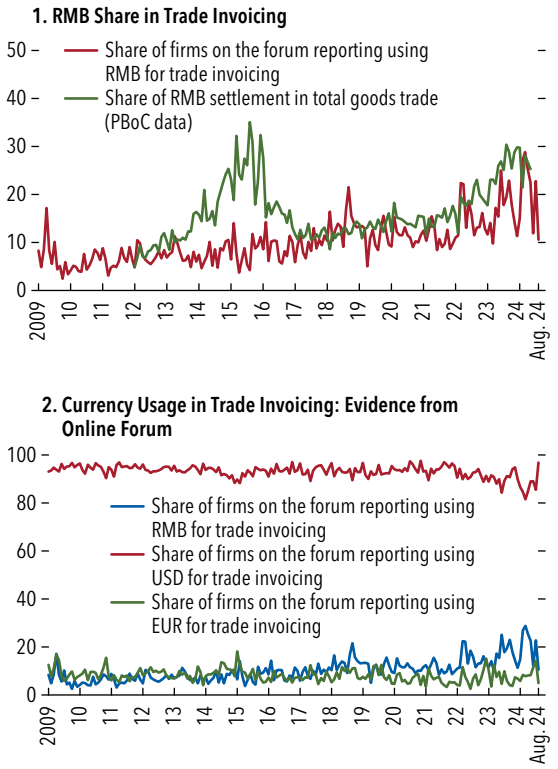
Box 2.1. Rising RMB Use in Trade Invoicing and Its Drivers

Despite growth in the use of RMB in trade invoicing, little is known about the motivations behind firms' currency choice. This gap is notable, as trade invoicing is often regarded as an early step toward the broader international adoption of a currency (Eichengreen, 2011b).[1] Understanding firms' invoicing decisions is therefore essential for considering the potential trajectory of the RMB's international role. This box presents new evidence on the drivers behind firms' adoption of RMB invoicing, leveraging a novel data set on Chinese firms' currency invoicing decisions, firm characteristics, trade activity, as well as their motivation for using the RMB. The analysis points to the significant role of geopolitical considerations in the choice of invoicing currency.

The main data set consists of textual data collected from one of the largest online forums on international trade in China, which is actively used by Chinese firms to discuss their business experiences and policy initiatives related to international trade. The industry distribution of the firms participating in the forum aligns closely with that of Chinese customs data, suggesting that the forum participants form a representative sample of Chinese exporters and importers.[2] The analysis uses natural language processing (NLP) models to distill essential economic insights from the textual data, to extract data pertaining to trade payments and to summarize reasons for invoicing in RMB.

The aggregate pattern of RMB invoicing extracted from the online forum broadly aligns with the official statistics. Since 2009, the share of firms on the platform reporting the RMB invoicing for trade has shown a steady upward trend (Figure 2.1.1).[3] This trend mirrors the official statistics, except for a short-lived peak in the official statistics during the 2014–16 period,[4] and reached approximately 25 percent by mid-2024. Nonetheless, the US dollar remains the most used currency by Chinese firms for trade invoicing and the use of the euro remained relatively moderate (Figure 2.1.2).

Figure 2.1.1. Renminbi in Trade Invoicing
(Percent)



Sources: People's Bank of China; and IMF staff calculation.
Note: EUR = euro; PBoC = People's Bank of China; RMB = renminbi; USD = US dollar.

Drivers of the Use of RMB in Trade Invoicing

Figure 2.1.2 presents a breakdown of firms' reasons for RMB invoicing in trade. The initial increases in RMB adoption between 2009 and 2012 were largely policy-driven—a pilot program introduced in 2009 led a large number of exporting firms to invoice in RMB. The program significantly reduced transaction costs

This box was prepared by Jiaqian Chen, Ting Lan, Yang Liu and Ran Pan, with support from George Cui and Kailin Gao (external consultant).

[1]Eichengreen (2011b), from a historical perspective, outlines a typical sequence in currency internationalization: first through trade invoicing and settlement, then private financial transactions, and finally as official reserves held by central banks and government.

[2]The forum data were merged with Chinese customs data, following Cui and Gao (2024), to obtain additional characteristics about the firms participating in the online forum.

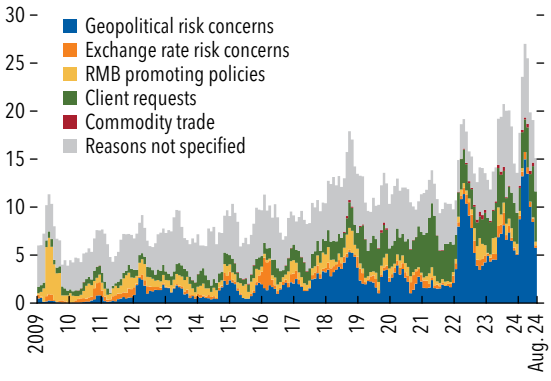
[3]The data allow only inference of whether a Chinese exporting or importing firm uses RMB in trade invoicing; it cannot determine whether RMB is the sole invoicing currency and, therefore, cannot rule out the possibility that these firms also use other currencies.

[4]The forum data also lack information on the value of exports denominated in RMB, which could be one possible reason for the discrepancy with official statistics.

Box 2.1 *(continued)*

Figure 2.1.2. Firms' Reasons for Using Renminbi in Trade

(Percent of firms reporting RMB use for trade invoicing)



Source: IMF staff calculations.

Note: RMB = renminbi.

for RMB settlement in trade, for instance, by allowing designated foreign banks to have access to onshore RMB. State-owned firms were the early adopters as they tend to be more responsive to policies. These programs continued to expand after 2012, although their direct effect on RMB adoption appears to have diminished.

By late 2015 and early 2016, concerns about exchange rate volatility emerged as a major reason for the increasing use of RMB. In 2015, the Chinese authorities introduced a new exchange rate mechanism that allowed greater exchange rate movement. Many firms on the forum at the time reported that limiting exchange rate risks was a primary reason for adopting RMB. Given that a substantial proportion of Chinese exporters rely predominantly on domestic inputs (with limited exposure to foreign inputs), invoicing in RMB became a natural choice to mitigate the uncertainties associated with exchange rate fluctuations.

Between 2018 and 2022, a major driver for the increase in RMB invoicing was geopolitical concerns, primarily the escalation of US-China trade tension since 2018.[5] To mitigate the impact of high US tariffs, many Chinese exporting firms chose to reroute their trade with the United States via third countries. Forum data indicate that the share of Chinese exporters engaged in rerouting increased from 6 percent during 2014-2017 to about 10 percent by the end of 2019. In addition, the data suggest that rerouting firms are more likely to use RMB for trade invoicing, especially those rerouting trade through Asia. During this period, the share of RMB invoicing increased from 6 percent to 17 percent, while the share remained broadly unchanged for the other firms. Among Chinese exporting firms engaging in rerouting between 2018 and 2019, RMB adopters tended to have stronger trade links with Asian countries than firms that invoice in other currencies.

In 2022, Russia's invasion of Ukraine introduced new geopolitical tensions. Western sanctions on Russia, including the exclusion of Russian banks from the Swift system, positioned the RMB as a viable alternative currency for Chinese firms trading with Russia. This shift was accompanied by a substantial surge in Chinese exports to and imports from Russia. The forum data indicate that Chinese firms engaging in trade with Russia have adopted or switched to the RMB for trade invoicing.

[5]Another driver was "client request" for which information on the underlying reasons was lacking.

Box 2.2. Global Financial Safety Net

The global financial safety net (GFSN) plays a critical role in underpinning the stability and resilience of the IMS by providing insurance for countries against a crisis and supplying financing when crises hit (IMF 2016). GFSN has expanded significantly over the last two decades. It comprises four main layers: international reserves, bilateral swap arrangements, regional financial arrangements, and the IMF. Since 2000, the total stock of international reserve holdings has increased more than six times, reaching $14.5 trillion at the end of 2023, while the size of other GFSN layers grew nearly 20 times, to about $4.5 trillion. The latter reflects the expansion of bilateral swap lines (BSAs), the expansion of Chinese BSAs, and the large scaling-up of the IMF's lending capacity and Regional Financial Arrangements (RFAs) during the GFC and the European debt crisis. Specifically, the global network of BSAs expanded from six swap lines opened among advanced economy central banks in the early 2000s to more than 180 lines by 2021. While some temporary pandemic-related lines have expired, there are currently 150 swap lines in existence totaling $2 trillion. Since 2009, there has been a rapid expansion of Chinese BSAs. This partly reflects China's efforts to promote the internationalization of the RMB, particularly its use in cross-border trade and direct investment.

This box was prepared by Ernesto Crivelli. See forthcoming Board paper entitled "The Global Financial Safety Net in an Evolving World—A Stocktaking" for further analysis of the GFSN.

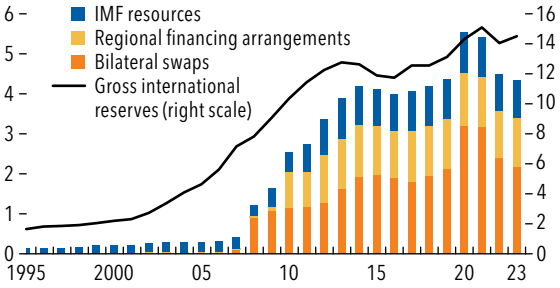
The IMF is at the center of the GFSN. Unlike other layers, the IMF has a near-universal membership. Its total lending capacity has risen significantly since the GFC and now stands at almost $1 trillion. Once implemented, the recently approved 16th General Review of Quotas boosting IMF members quotas by 50 percent will restore the primacy of IMF's permanent resources, reducing its reliance on borrowed funds. As a share of global external liabilities, however, the IMF's lending capacity has diminished considerably over the past decades, from about 1 percent in early 2000 to about ½ percent today.

The GFSN played a significant role during the COVID-19 crisis, with the patterns of usage displaying a number of commonalities with previous crises. As in previous crisis episodes, drawdown of US dollar swap lines played an important role in the early stages of the COVID-19 crisis, helping advanced economies respond quickly to emerging threats to financial stability. Demand for IMF lending has remained consistently high since the height of the pandemic. By contrast, during the more regionally concentrated euro area crisis, RFAs (in this case the European Stability Mechanism) took on more of the heavy lifting, although this was complemented in a number of cases by significant IMF lending. Finally, during the pandemic, countries were unwilling or did not deem it necessary to make significant drawdowns of FX reserves prior to 2022, in part reflecting the unwinding of monetary and other forms of support extended at the beginning of the crisis, including the more extensive swap line availability.

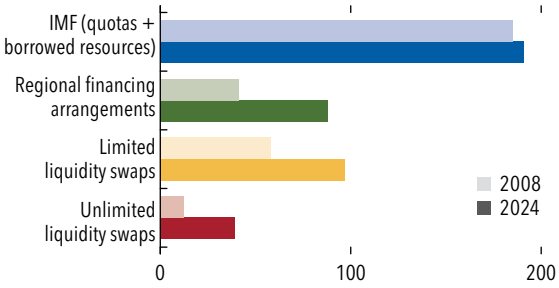
Box 2.2 *(continued)*

Figure 2.2.1. Evolution and Performance of the Global Financial Safety Net

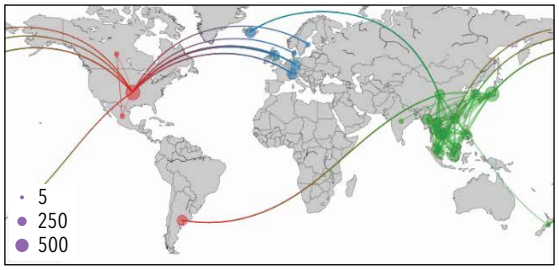
1. GFSN Size and Composition, 1995–2023 (Trillions US dollars)



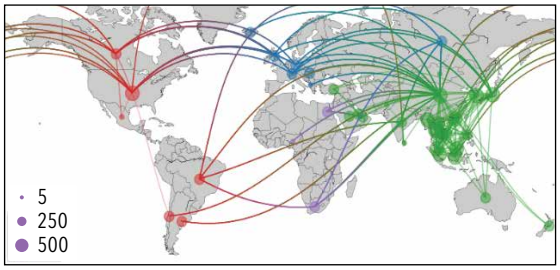
2. Participation in the GFSN, 2008 versus 2024



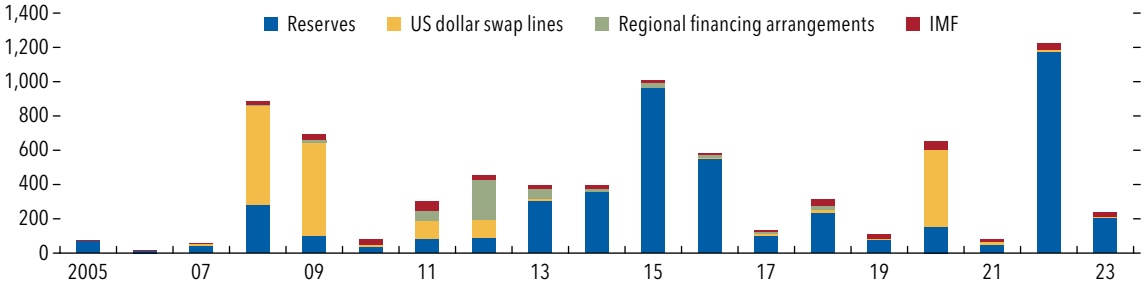
3. Global Network of Liquidity Lines, 2010 (Billions of US dollars)



4. Global Network of Liquidity Lines, 2023 (Billions of US dollars)



5. Drawdown of the GFSN by Layer, 2005–23 (Billions of US dollars)



Sources: Central bank websites; regional financing agreement annual reports; central banks; annual reports of regional financial arrangements; Bahaj, Fuchs, and Reis (2024); Board of Governors of the Federal Reserve System (US) via FRED; IMF International Financing Statistics Database; and IMF staff calculations.

Note: In panel 1, Bilateral swaps data correspond to permanent-unlimited swap lines and limited-amount swap lines with an explicit withdrawal limit. Unlimited swaps figures are based on past usage or, if undrawn, on the average past maximum drawings of the remaining central bank members in the swap network. For regional financial agreements, data correspond to explicit lending capacity or limit where available, committed resources, or estimated lending capacity based on country access limits and paid-in capital; for the IMF, data correspond to lending capacity (quota and borrowing resources for countries in the Financial Transaction Plan less prudential balances). Two-way arrangements are counted only once. In panel 2, 2024 data is preliminary. Swap lines in panel 3 and 4 are from Bahaj, Fuchs, and Reis (2024). In panel 5, IMF lending reflects gross disbursements (converted to US dollars at the prevailing exchange rate at the time of transaction). US Federal Reserve swap lines use is calculated as the maximum aggregate weekly drawdown in a given year. The use of swap lines in other currencies is excluded, given data limitations. Regional financial arrangements use reflects gross disbursements (converted to US dollars at the end-of-year rate, given data limitations). Foreign exchange reserves use is calculated as the aggregate year-over-year change in reserves for countries in which reserves declined (that is, stripping out those countries in which reserves increased). GFSN = global financial safety net.

Box 2.3. Unveiling Patterns in Cross-Border Payments via Swift

The Society for Worldwide Interbank Financial Telecommunication (Swift) network is the most widely used messaging system among banks and other financial institutions, which mediates the bulk of cross-border financial insitution and customer-related payments. Drawing on a data set of cross-border payments recorded on the Swift network, this box presents new empirical evidence on the patterns and determinants of cross-border payment flows.[1] Three key stylized facts emerge.

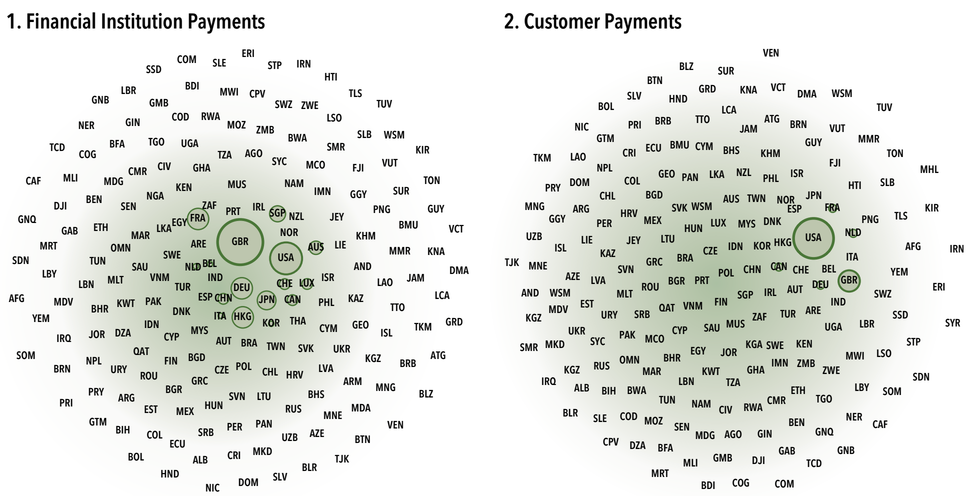
- In 2024, more than two-thirds of the financial institution cross-border payment value was intermediated by financial institutions in third-party economies—including the United States, Germany, Canada, and the United Kingdom. For consumer payments, more than one-fifth of the cross-border payment value was intermediated. The share of the intermediated financial institution payment value that is denominated in the US dollar exceeded the average but vice versa for the other SDR basket currency transactions.
- Networks of cross-border payments are highly interconnected, characterized by a large number of links connecting each economy node and a core-periphery structure. Economies with the highest centrality—an indicator of connectedness and structural importance—are predominantly major advanced economies and financial centers (Figure 2.3.1). The United States and the United Kingdom rank the highest in centrality for customer payments and financial institution payments, respectively.
- Between 2021 and 2024, connectivity among economies increased as evidenced by a growing number of links connecting each node. This increasing connectivity was particularly pronounced for payments in RMB, although the increase has been from a low base.

The gravity equation estimated on payments data for 187 beneficiary economies reveals a strong

This box was prepared by Eugenio Cerutti, Melih Firat, and Martina Hengge based on Cerutti, Firat and Hengge (2025). Data relating to Swift messaging flows is published with permission of S.W.I.F.T. SC. SWIFT © 2025. All rights reserved. Because financial institutions have multiple means to exchange information about their financial transactions, Swift statistics on financial flows do not represent complete market or industry statistics. Swift disclaims all liability for any decisions based, in full or in part, on Swift statistics, and for their consequences.

[1]The analysis focuses on financial institution gross cross-border payments and customer cross-border payments over 2021–24.

Figure 2.3.1. Cross-Border Payment Networks



Source: Cerutti, Firat, Hengge (2025).

Note: The figure illustrates payments from originator to beneficiary economies without depicting intermediaries and is generated using the Fruchterman-Reingold algorithm. Node sizes are determined by the Katz-Bonacich centrality of each economy. Edges between nodes are represented by green lines. Data labels in the figure use International Organization for Standardization country codes.

Box 2.3 *(continued)*

correlation between bilateral cross-border payments and factors indicative of informational proximity and economic ties. Cross-border payment values are higher between geographically closer economies. Greater bilateral imports, portfolio investment, and foreign direct investment are all associated with higher payment values. These findings align with existing findings on the importance of similar factors in shaping bilateral portfolio equity holdings and cross-border bank claims.[2]

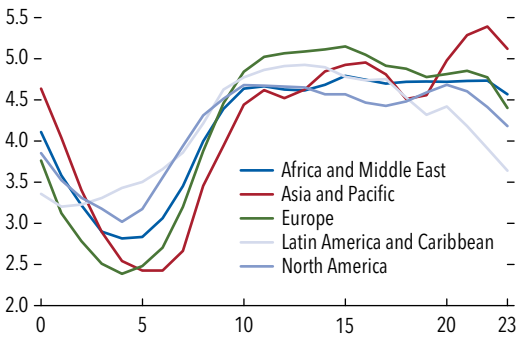
[2]See, for example, Cerutti, Casanova, and Pradhan (2023) and Lane and Milesi-Ferretti (2008).

Notable heterogeneity exists across payment types. Distance is a crucial factor for the value of customer payments but not as much for payments made by financial institutions. Economic ties—especially those formed through investment—consistently exhibit positive correlations with both financial institution and customer cross-border payments. Comparing payments by transaction size, smaller payments are more sensitive to a common language and historical colonial ties, while larger payments show a stronger association with economic relationships between originator and beneficiary economies.

Box 2.4. Measuring International Stablecoin Flows

Figure 2.4.1. Activity Profiles by Region

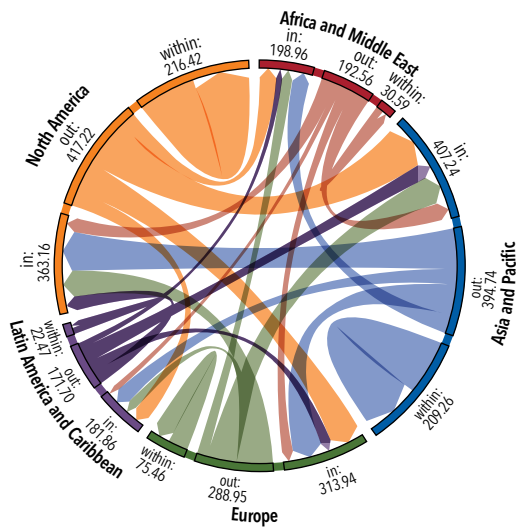
(Percent of transactions)



Source: IMF staff calculations.

Figure 2.4.2. 2024 Stablecoin Gross Flows

(Billions of US Dollars)



Source: IMF staff calculations.

Stablecoins are crypto assets that aim to maintain a stable value relative to a specified asset, typically the US dollar. Despite stablecoins having become increasingly popular—by some estimates the volume of stablecoin capital flows exceeded Bitcoin capital flows by two to four times in 2023—much of the literature has focused on measuring cross-border flows on Bitcoin transactions (for example, Cerutti, Chen and Hengge 2024).[1]

This box examines cross-border stablecoin flows using a novel method developed by Reuter (2025). The method uses two steps. First, it constructs a training sample consisting of wallets whose geographic location can be reliably identified. The validity of this training sample is illustrated in Figure 2.4.1, which shows wallet activity volumes in local time zones. As expected, activity is lowest during the nighttime and increases during the day. Furthermore, the activity patterns align closely across regions, supporting the validity of the training sample. In the second step, a machine learning model is trained to recognize these regional activity patterns and is then used to infer the geographic location of other wallets.

After estimating the geographic distribution of wallets, the results are applied to estimate stablecoin flows in USDC and USDT, the two most significant stablecoins, in 2024.[2] Figure 2.4.2 depicts the geographic patterns of gross stablecoin flows, totaling $2 trillion in 138 million transactions. The average transaction size is $14,630, indicating that flows are, on average,

This box was prepared by Marco Reuter.

[1]Some studies have considered crypto assets more holistically, providing some preliminary results on stablecoins (for example, Cardozo and others 2024).

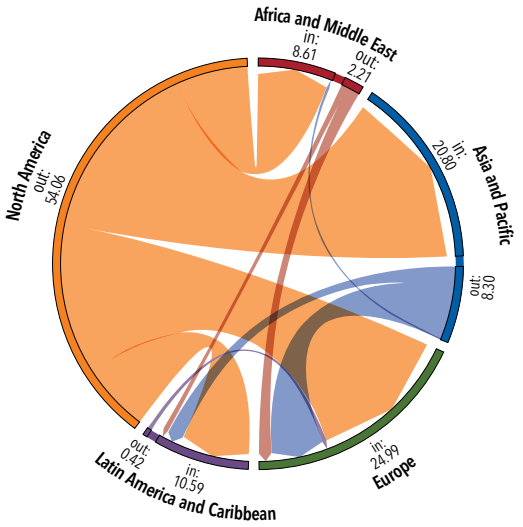
[2]The analysis covers stablecoin flows on the blockchains Ethereum, Binance Smart Chain, Optimism, Arbitrum, Base, and Linea. Thus, the estimates are a lower bound for total stablecoin flows in 2024.

Box 2.4 *(continued)*

retail flows. North America and Asia and Pacific account for the largest fraction of gross flows, followed by Europe, Africa and Middle East, and Latin America and the Caribbean. However, relative to regional GDP, flows from Africa and Latin America are larger than in the other regions, hinting at the relative popularity of stablecoins in Africa and Latin America. Finally, flows are predominantly inter-regional, highlighting the use of stablecoins for international transfers.

Bilateral net flows are depicted in Figure 2.4.3. Strikingly, almost all are flows from North America to other regions, which total $54 billion. This suggests that stablecoins flowing from North America to other regions meet some of the dollar demand around the world. Last, there are net flows from Africa, Asia, and Latin America into Europe, consistent with evidence that crypto assets are used to facilitate capital flight (Graf von Luckner, Koepke, and Sgherri 2024).

Figure 2.4.3. 2024 Stablecoin Net Flows
(Billions of US Dollars)



Source: IMF staff calculations.

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CHAPTER 3

2024 INDIVIDUAL ECONOMY ASSESSMENTS

Methodology and Process

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

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

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

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

Selection of Economies

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

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

[2]The individual economy assessments for 2024 are based on external sector data as of May 27, 2025 and IMF staff projections in the April 2025 *World Economic Outlook*.

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

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

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

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

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

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

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

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

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

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

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

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

Abbreviations and Acronyms

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

Table 3.1. Argentina: Economy Assessment

Overall Assessment: *The external position in 2024 was weaker than the level implied by medium-term fundamentals and desirable policies.* Economic fundamentals have improved substantially since end-2023, but net international reserves remain critically low and sovereign spreads, while down sharply, are still elevated. The external assessment is subject to exceptionally high uncertainty and contingent on implementation of structural reforms that boost competitiveness and productivity.

Potential Policy Responses: Sustained implementation of the newly approved EFF program–with its strong fiscal anchor, a more robust monetary and FX regime (with active measures to rebuild international reserves), and competitiveness-enhancing reforms–is necessary to maintain a strong trade balance, attract FDI, regain market access, and safeguard external sustainability. A more flexible exchange rate, along with a gradual easing of remaining FX restrictions, multiple currency practices and CFM measures, a cautious approach to prudential policies, and reforms to create a more open and market-oriented economy, are key to build resilience and support sustainable longer-term capital inflows to boost Argentina's vast external potential, including in energy and mining.

Foreign Asset and Liability Position and Trajectory	**Background.** Argentina's NIIP turned from –20 percent of GDP in 1999 to 24 percent of GDP on average in 2020–23 as macroeconomic mismanagement and growing public sector's external liabilities over this period resulted in an exodus of private-sector savings and dampened valuations of Argentine assets. These dynamics changed in 2024 as the authorities' stabilization plan led to an increase in reserve assets (about 1 percent of GDP), some decline in the public sector's external debt (0.5 percent of GDP) and strong resident inflows, supported by a tax amnesty on undeclared FX assets. Meanwhile, Argentinian corporates, with healthy balance sheets and limited leverage, have started tapping international capital markets while normalizing trade credit liabilities. Gross private sector liabilities are up mostly owing to improved valuations of direct and portfolio investments in Argentina.[1] **Assessment.** Despite recent progress, external vulnerabilities remain high. Argentina's large positive NIIP mostly reflects private sector holdings of external (low-yielding) assets, while the government's foreign position remains in deep negative territory (high-yielding) and the central bank's net reserve asset position remains critically low.[2]				
2024 (% GDP)	NIIP: 10.6	Gross Assets: 81.3	Debt Assets: 56.7	Gross Liab.: 70.7	Debt Liab.: 45.3

Current Account	**Background.** The CA reversed from a deficit of 3.4 percent of GDP in 2023 to a 1 percent surplus in 2024, driven by a significant demand compression amid fiscal consolidation and exchange rate correction (at the end of 2023), along with a recovery in grain exports (following drought) and a further improvement in the energy balance. The CA balance, which has narrowed since mid-2024 on account of the strong demand recovery, peso appreciation, and easing of many import taxes and restrictions, is projected to reach a deficit of 0.4 percent in 2025. Over the medium term, tight fiscal policies, a more robust monetary and FX regime, and productivity/competitiveness reforms are projected to support a small CA surplus, with structural improvements in the energy and mining balance playing an important role. **Assessment.** The 2024 EBA cyclically adjusted CA balance was estimated at about –0.5 percent of GDP. The estimated EBA CA norm was 0.7 percent of GDP, predicated in part on the need to continue to strengthen the country's fiscal position, implying an EBA CA gap of –1.3 percent of GDP. Considering Argentina's weak reserve coverage and lack of international market access, external sustainability considerations suggest a CA norm of 1.4 percent of GDP, which would be consistent with bringing reserves near 100 percent of the ARA metric over the medium term while avoiding a further increase in gross external liabilities.[3] This norm is subject to a high degree of uncertainty in the context of deep structural changes and easing of FX restrictions, and is expected to decline as reforms are implemented under IMF-supported program to bring FX reserves closer to the adequacy levels, including through more stable capital inflows. Reflecting the above uncertainties and adjustments, the staff-assessed CA gap for 2024 was in the range of –3 to –1 percent of GDP.					
2024 (% GDP)	CA: 1	Cycl. Adj. CA: –0.5	EBA Norm: 0.7	EBA Gap: –1.3	Staff Adj.: –0.7	Staff Gap: –2

Real Exchange Rate	**Background.** The average REER remained broadly unchanged in 2024 versus 2023, as a sharp correction in December 2023 was followed by an appreciation of over 40 percent through the first quarter of 2025 (with the REER returning close to the highs observed in early 2017). As of May 2025, the REER was generally unchanged relative to the end of 2024 levels, in the context of the adoption of a new monetary and FX regime and the weakening of the US dollar. Both price-based and wage-based REER indices exhibited a similar pattern, although wage adjustments have occurred with some lags, likely reflecting shifting profit margins. **Assessment.** The staff-assessed CA gap for 2024 suggests an average REER gap for 2024 in a range of 6 to 18 percent, assuming a semi-elasticity of 0.16. This implies an end-of-year REER gap of 15 to 25 percent. The result is also generally consistent with the EBA REER models.[4] The recent transition to a more robust monetary and FX regime (moving from a crawling peg to a flexible ER within relatively wide bands) allows for a more market-determined exchange rate, although tight macroeconomic policies remain necessary to deliver a strong trade balance and reserve accumulation. Over the medium term, a stronger REER could be justified provided the ongoing ambitious structural reforms deliver stronger productivity and competitiveness.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Since the end of 2023 and in the context of the 2025 EFF program, important steps have been taken to ease most FX restrictions and controls. These include: (i) elimination of the export incentive scheme and reduced periods for accessing imports, (ii) elimination of distortionary FX access tax, impuesto pais, (iii) a market-based solution to import and dividend payment backlogs (through BCRA FX denominated securities, BOPREALs), (iv) easing the ability of households to convert pesos into US dollars, (v) full access to the official FX market for dividend flows from 2025 onwards, and (vi) elimination of the preferential exchange rate for tourism inflows. **Assessment.** The careful easing of FX restrictions, along with tight macroeconomic policies and greater exchange rate flexibility, will support the next stage of the stabilization plan to boost reserves, regain international market access, and encourage investment. These measures will need to be complemented by tight macroprudential policies to ensure the sustainability of capital inflows, thereby avoiding currency mismatches and disruptive hot money flows from nonresidents.
FX Intervention and Reserves Level	**Background.** NIR, after falling to negative $11 billion, rose by $6 billion during 2024, as strong FX purchases more than offset servicing of large FX public debt. However, reserve accumulation has been more challenging since mid-2024, with NIR falling to negative $6 billion by the end of March 2025. The GIR dynamics was broadly similar, reaching $16.6 billion by the end of 2024. The reserve situation has stabilized since implementation of the new program and establishment of new exchange rate bands in mid-April. **Assessment.** Reserve coverage remains inadequate. GIR are estimated at about 23 percent of the IMF's composite metric as of the end of 2024.[5] Early efforts are essential to rebuild reserves, while allowing for greater price discovery and FX purchases to meet FX debt service obligations.

Table 3.2. Australia: Economy Assessment

Overall Assessment: *The external position in 2024 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* The CA deficit widened from 0.3 percent of GDP in 2023 to 1.9 percent of GDP in 2024, as resource exports softened, reflecting declining commodity prices and slow growth in external demand. The CA balance is expected to deteriorate further and then return to a slight deficit in the long term, reflecting the trend decline in commodity prices, the return of savings to historical levels, and a pickup in investment.

Potential Policy Responses: The planned gradual medium-term fiscal consolidation could contribute to slowing the deterioration of the current account. A growth slowdown in key trading partners may reduce demand for commodities and increase the current account deficit. At the same time, Australia's commitment to structural policies that boost competitiveness, including via promoting R&D, reducing barriers to labor mobility, upgrading competition policies, and stimulating innovation, would help improve export quality, reduce unit labor costs, foster high-value industries, and contribute to medium-term external rebalancing. Industrial policies should be pursued cautiously and remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions and aim to minimize trade and investment distortions. The exchange rate should continue to move flexibly as the key shock absorber.

Foreign Asset and Liability Position and Trajectory	**Background.** Australia's NIIP improved to –24.0 percent of GDP at the end of 2024, from –31.2 percent of GDP in 2023. The improvement was driven by strong revaluation effects of foreign equities, resulting from both price growth and Australian dollar depreciation in the final quarter of 2024, which more than offset the increase in debt liabilities. Roughly 48 percent of Australia's gross liabilities are debt obligations, and about half of the debt liabilities are denominated in domestic currency, while assets are largely denominated in foreign currency. Foreign liabilities are composed of about one-quarter FDI, one-half portfolio investment (principally banks' borrowing abroad and foreign holdings of government bonds), and one-quarter other investments and derivatives. **Assessment.** The NIIP level and trajectory are sustainable. The structure of Australia's external balance sheet reduces the vulnerability associated with its negative NIIP. With a positive net foreign currency asset position, a nominal depreciation tends to strengthen the external balance sheet (as occurred at the end of 2024) 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. Growing exposure to foreign equity markets in recent years (most notable for pension funds) may raise vulnerability to extreme global financial market volatility. 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.

2024 (% GDP)	NIIP: –24.0	Gross Assets: 161.3	Debt Assets: 39.7	Gross Liab.: 185.3	Debt Liab.: 87.9

Current Account	**Background.** Australia's CA balance experienced a short period of surplus over 2020–22, resulting from a significant upswing in commodity prices, but returned to a slight deficit (0.3 percent of GDP) in 2023 as commodity prices started to normalize. The CA deficit widened in 2024, to 1.9 percent of GDP, as a result of further normalization in commodity prices and slowing external demand, reflecting a return of the savings and investment balance closer to historical norms. The merchandise trade balance therefore declined from 4.8 percent of GDP in 2023 to 2.5 percent of GDP in 2024, while the services deficit remained stable at 1.4 percent of GDP. The goods trade surplus was further offset by a 3.0 percent of GDP deficit in the primary income balance. While this deficit, which reflects dividend payments on Australia's equity liabilities, especially in the mining sector, has narrowed slightly (by 0.6 percent of GDP) since 2023, it did not substantially mitigate the impact of external conditions on commodity exports, which have fallen by 2.2 percent of GDP since 2023. Reflecting commodity price decline in 2025 and slowing growth in some key trading partners, the CA deficit is expected to widen further before stabilizing at a slight deficit in the long term. This is also consistent with a recovery in investment and a return of saving rates closer to historical levels. **Assessment.** The EBA model estimates a CA norm of –0.6 percent of GDP, relative to the cyclically adjusted CA deficit of –2.5 percent of GDP; this suggests a model-based CA gap of –1.9 percent of GDP with a range of –2.4 to –1.4 percent of GDP. The gap is primarily driven by a large unexplained residual which potentially reflects country-specific factors not included in the model.

2024 (% GDP)	CA: –1.9	Cycl. Adj. CA: –2.5	EBA Norm: –0.6	EBA Gap: –1.9	Staff Adj.: 0.0	Staff Gap: –1.9

Real Exchange Rate	**Background.** In real effective terms, the REER in 2024 was on average 1.8 percent higher than in 2023, and 4 percent higher than over the previous five years. The REER declined at the start of 2025, consistent with lower commodity prices. The Australian dollar continued to appreciate in the first half of 2024, and then started to depreciate in the last quarter, ending the year weaker than it had started relative to both the US dollar and a broader basket of currencies. The movements in the Australian dollar likely reflected interest rate differentials and commodity price movements. As of March 2025, the REER was 3.6 below its 2024 average. **Assessment.** The IMF staff-assessed CA gap implies a REER gap of 10.7 percent (applying an elasticity of 0.18). The EBA REER level model points to an overvaluation of 19.8 percent, while the index model points to an undervaluation of 3.7 percent. Consistent with the CA gap, staff assesses the REER gap to be in a range of 7.9 to 13.5 percent, with a midpoint of 10.7 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The financial account recorded net inflows in 2024, driven by net inflows in portfolio investment and direct investment, which more than offset the outflows in financial derivatives. Net inflows in portfolio investment were driven by debt inflows, while equity flows remained negative in net terms. **Assessment.** Vulnerabilities related to the financial account remain contained, supported by a credible commitment to a floating exchange rate.
FX Intervention and Reserves Level	**Background.** The currency has been free floating since 1983. The central bank has not intervened in the FX market since the global financial crisis. The value of reserve assets increased in 2024 to $102 billion, from $94 billion at the end of 2023. **Assessment.** The authorities are strongly committed to a floating exchange rate regime, which reduces the need for reserve holdings. Although domestic banks' external liabilities remain sizable, they are either in local currency or hedged. Hence, reserve needs for prudential reasons are also limited.

Table 3.3. Belgium: Economy Assessment

Overall Assessment: *The external position in 2024 was weaker than the level implied by medium-term fundamentals and desirable policies.* In 2024, the CA balance deteriorated to –0.9 percent of GDP driven by a wider trade deficit. In our unchanged policy (before fiscal adjustment) scenario, the CA balance is projected to deteriorate further in the near term, before returning to a smaller deficit in the medium term, although the outlook is highly uncertain in an environment of heightened global trade restrictions and uncertainty.

Potential Policy Responses: Bringing the external position closer in line with medium-term fundamentals and desirable policy settings will require sustained fiscal adjustment through a credible, expenditure-led consolidation. Public investment should be preserved or, ideally, increased to bolster potential growth and support the green transition. Significant structural reforms, including of the wage-setting mechanism, pensions and social benefits, taxation, and labor and product markets, are necessary to enhance productivity and strengthen competitiveness. In addition, Belgium should work with its EU partners to deepen the single market, including further the saving and investment union, to increase the resilience of its economy, and on nondiscriminatory reductions in trade barriers to increase economic integration.

Foreign Asset and Liability Position and Trajectory	**Background.** Belgium's NIIP increased to 60.1 percent of GDP at the end of 2024 (compared with 51.5 percent at the end of 2023 and an average of 55 percent of GDP over 2019–23). The improvement was driven by an increase in gross foreign assets of 4.9 percentage points of GDP from the end of 2023, and a decrease in gross foreign liabilities of 3.7 percentage points of GDP. Net portfolio investment remained the main component of the positive NIIP, increased by 2.1 percentage points of GDP to 37.7 percent of GDP at the end of 2024, with both price effects and exchange rate effects contributing to the improvement despite negative net transactions. Net foreign direct investment increased by a robust 5.3 percentage points of GDP to 21.7 percent of GDP. Net other investment liabilities fell to 6.2 percent of GDP at the end of 2024, from a high of 11.7 percent of GDP at the end of 2022. The high level of interbank debt on the liabilities side since 2022 is due to economic sanctions on Russia. **Assessment.** The NIIP-to-GDP ratio may decline slightly due to projected CA deficits over the medium term and growth trajectories. However, this would not raise concerns, as the NIIP remains significantly large and positive. Belgium's substantial gross international asset and liability positions are largely influenced by the presence of corporate treasury units, which do not appear to generate macro-relevant mismatches.				
2024 (% GDP)	NIIP: 60.1	Gross Assets: 412.0	Debt Assets: 130.1	Gross Liab.: 351.9	Debt Liab.: 152.0

Current Account	**Background.** Over 2014–23, the CA balance averaged 0.3 percent of GDP, with both surpluses and deficits. The CA deficit widened slightly to 0.9 percent of GDP in 2024, from 0.7 percent of GDP in 2023. This deterioration was primarily driven by a widening in the goods and services deficit to 0.8 percent of GDP in 2024, from 0.6 percent of GDP in 2023, with exports declining more than imports. While the primary income balance increased by 0.4 percentage point of GDP to 1.7 percent of GDP in 2024, this gain is broadly offset by a larger outflow of current transfers, which increased by 0.3 percentage point of GDP to –1.7 percent of GDP. Overall, volatility in the trade and primary income balances reflects the substantial activities of multinationals and significant trade data revisions. **Assessment.** The EBA model estimates a CA norm of 3.5 percent of GDP, against a cyclically adjusted CA balance of –0.5 percent of GDP, implying a gap of –4.0 percent of GDP. This is within a range estimated by IMF staff for the CA gap of between –4.4 and –3.6 percent of GDP, applying the standard error of the CA norm estimated at ±0.4 percent of GDP.					
2024 (% GDP)	CA: –0.9	Cycl. Adj. CA: –0.5	EBA Norm: 3.5	EBA Gap: –4.0	Staff Adj.: 0	Staff Gap: –4.0
Real Exchange Rate	**Background.** The ULC-based and CPI-based REERs appreciated by 7.9 percent and 4.6 percent between February 2020 and December 2024. The stronger appreciation of the ULC-based REER was driven by faster and higher wage increases from automatic wage indexation. The CPI-based REER appreciated by 1.0 percent in 2024 compared to the 2023 average. As of March 2025, the CPI-based REER was 0.9 percent above the 2024 average. **Assessment.** The IMF staff-assessed CA gap implies a REER overvaluation in the range of 5.3 to 6.5 percent, with a midpoint of 5.9 percent (applying an estimated elasticity of the CA balance to the REER of 0.68). The EBA REER index model points to an overvaluation of 8.3 percent, whereas the REER level model points to an overvaluation of 17.5 percent.					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The financial account balance was negative at 0.3 percent of GDP in 2024. The direct investment balance was strongly positive at 4.4 percent of GDP (after turning negative at 1.7 percent of GDP in 2023 for the first time since 2019), due to a combination of negative transactions on the assets side (–1.0 percent of GDP) and strongly negative transactions on the liabilities side (–5.4 percent of GDP). The portfolio investment balance was negative at –4.9 percent of GDP, primarily driven by purchases of Belgian government bonds by nonresidents. The balance of other investment (including financial derivatives) was slightly positive at 0.2 percent of GDP. **Assessment.** Belgium remains exposed to financial market risks and vulnerabilities associated with high external public debt. However, these vulnerabilities are limited by the large, positive NIIP.					
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.					

Table 3.4. Brazil: Economy Assessment

Overall Assessment: *The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA deficit widened to 2.8 percent of GDP in 2024 and is expected to converge to 1.9 percent of GDP over the medium term as oil exports increase and net public savings improve. Risks to Brazil's external position over the medium term relate to an intensification of geoeconomic fragmentation, heightened global uncertainty, and insufficient progress on domestic reforms.

Potential Policy Responses: Policies that would help keep the CA in line with its norm include efforts to raise national savings, which would provide room for a sustainable expansion in investment. A sustained and more ambitious fiscal effort would contribute to increasing net public savings. Structural reforms that improve efficiency and reduce firms' cost of capital would help strengthen competitiveness. Industrial policies should (i) remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, (ii) avoid increasing barriers to trade and investment, and (iii) not favor domestic producers over imports.

Foreign Asset and Liability Position and Trajectory	**Background.** Brazil's NIIP rose to –34.6 percent of GDP in 2024, from –50.3 percent of GDP in 2023 and an average of –38 percent of the GDP during 2018–22. The NIIP increase in 2024 consisted of a 2.2 percentage points of GDP rise in gross foreign assets from 2023 and a 13.5 percentage points of GDP decline in gross foreign liabilities, supported by portfolio rebalancing (including in equity and investment fund shares) and positive valuation effects from currency depreciation. FDI continued to account for more than half of all liabilities. At the end of 2024, external debt decreased to 33.1 percent of GDP and 212 percent of exports, from about 33.4 percent of GDP and 213 percent of exports in 2023. **Assessment.** The NIIP has been negative since the series was first published in 2001. Over the medium term, gross external financing needs are moderate at about 10 percent of GDP annually. The NIIP is projected to stabilize around –45 percent of GDP over the medium term, in line with projected CA deficits being offset by robust nominal GDP growth.				
2024 (% GDP)	NIIP: –34.6	Gross Assets: 47.2	Res. Assets: 15.2	Gross Liab.: 81.8	Debt Liab.: 33.1

Current Account	**Background.** During 2018–22, the CA deficit averaged 2.5 percent of GDP before dropping to 1.3 percent in 2023. The CA deficit widened to 2.8 percent of GDP in 2024, the result of a narrower trade balance surplus (3.0 percent of GDP), as imports rose with stronger economic activity, and a higher service balance deficit (2.5 percent of GDP). From a saving-investment perspective, the widened CA deficit in 2024 reflected the public sector's reduced saving-investment deficit being partially offset by a private sector saving-investment surplus that was smaller compared with 2023. The CA deficit is expected to converge to 1.9 percent of GDP over the medium term, supported by higher oil exports and improved net public savings. **Assessment.** In 2024, the cyclically adjusted CA balance was –2.9 percent of GDP, and EBA estimates suggest a cyclically adjusted CA norm of –1.9 percent of GDP. IMF staff estimates the CA gap to be in the range of –1.5 to –0.5 percent of GDP, with a midpoint of –1.0 percent. EBA-identified policy gaps are estimated at –1.5 percent of GDP, reflecting positive credit growth, FX reserves changes, and more expansionary fiscal policy stances in Brazil relative to trading partners.					
2024 (% GDP)	CA: –2.8	Cycl. Adj. CA: –2.9	EBA Norm: –1.9	EBA Gap: –1.0	Staff Adj.: 0.0	Staff Gap: –1.0

Real Exchange Rate	**Background.** The REER depreciated by 4.2 percent in 2024 compared to the 2023 average, after appreciating 4.9 percent in 2023. The nominal exchange rate depreciation against the US dollar reached around 20 percent by December 2024 at a 12-month rate. As of March 2025, the REER had depreciated by 4.3 percent from the 2024 average. **Assessment.** The IMF staff's CA gap estimate implies a REER gap of 7.6 percent in 2024 (applying an estimated elasticity of 0.13). The REER index model suggests a REER gap of –31.2 percent, and the level model suggests –15.5 percent. Consistent with the CA gap, the staff-assessed REER gap is in the range of 3.8 to 11.4 percent, with a midpoint of 7.6 percent. The sizable REER depreciation since the start of 2024, yet to be fully reflected in the CA because of its lagged effect, is contributing to narrowing the assessed REER gap.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Brazil continues to attract sizable capital flows. Net FDI flows continued to finance the CA deficit, averaging 2.8 percent of GDP during 2015–22 and remaining a sizable 2.2 percent of GDP in 2024. Portfolio investment registered net inflows of 0.1 percent of GDP. **Assessment.** The composition of capital flows is expected to have a favorable risk profile over the medium term, with positive net FDI inflows outweighing negative portfolio outflows and debt liabilities increasingly denominated by FDI liabilities. Uncertainties related to tighter global financial conditions and insufficient progress on reforms pose downside risks to capital flows.
FX Intervention and Reserves Level	**Background.** Brazil has a floating exchange rate. During 2020–22 and 2024, the authorities intervened in the FX markets (including spot, repo, and FX swap markets) to ensure smooth market functioning and reduce excessive volatility. International reserves declined by $25 billion to $330 billion at the end of 2024. **Assessment.** The flexible exchange rate has been an important shock absorber. Reserves remain adequate based on the IMF's reserve adequacy metric (126 percent at the end of 2024) and serve as insurance against external shocks. FX interventions were two-sided in recent years. In general, FX intervention could be used to address episodes of higher risk premia when FX liquidity becomes shallow, without substituting for warranted adjustment of macroeconomic policies.

Table 3.5. Canada: Economy Assessment

Overall Assessment: *The external position in 2024 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* The external current account deficit narrowed slightly in 2024, largely due to a higher investment income surplus as higher profits earned by Canadian investors abroad outpaced payments. The narrowing of the CA deficit occurred despite a deterioration in the service and goods balance largely reflecting stronger domestic demand.

Potential Policy Responses: Policies should aim to boost Canada's competitiveness in non-fuel goods and services exports and to diversify Canada's export markets further. These policies include: (1) investing in R&D and physical capital (including infrastructure), and other measures to improve labor productivity, especially in the tradables sector, (2) removing internal trade barriers, (3) focusing on high-multiplier public spending, and (4) promoting FDI, including FDI outflows. In the context of heightened trade policy tensions and uncertainty, trade policies should seek to resolve trade tensions, promote clarity and transparency, and deepen economic integration by pursuing free trade agreements at the regional, plurilateral, or multilateral level. Government support for businesses and workers should strike a balance between easing short-term adjustment costs while minimizing long-term distortions to trade and investment, supporting external rebalancing, and ensuring medium-term fiscal consolidation to stabilize public debt.

Foreign Asset and Liability Position and Trajectory	**Background.** Canada's NIIP position continued to increase sharply to 61.9 percent of GDP from 49.4 percent of GDP in 2023 and 35.4 percent of GDP in 2022, reflecting revaluations (from market price changes) and the depreciation of the CAD relative to the US dollar. Gross external debt stood at 145.3 percent of GDP, up from 136.5 percent in 2023, of which about 37 percent is short term. **Assessment.** Canada's foreign assets have a higher foreign-currency component than its liabilities do, which provides a hedge against currency depreciation. The NIIP level and its trajectory are sustainable.				
2024 (% GDP)	NIIP: 61.93	Gross Assets: 322.47	Debt Assets: 98.6	Gross Liab.: 260.54	Debt Liab.: 145.32

Current Account	**Background.** The estimated CA deficit reached 0.5 percent of GDP in 2024, slightly lower than in 2023 (–0.6 percent of GDP), mainly on account of a higher investment income surplus which offsets deterioration of the trade deficit. But with savings at around the 2019–23 average and investment somewhat lower, the CA deficit in 2024 was somewhat smaller than the average CA deficit of 1.0 percent of GDP during 2019–23. The current account is expected to remain in slight deficit over the medium term. **Assessment.** The cyclically adjusted CA was –0.9 percent of GDP in 2024, against the EBA CA norm of 2.5 percent of GDP, implying an EBA gap of –3.4 percent of GDP for 2024. Part of this gap is explained by biases in measuring inflation and retained earnings.[1] Taking these factors into account, IMF staff assesses the CA gap to be in the range between –2.2 and –1.3 percent of GDP, with a midpoint of –1.8 percent of GDP.					
2024 (% GDP)	CA: –0.5	Cycl. Adj. CA: –0.9	EBA Norm: 2.5	EBA Gap: –3.4	Staff Adj.: 1.6	Staff Gap: –1.8
Real Exchange Rate	**Background.** The average REER for 2024 was 0.9 percent below the 2023 average, largely reflecting US dollar strength, and about 2.5 percent weaker than the 2019–23 average. As of March 2025, the REER had depreciated by 3.8 percent relative to the 2024 average. **Assessment.** The EBA REER index model points to an overvaluation of 3.2 percent in 2024, while the REER level model suggests an undervaluation of 13 percent. Consistent with the staff CA gap (applying an estimated elasticity of 0.27), staff assesses the REER to be overvalued by between 5.0 and 8.3 percent, with a midpoint of 6.6 percent.					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net inflows came mostly from portfolio investments, moderated by outflows in FDI and other investments. Net FDI outflow was 1 percent of GDP in 2024 (slightly lower than in 2023 and 2022). Other investments recorded net outflows of 0.7 of GDP, moving from inflows of 3.7 percent of GDP in 2023. These outflows were offset by portfolio investments which recorded net inflows of 2.6 percent of GDP, a reversal of 2023 (0.7 percent of GDP outflow). Errors and omissions were small at –0.1 percent of GDP. **Assessment.** Canada has an open capital account. Vulnerabilities are limited by a credible commitment to a floating exchange rate.					
FX Intervention and Reserves Level	**Background.** Canada has a free floating exchange rate regime and has not intervened in the FX market since September 1998 (except for participating in joint interventions with other central banks). Canada has limited reserves, but its central bank has standing swap arrangements with the US Federal Reserve and four other major central banks. (The Bank of Canada has not drawn on these swap lines.) **Assessment.** Policies in this area are appropriate to the circumstances of Canada. The authorities are strongly committed to a floating regime which, together with the swap arrangements, reduces the need for reserve holdings.					

Table 3.6. China: Economy Assessment

Overall Assessment: *The external position in 2024 is assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies.* The CA surplus strengthened to 2.3 percent of GDP in 2024, as exports surged, driven by improved competitiveness and strong external demand, while imports stagnated amid weak domestic demand. Sustained net capital outflows have resulted in persistent RMB depreciation pressures despite the large CA surplus, which combined with low inflation, has contributed to the continued depreciation of the real exchange rate. There is considerable uncertainty around the economic outlook, including on the level of tariffs that will prevail and therefore the impact on trade flows in the short term. Over the medium term, the CA surplus is expected to narrow modestly, supported by an eventual recovery in domestic demand.

Potential Policy Responses: Strong and coordinated policy actions are needed to bring the external position in line with fundamentals. Macro policies should focus on boosting domestic demand, which would lower the CA surplus and mitigate domestic deflationary pressures. More expansionary fiscal policy, with greater support for consumption (scaling up social spending) and the property sector (to finance completion of unfinished housing) should be a priority. Further monetary easing and exchange rate flexibility can help absorb external shocks, but in the current conjuncture should be accompanied by a strong fiscal and structural package so as not to rely unduly on the exchange rate to close the domestic output gap at a time when depreciation could exacerbate external imbalances. Complementing macro policies with structural reforms that reduce household savings (e.g., Hukou reforms), boost investment in the services sector (e.g., lighten regulatory requirements, reduce entry barriers) and scale back industrial policies would further reduce the CA surplus and address fragmentation pressures. Industrial policies should be narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions and avoid favoring domestic producers over imports. Efforts to constructively resolve trade tensions should continue, with trade policy aiming to promote clarity and transparency, and pursue pragmatic cooperation and deepen economic integration through nondiscriminatory reductions in trade barriers or by pursuing free trade agreements at the regional, plurilateral or multilateral level.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP reached 17.6 percent of GDP in 2024, rising steadily from 12.0 percent in 2021 but significantly below the peak of 29.9 percent in 2008. The increase largely reflects the CA surpluses. **Assessment.** The NIIP-to-GDP ratio is expected to remain positive and increase modestly over the medium term in line with the persistent though narrowing CA surplus. The NIIP is not a major source of risk, as assets remain high–partly reflecting sizable foreign reserves (18.4 percent of GDP)–and liabilities are mostly related to FDI.

2024 (% GDP)	NIIP: 17.6	Gross Assets: 54.5	Debt Assets: 16.0	Gross Liab.: 36.9	Debt Liab.: 12.9

Current Account	**Background.** The 2024 CA surplus increased to 2.3 percent of GDP from 1.4 percent of GDP in 2023. The higher CA is due to a stronger goods balance (4.1 percent of GDP, up from 3.3 percent of GDP in 2023), as goods exports rose by 7.2 percent in 2024, mainly driven by improved competitiveness amid declining domestic prices (reflected in REER declines) and strong external demand, along with possible frontloading in the fourth quarter of 2024 in anticipation of higher tariffs. Weakness in imports reflected subdued domestic demand. The 2024 services deficit widened marginally to 1.2 percent of GDP (from 1.1 percent of GDP in 2023) as outbound tourism partially recovered. The income deficit remained stable at 0.7 percent of GDP, though the lack of data on income flows by investment type hampers analysis of trends, including the potential reasons for the flat income balance since the pandemic despite the increase in the global interest rate (see also Annex VII and Data Adequacy Assessment in 2024 China Article IV consultation for discussion of BOP data more broadly). From a savings-investment perspective, the higher CA largely reflected higher private savings, resulting from weak consumer confidence, and subdued private investment amid the ongoing property sector adjustment. Over the medium term, the modest projected decline in the CA is due to a recovery in domestic demand, partially offset by fiscal consolidation. **Assessment.** Based on the EBA CA model, the IMF staff CA gap ranges from 0.5 to 1.8 percent of GDP, with a midpoint of 1.2 percent. EBA-identified policy gaps are estimated at –0.6 percent of GDP, driven by relatively favorable credit conditions (–0.3 percent of GDP) and looser fiscal policy than in other countries (–0.3 percent of GDP).

2024 (% GDP)	CA: 2.3	Cycl. Adj. CA: 2.0	EBA Norm: 0.8	EBA Gap: 1.2	Staff Adj.: 0.0	Staff Gap: 1.2

Real Exchange Rate	**Background.** In 2024, the NEER appreciated (0.6 percent), while the REER depreciated by 2.6 percent, reflecting lower inflation in China, and marking the third consecutive year of REER depreciation, with a cumulative decline of 11 percent since 2022. As of March 2025, the REER had depreciated by 1.9 percent relative to the 2024 average. **Assessment.** The IMF staff CA gap implies a REER gap of –8.5 percent. The EBA REER index regression estimates the REER gap in 2024 to be –1.1 percent, and the EBA REER level regression estimates the REER gap to be –0.7 percent. Consistent with the IMF staff CA gap, staff assesses the REER to be in the range of –3.8 to –13.1 percent with a midpoint of –8.5 percent (with an estimated elasticity of 0.14 applied).
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In 2024, the financial account (excluding net errors and omissions) deteriorated to –2.5 percent of GDP (–1.3 percent of GDP in 2023) due to large portfolio outflows (both equities and bonds) of residents, while inward FDI declined to 0.1 percent of GDP–a historical low. The authorities raised the cross-border financing macroprudential adjustment parameter for financial institutions and enterprises from 1.5 to 1.75 (relaxation of an inflow CFM measure) in January 2025 to encourage external borrowing.[1] **Assessment.** Net outflows accelerated through 2024 due to the large interest rate differential between China and advanced economies, expectations of higher trade tensions with the United States, and a market perception of weakening economic prospects in China. In the medium term, further capital account opening is likely to create substantially larger two-way gross flows. The sequencing of capital account opening consistent with exchange rate flexibility should carefully consider domestic financial stability. CFMs should not be used to actively manage the capital flow cycle or substitute for warranted macroeconomic adjustment and exchange rate flexibility. In the medium term, China should gradually phase out CFM measures in a sequence consistent with greater exchange rate flexibility and accompanying reforms.
FX Intervention and Reserves Level	**Background.** After increasing in the first three quarters of 2024, reserves declined in the last quarter amid deterioration in capital flows and unfavorable valuation effects. On net, official reserve assets rose by about $6 billion through the year, reaching $3.5 trillion by the end of 2024. **Assessment.** The end-of-2024 reserve assets–103 percent of the IMF composite metric adjusted for capital controls (109 percent in 2023)–are assessed to be adequate. Temporary FX intervention could be considered in the event of large capital outflows that pose significant risks to macroeconomic and financial stability, including if markets turn disorderly.

Table 3.7. Euro Area: Economy Assessment

Overall Assessment: *The external position in 2024 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.* The CA balance increased to 2.8 percent of GDP in 2024–up from 1.7 percent in 2023–driven mostly by lower energy imports (because energy prices fell) and higher non-energy goods exports. While the euro area's CA surplus is projected to decline in the medium term relative to 2024–as domestic demand is expected to strengthen–it is projected to remain at about 2 percent of GDP, with sizable imbalances in some countries.

Potential Policy Responses: Policy responses should increase resilience by recalibrating the composition of domestic demand and reducing country-level imbalances where needed. Deepening the EU single market–by lowering firms' regulatory burdens, reducing administrative barriers, streamlining trade procedures, enhancing labor mobility, and better integrating financial services–will create a more productive and resilient domestic economy. As part of a deeper EU single market, completion of banking and capital markets unions would strengthen public and private sector risk sharing and lift investment, supporting external stability especially of high-debt countries. Reforms to boost energy security, enhancing the EU budget for efficient public goods investment, and structural reforms to improve the business environment can lift investment and private domestic demand, compensating for the needed higher public saving in some countries. These measures will also support productivity, lift growth potential, and mitigate headwinds from aging. Trade policies should seek to constructively resolve trade tensions, promote clarity and transparency, pursue pragmatic cooperation, and deepen economic integration by pursuing free trade agreements at the regional, plurilateral, or multilateral level. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and avoid favoring domestic producers over imports to minimize trade and investment distortions. As historical policy gaps at the national level are projected to persist, countries with external positions stronger than the norm with excess CA surpluses should strengthen domestic demand and increase investment, and countries with external positions weaker than the norm should increase public sector saving and implement reforms to enhance productivity. Germany's announced increase in defense and public investment and the recommended rotation from public to private spending in other countries, as well the policies outlined here, will boost investment and innovation, help lift productivity, and enhance resilience by better aligning domestic demand with potential output.

Foreign Asset and Liability Position and Trajectory

Background. After falling to –20.5 percent of GDP in 2009, the NIIP of the euro area turned positive in 2022 and rose to 10.9 percent of GDP by the end of 2024. These increases mostly reflect accumulated CA surpluses. However, the robust increase of 7.9 percentage points of GDP compared to 2023 was attributable to both the current account surplus and valuation effects in the fourth quarter. Gross foreign assets were 250.3 percent of GDP and liabilities were 249.4 percent of GDP, both higher than last year but lower than in 2021 (having declined in 2022 and 2023 because of higher interest rates and repricing). Net external assets (including those with other euro area member states) remain elevated in external creditor countries (for example, Germany), whereas net external liabilities remain high in debtor countries (such as Portugal and Spain). Gross external debt declined by 1.1 percent of GDP, as an increase from general governments was more than offset by declines from the Eurosystem, other MFIs, and other sectors.

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, large net external debtor countries bear an elevated risk of a sudden stop of gross inflows.

2024 (% GDP)	NIIP: 10.9	Gross Assets: 260.4	Debt Assets: 94.1	Gross Liab.: 249.4	Debt Liab.: 88.2

Current Account

Background. The current account balance for the euro area increased to 2.8 percent of GDP in 2024, up from 1.7 percent in 2023. This increase was driven by a significant improvement in the goods balance–mainly the result of lower energy import prices–and a small increase in the services surplus (partly because of unusually high exports of intellectual property from Ireland). Following an initial post-reopening increase, the investment rate declined for two years in a row–from 10.1 percent in 2022 to 9.8 percent in 2023 and 9.2 percent in 2024–widening the saving-investment gap. The primary income surplus slightly increased to 0.4 percent of GDP, while the secondary income deficit remained stable at –1.3 percent. Large creditor countries, such as Germany and The Netherlands, maintained sizable surpluses, reflecting high corporate and household savings and weak investment. In the medium term, the current account surplus is projected to decline (to about 2 percent of GDP).

Assessment. The EBA model estimates a CA norm of 1.4 percent of GDP, against a cyclically adjusted CA of 2.9 percent. This implies a gap of 1.4 percent of GDP. Adjustments of –0.4 percent of GDP were made to the underlying CA to account for measurement issues in Ireland and The Netherlands. Considering these factors and uncertainties in the estimates, IMF staff assesses the CA gap to be 1.0 percent of GDP in 2024, with a range of 0.2 to 1.8 percent of GDP (considering a standard error of 0.8).

2024 (% GDP)	CA: 2.8	Cycl. Adj. CA: 2.9	EBA Norm: 1.4	EBA Gap: 1.4	Staff Adj.: –0.4	Staff Gap: 1.0

Real Exchange Rate

Background. In 2024, the CPI-based REER appreciated by 0.5 percent from 2023. The euro area CPI-based REER appreciated by 5.3 percent between 2015 and 2024 following a depreciation of nearly 20 percent in the post-global financial crisis period. As of March 2025, the CPI-based REER was 0.1 percent below its 2024 average.

Assessment. Consistent with the IMF staff CA gap, the staff assesses the REER gap to be –3.1 percent in 2024, with a range of –0.7 to –5.5 percent, based on the estimated CA-REER elasticity of 0.33. As with the CA gap, the aggregate REER gap masks large heterogeneity in REER gaps across euro area member states. In contrast, the EBA REER index model suggests an overvaluation of 4.1 percent, and the level model suggests a 1.7 percent overvaluation.

Capital and Financial Accounts: Flows and Policy Measures

Background. The euro area experienced a balanced capital account and a financial account surplus of 3.2 percent of GDP in 2024 (up from 1.9 percent of GDP in 2023), driven mostly by a rebound of net direct investment that more than offset a decline in net other investment. Net portfolio investment and financial derivatives also contributed, although only to a small degree.

Assessment. Aggregate risks are limited, given the strength of its external position and the euro's status as a global reserve currency. However, large external financing needs of sovereigns and the banking sector cause some vulnerability to tighter global financial conditions and sustained market volatility.

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 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA balance increased to a surplus of 0.4 percent of GDP in 2024, driven by stronger services exports due to the Paris Summer Olympics. Over the medium term, the CA balance is projected at –0.1 percent of GDP by 2030, as private consumption and investment improve.

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

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP stood at –20.3 percent of GDP in 2024, within the range observed during 2014–19 (between –19 percent and –28 percent of GDP). The NIIP improved by 7.8 percent of GDP since 2023, largely driven by an increase in portfolio investment. While the net position is moderately negative, gross positions are large. Gross assets stood at 373 percent of GDP in 2024, of which non-FDI- and nonportfolio-related assets accounted for about 50 percent, reflecting in part the financial sector's global activities. Gross liabilities increased to 393 percent of GDP in 2024, of which external debt was about 259 percent of GDP (52 percent accounted for by banks and 22 percent by the public sector) in the third quarter of 2024. About three-quarters of France's external debt liabilities are denominated in domestic currency. The average TARGET2 balance in 2024 was about € –147.9 billion. **Assessment.** The NIIP is negative, but its size and projected stable trajectory do not raise sustainability concerns. However, there are vulnerabilities coming from the large public external debt (57.7 percent of GDP in the third quarter of 2024) and banks' gross financing needs– the stock of banks' external short-term debt securities was 4 percent of GDP in the third quarter of 2024), and financial derivatives (liabilities) stood at about 63.9 percent of GDP.

2024 (% GDP)	NIIP: –20.3	Gross Assets: 372.5	Debt Assets: 191.7	Gross Liab.: 392.9	Debt Liab.: 231.7

Current Account	**Background.** The CA balance increased to a surplus of 0.4 percent of GDP in 2024 (from a deficit of 1 percent in 2023), driven by the continued unwinding of the large terms-of-trade shock and a stronger services export performance partly due to the Paris Summer Olympics. Gross national savings increased in 2024, driven by higher private savings, given still high uncertainty around the outlook. After recovering in the post-pandemic period, private investment has been contracting since 2023. The CA surplus is expected to decrease to about 0.2 percent of GDP in 2025, including due to the dissipation of the positive one-off factors. Over the medium term, the CA balance is projected at about –0.1 percent of GDP by 2030 as domestic demand is expected to gradually strengthen. **Assessment.** The 2024 cyclically adjusted CA balance is estimated at 0.3 percent of GDP compared with an EBA-estimated norm of 0.1 percent. On this basis, IMF staff assesses that the CA gap in 2024 is between –0.1 and 0.7 percent of GDP (compared with –1.3 and –0.5 percent of GDP in 2023), with a midpoint of 0.3 percent of GDP. The main contributor to the overall positive policy gap of 0.3 percent of GDP is a positive credit gap of 0.6 percent, while the health expenditure gap is closed. The fiscal policy gap is –0.3 percent.

2024 (% GDP)	CA: 0.4	Cycl. Adj. CA: 0.3	EBA Norm: 0.1	EBA Gap: 0.3	Staff Adj.: 0.0	Staff Gap: 0.3

Real Exchange Rate	**Background.** The ULC-based REER appreciated by 0.7 percent, while the CPI-based REER depreciated by 0.1 percent in 2024. The relatively small cumulative changes in the CPI and ULC-based REERs since early 2022 are driven by more limited wage and price increases compared to trading partners. As of March 2025, the ULC-based REER was 2.4 percent above the 2024 average, while the CPI-based REER was 1.3 below the 2024 average. **Assessment.** The CA gap, as assessed by IMF staff, implies a REER gap of –1.0 percent in 2024 (applying an estimated semi-elasticity of 0.28). While the EBA REER level model does not point to a REER gap, the EBA REER index model points to a REER gap of –7.8 percent, largely reflecting unexplained residuals. Consistent with the staff CA gap, staff assesses the REER to be broadly in line with fundamentals and desirable policies with a midpoint of –1.0 percent with a range of uncertainty of ±1.4 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** After a temporary dip in 2023 after post-pandemic normalization in 2021–2022, inward and outward foreign direct investment recovered in 2024. The financial 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 2024 was stronger than the level implied by medium-term fundamentals and desirable policies.* In 2024, the CA increased slightly versus 2023. While the trade balance was virtually unchanged, an increase in the services deficit was more than offset by a higher balance for the primary income account and a lower deficit on the secondary income account. In 2025, the CA is expected to decline mainly because the trade balance is projected to weaken in response to fiscal easing and to euro appreciation in the first part of 2025. Over the medium term, the CA is projected to gradually decline closer to its norm due to fiscal expansion, including for increased infrastructure and defense spending.

Policy Recommendations: As planned by the new coalition government, policies aimed at promoting investment and diminishing excess saving would support external rebalancing and a reduction of the CA balance toward its norm. Over the medium term, the authorities are expected to generate higher fiscal deficits, including as a result of higher defense spending and higher public investment in transportation, energy, and digitalization. Structural reforms to accelerate licensing and permitting procedures and to increase the availability of equity financing for young, innovative firms, could further stimulate investment. Training to enhance employability of older workers could also extend working lives and reduce the need for savings. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and avoid favoring domestic producers over imports to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP increased to 79 percent of GDP in 2024 versus 70 percent of GDP in 2023. This increase resulted from the CA surplus and valuation gains on Germany's external assets, mainly portfolio investments, versus its liabilities. Germany's external assets include holdings of sovereign securities, whose market prices rose in response to policy rate easing in Europe and the United States. Germany's TARGET2 claims on the Eurosystem also rose to €1.2 trillion at the end of 2024 from €1.1 trillion at the end of 2023. Between 2017 and 2024, the NIIP increased by 37 percent of GDP, lifting the primary income balance.

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

2024 (% GDP)	NIIP: 79	Gross Assets: 312	Debt Assets: 153	Gross Liab.: 233	Debt Liab.: 143

Current Account

Background. The CA surplus came in at 5.7 percent of GDP in 2024, compared with 5.6 percent in 2023 and 8.0 percent on average over 2017–19. The slight increase of the CA in 2024 was driven mainly by an increase in the primary income account and a lower deficit in the secondary income account, which together more than offset an increase in the services deficit, as the goods balance was virtually unchanged. The gain in the primary income balance was due to higher net investment income earned abroad, while the lower deficit on the secondary income account was driven by a decline in cross-border expenditure by the government. From a savings-investment perspective, moderately lower savings-investment balances for the government and non-financial corporates (for the latter, in part because of higher staff costs) were more than offset by a higher savings-investment surplus for households as private consumption remained subdued despite higher real incomes.

Assessment. The cyclically adjusted CA balance is estimated by the EBA model to be 5.5 percent of GDP in 2024. IMF staff assess the CA norm to be between 3 and 4 percent of GDP, with a midpoint of 3.5 percent of GDP, in line with the EBA model. The difference between the cyclically adjusted CA and the CA norm implies that the CA gap for 2024 was in the range of 1.6–2.6 percent of GDP, with a midpoint of 2.1 percent of GDP.

2024 (% GDP)	CA: 5.7	Cycl. Adj. CA: 5.5	EBA Norm: 3.5	EBA Gap: 2.1	Staff Adj.: 0.0	Staff Gap: 2.1

Real Exchange Rate

Background. Following a strong REER depreciation in the early phase of the energy crisis (early 2021 to mid-2022), the REER has recovered to prepandemic levels. The REER based on consumer prices appreciated by 0.3 percent during 2024, and it was largely unchanged in March 2025 versus the 2024 average.

Assessment. The IMF staff CA gap implies a REER gap of –6.6 percent in 2024 (applying an estimated elasticity of 0.32). The EBA REER level and index models suggest an undervaluation of 11.4 percent and an overvaluation of 5.8 percent, respectively. Consistent with the staff CA gap, staff assesses the REER to be undervalued, with a midpoint of 6.6 percent and a range of uncertainty of +/–1.6 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2024, significant capital exports corresponding to the CA surplus remained largely in the "other investments" category due to transactions via the accounts of monetary and financial institutions by firms, households, and governments, but the change in this category versus 2023 was not the major contributor to developments in the financial account. The bulk of the change occurred in portfolio investments abroad by Germans, with capital flows into foreign equity assets increasing sharply. Net outward FDI also increased slightly as inward FDI in Germany declined.

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

FX Intervention and Reserves Level

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

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

Table 3.10. Hong Kong Special Administrative Region: Economy Assessment

Overall Assessment: *The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA surplus (in percent of GDP) widened in 2024 as the goods balance increased due to a strong pick up in external demand. At the same time, the services balance continued its gradual recovery, driven by financial services, though the recovery in tourism faced headwinds due to slower growth in key markets. The CA surplus is expected to decline moderately over the medium term with the recovery in domestic investment. Under the Linked Exchange Rate System (LERS), short-term movements in the REER largely reflect US dollar developments. The credibility of the currency board arrangement has been ensured by a transparent set of rules governing the arrangement, large fiscal and FX reserves, strong financial regulation and supervision, the flexible economy, and a prudent fiscal framework.

Potential Policy Responses: A gradual pace of fiscal consolidation to secure a balanced recovery would help ensure that the external position remains broadly in line with fundamentals by raising public savings to offset stronger private investment over the medium term, supported by reforms to create a vibrant and well-regulated financial ecosystem. Maintaining policies that support wage and price flexibility is crucial to ensuring flexible adjustment of the real exchange rate, and hence support the smooth functioning of the currency board arrangement. Trade policies should seek to resolve trade tensions, promote clarity and transparency, and deepen economic integration through Hong Kong SAR's ongoing efforts to maintain an open trading regime and by continuing to pursue free trade agreements at the regional, plurilateral, and multilateral level.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP rose to 500 percent of GDP in 2024 from 460 percent in 2023. There was a significant increase in gross assets (by 36 percentage points of GDP), while gross liabilities declined slightly (–3 percentage points of GDP). Both gross assets and liabilities are high, reflecting Hong Kong SAR's status as an international financial center. Valuation effects in 2024 were sizable as the change in the NIIP (39.4 percentage points of GDP), exceeding the financial account balance (15.3 percent of GDP).

Assessment. Vulnerabilities are low given the positive and sizable NIIP and its favorable composition. FX reserves remain large (104 percent of GDP at the end of 2024), and direct investments account for a large share of gross assets and liabilities (36 and 55 percent, respectively), while only 11 percent of gross liabilities are portfolio investments.

2024 (% GDP)	NIIP: 500	Gross Assets: 1,654	Debt Assets:[1] 409	Gross Liab.: 1,154	Debt Liab.:[1] 216

Current Account

Background. The CA surplus rose to 12.9 percent of GDP in 2024 from 8.5 percent in 2023, largely reflecting a significant increase in domestic savings (+4 percentage points of GDP) as household consumption declined on account of externally driven headwinds, tight monetary conditions, and subdued house and asset prices. The goods deficit narrowed significantly from –4.2 to –0.5 percent, driven by an increase in exports to the Chinese mainland and other Asian markets. Services inflows remained strong, though weak demand in the Chinese mainland continues to impact tourism. However, services outflows also increased in 2024, leaving the services surplus stable but below the prepandemic level. The income balance rose strongly, driven by higher investment income flows, in part reflecting higher global interest rates in the first half of the year. The CA balance is projected to gradually decline over the medium term with the recovery in private domestic demand broadly offsetting the impact of improved external conditions. Over the medium term, gross national savings are projected to remain largely unchanged from the 2024 level at about 29 percent of GDP as a gradual decline in private savings is expected to be offset by higher public savings. However, investment is projected to pick up gradually by 3.8 percentage points of GDP by 2030, largely driven by higher private investment.

Assessment. After adjusting for cyclical factors, the CA surplus is estimated to be 12.8 percent of GDP in 2024, which is within the IMF staff-assessed CA norm range of 12.7 to 13.8 percent of GDP (midpoint of 13.3 percent). The staff-assessed CA gap range is therefore between –1 to +0.1 percent of GDP, with a midpoint of –0.5 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 the composition of the NIIP, in which low-yielding debt assets have a high share, lowering net income inflows in the CA, and measurement issues related to the increased physical settlement of gold futures contracts resulting from the opening of a Precious Metals Depository.[2]

2024 (% GDP)	CA: 12.9	Cycl. Adj. CA: 12.8	EBA Norm: –	EBA Gap: –	Staff Adj.: –	Staff Gap: –0.5

Real Exchange Rate

Background. Under the currency board arrangement, REER dynamics are determined by US dollar developments and inflation differentials between the United States and Hong Kong SAR. The REER appreciated by 2.4 percent in 2024, somewhat slower than the 3.3 percent appreciation in 2023. This was due to both an appreciation of the NEER (+2.1 percent) and the low domestic inflation rate in the territory (1.7 percent). These trends continued in 2025: in March 2025, the REER appreciated further by 1.3 percent relative to the average for 2024, reflecting a 1.1 percent appreciation of the NEER, and low domestic inflation (1.2 percent).

Assessment. IMF staff assesses the REER gap, based on the staff-assessed CA gap range, to be in the range of –0.2 to 3.1 percent, with a midpoint of 1.5 percent (based on an average CA-REER elasticity[3] of –0.32).

Capital and Financial Accounts: Flows and Policy Measures

Background. As an international financial center, Hong Kong SAR has an open capital account. The net outflow in non-reserve financial flows increased to 18.2 percent of GDP in 2024, up from the 10.8 percent in 2023 and driven by net portfolio outflows. The financial account is typically very volatile, reflecting financial conditions in Hong Kong SAR and the Chinese mainland (transmitted through growing cross-border financial linkages),[4] 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. The greater financial exposure to the Chinese mainland could also pose risks to the financial sector through real sector linkages, particularly trade and tourism, credit exposures of banks, 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 in 2024. The HKMA conducts FX operations as part of the currency board operations. However, the Convertibility Undertaking was not triggered in 2024 following $6.6 billion sold in 2023.[5] Total reserve assets, which amounted to $422 billion at the end of 2024 (or 1.7 times the monetary base), decreased modestly to 104 percent of GDP from 111 percent of GDP at the end of 2023.

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 2024, Hong Kong SAR still holds significant fiscal reserves (about 21 percent of GDP at the end of 2024) built up through strong fiscal discipline in previous years.

Table 3.11. India: Economy Assessment

Overall Assessment: *The external position during fiscal year 2024/25 (ending in March 2025) is assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies.* External vulnerabilities stemmed from weakening external demand, geoeconomic fragmentation, and potentially volatile global financial conditions and commodity prices. Reflecting buoyant services exports and declining oil prices, the CA deficit is projected to remain smaller than its estimated norm but to converge to it over the medium term given India's development needs. Despite recent steps toward opening, India's trade and capital account regimes remain relatively restricted, weighing on both exports and imports.

Potential Policy Responses: In the near term, the expected strengthening of private consumption will contribute to decreasing the CA balance. To facilitate external rebalancing, priority should be given to further reducing import restrictions, especially on intermediate goods, while continuing to improve the business environment to boost private investment and liberalize the FDI regime. These efforts should be complemented by the development of trade infrastructure and expansion of trade networks. Industrial policies should be pursued cautiously, remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, and aim to minimize trade and investment distortions. Exchange rate flexibility should act as the main shock absorber, with intervention limited to periods marked by destabilizing risk premiums.

Foreign Asset and Liability Position and Trajectory	**Background.** By the end of 2024, India's NIIP is estimated to have improved to –9.6 percent of GDP, from –10.5 percent of GDP at the end of 2023, reflecting valuation changes and nominal GDP growth partly offsetting the impact of the CA deficit. Gross foreign assets declined to about 27.9 percent of GDP (from 28.1 percent of GDP at the end of 2023), while gross foreign liabilities declined to about 37.5 percent of GDP (from 38.6 percent of GDP at the end of 2023). The bulk of assets were in the form of official reserves and FDI, whereas liabilities included mostly debt and FDI. **Assessment.** With the CA deficit projected to remain below its norm in FY2024/25 and gradually widen toward it, the NIIP-to-GDP ratio is expected to decline modestly over the medium term as robust nominal GDP expansion mitigates the nominal NIIP decline resulting from the projected CA deficits. India's external debt liabilities are relatively low compared with its peers, and short-term rollover risks are limited. The moderate level of foreign liabilities reflects India's incremental approach to capital account liberalization.				
2024 (% GDP)	NIIP: –9.6	Gross Assets: 27.9	Debt Assets: 4.4	Gross Liab.: 37.5	Debt Liab.: 19.2

Current Account	**Background.** The CA deficit is projected to have widened to about –0.8 percent of GDP in FY2024/25, from –0.7 percent of GDP in the previous year, driven by rising domestic demand for imports amid buoyant services exports. Gross domestic investment, at 33.4 percent of GDP, and gross domestic savings, at 32.6 percent, have remained broadly stable. Trade restrictions, while declining, still weigh on exports and imports. The CA deficit is projected to increase to about –0.9 percent of GDP in FY2025/26, largely reflecting resilient domestic demand and a slowdown in external demand. Over the medium term, the CA deficit is projected to widen to around its norm of –2 percent of GDP. **Assessment.** The EBA cyclically adjusted CA balance is projected at –0.6 percent of GDP in FY2024/25. The EBA CA model estimates a norm of –2.0 percent of GDP, with a standard error of 0.7 percent. IMF staff thus assesses the CA gap to be 1.4 percent of GDP, within a range of 0.7 to 2.1 percent of GDP. Positive policy contributions to the CA gap stem mostly from the fiscal balance, while negative contributions come mostly from domestic private credit.					
2024/25 (% GDP)	CA: –0.8	Cycl. Adj. CA: –0.6	EBA Norm: –2.0	EBA Gap: 1.4	Staff Adj.: 0.0	Staff Gap: 1.4

Real Exchange Rate	**Background.** In the first half of 2024, the contained CA deficit and portfolio investment inflows–in part driven by India's inclusion in the global bond indices resulted in appreciation pressures on the rupee. However, this reversed in the second half of 2024 when a strategic shift by international equity investors, a reassessment of the US monetary policy outlook, and elevated global uncertainty triggered portfolio investment outflows. As of March 2025, the REER was about 2.7 percent below its 2024 average. **Assessment.** The IMF staff CA gap implies a REER gap of –7.9 percent (applying an estimated semi-elasticity of 0.18). EBA REER index and level models suggest an overvaluation of 5.4 percent and 4.1 percent. Consistent with the staff CA gap, however, staff project a REER gap in the range of –11.6 to –3.9 percent, with a midpoint of –7.9 percent, for FY2024/25.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In FY2024/25, net FDI inflows are expected to have decreased to an almost zero balance, as steady gross inflows are offset by rising disinvestment and outward FDI. Net portfolio investment inflows and outflows are also expected to be almost evenly balanced, reflecting large equity outflows in late 2024, despite India's inclusion in global bond indices. Other investments, reflecting mostly debt-creating inflows, are projected to remain steady at about 1.5 percent of GDP. During the year, the Indian authorities widened the scope of government bonds available for foreign investors and relaxed FDI restrictions, which should help moderate the interest costs associated with financing the CA deficit. **Assessment.** While the expected rebound in net FDI inflows is projected to cover more than half of the CA deficit over the medium term, the compression of net FDI inflows in FY2024/25 warrants further structural reforms and improvement of the investment regime to promote FDI. Volatile portfolio flows are sensitive to changes in global financial conditions and country risk premiums. The inclusion of India in international bond indices has significantly increased foreign participation in India's bond market (though from a low base) and supported net portfolio inflows that financed the CA deficit.
FX Intervention and Reserves Level	**Background.** Official FX reserves increased overall in FY2024/25. During this time, the Reserve Bank of India's FX interventions aimed to smooth market volatility that the authorities considered to be excessive and contributed to the rupee's exchange rate stability. Reserves increased from $646.4 billion at the end of FY2023/24 to $665.4 billion at the end of FY2024/25, reflecting increases through September followed by a decline in the following months on equity outflows. **Assessment.** Various criteria confirm that official FX reserves are adequate for precautionary purposes. At the end of FY2024/25, they represented about 209 percent of short-term debt (on residual maturity), about 107 percent of the IMF's composite metric, and over eight months of import coverage. In view of India's moderately strong external position, generally deep and liquid FX markets, limited FX mismatches, well-anchored inflation expectations, and adequate reserves, Integrated Policy Framework analysis indicates that FX interventions should be limited to periods marked by destabilizing risk premiums.

Table 3.12. Indonesia: Economy Assessment

Overall Assessment: *The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* In the medium term, external balance is expected to be sustained despite external policy shocks and higher uncertainty, while exchange rate flexibility and structural policies would help contain the CA deficit. While external financing needs appear sustainable, Indonesia's reliance on foreign portfolio investment exposes the economy to sharp swings in market sentiment and risk premia, and to fluctuations in global financial conditions.

Potential Policy Responses: Maintaining external balance will require structural reforms to enhance productivity and promote trade–particularly in the context of rising global trade restrictions and policy uncertainty. Reforms should include: (i) higher infrastructure investment, higher social spending to foster human capital development and strengthen the social safety net, (ii) reducing or eliminating restrictions on inward FDI and external trade, including by moving away from non-tariff barriers, (as discussed in recent Article IV consultations), and (iii) promoting greater labor market flexibility. Exchange rate flexibility should continue to support external stability. Recent welcome plans to seek trade integration with several major partners and structural reforms and deregulation to lower trade and investment barriers–if pursued through decisive, comprehensive, broad, and sound implementation–could strengthen trade, investment, and growth.

Foreign Asset and Liability Position and Trajectory	**Background.** Indonesia's NIIP rose from –18.8 percent of GDP at the end of 2023 to –17.6 percent of GDP at the end of 2024. The improvement reflects a 2.1 percentage point improvement in gross external assets more than offsetting a 0.8 percentage point increase in gross external liabilities. The increase in gross external assets was supported by direct investments, other investments, and reserve assets. In turn, the increase in gross external liabilities reflected increases in direct investment and portfolio debt securities more than offsetting declines in portfolio equities. Indonesia's gross external debt remained moderate at 30.4 percent of GDP at the end of 2024, increasing marginally from 29.8 percent of GDP in 2023. External rollover risks in the short term are contained as reflected in the large share of long-term debt. **Assessment.** The level and composition of the NIIP and gross external debt indicate that Indonesia's external position is sustainable and subject to limited rollover risk. However, the relatively high dependence on foreign portfolio investment (20.0 percent of GDP in 2024) makes Indonesia vulnerable to swings in global financial market sentiment. The NIIP as a share of GDP is projected to stabilize at current levels in the medium term, as robust nominal GDP growth would offset projected small CA deficits.				
2024 (% GDP)	NIIP: –17.6	Gross Assets: 37.4	Res. Assets: 11.2	Gross Liab.: 55.0	Debt Liab.: 30.4

Current Account	**Background.** The CA deficit widened slightly to 0.6 percent of GDP in 2024 from a 0.1 percent of GDP deficit in 2023. The widening was primarily driven by the non-oil and gas trade balance, reflecting weaker growth in major export markets, and a broad-based decline in commodity prices. The resilience in domestic demand translated into a faster growth in imports compared to exports. On the saving-investment side, a 0.6 percent of GDP increase in savings was more than offset by an increase in investment (1.1 percent of GDP), with contributions from ongoing infrastructure investments (for example, new national capital). The CA deficit is projected to widen moderately in 2025, reflecting lower trading partner growth and commodity prices. The CA deficit is expected to remain close to the norm throughout the projection horizon. **Assessment.** IMF staff estimates a CA gap of 0.3 percent of GDP for 2024, consistent with an estimated cyclically adjusted CA deficit of –0.9 percent of GDP, a staff-assessed norm of –0.7 percent of GDP, and an adjustor of 0.5 percentage points for demographics.[1] Considering uncertainty in the estimation of the norm, the CA gap for 2024 is in the range of –0.2 to 0.8 percent of GDP. EBA-identified policy gaps are estimated at 1.0 percent of GDP, with a tighter fiscal stance than in other countries (1.0) and underspending on health care (0.4) contributing to the positive gap, partly offset by the credit gap (–0.6).					
2024 (% GDP)	CA: –0.6	Cycl. Adj. CA: –0.9	EBA Norm: –0.7	EBA Gap: –0.2	Staff Adj.: 0.5	Staff Gap: 0.3

Real Exchange Rate	**Background.** The average REER depreciated by 2.2 percent in 2024 compared to the average level in 2023 (or 2.3 percent relative to the pre-COVID 2016–19 average). The depreciation materialized on the back of a period of US dollar strength, amid global monetary policy uncertainty and geopolitical shocks. The rupiah managed to recover in the third quarter of 2024, as US monetary policy commenced an easing cycle, but reversed again thereafter amid higher policy uncertainty. As of March 2025, the REER was 4.2 percent below its 2024 average. **Assessment.** The IMF staff CA gap estimate of 0.3 percent of GDP implies a REER gap of –1.6 percent (applying an estimated elasticity of 0.16). The REER index and level models point to REER gaps of 0.3 percent and –16.8 percent, respectively. Consistent with the staff CA gap, staff assesses the REER gap in the range of –4.7 to 1.5 percent, with a midpoint of –1.6 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net capital and financial flows slightly strengthened in 2024 to 0.9 percent of GDP from 0.7 percent in 2023. The improvement was driven by portfolio investment, which in turn reflected government pre-funding in end-2024 and a significant increase in Bank Indonesia's local currency instrument (SRBI), the stock of which held by nonresidents rose from 0.3 percent of GDP at the end of 2023 to 1.0 percent at the end of 2024. Net FDI inflows declined somewhat to 1.0 percent of GDP in 2024 (1.1 percent in 2023 and 1.4 percent in 2022). The share of nonresident holdings of rupiah-denominated government bonds, at 14.5 percent at the end of 2024, was similar to the end of 2023 (14.9 percent), and considerably below the 39 percent share in 2019. Amid external shocks, financial flows are expected to be somewhat subdued into the medium term. **Assessment.** The pickup in portfolio investment flows in 2024 helped support the negative CA deficit in 2024. Continued strong policies, focused on safeguarding the fiscal position and long-standing policy frameworks, advancing financial deepening, and implementing structural reforms that provide credibility and certainty, and enable the business, trade and investment environment, should help sustain capital inflows in the medium term, particularly in a likely period of prolonged global policy uncertainty and headwinds to external growth.
FX Intervention and Reserves Level	**Background.** Since mid-2013, Indonesia has had a more flexible exchange rate policy framework. Official foreign reserves increased to $156 billion in 2024, from $146 billion in 2023, reflecting the issuance of global bonds and government sukuk, and the withdrawal of government's foreign loans during the year, which more than offset declines due to FX intervention. **Assessment.** The end-2024 level of reserves (11.2 percent of GDP, 125 percent of the IMF's reserve adequacy metric, and 6.4 months of prospective imports) should provide a sufficient buffer against external shocks. Predetermined short-term foreign currency drains have risen but appear manageable. In line with the Integrated Policy Framework, the use of FXI is appropriate under certain shocks and circumstances, particularly when shocks trigger spikes in market premia given shallow FX markets. Their usage should be judicious to preserve buffers in a shock-prone environment.

Table 3.13. Italy: Economy Assessment

Overall Assessment: *The external sector position in 2024 was weaker than the level implied by medium-term fundamentals and desirable policies.* The CA balance increased by 1.0 percentage point of GDP relative to 2023 to a surplus of 1.1 percent of GDP, largely on a lower energy import bill, growth in consumer goods exports, and a healthy contribution from tourism. Over the medium term, the CA surplus is expected to gradually increase, while remaining somewhat below the CA norm amid the need to identify additional fiscal measures and implement additional structural reforms to strengthen productivity growth. In addition, the outlook is subject to uncertainty, including as rapid population aging is weighing on medium-term growth and as the completion of the National Recovery and Resilience Plan could depress investment, with the saving-investment balance increasing. The NIIP increased to 15.3 percent of GDP.

Potential Policy Responses: Additional comprehensive reforms are needed to encourage private investment to modernize the capital stock and boost productivity, competitiveness, and potential growth. Simultaneously, strengthening the external position will require an increase in public sector savings, supported by continued strong fiscal adjustment efforts. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and avoid favoring domestic producers over imports to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP increased to 15.3 percent of GDP at the end of 2024, up from a balanced position in 2020. Sizable gross external positions, with gross foreign assets amounting to 182.8 percent of GDP and liabilities at 167.5 percent of GDP in 2024, make the NIIP sensitive to valuation effects. Bank of Italy's TARGET2 liabilities to other Eurosystem central banks, which are short term and renumerated at the European Central Bank policy rate, declined notably from their peak of 36 percent of GDP in 2022 to 21 percent of GDP at the end of 2024. Public sector (general government and Bank of Italy) external liabilities make up around 40 percent of total external liabilities, corresponding to 64 percent of GDP. Sixty percent of public sector external liabilities are long term. **Assessment.** Further strengthening public sector balance sheets and undertaking structural reforms would lessen vulnerabilities associated with the high public debt, reinvigorate productivity and economic growth, and reduce the potential for negative feedback loops between the debt stock and debt-servicing costs.				
2024 (% GDP)	NIIP: 15.3	Gross Assets: 182.8	Debt Assets: 75.3	Gross Liab.: 167.5	Debt Liab.: 120.5
Current Account	**Background.** The CA balance averaged a surplus of 1.5 percent of GDP between 2019 and 2023, with surpluses in all years, except in 2022 due to the adverse energy price shock. The CA balance increased from a small surplus of 0.1 percent of GDP in 2023 to a surplus of 1.1 percent of GDP in 2024. The CA surplus was supported by 5.6 percent growth in consumer goods exports, a healthy contribution from tourism, and a more than 18 percent decline in energy imports (equivalent to 1 percent of GDP). The primary income balance remained at about –0.7 percent of GDP. From a saving-investment perspective, the rise in the external position reflected a 0.5 percentage point of GDP increase in savings and a 0.5 percentage point of GDP decline in investment. Looking ahead, fiscal consolidation is expected to support the CA surplus. **Assessment.** The cyclically adjusted CA is estimated at 1.3 percent of GDP for 2024, 2.6 percentage points of GDP below the EBA-estimated CA norm of 3.9 percent of GDP. Considering uncertainty around the estimate, IMF staff assesses the CA gap to be in the range of –3.3 to –1.8 percent of GDP, with a midpoint of –2.6 percent of GDP. The total estimated policy gap is +1.1 percent of GDP, partly reflecting (1) a +0.1 percent of GDP positive contribution from a fiscal policy gap in the rest of the world relative to Italy, despite a domestic policy gap of –0.9 percent, and (2) a +0.9 percent of GDP positive contribution from the credit gap, reflecting the prolonged credit shortfall. Demographic developments contribute markedly to the CA norm. A sizable unexplained residual of –3.6 percent of GDP suggests that the model may not fully capture all relevant Italy-specific characteristics and structural impediments, including factors such as relatively low labor market participation among some segments of the population.				
2024 (% GDP)	CA: 1.1	Cycl. Adj. CA: 1.3	EBA Norm: 3.9	EBA Gap: –2.6	Staff Adj.: 0.0	Staff Gap: –2.6
Real Exchange Rate	**Background.** During 2019–24, the CPI-based REER appreciated by 0.6 percent, while the ULC-based REER appreciated by 2.6 percent. During 2024, the CPI-based REER depreciated by 1.1 percent due to the weakening of the euro. As of March 2025, the CPI-based REER was unchanged relative to the 2024 average. **Assessment.** The model-based CA gap implies a REER gap of 10.4 percent in 2024 (with an estimated elasticity of 0.25 applied). The level and index CPI-based REER models suggest an overvaluation in 2024 of 3.7 percent and 4.5 percent, respectively. Based on the IMF staff CA gap, the REER gap is in the range of 7.5 to 13.3 percent, with a midpoint of 10.4 percent.				
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The capital account was balanced at around 0 in 2024 (lower than in 2023) amid lower receipt of NextGenerationEU grants. The financial account posted net outflows of 2.3 percent of GDP in 2024, with a reduction in TARGET2 liabilities and an increase in portfolio investment assets. **Assessment.** Large refinancing needs of the sovereign and the banking sector suggest Italy remains vulnerable to market volatility. The private sector, which is a net creditor, is mainly exposed to equity risk-rewards.				
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. Italy's reserves increased by 6 percent in 2024. **Assessment.** Reserves held by the euro area are typically low relative to standard metrics. The currency is freely floating.				

Table 3.14. Japan: Economy Assessment

Overall Assessment: *The external position in 2024 is assessed as broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA surplus increased to 4.8 percent of GDP in 2024 from 3.8 percent in 2023, with half of the rise explained by an increase in the primary income balance, while the goods trade deficit has shrunk, supported by continued easing of cost pressures on goods import prices and rising yen-denominated export prices. Japan's CA surplus is expected to decline over the medium term, mainly driven by a smaller primary income surplus, arising from an expected fall in the rate of return on its large stock of net foreign assets due to declining corporate profits and global interest rates.

Potential Policy Responses: Policies focused on structural reforms and fiscal sustainability (a credible and specific medium-term fiscal consolidation plan) are needed to maintain an external position consistent with medium-term fundamentals and desirable policies. These 'desirable' policies will help shift the drivers of the economy to one driven by the private sector and raise Japan's potential growth over the medium term. Priority should be given to labor market and fiscal reforms that support private demand, raise potential growth, and promote digital and green investment. Industrial policies should be pursued cautiously and remain narrowly targeted to specific objectives, where externalities or market failures prevent effective market solutions and aim to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** Japan's NIIP rose to 90 percent of GDP in 2024, from 80 percent at the end of 2023, significantly higher than the prepandemic (2016–19) average of 62 percent. This was driven by an increase in both net FDI and portfolio outflows and the positive valuation effects from yen depreciation. Japan holds the world's largest stock of net foreign assets, valued at $3.6 trillion at the end of 2024. **Assessment.** Japan's foreign asset holdings are well diversified, both by geography and risk classes. As of 2024, gross foreign assets largely comprised portfolio investment accounting for about 42 percent of the total, followed by FDI with 21 percent. Of that portfolio investment, about 20 percent was denominated in yen and 56 percent was denominated in the US dollar. In the event of yen appreciation against the dollar, the risk of negative valuation effects could materialize. Vulnerabilities associated with liabilities are contained, given that equity and direct investment account for about 35 percent of gross foreign liabilities. The NIIP generated a net annual investment income return of about 7.4 percent in 2024, significantly larger than the prepandemic (2016–19) average of 6.2 percent. The improved return is partly driven by the increasing share of FDI in external assets, which has a higher average return than other components. Japan's large positive NIIP is partly related to the asset accumulation for old-age consumption; a gradual decumulation of such assets is expected over the long term.				
2024 (% GDP)	NIIP: 89.8	Gross Assets: 273.7	Debt Assets: 115.8	Gross Liab.: 183.9	Debt Liab.: 111.4

Current Account	**Background.** Japan's CA surplus reflects a sizable income balance owing to its large net foreign asset position. The CA surplus increased to 4.8 percent of GDP in 2024 from 3.8 percent in 2023. The income balance has improved from 6.1 percent in 2023 to 6.6 percent in 2024, reflecting increased overseas direct investment and the effects of the yen depreciation. The goods trade balance has also improved, from –1.1 to –0.6 percent of GDP, but remains in deficit, in contrast to surpluses in the period before COVID-19. Offshoring of production has offset some of the positive impact of yen depreciation on exports, while Japan faces increasing competition in some of its export sectors. Following a surge in inbound tourism that boosted the services trade balance in 2023, the services balance remained broadly unchanged in 2024. From a savings-investment perspective, a rising private savings rate in 2024 explains most of the increase in the current account. In the medium term, the CA balance is projected to average 3.0 percent, below current levels, reflecting a moderation in the income balance. **Assessment.** The 2024 cyclically adjusted CA balance is 4.9 percent of GDP, and the cyclically adjusted CA norm is 4.3 percent (with a range between 3.2 and 5.5 percent of GDP). The 2024 CA gap midpoint is assessed at +0.6 percent of GDP, with a range between –0.5 and 1.7 percent. The EBA-identified policy gap is small (–0.4 percent of GDP) and largely reflects a positive credit gap in relation to medium-term desired policy.[1] The unexplained residual of the assessment potentially reflects structural impediments and country-specific factors not included in the model, such as investment bottlenecks, including entrepreneurship entry barriers and corporate savings distortions.					
2024 (% GDP)	CA: 4.8	Cycl. Adj. CA: 4.9	EBA Norm: 4.3	EBA Gap: 0.6	Staff Adj.: 0.0	Staff Gap: 0.6

Real Exchange Rate	**Background.** The REER continued to depreciate in 2024 by 5.4 percent, following a depreciation of similar magnitude in 2023. This reflects the yen's nominal depreciation against major currencies as a result of continued wide interest rate differentials. As of March 2025, the REER has appreciated by 4.1 percent relative to the 2024 average. **Assessment.** The IMF staff CA gap implies a REER gap of –3.3 percent in 2024 (applying an estimated elasticity of 0.18). The EBA REER index and level models deliver gaps of –38.9 and –35.4 percent, respectively. Consistent with the CA gap, staff assesses the REER gap to be in the range of –9.6 to 3.0 percent, with a midpoint of –3.3 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The financial account recorded net outflows in 2024, mirroring the CA surplus, and increased to 4.5 percent of GDP in 2024, from 4.2 percent in 2023. Net FDI outflows of 4.8 percent of GDP are primarily driven by outward FDI flows to Asia, Europe, and North America. Net portfolio outflows of 2.4 percent of GDP have remained high following outflows of 4.7 percent in 2023, reflecting higher demand for foreign assets from domestic investors and lower demand for yen-denominated assets from a divergence of real interest rates between Japan and other major economies. **Assessment.** Vulnerabilities are limited. Inward investment tends to be equity based, and the home bias of Japanese investors is strong. So far, outward spillovers from Japan's policies to financial conditions in other economies (interest rates, credit growth) are contained.
FX Intervention and Reserves Level	**Background.** Reflecting legacy accumulation, reserves stood at about $1.3 trillion, or about 32 percent of GDP, at the end of 2024. This amount was little changed since the end of 2023. **Assessment.** The exchange rate is free floating, although FX interventions occurred in April, May, and July of 2024. FX interventions should be isolated and limited to addressing disorderly market conditions.

Table 3.15. Korea: Economy Assessment

Overall Assessment: *The external position in 2024 was assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.* The strong recovery of semiconductor exports has significantly increased the CA surplus in 2024. The surplus is projected to moderate in the medium term as a result of normalization of the semiconductor cycle, and declining demand in major trading partners.

Potential Policy Responses: Over the medium term, increasing fiscal space to meet aging-related needs, orderly deleveraging of private debt, boosting innovation to maintain exports competitiveness, and diversifying export destinations and supply chains, would help keep the external position in line with fundamentals. Exchange rate flexibility, with intervention limited to preventing disorderly market conditions, would help the economy absorb external shocks. Industrial policies should remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions and, even then, they should aim to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP has been positive since 2014 and has significantly increased in the past decade. In 2024, both the estimated nominal value of NIIP ($1.1 trillion) and the NIIP-to-GDP ratio (59 percent) increased significantly relative to 2023. The NIIP is projected to rise further in 2025 and over the medium term, to over 75 percent of GDP in 2030, on the back of continued CA surpluses. **Assessment.** The large and positive NIIP is a key factor supporting external resilience. Foreign asset holdings are diversified, with 40 percent in equity or debt securities. About 60 percent of foreign assets are denominated in US dollars, implying that depreciation of the won against the dollar can have large positive valuation effects in aggregate. The structure of liabilities further limits vulnerabilities, with direct investment and long-term loans together accounting for 57 percent of total liabilities and 65.7 percent of liabilities denominated in Korean won.					
2024 (% GDP)	NIIP: 59.0	Gross Assets: 133.6	Debt Assets: 57.1	Gross Liab.: 74.7	Debt Liab.: 35.8	
Current Account	**Background.** The CA surplus increased from 1.8 percent of GDP in 2023 to 5.3 percent in 2024, mainly driven by a strong rebound in semiconductor exports. From a saving-investment perspective, a significant drop in the investment rate drove the increase in surplus in 2024 despite a moderate increase in the saving rate. Since the pandemic, developments in the CA have been driven significantly by the global semiconductor cycle. Following a sharp decrease by about 2 percent of GDP in 2023, semiconductor exports showed a strong recovery, up by 44 percent in 2024. In the medium term, the CA is projected to be around 4 percent of GDP by 2030, reflecting the need to build precautionary savings to meet aging-related needs and an orderly deleveraging of private debt. **Assessment.** The EBA CA model estimates the cyclically adjusted CA at 5.5 percent of GDP. IMF staff estimates the CA norm to be 4.7 percent of GDP, with a standard error of 0.9 percent of GDP. Based on the CA model, staff estimates the 2024 CA gap midpoint at 0.8 percent of GDP, with a range of –0.1 to 1.7 percent of GDP. The net contribution of the relative policy gap is 1.1 percent of GDP, with contribution from a lower health spending and tighter fiscal stance outweighing a more positive credit gap compared to the rest of the world.					
2024 (% GDP)	CA: 5.3	Cycl. Adj. CA: 5.5	EBA Norm: 4.7	EBA Gap: 0.8	Staff Adj.: 0	Staff Gap: 0.8
Real Exchange Rate	**Background.** The REER depreciated by 2.2 percent in 2024 on average relative to 2023, reversing nearly all the appreciation in 2023. The REER depreciation in 2024 was mainly driven by won depreciation against currencies of some major trading partners, notably the US dollar and Chinese Yuan. As of March 2025, the REER had depreciated by about 5.4 percent relative to the 2024 average. **Assessment.** The EBA CA gap implies a REER undervaluation of 2.4 percent (applying an estimated elasticity of 0.33). The EBA REER index model estimates an undervaluation of 6.5 percent, while the EBA level model estimates a 7.2 percent undervaluation. Consistent with the IMF staff CA gap, staff assesses the REER gap to be in the range of –5.1 to 0.3 percent, with a midpoint of about –2.4 percent.					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net capital outflows, while on a declining trend since 2016, are estimated to rebound to 5 percent of GDP in 2024 from 2 percent of GDP in 2023. Net FDI and portfolio outflows picked up by 1.8 percent and 2.7 percent of GDP, reflecting both an increase in residents' outbound investment and a reduction of inflows. **Assessment.** Amid multiple global shocks in recent years, Korea has demonstrated remarkable resilience in weathering short-term capital flow volatility. The recent inclusion of Korea's government bonds in the World Government Bond Index should lead to higher capital inflows from a diversified investor base. The present configuration of capital flows appears sustainable over the medium term, mirroring the projected increase in the CA surplus and NIIP.					
FX Intervention and Reserves Level	**Background.** Korea has a floating exchange rate. Based on IMF staff estimates and published data, FX intervention since 2015 has been two-sided. In 2024, FX intervention slightly increased from net sales $9.6 billion (0.5 percent of GDP) in 2023 to $11.2 billion (0.6 percent of GDP), mostly conducted during periods of heightened exchange rate volatility, induced by changing expectations of monetary policies in major economies in the second quarter and domestic political uncertainty in the fourth quarter. As of end-2024, reserves stood at $416 billion, lower than the year-earlier $420 billion. **Assessment.** Exchange rate volatility generally does not pose significant economic challenges for Korea, given limited currency mismatches and manageable pass-through to consumer prices. FX market depth while ranking higher than in most emerging markets, still lags advanced economy peers. In periods of high global financial market uncertainty, there could be herding behavior amid temporarily shallow markets, leading to sharp FX movements and impaired market functioning. Intervention should thus remain limited to preventing disorderly market conditions. The recently introduced FX market reforms are expected to deepen FX markets, thus improving the efficiency and resilience of the currency market. As of end-2024, FX reserves were about 22 percent of GDP, 2.1 times short-term debt, 6.4 months of imports, or 13 percent of M2. Systemwide stress tests also show that reserves provide sufficient FX liquidity buffers under a wide range of plausible shocks.					

Table 3.16. Malaysia: Economy Assessment

Overall Assessment: *Malaysia's external position in 2024 is assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies.* After falling in 2023 amid a challenging external environment, the current account surplus fell slightly in 2024 as higher intermediate and capital goods imports outweighed higher exports due to an upturn in the global semiconductor cycle. Over the medium term, the current account surplus is projected to increase slightly as the services balance benefits from a continuing recovery in tourism.

Potential Policy Responses: In the near-term, exchange rate flexibility should be preserved to facilitate external adjustments that are driven by fundamentals. Over the medium term, policies should be implemented to strengthen social safety nets and public health care, including through a reorientation of fiscal spending, to reduce precautionary household savings and shift toward private consumption. Structural policies should be implemented to encourage private investment and improve productivity growth. Industrial policy should remain narrowly targeted to specific objectives where market solutions cannot deliver because of the presence of externalities or other market imperfections and should avoid discriminatory measures that distort trade and investment flows.

Foreign Asset and Liability Position and Trajectory	**Background.** Malaysia's NIIP has averaged about 2.6 percent of GDP over the last decade, increasing to 5.4 percent at the end of 2023, supported by strong current account surpluses during the pandemic that helped increase reserve assets. The NIIP declined to –0.6 percent of GDP at the end of 2024 because of an increase in direct and portfolio investment liabilities. Total external debt increased to 69.7 percent of GDP at the end of 2024, compared to 68 percent at the end of 2023, and remains manageable. One-third of external debt is ringgit-denominated, and so not exposed to valuation risks. Short-term external debt, which accounts for 42.8 percent of external debt, is also manageable, as most is either in the form of intragroup borrowing (among banks and corporations, and largely stable) or trade credits (backed by export earnings). **Assessment.** Malaysia's NIIP is expected to increase over the medium term, supported by the projected CA surpluses. Malaysia's balance sheet strength, along with exchange rate flexibility and increased domestic investor participation, would help support resilience to a variety of shocks, including outflows associated with external liabilities.				
2024 (% GDP)	NIIP: –0.6	Gross Assets: 128.2	Debt Assets: 26.8	Gross Liab.: 128.8	Debt Liab.: 40.3
Current Account	**Background.** Malaysia's CA surplus averaged 2.9 percent over the last five years, supported by robust external goods demand. The current account surplus decreased to 1.4 percent in 2024, from 1.5 percent in 2023, as strong exports driven by a recovery in demand for electrical and electronic products was offset by higher capital goods imports. The declining trend in the CA surplus over the past five years is also reflective of the narrowing saving-investment gap, mainly driven by an increase in private investment and decline in public savings. The CA surplus is expected to grow slightly over the medium term, as tourism continues to recover, improving the services balance. **Assessment.** The EBA CA model estimates a cyclically adjusted CA balance of 1.9 percent of GDP and a norm of –0.1 percent, implying a model-assed CA gap of 1.9 percent. The staff-assessed CA gap is in the range of 1.4 to 2.4 percent, with a midpoint of 1.9 percent. Relative policy gaps partly explain the CA gap, with weaker social safety nets, proxied by health care expenditure, and looser fiscal policies adopted by the rest of the world relative to Malaysia contributing positively (0.4 percent and 0.5 percent respectively) to the excess surplus, and stronger credit growth contributing negatively (–0.2 percent).				
2024 (% GDP)	CA: 1.4	Cycl. Adj. CA: 1.9	EBA Norm: –0.1	EBA Gap: 1.9	Staff Adj.: 0.0	Staff Gap: 1.9
Real Exchange Rate	**Background.** The ringgit appreciated by 4 percent against the US dollar in 2024 after facing depreciation pressures in the previous two years. The real exchange rates rose about 1.1 percent and the nominal effective exchange rates rose about 1.6 percent in 2024. While the recent appreciation has pushed both the REER and NEER above its end-2021 level, the REER remains about 5 percent below the NEER, reflecting lower inflation in Malaysia compared to its trading partners over that period. As of March 2025, the REER was 3.7 percent above its 2024 average. **Assessment.** Using a semi-elasticity of 0.51, the staff-assessed CA gap implies a REER undervaluation of 3.7 percent in 2024. The REER index and level models estimate Malaysia's REER to be undervalued by 27.9 percent and 30.6 percent, respectively. This implies that, over the medium term, Malaysia's REER needs to appreciate to narrow the CA gap. Consistent with the staff CA gap, staff assess the REER to be undervalued in a range of 2.7 to 4.8 percent, with a midpoint of 3.7 percent.				
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Malaysia has experienced periods of significant capital flow volatility, 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. **Assessment.** Exchange rate flexibility and macroeconomic policy adjustments should continue to play the central role in response to capital flow volatility. CFM measures should be gradually phased out, with due regard for market conditions.				
FX Intervention and Reserves Level	**Background.** Gross international reserves increased to $116.2 billion at the end of 2024 from $113.5 billion at the end of 2023. **Assessment.** Based on the IMF's composite reserve adequacy metric (ARA), reserves at the end of 2024 were about 105.4 percent of the ARA metric, lower than the 114.9 percent at the end of 2023 but above the 100 percent adequacy threshold. This decline was driven by higher increases in export revenues, broad money, and short-term external debt relative to the increase in gross international reserves. The reserve coverage is projected to equal about 4.8 months of prospective imports, or about 70 percent of short-term debt. Staff assesses that Bank Negara Malaysia engaged in largely two-sided FX interventions over the year. There is a role for FX interventions to address disorderly market conditions. Integrated Policy Framework analysis suggests that, in the context of Malaysia's shallow FX market, the use of FX interventions may be warranted to smooth large changes in hedging and financing premia if they generate risks to macroeconomic and financial stability. However, FX interventions are not a substitute for needed policy adjustment, and should not be used to lean against exchange rate pressures that are driven by fundamentals.				

Table 3.17. Mexico: Economy Assessment

Overall Assessment: *The external position in 2024 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.* Mexico's CA deficit held steady at 0.3 percent of GDP in 2024, reflecting the stable trade balance and robust secondary income driven by remittances. The CA deficit is expected to widen moderately in 2025, although the projection is subject to considerable uncertainty. Over the medium term, the CA balance is projected to hover around a deficit of 1 percent of GDP.

Potential Policy Responses: Further structural reforms are critical to boost investment in the medium to long term, and to maintain external sustainability. Reforms should include tackling infrastructure and governance gaps, reducing informality, promoting financial deepening, and increasing private sector participation in the energy sector. In the current uncertain environment, trade policies should continue seeking to resolve trade tensions, promote clarity and transparency, and deepen economic integration. The floating exchange rate should continue to serve as a shock absorber, with FX interventions employed only in exceptional circumstances to counter disorderly market conditions. The IMF's Flexible Credit Line with Mexico continues to provide an added buffer against global tail risks. Ensuring fiscal sustainability is also vital to buttress external stability.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP stood at –32 percent of GDP in 2024, improving from –42 percent in 2023, and compared to the –45 percent average during 2019–23. While net transactions have decreased slightly, the main driver of change was valuation adjustments stemming from the depreciation of the peso which led to a decline in the market value of Mexico's liabilities in US dollar terms. Foreign assets in 2024 were mostly direct investment (14 percent of GDP) and international reserves (12½ percent). Foreign liabilities primarily consist of direct investment (42 percent of GDP) and portfolio investment (25¼ percent). IMF staff projects the NIIP to slightly improve over the medium term to about –30 percent of GDP. **Assessment.** The NIIP remains sustainable, with the relatively high share of local-currency denomination in its foreign public liabilities limiting FX risks. Gross foreign portfolio liabilities could be a source of vulnerability in times of global financial distress, although the share of foreign holdings in local debt markets has fallen considerably in recent years. Vulnerabilities from exchange rate volatility are moderate, as most Mexican firms with FX debt have natural hedges and actively manage their FX exposures.				
2024 (% GDP)	NIIP: –32	Gross Assets: 43	Debt Assets: 13	Gross Liab.: 75	Debt Liab.: 32

Current Account	**Background.** The CA deficit was 0.3 percent of GDP in 2024, similar to the level observed in 2023, primarily reflecting the stable trade balance and the robust secondary income surplus driven by remittances. At the same time, the expansion of the primary income deficit (owing to increased retained earnings paid to foreign firms) was offset by improvements in the service balance (owing to lower service imports). The CA deficit is expected to widen moderately in 2025, although the projection is subject to considerable uncertainty, due to the effect of trade tensions and US migration policies. Over the medium term, the CA balance is projected to hover around a deficit of 1 percent of GDP. **Assessment.** The EBA model estimates a cyclically adjusted CA balance of 0.1 percent of GDP and a cyclically adjusted CA norm of –1.3 percent of GDP. Based on the CA model, IMF staff estimates the 2024 CA gap midpoint at 1.3 percent of GDP, with a range of 0.9 to 1.7 percent of GDP. The overall contribution from identified policy gaps is assessed to be –0.1 percent of GDP, with the negative contribution from the credit gap (as Mexico's negative credit gap is narrower than those abroad) largely offset by positive contributions from other policy gaps, primarily from health expenditure. Despite a notable domestic fiscal policy gap from loose fiscal policy, the contribution from the fiscal policy gap is zero, as Mexico's fiscal policy gap is similar to the rest of the world. The large residual may reflect country-specific or policy distortions not included in the model.					
2024 (% GDP)	CA: –0.3	Cycl. Adj. CA: 0.1	EBA Norm: –1.3	EBA Gap: 1.3	Staff Adj.: 0	Staff Gap: 1.3

Real Exchange Rate	**Background.** The peso displayed a modest average depreciation of 3 percent against the US dollar in 2024 compared to 2023, although the end-of-period change was significantly larger (at nearly 20 percent) due to a sharper depreciation in the second half of 2024 (following the appreciating trend in 2023 and early 2024). As of March 2025, the REER stood about 9 percent lower than its 2024 average. **Assessment.** The IMF staff CA gap implies a REER that was undervalued by 4.1 percent in 2024 (applying an estimated semi-elasticity of 0.33). The EBA REER index and level models, however, point to overvaluations of 5.7 percent and 24.3 percent. The staff's overall assessment for 2024, based on the CA gap approach, is a REER undervaluation in the range of 2.9 to 5.3 percent, with a midpoint of 4.1 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In 2024, Mexico recorded net financial account inflows of 0.2 percent of GDP, slightly lower than the level observed in 2023 (0.3 percent of GDP). Net inflows of FDI remained stable at about 1.7 percent of GDP, partially offsetting net portfolio outflows (0.4 percent of GDP) and other investment outflows (0.7 percent), as well as reserve accumulation. **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.
FX Intervention and Reserves Level	**Background.** The authorities remain committed to a free floating exchange rate and have used FX intervention in limited occasions on extreme volatility, in line with their policy framework. At the end of 2024, gross international reserves were $232 billion (12½ percent of GDP), up from $214 billion at the end of 2023. No FX intervention was conducted. **Assessment.** Mexico's foreign reserves, at 128½ percent of the ARA metric and 317 percent of short-term debt (at remaining maturity), remain adequate at the end of 2024. 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 2024 was substantially stronger than the level implied by medium-term fundamentals and desirable policies.* The Netherlands' status as a global trading hub, financial center, and host country for multinational corporations (MNCs)–complicates the external assessment, in particular because of the large and volatile primary income flows and measurement issues of portfolio equity retained earnings of MNCs. In 2024, the external CA surplus remained stable at 9.9 percent of GDP as in 2023. In the medium term, the CA surplus is expected to remain sizable, reflecting lower than desirable investment, and structurally high private saving despite population aging.

Potential Policy Responses: Bringing the external position more in line with medium-term fundamentals and desirable policies will require boosting public investment and fostering private investment in infrastructure and housing and addressing growth bottlenecks from nitrogen and electricity grid congestion. In addition, national and EU trade policies should seek to reduce trade barriers, minimize non-tariff barriers that restrict exports, and deepen regional, plurilateral, or multilateral economic integration.

Foreign Asset and Liability Position and Trajectory	**Background.** Data refinements by Statistics Netherlands as part of its 5-year benchmark revisions–to include new data sources, adjust the classification of Dutch subsidiaries of foreign firms, and ensure consistency with trade partner data–resulted in significantly lower net direct and portfolio investment and downward revision of the NIIP from 71.8 percent to 52.9 percent of GDP in 2023. The NIIP increased to 59.6 percent of GDP in 2024. The increase was mainly driven by positive net transactions and price and exchange rate effects that affected the net stock of portfolio investments. FDI remains the largest component of the IIP, accounting for more than half of external assets and liabilities, reflecting the country's role as the seat for MNCs and its importance as a global financial center. Debt liabilities primarily comprise long-term debt securities (54 percent, of which 68 percent are denominated in euro and 23 percent are denominated in US dollars), currency and deposits (27 percent, of which 62 percent are denominated in euro), and long-term loans (6 percent). **Assessment.** The Netherlands' safe-haven status and its sizable foreign assets limit risks from its large foreign liabilities.				
2024 (% GDP)	NIIP: 59.6	Gross Assets: 888.7	Debt Assets: 220.5	Gross Liab.: 829.1	Debt Liab.: 240.4
Current Account	**Background.** In 2024, the CA surplus is estimated to have remained stable at 9.9 percent of GDP (10.1 percent of GDP cyclically adjusted) as in 2023. A 0.9 percentage point of GDP improvement in the goods and services balance, to 12.1 percent of GDP in 2024–the result of a larger decline in imports than exports–was offset by primary and secondary income balance decreases by 0.6 and 0.3 percentage points of GDP, respectively. Public net saving rebounded, with the phasing out of most support measures to cushion the impact of the energy price shock on households and corporations and under execution of investment. Private net saving remained robust supported by a strong labor market and high wage growth, despite significantly lower financial sector corporate saving. The Netherlands' role as a trading hub and financial center contributes to a structurally strong headline external position. Multinational corporations based in The Netherlands record profits at their Dutch HQs while channeling a large part of their investment abroad in the form of FDI, keeping nonfinancial corporate saving high. Relatedly, measurement biases of portfolio equity retained earnings in official statistics may also contribute to an overstatement of the net accumulation of wealth that is attributed to Dutch residents, an issue of relevance for a country where the foreign ownership of publicly listed firms has been above 80 percent in recent years. The CA surplus is projected to remain large at 10.2 percent of GDP in 2025. **Assessment.** The EBA CA model estimates a CA norm of 3.8 percent of GDP, against a cyclically adjusted CA surplus of 10.1 percent of GDP in 2024, implying an EBA CA gap of 6.2 percent of GDP. Policy gaps account for 4.1 percentage points of the CA gap, primarily reflecting a relatively tighter fiscal stance and a negative credit gap that remains wider than those abroad. The portfolio retained earnings bias is assessed at –2.2 percent of GDP, based on central bank granular data that allow for the attribution of aggregate net saving by firms to different segments of the corporate sector. Overall, the IMF staff assesses the CA gap to be in the range of 3.5 to 4.5 percent of GDP, with a midpoint of 4.0 percent of GDP. This gap partly reflects strong saving from the second-pillar retirement program with large coverage, robust replacement ratios, and strict pre-funding requirements.				
2024 (% GDP)	CA: 9.9	Cycl. Adj. CA: 10.1	EBA Norm: 3.8	EBA Gap: 6.2	Staff Adj.: –2.2	Staff Gap: 4.0
Real Exchange Rate	**Background.** The annual average CPI-based REER remained broadly stable, appreciating by 1.2 percent in 2024, as inflation in The Netherlands moderated, in line with its key trading partners'. The ULC-based REER depreciated by 0.4 percent, reflecting slightly lower labor cost increases compared to competitors. As of March 2025, the CPI-based REER (ULC-based REER) was 1.2 percent (0.4 percent) above its 2024 average. **Assessment.** Assuming a semi-elasticity of the CA balance to the REER of 0.65, the IMF staff CA gap of 4.0 percent of GDP implies a REER undervaluation in the range of 5.4 to 7.0 percent, with a midpoint of 6.2 percent. EBA REER model estimates for 2024 range from an overvaluation of 6.2 percent (level model) to 19.1 percent (index model), largely reflecting unexplained residuals. Consistent with the staff CA gap, IMF staff assesses the REER to be undervalued by about 5.4 to 7.0 percent, with a midpoint of 6.2 percent.				
Capital and Financial Accounts: Flows and Policy Measures	**Background.** About 20 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 flows. Separately, 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 likely to remain as it 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 the euro area are typically low relative to standard metrics, but the currency floats freely.				

Table 3.19. Poland: Economy Assessment

Overall Assessment: *The external position in 2024 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.* The CA registered a small surplus of 0.2 percent of GDP in 2024, down substantially from 1.8 percent in 2023, driven by weaker trading partners' demand and the continued domestic economic recovery. Stronger consumption, the lagged impact of significant and persistent REER appreciation, the release of EU funds, and subdued external demand are expected to reduce the CA balance to –1.6 percent of GDP over the medium term. The CA gap will narrow but likely remain positive in view of Poland's structurally low investment-to-GDP compared to peer emerging markets.

Potential Policy Responses: Disinflation coupled with continued wage deceleration is opening the scope for gradual monetary policy normalization helping support private investment. To address Poland's structurally low investment levels, efforts should focus on easing regulatory hurdles to private investment. This would help catalyze investment and financing additional to the NextGenerationEU grants to address infrastructure gaps and support the climate transition. Industrial policies should be deployed cautiously and coordinated at the EU level, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, and avoid favoring domestic producers over imports to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The negative NIIP has declined markedly over the past decade, both in size and structure, transitioning from volatile sources of financing such as portfolio flows and short-term financing toward more stable FDI. The NIIP rose to –28.2 percent of GDP in 2024 from –33.8 in 2023. Gross external debt declined to 50.2 percent of GDP in 2024 from 52.7 percent in 2023. **Assessment.** The level of external debt has declined substantially, with rollover risk mitigated by the large share of long-term debt (about 70 percent of total debt) and intercompany lending (about 30 percent of total debt). The level of gross reserves (at 162 percent of short-term debt) is adequate and further reduces residual rollover risk.				
2024 (% GDP)	NIIP: –28.2	Gross Assets: 59.5	Reserve Assets: 24.4	Gross Liab.: 87.6	Gross External Debt: 50.2

Current Account	**Background.** The CA in recent years was characterized by volatile domestic and external demand and terms of trade changes amid multiple shocks associated with the pandemic and war in Ukraine, increased government spending to cushion cost-of-living increases and support refugees, robust service exports, and strong reinvested earnings of foreign firms. In 2024, the CA recorded a small surplus of 0.2 percent of GDP, from 1.8 percent in 2023. The decline was driven by the domestic economic recovery, the normalization of the inventory cycle, and weaker demand from major trading partners. The CA balance is expected to go into deficit territory in 2025 as growth picks up on the back of strong consumption and EU fund-supported investment, and with the lagged impact of sizable real appreciation. Over the medium term, the CA balance is projected to converge toward a deficit of 1.6 percent, due to robust consumption growth, sustained EU fund inflows, and increased military spending. **Assessment.** The EBA CA model estimates a CA norm of –1.7 percent of GDP compared with a cyclically adjusted CA surplus of 0.2 percent of GDP in 2024. This implies an EBA model CA gap between 1.5 and 2.4 percent of GDP, with a midpoint of 1.9 percent of GDP, comprising identified policy gaps of 1.2 percent of GDP and an unexplained residual of 0.8 percent of GDP. Among the policy variables, change in reserves interacted with capital controls and the credit gap were the main contributors to the policy gap. Staff estimates that overall desirable policies will help narrow the policy gap over the medium term.					
2024 (% GDP)	CA: 0.2	Cycl. Adj. CA: 0.2	EBA Norm: –1.7	EBA Gap: 1.9	Staff Adj.: 0.0	Staff Gap: 1.9

Real Exchange Rate	**Background.** The annual averages of the NEER and the CPI-based REER both appreciated by 7.5 percent in 2024 relative to 2023, as the zloty remained strong against both the US dollar and the euro, and the positive inflation differential relative to Poland's trading partners diminished. As of March 2025, the CPI-based REER was 3.8 percent above its 2024 average. **Assessment.** The IMF staff CA gap implies a REER gap of –4.8 percent in 2024 with an estimated elasticity of 0.4. The EBA REER index model estimates a REER gap of 16.3 percent, while the REER level model estimates put it at –15.6 percent. Consistent with the IMF staff CA gap, the staff's overall assessment is a REER gap in the range of –5.9 to –3.7 percent, with a midpoint of –4.8 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The capital account balance remained broadly stable at 0.3 percent of GDP in 2024, from 0.2 percent in 2023. The capital account surplus is projected to increase to 1.1 percent of GDP in 2025 and 2026, supported by inflows of EU funds. The financial account experienced a net inflow of 0.8 percent of GDP in 2024. Both inward and outward FDIs declined in 2024, resulting in a net inflow of 1.2 percent of GDP, down from 2.4 percent in 2023. **Assessment.** The capital account is projected to remain a strong source of support for investment, reflecting EU cooperation frameworks. Vulnerability to capital outflows is contained as foreign holdings of domestic government securities have declined continuously and significantly since 2016, and the foreign investor base remains diversified. The central bank has adequate tools to manage bouts of volatility.
FX Intervention and Reserves Level	**Background.** FX reserves increased to $223 billion in 2024 from $194 billion in 2023. Net reserves, which net out the central bank's repo operations and government FX deposits, stood at about $197 billion in 2024 from $167 billion in 2023. While the central bank briefly intervened in foreign exchange markets in March 2022 amid disorderly market conditions at the beginning of the war in Ukraine, no FX intervention was conducted in 2023 and 2024. The zloty is considered free floating. **Assessment.** At about 156 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: Based on the EBA current account model and available data, *Russia's external position in 2024 would appear to be broadly in line with the level implied by medium-term fundamentals and desirable policies*. However, the models do not fully account for Russia's idiosyncratic situation and data uncertainties. Due to sanctions, current account surpluses may not translate into an accumulation of readily accessible foreign assets in reserve currencies. In addition, the range of uncertainty surrounding the projections remains exceptionally large in the context of shifting sanctions and global economic developments.

Foreign Asset and Liability Position and Trajectory	**Background.** Russia's NIIP rose to 43.6 percent of GDP at the end of 2024, an increase of 2.0 percentage points of GDP from its 2023 level of 41.6 percent. In 2024, gross assets declined by 4.3 percentage points of GDP, moving further away from the peak of 105.4 percent of GDP in 2020, which was driven primarily by the decline in FDI and portfolio investment. Gross liabilities fell further to 27.5 percent of GDP, declining from 33.9 percent of GDP in 2023. At the end of 2024, the share of external debt held in domestic currency remained stable at about one-third, and there were no obvious maturity mismatches between gross asset and liability positions. The share of nonresident holdings of domestic government debt continued to decline sharply, from 32.2 percent at the end of 2019 to 4 percent by the end of 2024. **Assessment.** Recurring positive current account surpluses continue to bolster Russia's NIIP and contribute to an accumulation of external buffers. Despite low external vulnerabilities at present, a share of international reserves is currently immobilized due to sanctions and additional reserves accumulation in traditional reserve currencies is hampered.					
2024 (% GDP)	NIIP: 43.6	Gross Assets: 71.2	Reserve Assets: 28.0	Gross Liab.: 27.5	Debt Liab.: 11.0	
Current Account	**Background.** After narrowing sharply in 2023, Russia's CA surplus widened to 2.9 percent of GDP in 2024 aided by an export-led rebound in the trade balance. Energy exports increased in part due to slightly higher volumes of oil and gas exports. The CA is projected to decline to 1.6 percent of GDP in 2025, weighed down by falling oil prices and a slowing global economy; although the projection is subject to high uncertainty, including data uncertainty. **Assessment.** The EBA CA model estimates a norm of 2.6 percent of GDP for 2024 and a cyclically adjusted CA surplus of 2.9 percent of GDP. Identified policy gaps account for 0.7 percentage points–about half of which is driven by the gap in the fiscal balance and reflects larger consolidation needs in the rest of the world compared with Russia–while the unexplained residual accounts for –0.5 percentage points. Notably, the range of uncertainty surrounding the CA gap estimates remains exceptionally large due to the difficulty of estimating the cyclically adjusted current account and the current account norm in the context of sanctions that have a direct impact on external balances.					
2024 (% GDP)	CA: 2.9	Cycl. Adj. CA: 2.9	EBA Norm: 2.6	EBA Gap: 0.3	Staff Adj.: 0.0	Staff Gap: 0.3
Real Exchange Rate	**Background.** The ruble appreciated by 1.3 percent in 2024, in part due to sanctions pressures and the ongoing shift in trade patterns. At the same time, the Bank of Russia (BoR) raised its policy rate an additional 500 basis points in several steps in response to inflation pressures, reaching 21 percent by October 2024. Additionally, the BoR maintained repatriation and surrender requirements of export proceeds and extended FX controls. The REER depreciated by 10 percent in between the end of 2023 and July 2024, but reversed its losses by December 2024, ending just 1 percent lower for the year. As of March 2025, the REER was 7.6 percent above the 2024 average. **Assessment.** The EBA REER index model suggests a REER undervaluation for 2024 of 23.8 percent, while the EBA REER level model points to a 44.6 percent undervaluation. Consistent with the CA gap, IMF staff assesses the REER gap to be in the range of –6.9 to 3.4 percent, with a midpoint of –1.7 percent (undervalued), assuming an estimated elasticity of 0.16. However, these models do not fully account for Russia's idiosyncratic situation amid successive rounds of sanctions, which is contributing to the large residual.					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** While capital control measures introduced in early 2022 were subsequently relaxed, the authorities have kept in place restrictions on repatriation of foreign investment, including FDI, as well as restrictions on cash FX withdrawals from bank accounts and cash exports abroad. Amid remaining restrictions, net private capital outflows increased modestly–from 2.0 percentage points of GDP in 2023 to 2.4 percentage points in 2024. **Assessment.** Russia's large FX reserves and floating exchange rate regime continue to help absorb shocks. Remaining capital controls effectively curtailed capital outflows and helped preserve buffers despite sanctions.					
FX Intervention and Reserves Level	**Background.** Official reserves reported by the authorities increased modestly, due mainly to revaluation effects by $10.5 billion to $609.1 billion in 2024 (of which about $300 billion are immobilized). Despite recurrent CA surpluses, sanctions continue to constrain reserves accumulation. In response to depreciation pressures, the BoR implemented additional FX interventions to support the ruble, including mirroring withdrawals from the National Wealth Fund related to the NWF's investment in domestic assets and the suspension of FX purchases prescribed by the 2023 fiscal rule. Since January 2023, the BoR has resumed buying and selling FX, but now only in the Chinese renminbi, as transactions in traditional reserve currencies are prohibited by sanctions. The 2023 fiscal rule set the benchmark oil and gas revenues (in rubles). When oil and gas revenues exceeded the benchmark (in rubles), the authorities were required to purchase FX. In 2024, the Ministry of Finance announced it was reverting to an earlier (benchmark oil price-based) version of the fiscal rule, which became binding in the 2025 budget. **Assessment.** At the end of 2024, international reserves stood at 318 percent of the IMF's reserve adequacy metric (about 180 percent of the ARA metric excluding immobilized reserves). Given that a substantial share of international reserves remains immobilized due to sanctions, the assessment of reserve adequacy is subject to high uncertainty.					

Table 3.21. Saudi Arabia: Economy Assessment[1]

Overall Assessment: *The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies*. The external balance sheet remains strong despite a current account that shifted to a small deficit. Reserves remain adequate according to standard IMF metrics, although saving is not sufficient from an intergenerational equity perspective. Lower oil exports revenue (mainly from a weakened outlook on oil prices) and investment-driven imports are expected to keep current account in deficits over the medium term. The central government's non-oil primary balance to non-oil GDP ratio is expected to be set for a continuously improving trend. Given the economy's structure, any external adjustment will be driven primarily by fiscal policy. The pegged exchange rate continues to provide Saudi Arabia with a credible policy anchor.

Potential Policy Responses: Over the medium term, continued fiscal consolidation–including through enhanced revenue mobilization and energy price reforms–would help raise public saving. Meanwhile, sustained implementation of ambitious structural reforms to diversify the economy is expected to support private investment and stimulate domestic consumption, and so help to maintain the external position broadly in line with fundamentals. Industrial policies should remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, while avoiding policies that favor domestic producers over imports as they could create distortions in the allocation of resources and in trade and investment decisions.

Foreign Asset and Liability Position and Trajectory	**Background.** Saudi Arabia's NIIP decreased to 59.4 percent of GDP at the end of 2024, down from 62.8 percent in 2023–mainly driven by increased external financing activities that offset the rise in gross external assets. External debt increased to 30 percent of GDP in 2024 (from 24 percent in 2023)–with its share in gross liabilities increasing to 49 percent (from 45 percent in 2023). Only broad categories are available on the composition of external assets. Portfolio and other investments, reserves, and FDI currently account for 55 percent, 30 percent, and 15 percent of total external assets, respectively. In the medium term, the NIIP is expected to continue to decline in line with external funding needs to support reforms. **Assessment.** Despite a projected decline of NIIP, the external balance sheet remains strong. Substantial accumulated assets represent both a protection against vulnerabilities from oil price volatility and a saving of exhaustible resource revenues for future generations.				
2024 (% GDP)	NIIP: 59.4	Gross Assets: 120.9	Res. Assets: 35.3	Gross Liab.: 61.5	Debt Liab.: 24.5

Current Account	**Background.** The CA shifted to a small deficit of –0.46 percent of GDP in 2024 (from a surplus of 2.9 percent in 2023). This was primarily driven by lower oil exports and strong goods imports linked to continued growth in investment and high consumption. The trend was partly mitigated by a 13 percent surge in non-oil exports and a record surplus in the travel service balance. The terms of trade deteriorated by 6 percent in 2024, while higher consumption and reduced oil windfalls continued to lower savings. Oil production projections are assumed to follow the OPEC+ (Organization of the Petroleum Exporting Countries, including Russia and other non-OPEC oil exporters) agreement announced on May 3, 2025, with the phaseout of production cut in 2025 and 2026. The CA deficit is expected to deteriorate to 3.9 percent of GDP in 2027 before gradually recovering to a 3.4 percent of GDP deficit by 2030, reflecting a weakened oil price outlook and increases in investment-driven imports. Private saving is expected to moderate as consumption picks up, while private investment will continue to grow to support domestic reforms. **Assessment.** IMF staff estimates a CA gap of –0.95 percent of GDP using the EBA-Lite CA model[1] although the overall assessment is subject to significant model uncertainty from the idiosyncratic characteristics of the Saudi Arabian economy.[2] Saudi Arabia's reliance on oil complicates the application of standard external assessment methodologies, given wide swings in oil prices since 2020. Given this, the EBA-Lite commodity module is also applied to Saudi Arabia ESA, with the Consumption Allocation Rules suggesting a CA gap of –3.6 percent of GDP for constant real annuity rules and –6.1 percent of GDP for constant real per capita annuity allocation rules. The Investment Needs Model suggests a CA gap of 0.46 percent of GDP. The estimated CA gap of –0.95 percent of GDP has an estimated range from –3 to 1 percent of GDP.[3]					
2024 (% GDP)	CA: –0.46	Cycl. Adj. CA: –0.4	EBA Norm: –	EBA Gap: –	Staff Adj.: –	Staff Gap: –0.95

Real Exchange Rate	**Background.** The riyal has been pegged to the US dollar at a rate of 3.75 since 1986. On average, the REER appreciated by 0.6 percent in 2024 and was 6.3 percent above its 10-year average (2013–2022). The NEER appreciated by 2.7 percent in 2024, mainly driven by US-dollar appreciation versus third currencies and by lower inflation than in its trading partners. As of March 2025, the REER was 1.2 percent above its 2024 average. **Assessment.** Based on the EBA-Lite CA model, IMF staff assesses the REER gap to be 4.7 percent (applying an estimated elasticity of 0.2), within a range of –5.2 to 14.6 percent. In comparison, the EBA-Lite REER model suggests a larger overvaluation of 17.6 percent. Exchange rate movements have a limited impact on Saudi Arabia's competitiveness in the short term. That is because most of its exports are oil or oil-related products that are denominated in US dollars. There is limited substitutability between imports and domestically produced products, which in turn have significant imported labor and intermediate-input content.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The financial account shifted to net inflows of $25 billion in 2024 (from net outflows of $32 billion in 2023), mirroring the CA deficits, driven by a rise in external financing to support increased domestic demand, as well as a decline in gross portfolio and other investment abroad (include repatriation of foreign assets held by the sovereign wealth fund, PIF, and the national oil company, Aramco). Reserve assets are expected to decline in 2025–26 before recovering over the medium term as oil exports recover. **Assessment.** A lack of detailed information on the nature of financial flows in Saudi Arabia complicates the analysis of its financial account. The strong reserve position, including the sizable assets of the PIF, limits risks and vulnerabilities to capital flows.
FX Intervention and Reserves Level	**Background.** Most of the government's foreign assets are held at the central bank within international reserves, while PIF also holds foreign assets abroad. Official net foreign assets stood at $415 billion at the end of 2024 (35 percent of GDP, 15 months of imports, and 187 percent of the ARA metric), close to its level of $417 billion in 2023 (and down from $440.5 billion in 2022). Reserves are expected to stabilize at about 12 months of imports in the medium term. **Assessment.** Reserves play a dual role: they are saving for both precautionary motives and future generations. Reserves are adequate for precautionary purposes (measured by the IMF's metrics). Significant buffers are also available through external assets held by the PIF and Aramco. Nevertheless, fiscal consolidation is needed over the medium term to strengthen the CA and increase saving for future generations.

Table 3.22. Singapore: Economy Assessment

Overall Assessment: *The external position in 2024 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 open economy and status as a global trading and financial center. Over the medium term, the CA surplus is projected to narrow gradually alongside higher public spending, stronger social safety nets, and an increase in household consumption as the share of the prime working age population actively saving for retirement declines.

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

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP stood at 146.9 percent of GDP in 2024, down from 179.3 percent in 2023 and below the 224.7 percent average during 2019–23. Gross assets and liabilities are high; over half (53.5 percent) of foreign liabilities are in FDI, and about one-fifth are in currency and deposits. The CA surplus has been a main driver of the NIIP since the global financial crisis. However, in 2024, valuation effects drove an NIIP decline, mainly because the NEER appreciated under the exchange-rate-based monetary policy of the Monetary Authority of Singapore (MAS). CA and growth projections imply that the NIIP will rise over the medium term. The large positive NIIP in part reflects private savings accumulated in foreign assets for old-age consumption, which are expected to be gradually unwound over the long term. **Assessment.** Large gross non-FDI liabilities (433.9 percent of GDP in 2024)–predominantly cross-border deposit taking by foreign bank branches–present some liquidity 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. Further, Singapore has large official reserves and other official liquid assets.				
2024 (% GDP)	NIIP: 146.9	Gross Assets: 1079.9	Res. Assets: 68.1	Gross Liab.: 932.9	Debt Liab.: 319.1

Current Account	**Background.** The CA surplus was 17.5 percent of GDP in 2024, down from 17.7 percent in 2023. This mainly reflects a decline in the goods surplus from lower goods exports. The CA balance is broadly in line with the average of 17.4 percent since 2018 and lower than the post-global-financial-crisis peak of 22.9 percent in 2010. As in the past, Singapore's large CA balance reflects significant private and public sector savings surpluses, which in 2024 manifested as 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 saving, 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 worth about 83.3 percent of GDP in 2024)–are the main drivers of Singapore's strong external position. The CA surplus is projected to narrow over the medium term as a result of increased infrastructure and social spending. In 2024, public saving increased as the fiscal balance improved further with stronger-than-anticipated economic activity, while private saving dipped. **Assessment.** Guided by the EBA framework, IMF staff assesses the 2024 CA gap to be in the range of 3.1 to 7.1 percent of GDP, with a midpoint of 5.1 percent.[2] The identified policy gaps in 2024 reflect Singapore's more contractionary fiscal policy compared to the rest of the world, as well as a large, negative credit gap.					
2024 (% GDP)	CA: 17.5	Cycl. Adj. CA: 18.0	EBA Norm: –	EBA Gap: –	Staff Adj: –	Staff Gap: 5.1

Real Exchange Rate	**Background.** The Singapore dollar has appreciated notably since 2000. The REER appreciated by 2.9 percent in 2024 reflecting the appreciation of the NEER by 2.4 percent. This followed an appreciation of the REER by 13.5 percent and an appreciation of the NEER by 5.3 percent, both cumulative, between 2020 and 2023. As of March 2025, the REER was 0.2 percent above its 2024 average. **Assessment.** Consistent with the IMF staff CA gap, staff assesses the REER to be undervalued in the range of 6.2 to 14.2 percent, with a midpoint of 10.2 percent in 2024 (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, changes in market sentiment can affect Singapore significantly. Increased risk aversion in the region, for instance, may lead to inflows to Singapore given its status as a 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 2024, the capital and financial account featured lower outflows of 12.0 percent of GDP, compared to 41.1 percent in 2022 (outflows ranged from 4.8 to 41.1 percent in 2021–23). **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. Therefore, net FX purchases are endogenous to Singapore's monetary policy framework. Aggregate data on foreign exchange intervention operations has been published since April 2020 (with a six-month lag). In the first half of 2024, net FX purchases increased to $25 billion, up from $12 billion in the first half of 2023 but broadly in line with the $24 billion of interventions in the second half of 2023. As a financial center, prudential motives call for a larger NIIP buffer. Official reserves held by MAS reached $384 billion (70.1 percent of GDP) in 2024. **Assessment.** In addition to FX reserves held by the MAS, Singapore also has access to other official foreign assets managed by Temasek and GIC.[4] The current level of official external assets appears adequate, even after considering prudential motives, and there is no clear case for further accumulation for precautionary purposes.

Table 3.23. South Africa: Economy Assessment

Overall Assessment: *The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA deficit declined to 0.6 percent of GDP in 2024 from 1.6 percent in 2023, as imports contracted more than exports. The CA deficit is projected to widen to 1.2 percent of GDP in 2025 and reach 2.2 percent over the medium term, driven by recovering imports that more than offset rising exports.

Potential Policy Responses: A combination of bold structural reforms and fiscal consolidation is necessary to safeguard macroeconomic stability and bolster growth and can help support South Africa's external position. Structural reforms supporting competitiveness, jobs, and growth, should focus on addressing energy and logistics bottlenecks (including by promoting private sector participation), as well as on improving the business environment, governance, and the functioning of labor markets. An ambitious fiscal consolidation is needed to put debt on a sustained downward path toward a more prudent level, while protecting vulnerable groups. Trade policy should aim to resolve trade tensions, promote clarity and transparency, and deepen economic integration, including through the implementation of the African Continental Free Trade Area. The flexible exchange rate should remain the main shock absorber, and maintaining an adequate level of international reserves can further support resilience to shocks.

Foreign Asset and Liability Position and Trajectory

Background. South Africa's NIIP was 28.8 percent of GDP at the end of 2024, slightly above that in 2023 (and above the 22.4 percent average during 2019–23), as rising portfolio assets more than offset an increase in portfolio liabilities. The positive NIIP position is expected to moderate over the medium term as the CA deficit gradually widens. Gross external debt was 41.9 percent of GDP in 2024, broadly unchanged from 2023. It is expected to gradually rise over the medium term to about 48 percent of GDP by 2030, even as short-term external debt (on a residual maturity basis) is projected to decline slightly to about 11.3 percent of GDP by 2030, from 12.7 percent in 2024.

Assessment. The level and composition of NIIP and gross external debt indicate that South Africa's external position is sustainable. Risks from South Africa's large gross external liabilities are mitigated by limited sectoral foreign exchange mismatches, the large foreign asset position (including gross direct and portfolio investment holdings), and the liability composition (mostly in equities, with a significant share of external debt, 43 percent, being rand denominated).

2024 (% GDP)	NIIP: 28.8	Gross Assets: 126.5	Debt Assets: 16.7	Gross Liab.: 97.7	Debt Liab.: 41.9

Current Account

Background. The CA deficit was 0.6 percent of GDP in 2024, lower than the 2023 deficit (1.6 percent of GDP) but higher than the 2019–23 average (0.2 percent of GDP). Over the medium term, the CA deficit is projected to widen gradually to about 2.2 percent of GDP as import growth recovers alongside a recovery in domestic demand, more than offsetting gradually rising exports.

Assessment. Staff estimates a CA gap in the range of 0.3 to –1.5 percent of GDP in 2024 (–0.6 percent midpoint estimate). The cyclically adjusted CA is estimated at –1.0 percent of GDP in 2024, relative to a model-based EBA CA norm of 0.7 percent. Accounting for South Africa's lower life expectancy relative to other countries, an adjustor of 1.1 percentage points is applied, bringing the staff-adjusted CA norm to –0.4 percent of GDP.[1] This results in a staff CA gap of –0.6 percent of GDP, which is largely explained by structural factors outside of the model.

2024 (% GDP)	CA: –0.6	Cycl. Adj. CA: –1.0	EBA Norm: 0.7	EBA Gap: –1.7	Staff Adj.: 1.1	Staff Gap: –0.6

Real Exchange Rate

Background. Following an 8.1 percent depreciation in 2023, the CPI-based REER appreciated by about 4 percent in 2024 compared to the 2023 average. As of March 2025, the REER was 1.4 percent above its 2024 average. Over the past five years, the REER has depreciated by about 7 percent.

Assessment. Based on the CA model, and taking model uncertainties into consideration, staff assesses the REER gap to be –1.1 to 6.2 percent (midpoint of 2.5 percent, applying an estimated elasticity of 0.24). However, the REER-based regression points to a gap ranging between –7.8 percent (level approach) and –15.4 percent (index approach).

Capital and Financial Accounts: Flows and Policy Measures

Background. Net FDI inflows declined to 0.9 percent of GDP in 2024 from 1.7 percent in 2023, while net portfolio outflows decelerated to 0.3 percent (from 1.7 percent over the same period). Derivative net inflows declined to 0.1 percent of GDP from 0.6 percent, while other net investment rose slightly to 0.2 percent of GDP in 2024 from 0 percent in 2023. Gross external financing needs were 13 percent of GDP in 2024, down from 14.8 percent in 2023, driven by a reduction in short-term debt service.

Assessment. Risks from South Africa's traditionally large reliance on non-FDI inflows for external financing are mitigated by relatively small currency mismatches in the economy, the large equity liability composition of the NIIP, and its large and liquid domestic investor base. This market depth tends to reduce asset price volatility during periods of market stress.

FX Intervention and Reserves Level

Background. South Africa's exchange rate regime is classified as floating. Central bank intervention in the FX market is rare. International reserves reached 16.7 percent of GDP at the end of 2024, covering about 6.1 months of imports, and representing 128.6 percent of short-term debt. Reserves comprise about 96 percent of the IMF's composite ARA reserve adequacy metric (107.4 percent when capital controls are taken into account), broadly in line with the recommended range of 100 to 150 percent.

Assessment. Maintaining an adequate level of international reserves well within the recommended range can further support South Africa's resilience to shocks.

Table 3.24. Spain: Economy Assessment

Overall Assessment: *The external position in 2024 is assessed to be stronger than the level implied by medium-term fundamentals and desirable policies.* Even though the large negative NIIP continued to shrink in 2024, strengthening it further will require sustaining relatively high CA surpluses in coming years. While the CA balance will exceed the norm in the near term, this gap is projected to shrink in the medium term as tourism flows normalize, non-energy imports regain strength–supported by the shift in the economy's growth drivers toward domestic demand, particularly investment which has a high import content–and private saving slowly declines toward pre-COVID levels.

Potential Policy Responses: The projected CA surplus path will keep reducing the still-sizable negative NIIP as needed. Therefore, policies that would divert the CA from such path, including any that would weaken competitiveness and the CA, should be avoided. However, a similar CA path could be achieved with a better policy mix that keeps the saving-investment balance and thereby the projected CA path broadly unchanged, but better supports growth and fiscal sustainability. Specifically, sustained fiscal consolidation efforts would rebuild fiscal space and raise aggregate savings. To address the downside risks posed by increased trade restrictions, Spain should accelerate domestic structural reforms that boost productivity and facilitate the diversification of export products and destinations. These include further efforts to complete the single Spanish market, invest in innovation, enhance education outcomes, and reduce energy dependence. Progress on these fronts should be complemented with policies that facilitate the reallocation of workers across sectors while providing an adequate social safety net. Any fiscal support to those firms and sectors most adversely affected by trade restrictions should remain temporary and narrowly targeted, addressing externalities or market failures that might prevent effective market solutions. A similar approach should apply to industrial policies, which should also be coordinated at the EU level and avoid favoring domestic producers over imports to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP continued to improve in 2024 and reached –44.0 percent of GDP by the end of 2024. This trajectory reflects a larger increase in gross assets compared to that in liabilities (as a percentage of GDP, between 2023 and 2024). Gross liabilities–of which 67 percent corresponded to external debt–increased to 245.2 percent of GDP by the end of 2024. Most of the negative NIIP is attributed to the general government and the central bank, with TARGET2 liabilities amounting to 27.3 percent of GDP by December 2024. The NIIP is projected to continue improving in the medium term, supported by sustained CA surpluses and the positive–though temporary–impact of NextGenerationEU funds disbursements on the capital account. **Assessment.** Despite its projected improvement, the still large negative NIIP comes with external vulnerabilities, including those from large gross financing needs and potential adverse valuation effects, which could be affected by the evolution of global financial conditions and policy responses. Mitigating factors include the rather long maturity of outstanding sovereign debt (averaging almost eight years) and the limited share of debt denominated in foreign currency (11.4 percent of total external debt).

2024 (% GDP)	NIIP: –44.0	Gross Assets: 201.2	Debt Assets: 94.4	Gross Liab.: 245.2	Debt Liab.: 144.5

Current Account	**Background.** The CA surplus continued to rise in 2024, although at a slower pace than in 2023, reaching 3.0 percent of GDP. The continued strength of services exports (both tourism and non-tourism) more than offset a modest increase in imports, whose weakness largely reflected broadly stable energy prices. Higher public saving and subdued private investment–including due to high uncertainty and tight financial conditions–more than offset a rise in public investment and a decline of private savings. In 2025, the CA surplus is forecast to shrink by 0.5 percentage points of GDP amid a deterioration of the international environment and a strong rebound of imports driven by a pickup in domestic demand. In the medium term, the CA surplus is projected to continue shrinking gradually as tourism inflows normalize and non-energy imports regain strength–with the negative impact of somewhat lower energy prices being offset by the shift in the economy's growth drivers toward domestic demand, particularly investment which has a high import content. **Assessment.** The 2024 cyclically-adjusted CA balance is 3.5 percent of GDP. IMF staff assesses the CA norm to be between 0.6 and 2.4 percent of GDP, with a midpoint of 1.5 percent of GDP, in line with the EBA CA model. The difference between the cyclically-adjusted CA and the CA norm yields a CA gap in the range of 1.2 to 2.9 percent of GDP, with a midpoint of 2.0 percent of GDP. The overall estimated contribution of identified policy gaps is –0.4 percent of GDP, reflecting negative contributions from high health spending (–0.3 percent of GDP) and credit growth relative to the rest of the world (–0.1 percent of GDP).

2024 (% GDP)	CA: 3.0	Cycl. Adj. CA: 3.5	EBA Norm: 1.5	EBA Gap: 2.0	Staff Adj.: 0.0	Staff Gap: 2.0

Real Exchange Rate	**Background.** In 2024, Spain's CPI- and ULC-based REER remained broadly stable, with changes relative to the 2023 average of 0.6 and –0.5 percent, respectively. This followed a period of sustained REER depreciation since 2009, which almost fully reversed the large appreciation during 1999–2008. As of March 2025, the CPI and ULC-based REER were 0.3 percent above and 0.2 percent below the 2024 average, respectively. **Assessment.** The IMF staff CA gap implies a REER gap of –7.3 percent in 2024 (with an estimated elasticity of 0.28 applied). The EBA REER index and level models suggest instead an overvaluation for 2024 of 4.9 and 20.4 percent, respectively, mostly driven by large unexplained residuals. Consistent with the staff CA gap, staff assesses the REER to be moderately undervalued, with a midpoint of 7.3 percent and a range of uncertainty of ±3.1 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The capital account surplus has remained high due to flows associated with NextGenerationEU funds. The financial account balance increased slightly by 0.4 percent of GDP to 4.4 percent in 2024, following its more significant improvement of 2.4 percent of GDP in 2023. The increase in the financial account surplus is largely driven by "Other Investment" flows, while the shrinking of the Bank of Spain's net liability position continued although it was smaller in 2024 compared to 2023. **Assessment.** Despite recent improvements, still large external financing needs leave Spain vulnerable to sustained market volatility and tighter global financial conditions.
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Euro area economies typically hold low reserves relative to standard metrics, but the currency is free floating.

Table 3.25. Sweden: Economy Assessment

Overall Assessment: *The external position in 2024 is substantially stronger than the level implied by medium-term fundamentals and desirable policies.* The current account surplus increased to 7.4 percent of GDP in 2024, from 7 percent in 2023. However, this surplus is expected to gradually decrease to 4.5 percent of GDP by 2030, at its longer-term average, as the economy begins a recovery helped by stronger domestic demand amid policy support and as investment and consumption increase and exports slow in line with longer-term trends.

Potential Policy Responses: With inflation now around the target, both monetary and moderately expansionary fiscal policies are more supportive of the economic recovery and aid the current account adjustment. In addition, scope exists to enhance both private and public investment in productivity-enhancing projects, the green transition, and the health sector. These structural measures will boost domestic absorption and imports, reducing external imbalances, while enabling Sweden to maintain high living standards amid demographic pressures and supporting the country's ambitious climate goals. In line with Sweden's market-based approach, industrial policies, if implemented, should be deployed cautiously and remain targeted to specific objectives where externalities or market failures prevent effective market solutions. These policies should be coordinated at the EU level to ensure regional coherence and avoid favoring domestic producers over imports to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP reached 66 percent of GDP in 2024, an increase of 27.4 percentage points from 2023, on the back of continued current account surpluses and net valuation gains related to equity and bond markets, strong multinational FDI returns, and slower liability growth. Gross liabilities increased to 279.5 percent of GDP in 2024, with more than half being gross external debt (168.3 percent of GDP). Other financial institutions (94.7 percent of GDP) hold the bulk of net foreign assets followed by Social Security Funds (23.5 percent of GDP), households (20.5 percent of GDP), and the Riksbank (7.1 percent of GDP), while nonfinancial corporations (36.2 percent of GDP), monetary financial institutions (37.9 percent of GDP), and the general government (4.1 percent of GDP) are net external debtors. Half of the NIIP is in foreign currency. **Assessment.** The NIIP is expected to firm up further in the medium term, reflecting developments for continued CA surpluses. Sweden's foreign currency assets are almost three times as high as its foreign currency liabilities, providing a hedge against currency valuation changes. These estimates are subject to uncertainty as NIIP data typically include errors and omissions averaging about 1.5 percent of GDP in the past decade. Although rollovers of external debt (which include bank-covered bonds) pose some vulnerability, risks are moderated by banks' ample liquidity and large capital buffers. The NIIP level and trajectory do not raise sustainability concerns.

2024 (% GDP)	NIIP: 66	Gross Assets: 345.5	Debt Assets: 170.5	Gross Liab.: 279.5	Debt Liab.: 140.4

Current Account	**Background.** The 2024 current account increased to 7.4 percent of GDP, reflecting a wider trade surplus in goods and a narrowing trade deficit in services; declining energy prices; and krona depreciation. Primary income contributed positively to the overall surplus, while the secondary income deficit widened. In 2024, gross saving increased by 0.2 percentage points to 32.1 percent of GDP, while gross investment decreased by 0.2 percentage points to 24.6 percent; the increase in gross saving is driven by the private sector. Sweden continues to be a net oil importer with the oil deficit estimated at 1 percent of GDP. Over the medium term, as domestic policies shift toward more supportive stance and long-term spending needs are addressed, the current account surplus is anticipated to decline to 4.5 percent of GDP. **Assessment.** The cyclically adjusted current account is estimated at 7.1 percent of GDP in 2024, 5.5 percentage points above the cyclically adjusted EBA norm of 1.6 percent of GDP, and cyclical contributions estimated at 0.3. However, the estimated EBA norm is low and continues to be below the actual CA outcome for the past two decades, suggesting that factors not captured by the model, such as Sweden's mandatory contributions to fully-funded pension programs and an older labor force, may also be driving the saving–investment balances. Staff assesses the CA gap at 5.5 percent of GDP in 2024, with a model-estimated range of 5.1 to 5.9 percent of GDP (using the model's standard error of ±0.4 percent of GDP). Policies that would explain this gap make up 1 percentage point, with fiscal policy, which was less expansionary compared to the rest of the world, accounting for 0.5 percent, the health policy contributing –0.8 percent, and the credit gap contributing another 1.2 percent. Complementary EBA tools suggest that Sweden's pension system could explain about 1 percentage point of the gap.

2024 (% GDP)	CA: 7.4	Cycl. Adj. CA: 7.1	EBA Norm: 1.6	EBA Gap: 5.5	Staff Adj.: 0.0	Staff Gap: 5.5

Real Exchange Rate	**Background.** In 2024, the krona depreciated by 0.6 percentage points in real effective terms (OECD-ULC based) relative to 2023. As of March 2025, the CPI-based REER was 3 percent above its 2024 average. **Assessment.** The IMF staff CA gap implies a REER gap of –14.1 percent (applying an estimated elasticity of –0.39), with a range between –15.1 to –13.1 percent (using the model standard error of ±0.4 percent of GDP). The REER index and level models suggest gaps of –15.3 percent and –19.1 percent, respectively, for 2024. By 2024, the ULC-based REER index had depreciated by 18.7 percent since the krona was floated in 1993. Anchored by the ULC-based REER index and its standard deviation,[1] staff assesses the krona to be undervalued by 14.7 percent (the midpoint, and within a range of –21.6 to –7.9 percent).
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In 2024, Sweden's financial account showed robust net lending of 13.8 percent of GDP, more than doubling in comparison to 2023. Direct investment recorded net lending of 1.5 percent of GDP. The change in net outflows was mainly driven by an increase in net portfolio investment of 9.2 percent of GDP constituting two-thirds of the financial account. The increase in other net investment (2.6 percent of GDP) was driven by an increase in investments in Sweden of almost 3 percent of GDP. However, while the overall value of Sweden's foreign assets increased, liabilities to foreign entities also rose. These developments signal a complex financial landscape as Sweden navigates both domestic and international economic conditions. **Assessment.** Large movements in capital flows are common in countries with large financial sectors such as Sweden, where banking sector assets are nearly three times GDP. Risks can be mitigated through strong financial regulation, supervision, and a sound financial sector. According to the recent FSAP assessment, the banking system would be resilient in the face of large liquidity shocks despite a substantial share of wholesale funding.
FX Intervention and Reserves Level	**Background.** The exchange rate is de facto free floating. Foreign currency reserves increased by $3.1 billion to $63.8 billion in 2024, equivalent to 23.7 percent of the short-term external debt of monetary and financial institutions, and sufficient to cover about three months' worth of imports. **Assessment.** Despite its free floating exchange rate regime, Sweden should maintain adequate foreign reserves in view of the high dependence of commercial banks on wholesale funding in foreign currency, and potential for disruptions in such funding during episodes of global financial distress. The Riksbank has standing swap lines with the European Central Bank (€10 billion).

Table 3.26. Switzerland: Economy Assessment

Overall Assessment: *The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* Ongoing BOP methodological improvements are significantly affecting the CA balance, urging caution against basing the assessment on the EBA CA model. According to the Swiss National Bank (SNB), in the case of the current account balance, according to the information available as of June 2025, there will be a significant upward revision for 2024 as several revision effects point in the same direction. The large uncertainties surrounding the measurement of the CA calls for relying on other considerations, including the large positive NIIP. Against this background, the assessment is based on a holistic view of Switzerland's external sector, with the change in assessment from last year motivated by the strength of Switzerland's external buffers (surplus on net foreign investment position and sizable and increasing foreign reserves), large fiscal buffers, and overall economic developments. As in previous years, the assessment is subject to high uncertainty resulting from complex measurement issues related to large multinational enterprises and data lags.

Potential Policy Responses: Policies should focus on supporting the ongoing economic recovery and addressing low inflation. Substantial fiscal policy space should be used to support growth if downside risks materialize. A comprehensive medium-term plan is needed to address increasing structural fiscal needs on aging, climate, and defense. Monetary policy should continue to pursue price stability and avoid the risk of inflation settling at extremely low or negative rates. Commitment to free trade and cooperation, as shown by the abolition of industrial tariffs in 2024 and effort to expand trade relations, should continue to build resilience.

Foreign Asset and Liability Position and Trajectory	**Background.** Switzerland is a major financial center with a large, positive NIIP of 126 percent of GDP and large gross foreign asset and liability positions of 638 percent and 512 percent of GDP at the end of 2024. The NIIP has fluctuated by about 100 percent of GDP over the past five years, due to valuation effects and CA surpluses.[1] Compared with 2023, the NIIP increased in 2024 by almost 30 percentage points of GDP. On both the assets and liabilities side, the increase in stocks came from exchange rate-related and price-related valuation gains. Projections of the NIIP in 2025 and beyond are complicated by the large gross positions and compositional differences among assets and liabilities. **Assessment.** Switzerland's large gross liability position and the volatility of financial flows and investment returns present some risk, but this is mitigated by the large gross asset position and about two-thirds of external liabilities being denominated in Swiss francs.

2024 (% GDP)	NIIP: 126	Gross Assets: 638	Reserve Assets: 99	Gross Liab.: 512	Debt Liab.: 26

Current Account	**Background.** Switzerland's CA surpluses averaged 6.2 percent of GDP during 2013–23. The preliminary CA surplus in 2024 is estimated at 5.1 percent of GDP, roughly unchanged from 2023, which was revised down by 2.4 percentage points from last year's *External Sector Report*.[2] Within the components, the balance of trade in goods remained unchanged year-over-year as increased exports of chemical and pharmaceutical products were offset by a lower surplus in merchanting. The deficit in services increased year-over-year, while the primary income deficit decreased. From the saving-investment perspective, savings increased by 0.8 percent of GDP, driven by a decline in public consumption, while investment increased by 0.9 percent of GDP. The CA surplus is expected to remain broadly stable over the medium term. **Assessment.** The EBA CA norm of 6.7 percent of GDP is slightly above the previous year's norm. Based on a cyclically adjusted CA surplus of 5.1 percent, the overall EBA-estimated CA gap equaled –1.6 percent of GDP in 2024. Domestic policy gaps account for 1.3 percentage points and include domestic credit (0.5 percentage points) and fiscal underspending (+0.5 percentage points); policy gaps in the rest of the world contribute +0.2 percentage points. Adjustments for specific factors relevant for Switzerland that are not treated appropriately in the income account–namely valuation losses on fixed-income securities arising from inflation (–3.4 percentage points) and retained earnings on portfolio equity investment (–1.2 percentage points)–lead to a gap of –6.2 percent of GDP (±0.8 percentage points).[3] However, based on a holistic assessment of Switzerland's current account and the expected upward CA revisions, the CA gap is likely significantly smaller than what is suggested by the application of the model.

2024 (% GDP)	CA: 5.1	Cycl. Adj. CA: 5.1	EBA Norm: 6.7	EBA Gap: –1.6	Staff Adj.: –4.6	Staff Gap: –6.2

Real Exchange Rate	**Background.** Relative to 2023, the average NEER appreciated by 3.1 percent, while the CPI-based REER appreciated by 1.4 percent in 2024. The NEER has appreciated by 33.2 percent since 2013, while the CPI-based REER has appreciated by 5.2 percent. As of March 2025, the NEER appreciated by 0.1 percent over its 2024 average and the CPI-based REER depreciated by 1.5 percent. **Assessment.** The IMF staff CA gap implies REER overvaluation of 11.5 percent in 2024 (applying an elasticity of 0.54). The EBA REER index and level models suggest that the REER in 2024 was overvalued by 16.9 and 22.5 percent, respectively. The fit of these models does not capture trends specific to Switzerland, in particular, a secular improvement in productivity, especially in knowledge-based sectors. Consistent with the CA gap, the REER gap in 2024 is in the range of 10.2 to 13 percent, with a midpoint of 11.5 percent (overvalued).
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net financial outflows totaled 6.1 percent of GDP in 2024, including private outflows of 3.3 percent of GDP and an increase in SNB reserve assets of 2.8 percent of GDP. During 2011–23, net private inflows averaged 0.9 percent of GDP, while the average annual increase in SNB reserves was 6.5 percent of GDP. **Assessment.** Financial flows are large and volatile, reflecting Switzerland's financial center and safe-haven status. This results in sizable net private financial flows during periods of uncertainty adding to appreciation pressures.
FX Intervention and Reserves Level	**Background.** Official reserve assets (including gold) amounted to CHF822 billion (US$934 billion, 99.8 percent of GDP) at the end of 2024, up CHF99 billion (US$128 billion) from the end of 2022. The SNB purchased CHF1.2 billion (0.1 percent of GDP) of FX (net) through FX interventions in 2024, compared to large FX interventions selling that occurred in 2022–23 and to return inflation within the price stability range. **Assessment.** Reserves are large relative to GDP, but more moderate in comparison with short-term foreign liabilities. Considering the reserve currency status of the franc, the adequacy of FX reserves is not a pressing concern for Switzerland. While the SNB made a large profit in 2024 (CHF80.7 billion, US$89.50 billion), the financial losses incurred by the SNB in 2022 and 2023 indicate the volatility of its income and the risks associated with its large balance sheet. Foreign exchange interventions can be considered in cases of disorderly market conditions or to prevent inflation expectations de-anchoring that could result from large and persistent exchange rate movements.

Table 3.27. Thailand: Economy Assessment

Overall Assessment: *The external position in 2024 is broadly in line with the level implied by fundamentals and desirable policies.* The CA balance increased to 2.1 percent of GDP in 2024 from 1.4 percent of GDP in 2023, as tourism receipts recovered further, and is projected to decline to a surplus of around 1.8 percent of GDP in the medium term.

Potential Policy Responses: Policies aimed at promoting investment, diminishing precautionary saving, liberalizing the service sector, and minimizing tax incentives and subsidies that distort competition would help maintain an external position consistent with medium-term fundamentals and desirable policies. The difficult external environment from increased trade restrictions further underscores the critical need to boost productivity. Given the likely protracted nature of the shock and remaining uncertainty, policies should focus on preserving buffers and smoothing the adjustment, if needed. Fiscal policy should be prudent and parsimonious given that public debt levels are elevated. Public expenditures should be focused on targeted social transfers to continue to support the most vulnerable, as well as infrastructure investment to support a green recovery and reorientation of affected sectors. Efforts to reform and expand social safety nets, notably fragmented pension plans, should continue, and measures to address widespread informality could help reduce precautionary saving and support consumption. The reduction in the CA balance from private consumption could be offset by revenue-driven fiscal consolidation to restore fiscal buffers.

Foreign Asset and Liability Position and Trajectory

Background. Thailand's NIIP improved to 8.2 percent of GDP in 2024, from 2.5 percent in 2023. Gross assets increased to 123.2 percent of GDP (from 118.4 percent) and gross liabilities declined slightly to 115 percent of GDP (from 115.9 percent). Gross assets primarily consist of gross reserve assets (45.0 percent of GDP) and direct investment (38.8 percent). Gross liabilities mainly comprise of direct investment (67 percent of GDP), portfolio investment (25 percent), and other investments (22 percent of GDP), with their respective shares of the total changing little in 2024.

Assessment. The NIIP is projected to remain in a small creditor position over the medium term, given CA surpluses. External debt declined to 36.4 percent of GDP in 2024 (from 38.1 percent in 2023), of which short-term debt amounted to about 16 percent of GDP. Risks to external debt stability and liquidity are well-contained.

2024 (% GDP)	NIIP: 8.2	Gross Assets: 123.2	Debt Assets: 39.8	Gross Liab.: 115.0	Debt Liab.: 36.4:

Current Account

Background. Thailand's CA balance increased to a surplus of 2.1 percent of GDP in 2024, from 1.4 percent of GDP in 2023, as a continued recovery in tourist arrivals offset the weaker primary income balance. The postpandemic tourism recovery improved the services account by 1.4 percentage points of GDP. The trade balance slightly declined to 3.7 percent of GDP (from 3.8 percent) as imports grew faster than exports. From a saving-investment viewpoint, lackluster private investment and increased public saving offset reduced private savings. The CA balance is expected to stabilize at about 1.8 percent of GDP.

Assessment. The EBA CA model estimates a cyclically-adjusted CA balance of 2 percent of GDP and a CA norm of 1.1 percent of GDP for 2024. The CA gap of 0.9 percent of GDP consists of a 1.2 percent policy gap and an unexplained residual of –0.3 percent. The positive policy gap is primarily a result of the positive fiscal balance (1.5 percentage points) and change in reserves (0.5 percentage points) outweighing the negative credit policy gap (–0.9 percentage points). The former is mostly driven by looser fiscal policies adopted by the rest of the world relative to Thailand, while the latter is mainly due to tighter credit policies in other countries offsetting the positive domestic credit gap. The domestic policy gap of 0.2 percent of GDP in health expenditure suggests there is room to increase spending on social safety nets. Overall, IMF staff assesses the CA gap to be in the range of 0.2 to 1.6 percent of GDP, with a midpoint of 0.9 percent of GDP for 2024.

2024 (% GDP)	CA: 2.1	Cycl. Adj. CA: 2.0	EBA Norm: 1.1	EBA Gap: 0.9	Staff Adj.: 0	Staff Gap: 0.9

Real Exchange Rate

Background. The baht has been on a gradual real appreciation trend since the mid-2000s, despite occasional bouts of volatility. In 2024, the real exchange rate moderately depreciated by 0.1 percent relative to 2023, partly reflecting portfolio outflows that were largely driven by changing expectations of US interest rates. As of March 2025, the REER was 2.8 percent above its 2024 average following the strengthening of the current account balance, including from exports expanding faster than imports.

Assessment. Using an elasticity of 0.5 and based on the IMF staff CA gap, IMF staff assesses the 2024 REER to be undervalued in the range of 0.5 to 3.2 percent, with a midpoint of 1.8 percent. The EBA index REER gap in 2024 is estimated at 6.7 percent, and the EBA level REER gap is estimated at –2.7 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital and financial account balance (excluding reserves) declined to –2.9 percent of GDP in 2024, from –1.9 percent in 2023. The balance decline reflects the net effect from a reduction in other investment inflows (by 1.7 percentage points of GDP), an increase in portfolio investment outflows (by 1.1 percentage points), and an increase in net FDI inflows (by 1.8 percentage points).

Assessment. Thailand maintains strong external buffers and fundamentals that have helped weather episodes of volatility reflecting external financial conditions, political uncertainty, and shocks related to COVID-19 and the war in Ukraine. IMF staff welcomes the authorities' efforts to further liberalize the financial account, including the expansion of the scope of the Non-Resident Qualified Company program, which allows qualified investors better access to Thai baht liquidity without restrictions on Thai baht accounts. Staff also recommends reversing the 2021 reduction in the limit on Thai baht lending from domestic financial institution to nonresidents without underlying document submission, as the surge in portfolio inflows observed in 2021 has abated. In line with past advice, the IMF team recommends phasing out CFM measures on non-resident 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. Gross international reserves increased to 45 percent of GDP in 2024 from 43.5 percent of GDP in 2023, which is about 2.5 times the short-term debt, 11 months of imports, and 208.3 percent of the IMF's standard ARA metric. The exchange rate has been allowed to adjust, with some two-sided FX interventions in periods of large volatility.

Assessment. Reserves are higher than the range of the IMF's reserve adequacy metrics and there continues to be no need to build up reserves for precautionary purposes. The exchange rate should move flexibly to function as a shock absorber, while FX intervention could be used to address disorderly market conditions and mitigate policy trade-offs when the FX market becomes dysfunctional and deviations in hedging and financing premiums become excessive as a result of large non-fundamental shocks.

Table 3.28. Türkiye: Economy Assessment

Overall Assessment: *The external position in 2024 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* The assessment is mainly driven by the negative CA gap, as well as reserves, which despite recent recovery, remain low. The CA deficit narrowed substantially to below 1 percent of GDP, reflecting lower energy prices, declining gold imports, and robust tourism receipts. External financing needs have come down and the NIIP became less negative. However, macro policies remain insufficiently tight to bring down inflation sustainably to the central bank's inflation target, even in the medium term. Moreover, external vulnerabilities remain present as the March 2025 reserve loss episode showed, and core reserves are still at risk of falling into negative territory.

Potential Policy Responses: Strengthening the policy framework would help underpin Türkiye's external sustainability going forward. Tightening of the monetary and fiscal policy stance would contain demand, bring down inflation, make medium-term growth more sustainable and help pave the way for lower CA deficits over the medium term. Open trade policies, including removing discretionary credit allocation that favors exports, could enhance competition and further improve external sustainability. Collectively, these policies would improve confidence and help sustain capital inflows which would allow for a welcome accumulation of international reserves.

Foreign Asset and Liability Position and Trajectory

Background. Türkiye's NIIP averaged –34.5 percent of GDP over 2020–24. The NIIP improved from –27.5 percent at the end of 2023 to –22.3 percent at the end of 2024, mainly driven by valuation effects (especially the effect of gold price increase on reserves) including a 7 percent reduction in direct investment (equity) liabilities in dollar terms and a 25 percent reduction in short-term central bank liabilities (in itself a consequence of capital inflows). External debt declined from 43.4 percent of GDP in 2023 to 39.0 percent in 2024. The private and public sector (general government and central bank) each hold about half of Türkiye's external debt. 43.8 percent of external debt is short term (on a remaining-maturity basis).

Assessment. Given the size and composition of gross external liabilities, Türkiye is vulnerable to liquidity shocks, sudden shifts in investor sentiment, and global upswings in interest rates, even though reserve position improved substantially during 2024 (+10 percent in US dollar terms). The FX exposure of Türkiye's nonfinancial corporations deteriorated substantially, after significant improvement in recent years, with the short-term net FX position also deteriorating, but still in positive territory, providing some liquidity buffer. The NIIP is expected to remain stable over the medium term at about –23 percent of GDP due to projected improvements in the CA balance, resulting from projected lower world oil prices and robust export earnings, but unwinding of recent valuation effects could negatively affect the NIIP trajectory. External debt is sustainable over the medium term but is subject to risks, particularly from a large depreciation in the REER.

2024 (% GDP)	NIIP: –22.3	Gross Assets: 27.7	Debt Assets: 10.6	Gross Liab.: 50.0	Ext. Debt.: 39.0

Current Account

Background. The CA deficit averaged 2.9 percent of GDP over 2020–24. Helped by increased tourism receipts, but also by favorable energy prices and reduced gold imports, the CA deficit in 2024 decreased to 0.8 percent of GDP, following a deficit of 3.5 percent of GDP in 2023. The improvement in the current account between 2023 and 2024 mainly reflects developments in the private sector, with the decrease in private investments as a percentage of GDP outweighing the reduction in private savings.

Assessment. The EBA CA model estimates a cyclically adjusted CA balance of –0.3 percent of GDP and a CA norm of 1.0 percent of GDP in 2024. Overall, the CA gap is assessed in the range of –1.9 to –0.7 percent of GDP, with a midpoint of –1.3 percent.

2024 (% GDP)	CA: –0.8	Cycl. Adj. CA: –0.3	EBA Norm: 1.0	EBA Gap: –1.3	Staff Adj.: 0.0	Staff Gap: –1.3

Real Exchange Rate

Background. The CPI-based REER depreciated by an annual average of 6.1 percent over 2020–23. In 2024 however, it appreciated by 12.0 percent compared to the 2023 average as domestic inflation slowed and capital inflows were not fully sterilized. As of March 2025, the CPI-based REER appreciated by 10.2 percent relative to the 2024 average (but only by 1.6 percent relative to December 2024). Reflecting lower PPI inflation, the average PPI-based REER appreciated by 3.7 percent in 2024.

Assessment. Consistent with the staff CA gap, staff assesses the REER to be overvalued by 5.2 percent. The range goes from 2.8 percent to 7.6 percent overvaluation (applying an estimated REER elasticity of 0.25). The EBA REER index and level models suggest the REER was undervalued in 2024 by 29.0 and 42.6 percent, respectively, although the models' residuals are very large for Türkiye.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net capital inflows were 1.7 percent of GDP in 2024, slightly lower than the 4.5 percent in 2023. Portfolio investments recorded a net inflow of 0.9 percent of GDP in 2024, while direct investment recorded a moderate net inflow of 0.4 percent.

Assessment. Even though projections of annual gross external financing needs have decreased, they are still relatively high–at about 18.5 percent of GDP on average over 2025–30. Hence Türkiye remains vulnerable to adverse shifts in global investor sentiment. The authorities' policy normalization efforts since May 2023 contributed to a rebound in capital flows up to early 2025. However, sustaining the capital inflows, including to lira-denominated assets, ran into problems in March 2025, indicating a need to further strengthen policy credibility and carefully reduce market distortions. As conditions improve, CFMs on capital outflows will need to be phased out.

FX Intervention and Reserves Level

Background. The de jure exchange rate is free floating while the de facto classification is assessed as a crawl-like arrangement. Gross international reserves increased to $155 billion in 2024 from $141 billion in 2023 supported by capital inflows, increasing gold prices, and a lower CA deficit. However, as of May 2025, reserves have fallen substantially since depreciation pressures increased in March 2025.

Assessment. Gross international reserves were at 72 percent of the IMF's ARA metric at the end of December 2024 (for a de facto crawl-like exchange rate arrangement),[1] below the floor of the recommended range of 100 to 150 percent. International reserves net of off-balance-sheet swaps and other short-term liabilities were negatively impacted by the March 2025 outflow episode. This shows quality of reserves remains an issue, as does the fact that non–SDR basket currencies account for a large share (about 19 percent by the end of 2024) of FX reserves. Given the shallow FX market, interventions may be needed to avoid excessive exchange rate volatility, while not preventing warranted macroeconomic adjustments. Going forward, significant reserves buildup is needed, but the accumulation of reserves should be opportunistic given the uncertain market environment.

Table 3.29. United Kingdom: Economy Assessment

Overall Assessment: *The external position in 2024 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* After improving during 2016 to 2021 and almost balancing, the CA deficit has deteriorated in recent years due to weak exports, the reversal of temporarily positive net primary income, and heightened fiscal deficits sustaining imports. The CA deficit is expected to narrow moderately through the medium term, driven by fiscal consolidation and improvements in the terms of trade. The evolution of the external position is uncertain, especially given the UK's status as a global financial center amid shifts in the international economic environment that could change the trajectory of trade and financial flows.

Potential Policy Responses: The authorities' fiscal consolidation path along with their structural reform agenda ("growth" mission) will support external rebalancing by containing import growth and boosting competitiveness, while progress in the net zero transition will help to mitigate risks of further energy-related terms of trade shocks. Given the high level of uncertainty emanating from the external environment, IMF staff encourages the government to seek to resolve trade tensions and to deepen economic integration through nondiscriminatory reductions in trade barriers or by pursuing free trade agreements at the regional, plurilateral, or multilateral level. Industrial policies should continue to be deployed cautiously, remain targeted to specific objectives where externalities and other market failures prevent effective market solutions, and avoid favoring domestic producers over imports.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP has been relatively stable, deteriorating slightly from –9.3 percent of GDP in 2020, to –9.8 percent of GDP in 2024.[1] Valuation effects have largely offset CA deficits over recent years. These valuation effects have been primarily related to strong global equity growth, which positively affected foreign asset holdings (and more than offset the sterling appreciation effect), while foreign debt liabilities declined in line with higher interest rates. IMF staff projects that the NIIP will moderately deteriorate over the medium term, although large and volatile valuation effects make these estimates particularly uncertain. **Assessment.** The external position remains vulnerable to changes in market sentiment, but there are buffers. The UK has a sizable stock of external liabilities (over 500 percent of GDP), much of which is short-term debt. The large mismatch between sterling-denominated liabilities relative to assets, paired with exchange rate flexibility, are mitigating factors against external shocks. Intragroup bank holdings also make up a large portion of external liabilities and are less reactive to changes in market sentiment.				
2024 (% GDP)	NIIP: –9.8	Gross Assets: 509	Debt Assets: 261	Gross Liab.: 519	Debt Liab.: 278

Current Account	**Background.** The CA deficit deteriorated from –0.4 percent of GDP in 2021 to –3.5 percent of GDP in 2023 and remained relatively high at –2.7 percent of GDP in 2024, following sustained weakness in export volume growth and a reversal of temporarily positive net primary income. Weakened price competitiveness (measured by the REER) and hydrocarbon and vehicle production constraints weighed down export growth in 2024, while import growth recovered in line with improved domestic demand. Net primary income has weakened since 2023, as rising yields on debt liabilities began to outweigh strong profits from global equities. Structural factors, including lower hydrocarbon production and uncertainties related to geoeconomic fragmentation, will continue to weigh on export growth. From a savings-investment balance perspective, heightened fiscal deficits since the pandemic have driven the recent deterioration in the CA, offset to an extent by a temporary spike in private savings. Following a deterioration in 2025, the fiscal consolidation path and a projected recovery in the terms of trade are expected to moderate the CA deficit to –3.0 percent of GDP over the medium term, below pre-COVID-19 averages. **Assessment.** The EBA CA model estimates a norm deficit of –0.3 percent of GDP, implying an (unadjusted) CA gap of –2.4 percent of GDP in 2024. As in previous years, measurement adjustments of 0.7 percent of GDP are made to account for differences between the statistical definition of income and the relevant economic concept.[2] Adjusting for this, IMF staff assesses the CA gap at –1.7 percent of GDP, within a range of –1.4 to –2.0 percent of GDP.					
2024 (% GDP)	CA: –2.7	Cycl. Adj. CA: –2.7	EBA Norm: –0.3	EBA Gap: –2.4	Staff Adj: 0.7	Staff Gap: –1.7

Real Exchange Rate	**Background.** The REER appreciated by close to 4.2 percent in 2024 compared to 2023, and stands 10 percent stronger than before the pandemic, weighing on price competitiveness. This has been driven primarily by an appreciation of the NEER, as interest rates remain, on average, higher in the UK than across other advanced economies, although the elevated relative inflation has also contributed to a smaller extent. The appreciation entails a partial reversal from the prepandemic period (2015–19) which saw a sustained depreciation in the REER, driven by expectations of restricted market access following Brexit. As of March 2025, the CPI-based REER was 2.6 percent above its 2024 average. **Assessment.** The EBA REER level and index models suggest an overvaluation of 8.7 and 1.5 percent, respectively, for 2024. Consistent with the staff CA gap, staff assesses the REER gap to be 6.5 percent in 2024 (applying an estimated 0.26 elasticity), with a range of 5.5 to 7.6 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The UK has maintained a very open financial account, with limited capital flow measures. As a global financial hub, portfolio investment flows and other investment make up a large share of UK financial flows, often driven by intragroup bank transactions. Portfolio investment debt inflows were an important source of financing for the CA deficit in 2024, counterbalanced to an extent by increased direct investment asset outflows. **Assessment.** Large fluctuations in capital flows are inherent in countries with a large financial sector. This volatility is a potential source of vulnerability, although it is mitigated by a robust financial stability framework overseen by the Financial Policy Committee (FPC) of the Bank of England, including a broad set of macroprudential tools.
FX Intervention and Reserves Level	**Background.** The pound has the status of a global reserve currency. The share of global reserves in sterling has grown very slightly over the last several years, from averaging 4.5 percent prepandemic (2016–19) to close to 5.0 percent in 2024. **Assessment.** Reserves held by the UK are typically low relative to standard metrics, and the currency is free floating. Reserve levels have been stable, with a minimal drawdown in 2024.

Table 3.30. United States: Economy Assessment

Overall Assessment: *The external position in 2024 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* A deterioration in the trade balance in 2024 was a result of an increase in the goods deficit and a shift in the primary income balance resulting in a CA deficit of 3.9 percent of GDP (versus 3.3 percent of GDP in 2023). The CA deficit is projected to decline to about 2½ percent of GDP over the medium term reflecting a gradual rise of private savings.

Potential Policy Responses: Over the medium term, fiscal consolidation aimed at achieving a general government primary surplus of about 1 percent of GDP should put the debt-to-GDP ratio on a downward path and adjust the external position to the level implied by medium-term fundamentals and desirable policies. Industrial policies should remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions and avoid favoring domestic producers over imports. To promote external stability, policies should seek to constructively resolve trade tensions, promote a clear, stable and predictable trade environment, and pursue pragmatic cooperation and deeper integration through regional/cross-regional trade agreements or nondiscriminatory reduction of trade barriers.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP stood at –89.9 percent of GDP at the end of 2024, weakening from –71.6 percent in 2023 and compared to the prepandemic (2016–19) average of about –46½ percent. The main driver of change was valuation adjustments stemming from a significant rise in US stock prices compared to foreign stocks (which led to a larger increase in the market value of US liabilities than US assets) and a small appreciation of the US dollar (by about 2.4 percent) that reduced the US dollar value of foreign-currency-denominated assets. **Assessment.** Despite the declining NIIP, the US gross external debt has stabilized at the 2016–19 average of about 95 percent of GDP (down from its 2020 peak of nearly 100 percent), driven by the postpandemic rebound in output and a strengthening of the dollar. About 60 percent of US assets are in the form of FDI and portfolio equity claims. The investment income balance shifted from positive to negative in 2024 (as dividend and interest payments surged amid strong domestic stock market performance and an increase in US yields). Importantly, the substantial share of external assets denominated in foreign currencies (which was about 70 percent in 2024)–combined with an even larger share of US-dollar-denominated external liabilities–remains a relevant channel for exchange rates to affect NIIP through valuation changes (a depreciation raises the NIIP). Financial stability vulnerabilities could arise from an unexpected decline in foreign demand for US fixed-income securities, possibly as a result of concerns over fiscal sustainability. However, this risk is mitigated by the dominant status of the US dollar as a reserve currency, strong institutions, deep and liquid asset markets, and diverse investment instruments.				
2024 (% GDP)	NIIP: –89.9	Gross Assets: 123.0	Debt Assets: 35.9	Gross Liab.: 212.8	Debt Liab.: 79.5

Current Account	**Background.** The CA deficit was 3.9 percent of GDP in 2024, up from 3.3 percent in 2023 (the 2016–19 average deficit was about 2 percent). In 2024, the trade deficit increased moderately to 3.1 percent of GDP, primarily due to a rising goods deficit. The income balance deteriorated by 0.3 percent of GDP while the service surplus was broadly stable. **Assessment.** The EBA model estimates a cyclically adjusted CA balance of –3.6 percent of GDP against a CA norm of –2.2 percent, with a standard error of 0.7 percent. This implies a model-based CA gap of –1.4 percent of GDP for 2024, with an estimated contribution of identified policy gaps of –0.5 percent. The identified policy gaps primarily reflect the more expansionary fiscal policy in the US relative to the rest of the world (resulting in –0.6 percent of GDP contribution to the imbalance from the fiscal policy gap). IMF staff assesses a CA gap in a range of –2.0 to –0.7 percent of GDP, with a midpoint of –1.4 percent.					
2024 (% GDP)	CA: –3.9	Cycl. Adj. CA: –3.6	EBA Norm: –2.2	EBA Gap: –1.4	Staff Adj.: 0.0	Staff Gap: –1.4

Real Exchange Rate	**Background.** The REER appreciated by 2.4 percent in 2024, resulting in a cumulative appreciation of 12 percent relative to the prepandemic level in 2019. As of March 2025, the REER was 2.8 percent above its 2024 average. **Assessment.** The IMF staff CA gap implies a REER that is overvalued by 11.9 percent in 2024 (with an estimated elasticity of 0.11 applied). The EBA REER index model suggests an overvaluation of 10.9 percent, and the level model suggests an overvaluation of 20.9 percent. Considering all the estimates and their uncertainties, consistent with the CA gap, IMF staff assesses the 2024 midpoint REER overvaluation to be 11.9 percent, with a range of 6.1 to 17.8 percent (the range is obtained from the CA standard error using the estimated CA elasticity of 0.11).
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In 2024, the financial account balance stood at –4.3 percent of GDP, a moderate deterioration from the –3.3 percent of GDP recorded in 2023. This reflected increased inflows of net direct investment, net portfolio investment, and net other investment. **Assessment.** The United States has an open capital account. Vulnerabilities are limited by the US dollar's status as a reserve currency.
FX Intervention and Reserves Level	**Assessment.** The US dollar has the status of a global reserve currency. Reserves held by the United States are typically low relative to standard metrics. The currency is free floating.

Technical Endnotes by Economy

Argentina

[1]Gross liabilities increased by over $60 billion in 2024, with only about $3 billion being due to the incurrence of new liability inflows.
[2]Despite a positive NIIP, and reflecting the IIP's high vulnerabilities, Argentina has a primary income deficit of about 2 percent of GDP.
[3]The CA norm is somewhat lower than in 2023 given better-than-projected reserves accumulation in 2024, as well as resident inflows, helping close the reserves gap without increasing gross external liabilities.
[4]Results from the EBA REER index model suggest an average REER gap of 18.9 percent, while the EBA REER level model estimates a gap of 8.7 percent.
[5]Gross reserve assets exclude the inactivated portion of the bilateral swap with the PBoC (about 2 percent of GDP).

Canada

[1]The statistical treatment of retained earnings on portfolio equity and of net interest outflows (which are recorded in nominal terms and thus artificially boosted by higher inflation during the period) is estimated to generate a downward bias in the income balance of 0.6 percent and 1 percent of GDP, respectively, totaling 1.6 percent of GDP.

China

[1]As of the end of March 2025, the total Qualified Domestic Institutional Investor quota stood at $167.8 billion. See 2023 IMF CFM Taxonomy for a list of China's existing CFMs and related policy advice.

Hong Kong SAR

[1]Includes debt securities, loans, trade credits, and other advances.
[2]Hong Kong SAR is not in the EBA sample as it is an outlier along many dimensions of the EBA analysis. While it is possible to use EBA-estimated coefficients and apply them to Hong Kong SAR without adjustments, there are obvious drawbacks. Following this approach, the CA norm in 2024 is estimated to be about 23.5 percent of GDP, implying a CA gap of –10.7 percent, 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, so two adjustments are made which reduce the CA norm by 10.2 percentage points of GDP. First, a deduction of 5.8 percentage points of GDP (midpoint of an estimated 5.3–6.4 percentage-points range) is made to the EBA model's implied contribution of the NIIP position. This is because the positive NIIP contribution in EBA captures average income effects that are less relevant for Hong Kong SAR since the income balance relative to its NIIP is systematically lower than other peer economies, because of a persistently higher share of debt instruments on the asset side than on the liability side. Second, a deduction of 4.4 percentage points of GDP is made to account for a decline in the gold trade balance that does not reflect changes in wealth but rather the increased physical settlement of gold futures contracts resulting from the opening of a Precious Metals Depository. The use of a third adjustor previously applied to account for increased onshoring of logistics and trading activity by the Chinese mainland, which led to a decline in logistics and trading activities in Hong Kong SAR, has been discontinued as the adjustment is assumed to be complete. (See "People's Republic of China—Hong Kong Special Administrative Region: Selected Issues" [Country Report No. 17/12] for more details). Cumulatively, these adjustments give an adjusted norm of 13.3 percent of GDP (the midpoint of a range of 12.7 to 13.8 percent of GDP).
[3]Based on the average for all countries in the EBA sample.
[4]The financial linkages with the Chinese mainland are deepening with the increase in cross-border bank lending, capital market financing, and the internationalization of the RMB, though this has reversed somewhat in recent years due to issues in the property sector on the mainland. As of the end of 2024, banking system claims on bank and nonbank entities on the Chinese mainland amounted to 99 percent of GDP, down from the 102 percent reported at the end of 2023.
[5]Based on data on the market activities of the Exchange Fund published by the HKMA. A withdrawal represents a sale of FX while an injection represents a purchase of FX.

Indonesia

[1]Indonesia is among a few countries with low life expectancy at prime age and demographic indicators are adjusted to account for this. As a result, the model-estimated CA norm is adjusted by subtracting 0.5 percentage points of GDP.

Japan

[1]While Japan needs medium-term fiscal consolidation, the required consolidation is smaller than in the rest of the world. Consistent with the continued gradual withdrawal of monetary accommodation, staff recommends allowing the credit-to-GDP gap to decline gradually over the medium term from its currently estimated level of 6.1 percent with a corresponding policy setting (P*) for the credit-to-GDP gap of 4 percent. This is consistent with the reduction envisaged in the *2022 External Sector Report.*

Saudi Arabia

[1]EBA models do not include Saudi Arabia. IMF staff considered two approaches of the EBA-Lite methodology: The EBA-Lite CA model and the EBA-Lite commodity module. The EBA-Lite

commodity module includes the special intertemporal considerations that are dominant in economies in which exports of nonrenewable resources are a remarkably high share of output and exports.
[2]Based on authorities' May 2025 release of the new rebased GDP statistics.
[3]Using the EBA-Lite CA model, the cyclically adjusted CA norm is estimated at 0.56 percent of GDP (lower than the CA norm of 5.9 percent of GDP in 2023), which was mainly driven by changes in desirable fiscal variable (the result of a weakened longer-term oil price outlook), desirable increase in social insurance policy, as well as revisions in macroeconomic fundamentals (for example, updated UN demographic data). 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 and 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 3.1 percent of GDP and 5.6 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 0.54 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 high uncertainty. The CA gap in 2024 of –0.95 percent of GDP represents IMF staff's overall assessment, which is anchored on the EBA-Lite CA model. The range for the gap is calculated using the standard error of Norway (2 percent), a comparable oil-rich economy in the EBA sample.

Singapore

[1]Singapore has a negative income balance despite its large positive NIIP position, reflecting lower rates of return on its foreign assets relative to returns on its foreign liabilities, possibly because the composition of Singapore's assets is tilted toward safer assets with lower returns.
[2]Nonstandard factors make a quantitative assessment of Singapore's external position difficult and subject to significant uncertainty. Singapore is not included in the EBA sample because it is an outlier along several dimensions. One possibility, though with drawbacks, is to use EBA estimated coefficients and apply them to Singapore. Following that approach, the CA norm is estimated to be about 15.2 percent of GDP in 2024 (including the multilateral consistency adjustor). However, using this approach understates the CA gap. In order to account for Singapore specificities, several adjustments are needed. First, a downward adjustment of 1 percentage point is made to EBA's implied contribution of public health expenditures to the norm to account for the fact that Singapore's health expenditure is appropriate given its high efficiency, even though its desirable, as well as current, public health expenditure is significantly lower than in other EBA countries. Second, a downward adjustment of –3.4 percentage points to the norm is made to better account for the effect of NFA composition and component-specific return differentials on the CA. Third, notwithstanding possible partial double-counting with the NFA components adjustor, a downward adjustment of –2.1 percentage points of GDP is applied to the underlying CA to account for measurement biases that result from inflation (–5.5 percent of GDP) and portfolio equity retained earnings (+3.4 percent of GDP). Adjusting for these factors, the staff-estimated CA gap is about 5.1 percent of GDP, to which the fiscal gap contributes about 1.5 percent of GDP, the credit gap is about 2.1 percent of GDP, public health spending about 0.2 percent of GDP, and reserves about 0.2 percent of GDP.
[3]We apply the maximum range of +/–2.0 percent in the EBA sample for the CA gap reflecting the uncertainty around Singapore's assessment.
[4]The reserves-to-GDP ratio is also larger than in most other financial centers, but this may reflect in part that most other financial centers are in reserve-currency countries or currency unions. External assets managed by the government's investment corporation and wealth fund (GIC and Temasek) amount to at least 100 percent of GDP.

South Africa

[1]Because South Africa is among the few countries with relatively high adult mortality rates, the demographic indicators are adjusted to account for the younger average prime age and exit age from the workforce, resulting in a lower adjusted CA norm.

Sweden

[1]The upper and lower bounds are derived by adding/subtracting the standard deviation (6.7 percent) from the average outcome (midpoint) to reflect uncertainty around the EBA estimated norm.

Switzerland

[1]Valuation changes reflect fluctuations of exchange rates and prices of securities and precious metals that interact with differences among assets and liabilities in terms of currencies and instruments. As a result, an appreciation (depreciation) of the Swiss franc has a negative (positive) effect on the NIIP. Other stock-flow adjustments include changes in statistical sources, such as changes in the number of entities surveyed and items covered.
[2]Due to large revisions to historical BOP and NIIP data, particular caution is needed when comparing the external sector assessment results for different periods.
[3]The underlying CA is adjusted for Switzerland-specific factors in the income account: (1) retained earnings on portfolio equity investment that are not recorded in the income balance of the

CA (or, the PE RE bias) under the sixth edition of the IMF *Balance of Payments and International Investment Position Manual (BPM6)*, and (2) recording of nominal interest on fixed income securities under the *Balance of Payments Manual* framework, which compensates for expected valuation losses (resulting from inflation or nominal exchange rate movements), even though this stream compensates for the (anticipated) erosion in the real value of debt assets and liabilities. The PE RE bias was estimated using the "stock method" and "flow method" as explained in "*The Measurement of External Accounts*" (IMF Working Paper 19/132), and it is similar in size to estimates based on the SNB's pilot *BPM7* data.

Türkiye

[1]The observed dynamics of the exchange rate since July 2022 prompted reclassification of Türkiye's de facto exchange rate regime by the IMF from "floating" to "crawl-like arrangement" as of the Article IV consultation in October 2024, while the de jure classification remained "free floating." The calculation of the IMF's ARA metric differs depending on the de facto classification of the exchange rate arrangement.

United Kingdom

[1]The BoE's December 2022 *Financial Stability Report* estimates that official statistics may understate the UK's NIIP position, as FDI stocks are measured at "own funds at book value," rather than market value. This stems from broader challenges in valuing unlisted equity and is not specific to the ONS approach. In addition, FDI statistics from quarterly surveys are currently not benchmarked with the statistics from the higher-quality annual FDI survey. Indicative estimates from ONS for 2023 suggest that net FDI could be approximately 14 percent GDP higher. [2]This is primarily: (1) the effect of inflation on real income from debt assets that is due to the erosion in the real value of debt, from an economic conception, is not captured in the income account (contributing 0.6 percent of GDP to the adjustment), and (2) retained earnings on portfolio equity are not recorded in the income account (contributing 0.1 percent of GDP to the adjustment).

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