

This overview chapter discusses the evolution of current accounts and other external sector developments in 2025. It summarizes IMF staff external sector assessments for the medium term on the basis of 2025 information, with detailed economy assessments presented in Chapter 2. The forward-looking part of this opening chapter analyzes key risks affecting global current account balances and discusses policy priorities for promoting external rebalancing.¹

External Sector Developments in 2025

Current Accounts

Global current account balances widened further in 2025. The rise continues the increasing trend since the COVID-19 pandemic, visibly reversing the declining trend that prevailed in the aftermath of the global financial crisis (Figure 1.1).² Just under half of the External Balance Assessment (EBA) countries saw their current account moved further away from zero in 2025.

The widening of global balances in 2025 was predominantly driven by China and mirrored by narrowing surpluses or expanding deficits in a diverse group of countries (Figure 1.2). China's current account surplus increased by about \$300 billion (¼ percent of world GDP) in 2025, marking the largest current account widening (in absolute terms) over the past two and half decades (Figure 1.3). Taiwan Province of China, Japan, and Korea also contributed, with their surpluses increasing by \$47 billion, \$24 billion, and

\$23 billion, respectively. These economies collectively have raised global surpluses, despite the euro area and oil exporters' current account surpluses declining. The increase in global surpluses is notable because it occurred despite a decline in oil exporters' surpluses due to lower oil prices. In all previous major widening episodes, including 2003–06, oil exporters had contributed significantly to the rise in global surpluses (Figure 1.2). On the flip side, the global current account deficits reflected higher balances across a range of economies, including Türkiye, Canada, and the United Kingdom, offsetting a limited narrowing of the United States' current account deficit in 2025.

In level terms, the United States, China, and the euro area together account for about half of global current account balances (Figures 1.2 and 1.4). Following two years of consecutive widening, China's current account surplus rose to the largest globally in 2025, at about 0.6 percent of world GDP. The euro area ranks second, with a surplus of about ¼ percent of world GDP. Weaker commodity prices reduced surpluses among oil exporters, placing them just behind the euro area. The United States remains the largest deficit economy, with a deficit of about 0.9 percent of world GDP—broadly offsetting the combined surpluses of China, the euro area, and oil exporters.

Persistent elevated current account positions primarily reflect underlying domestic macroeconomic imbalances, and are also affected by spillovers from other countries via the international environment.

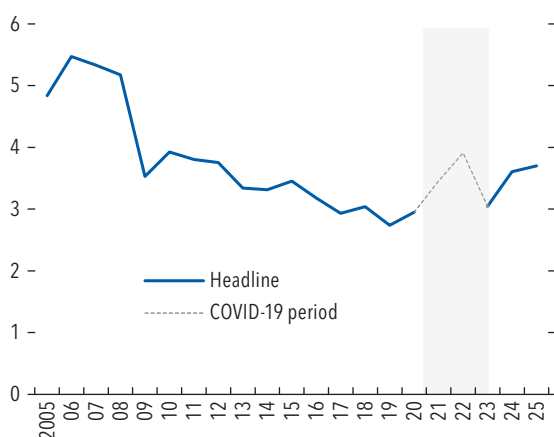
- China's current account surplus continues to be driven by structurally high private saving and, more recently, weakening investment. Private sector saving fluctuated around 39 percent of GDP between 2015 and 2019, roughly double the levels in advanced and emerging market economies, stemming mainly from weak social safety nets. Since 2023, the increase in China's current account has been primarily driven by a decline in investment (Figure 1.5). Initially, the decline concentrated in the real estate sector following the 2022 housing market correction. In the second half of 2025, the investment slowdown broadened, including the manufacturing and infrastructure sectors (Figure 1.6). The invest-

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

¹Although the *External Sector Report* (ESR) presents assessments for 30 economies, IMF staff assess the external sector of all members as part of bilateral surveillance.

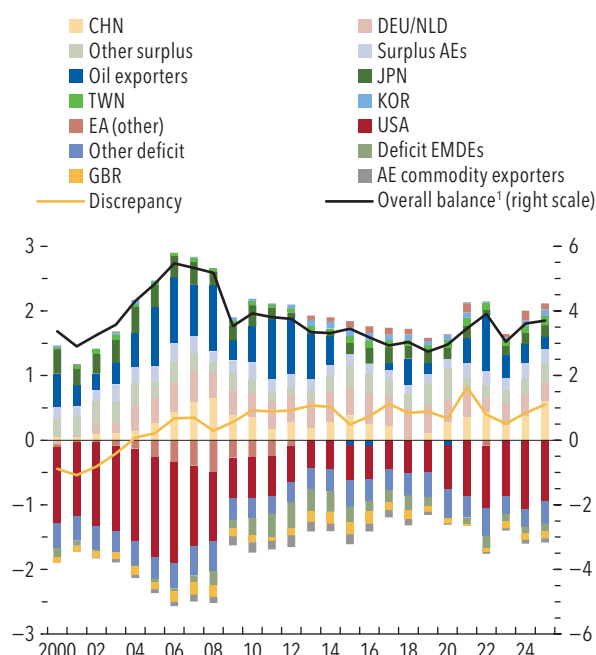
²Global current account balances temporarily increased and declined over 2020–23; however, this swing was driven by one-off COVID-19-related factors. Global current account balances remained broadly unchanged after stripping out these idiosyncratic factors (2025 *External Sector Report*).

Figure 1.1. Global Current Account Balances
(Percent of world GDP)



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

Figure 1.2. Global Current Account Surpluses and Deficits
(Percent of world GDP)

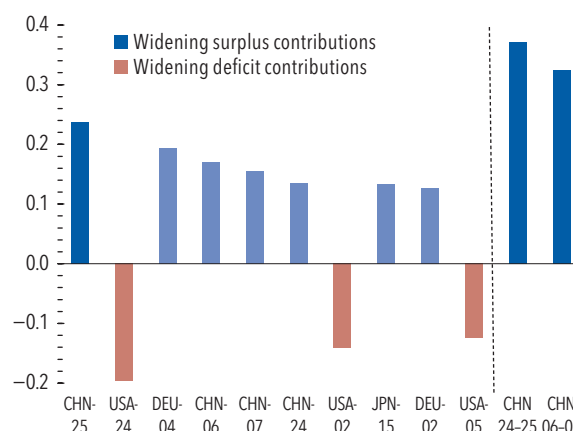


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

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.

¹Overall 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).

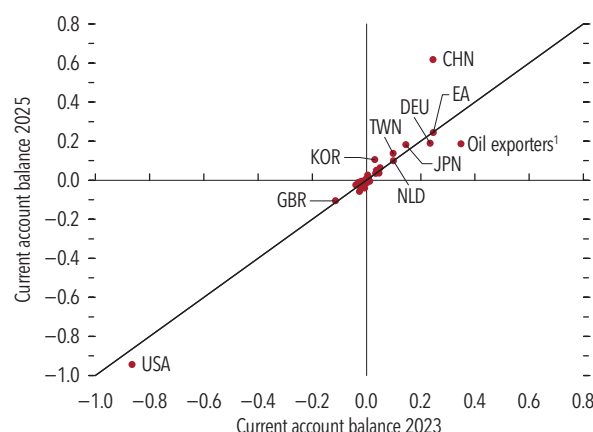
Figure 1.3. Ten Largest Single-Country Contributions to Widening Global Current Account Balances during 2000-25
(Percent of world GDP)



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

Note: This figure displays the ten largest single-country contributions to the widening of global current account balances during the period 2000-25, excluding the crisis episodes of the 2007-2008 global financial crisis and the COVID-19 crisis in 2020-21. Data labels in the figure use International Organization for Standardization country codes.

Figure 1.4. Current Account Balance in 2025 Relative to 2023 Levels
(Percent of world GDP)

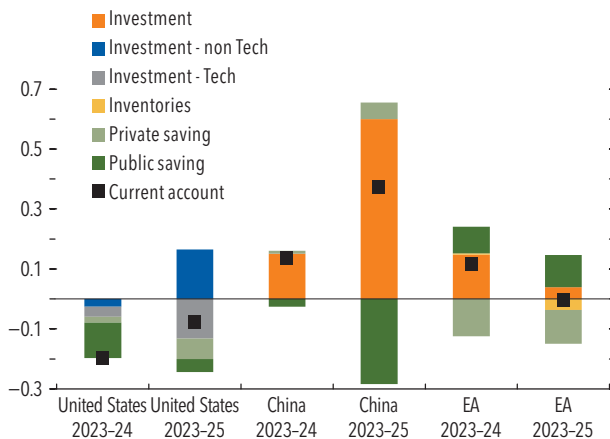


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Data labels in the figure use International Organization for Standardization country codes. EA = euro area.

¹Oil exporters comprise *World Economic Outlook* definition plus Norway.

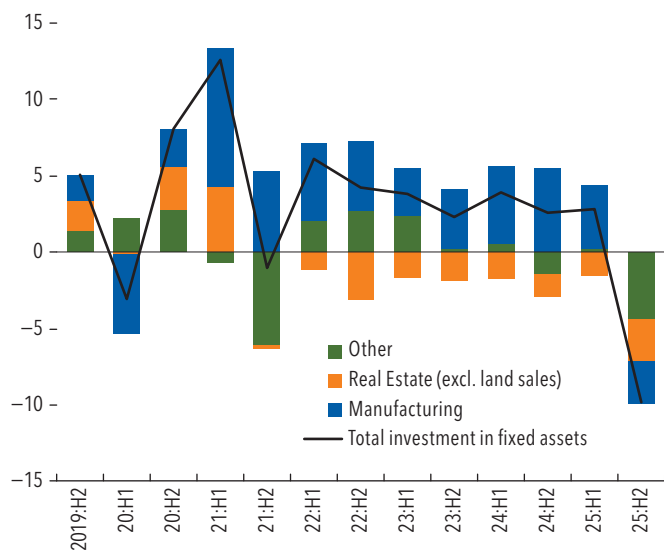
Figure 1.5. Decomposition of Changes in Current Account into Contributions from Saving and Investment, 2023-25
(Percent of world GDP)



Sources: IMF, April 2026 *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. Tech investment in the United States is calculated as the sum of nonresidential private investment in information processing equipment and software. EA = euro area.

Figure 1.6. Contributions to Growth of Total Fixed Assets Investments in China
(Year-over-year percent change)



Sources: Haver Analytics and IMF staff calculations.

ment decline is consistent with persistently low

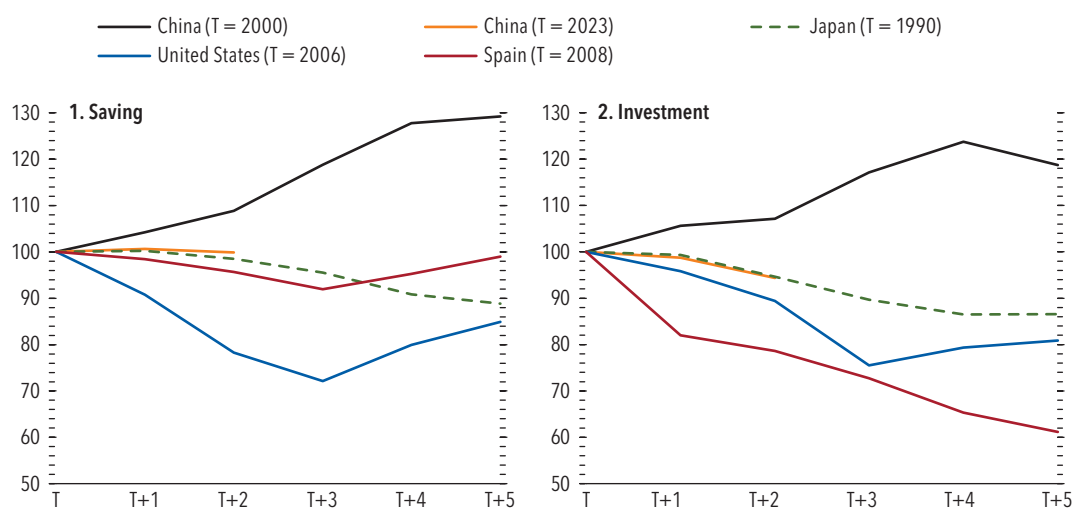
returns on capital (IMF 2026a) and potentially driven by policy measures aimed at reducing excess capacity and curbing involution (IMF 2026b).³ Household saving has also ticked up amid weak consumer confidence, including regarding future income and employment prospects, though this has been partly offset by lower public saving. In contrast to the expansion of global balances in the early 2000s—when both saving and investment rose—the current saving and investment dynamics resemble the adjustment during major real estate corrections, such as those that occurred in Japan in the 1990s and in Spain and the United States after the global financial crisis, with Japan's case particularly illustrative given its current account surplus prior to the collapse of the housing sector investment (Figure 1.7; Rogoff and Yang, 2026).⁴

- In the United States, the current account has been driven by the public sector imbalance. The deficit widened in 2024, driven mostly by a sharp decline in public saving, but narrowed somewhat in 2025. The narrowing reflected higher public saving and lower aggregate investment, which more than offset the decline in household saving and an increase in technology-related investment (Figure 1.5). Increased tariff revenues contributed to the improvement in public saving, while household saving declined further from already low levels partly driven by the wealth effects from a buoyant stock market. In contrast to the early 2000s, the recent US current account deficit primarily reflects sustained low public saving. Since 2022, public saving has averaged around -0.8 percent of world GDP, compared with 0 percent over 2000–06 (Figure 1.8). Household saving remained low in both episodes of large current account deficits.

³The Chinese authorities have identified “involution” (“excessive” price competition) in several traditional (for example, iron and steel, and glass) and emerging manufacturing sectors (for example, solar panels, electric vehicles, batteries, and chemicals), stemming from a combination of overinvestment and weak demand. To tackle involution, they plan to ban new local industrial policy subsidies not consistent with national priorities, encourage industry-level coordination to raise prices and reduce capacity, and enforce higher product standards.

⁴There are nonetheless important differences between these episodes. First, both the United States and Spain had current account deficits before the collapse of the housing sector bubble. As such, the collapse in housing investment contributed to a narrowing of the current account deficits, contributing to a reduction in global imbalances. In addition, the investment decline in Japan and Spain was more protracted, reflecting prolonged forbearance or weakened balance sheets, which constrained the financial sector's ability to provide credit for investment (Rogoff and Yang, 2026).

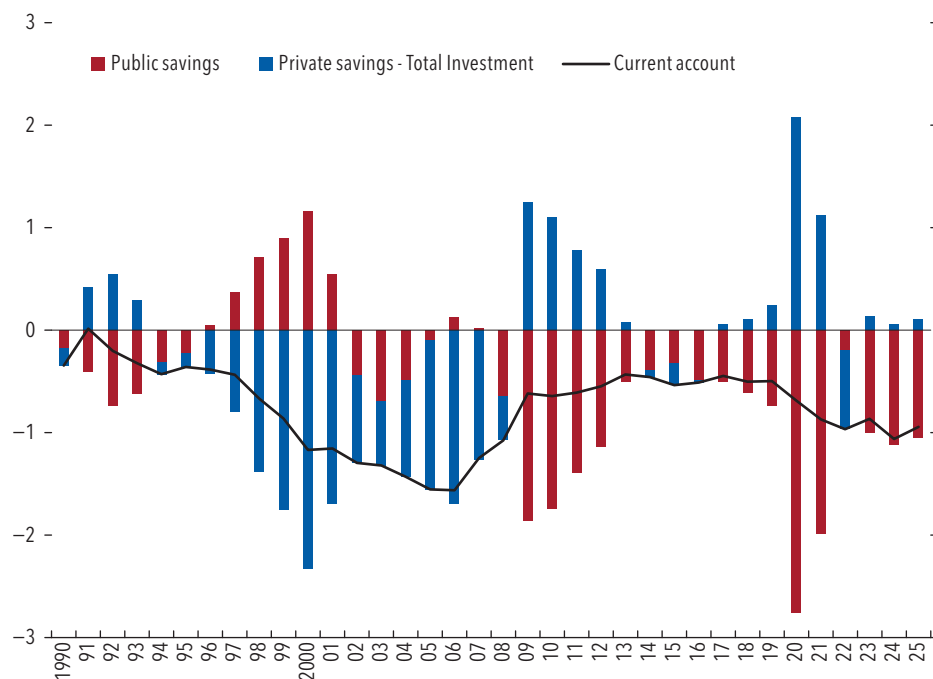
Figure 1.7. Saving and Investment Dynamics during Real Estate Corrections and in China in the Early 2000s
(Index $T = 100$)



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

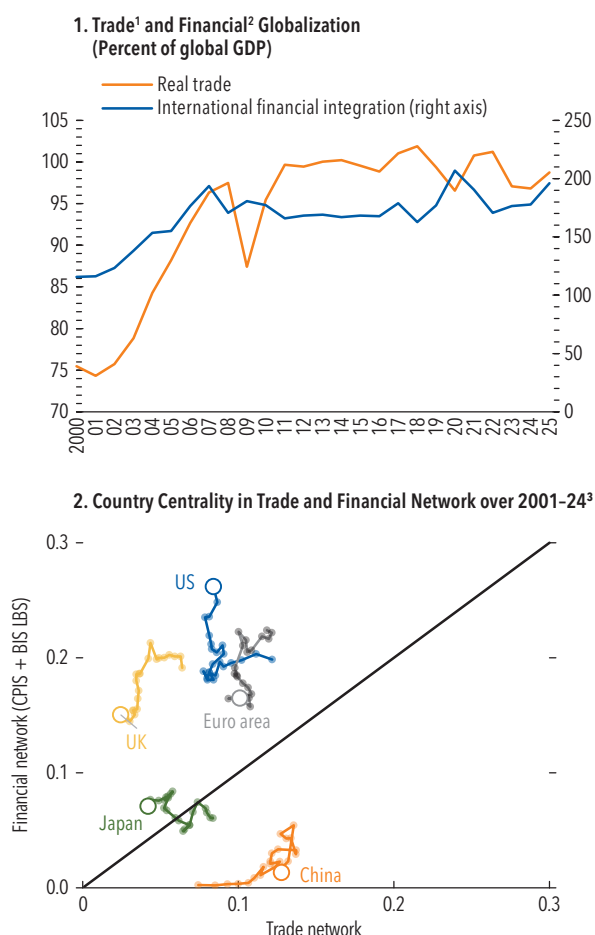
Note: The figure shows investment and saving (as shares of GDP), indexed to 100 in time T, defined as the year preceding the decline in investment share associated with the housing market correction. While the recent downturn in China's housing market began prior to 2023, T is set to 2023 to limit the effect of COVID-19-related factors.

Figure 1.8. United States: Current Account Level and Its Components
(Percent of world GDP)



Sources: IMF, April 2026 *World Economic Outlook*; and IMF staff calculations.

Note: Public saving refers to gross saving of the public sector. Investment includes gross capital formation of both the public and private sectors.

Figure 1.9. Trade and Financial Globalization and Specialization

Sources: BIS locational banking statistics; CPIS; Coppola and others (2021); Gaulier and Zignago (2010); Haver Analytics; IMF, World Economic Outlook database; IMF, International Financial Statistics database; and IMF staff calculations.

Note: CPIS = Coordinated Portfolio Investment Survey, BIS = Bank for International Settlements, LBS = Locational Banking Statistics; EMU = European Monetary Union.

¹Real trade index with the average of 2011 to 2019 equal to 100.

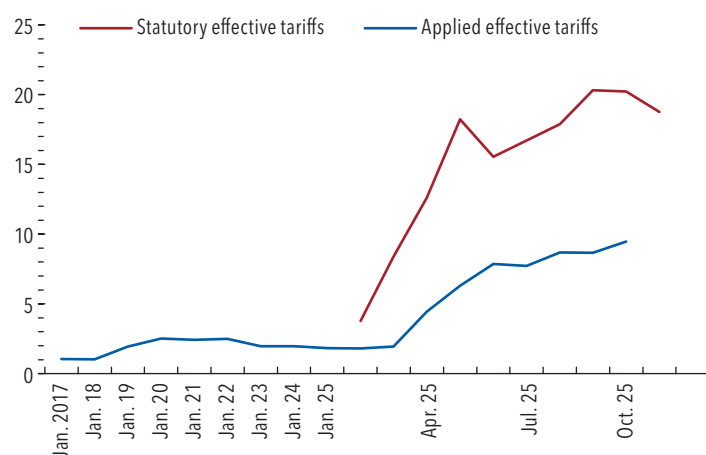
²Financial integration is defined as assets plus liabilities and include the weighted sum of three groups (advanced economies, emerging and developing economies, and financial centers).

³Each dot represents annual value of the centrality measure of a country in trade and financial network. The centrality measure quantifies the importance of each economy ("node") in the network. Financial network represents the sum of cross-border holding of portfolio assets and bank's loans and deposit claims. Mirror data is used to fill missing data whenever available. Portfolio holdings are corrected for the role of offshore financial centers using rescaling matrix of Coppola and others (2021). Intra-EMU holdings and trade are excluded.

- The euro area's current account surplus reflects continued weak investment. Investment declined in 2024 amid weak consumer and business confidence from elevated geopolitical tensions and policy uncertainties, before rebounding in 2025, supported by easing monetary conditions, higher public

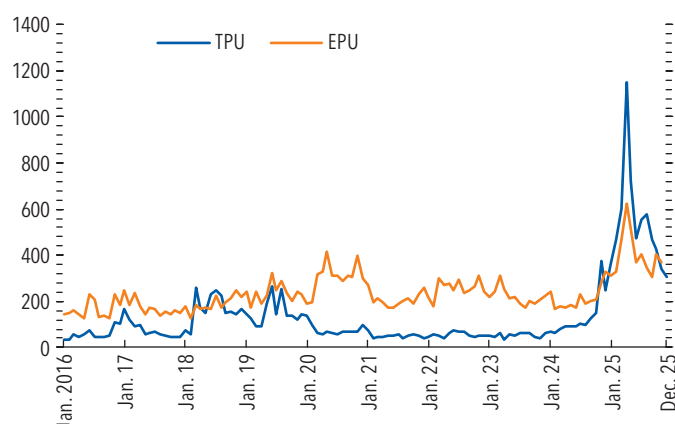
spending, and inventory accumulation (Figure 1.5). The current account decline in 2025 was particularly pronounced in Germany, France, and Ireland, with Ireland exhibiting particularly volatile current account balances due to distortions associated with its large multinational enterprises. More generally, the euro area's current account remains large and continues to reflect high private saving (above pre-pandemic averages) and persistently weak investment dynamics, which is in part driven by subdued productivity growth, demographic headwinds, and structural barriers in some member states.

Historically, rising trade barriers in effect in the past have had a muted impact on current accounts and global balances. The widening of global balances has occurred against a backdrop of elevated trade tensions, including a sharp increase in US tariffs, and heightened policy uncertainty, marking another key distinction with the early 2000s, during which the expansion of global current account balances took place amid deepening global trade and financial globalization (Figure 1.9, panel 1) which, in turn, facilitated economies to become increasingly specialized in trade or finance (Figure 1.9, panel 2). By contrast, since late 2024, the global economy has experienced a significant rise in policy uncertainty and trade barriers (Figures 1.10 and 1.11). Empirical evidence from the

Figure 1.10. US Effective Tariff Rates on All Imports (Percentage points)

Sources: Haver Analytics; IMF-WTO Tariff Tracker; and IMF staff calculations.

Note: "Applied effective tariffs" are government import duties divided by total imports. "Statutory effective tariffs" are the trade-weighted average of statutory ad valorem or ad valorem equivalent tariffs (Most-Favored-Nation or preferential), including tariff actions, based on pre-aggregated Harmonized System six-digit averages. Calculations include only tariffs that are in effect at the time noted on the x-axis; measures that are not specified and implemented are not included.

Figure 1.11. Surging Policy Uncertainty

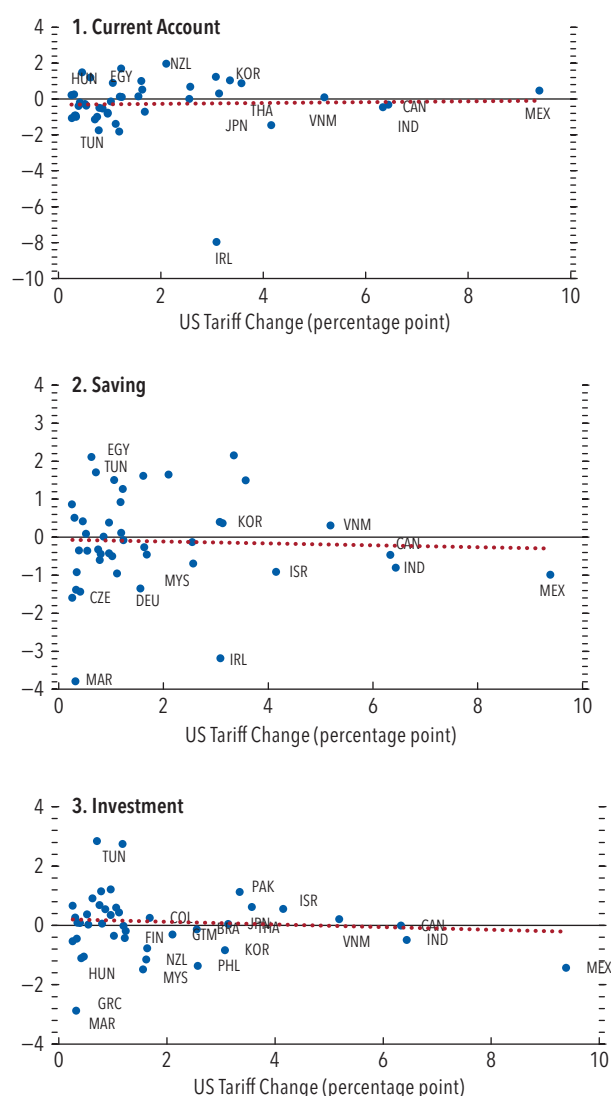
Sources: Baker, Bloom and Davis (2016); Davis (2016); Zalla (2017), Hardouvelis and others (2018); Arbatli and others (2022); Davis, Liu, and Sheng (2019); Ghirelli, Pérez, and Urtasun (2019); and IMF staff calculations.

Note: EPU = economic policy uncertainty; TPU = trade policy uncertainty.

last four decades suggests no clear relationship between trade barriers in effect in the past and aggregate current account balances (Box 1.1; see also IMF 2026d). For the most recent increase in trade barriers, the current account is simultaneously impacted by other factors, including the AI boom and the US dollar adjustment (Figure 1.12; see also Box 1.2).

Recent aggregate developments mask a pronounced reconfiguration of trade patterns both across time and trading partners following the shift in US trade policy. The expansion of China's trade surplus is matched by a decline in the euro area, Japan, and many other surplus economies, while the trade balance in the United States remains broadly unchanged (Figure 1.13). However, imports surged in the United States in anticipation of the April 2 announcement, mostly in the form of durables as firms ran up inventories; subsequently, imports moderated, leaving overall imports as a share of GDP broadly unchanged compared with 2024 (Box 1.2). The differential tariff rates applied to US trading partners have also led to a reconfiguration of bilateral trade patterns, with a decline in US imports from China offset by an increase in imports from the rest of the world. The shifts in trading partners are partly driven by the tech-related investment boom, where the United States has significantly increased its imports from major suppliers, including Taiwan Province of China, Korea, and Japan.

Global real interest rates have risen steadily since 2023, as demand for funds from deficit countries outweighs the supply from surplus ones (Figure 1.14).

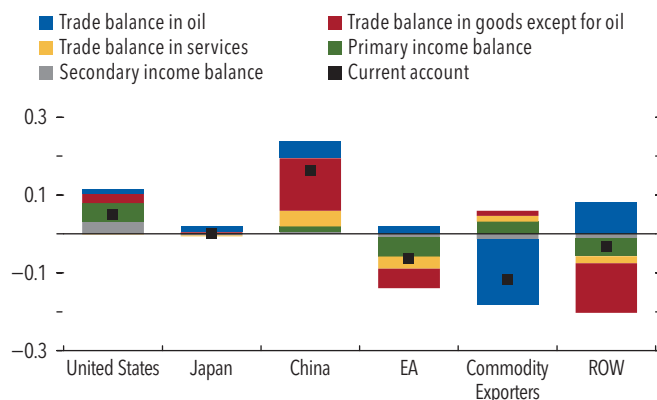
Figure 1.12. Tariffs and Current Account: 2024 vs 2025
(Change in percent of GDP between 2024 and 2025)

Sources: WEO-Live, IMF-WTO Tariff Tracker, and IMF staff calculations.

Note: Data labels use International Organization for Standardization country codes. Sample includes External Balance Assessment countries with exchange rate regimes different from classification 2, 3, and 14–15 (based on Ilzetzi, Reinhart, and Rogoff 2019 classification). US Tariff changes represent the change in trade-weighted averages tariffs between January 1, and November 14, 2025. Weights use 2023 HS6-Level exports to the US as a share of total origin-country exports. Current account and tariff variables are winsorized at the 1 percent level. Red dotted line is the fitted line. HS = harmonized system.

In particular, saving from surplus countries, notably China, has fallen short of global demand for funds, while the United States has been a major driver of demand, reflecting its large fiscal deficits and strong technology-related investment. The current dynamic of global real interest rates marks another key distinction

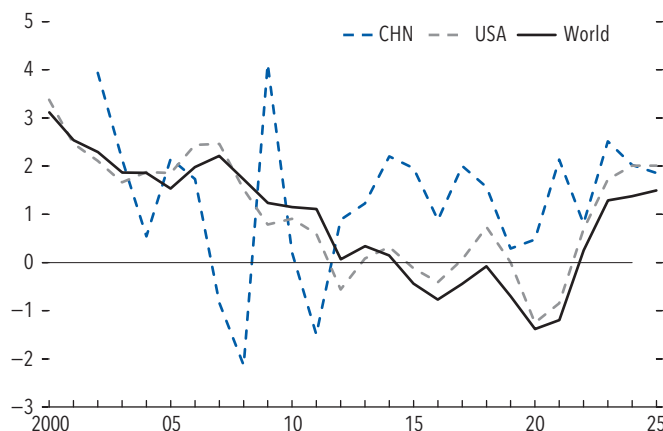
Figure 1.13. Decomposition of Changes in Current Account by External Flow Components, 2024-25
(Percent of world GDP)



Sources: IMF, April 2026 *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.

Figure 1.14. Real Interest Rates
(Percent per year)

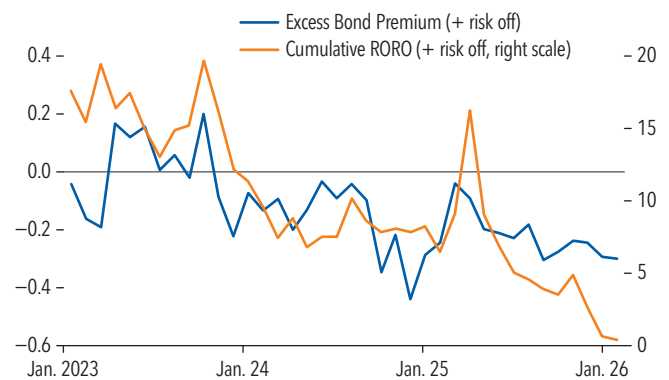


Sources: *Consensus Economics*; Organisation for Economic Co-operation and Development; IMF, *World Economic Outlook* database; and IMF staff calculations.

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.

with the early 2000s when the widening global current account balances coincided with falling real interest rates, reflecting a faster increase in saving—particularly in surplus economies—relative to investment. In the current episode, by contrast, global balances have widened alongside rising real interest rates, as saving has declined more than investment.

Figure 1.15. Global Financial Conditions and Risk Appetite



Sources: Gilchrist and Zakrajšek (2012); Chari, Stedman, and Lundblad (2025); and IMF staff calculations.

Note: Figure displays monthly average values. Risk-On Risk-Off (RORO) index is a composite measure of global investors' risk appetite based on US and euro area asset markets.

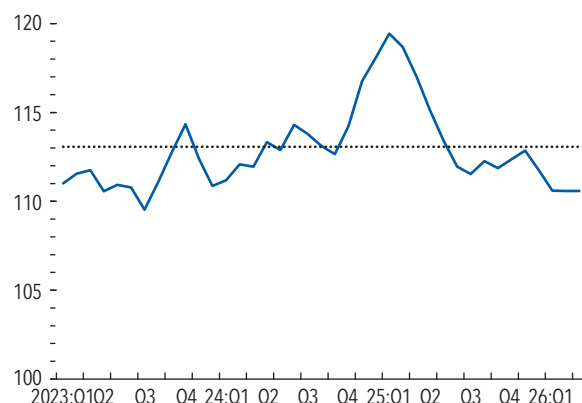
Despite higher global interest rates, global financial conditions eased in 2025, partly reflecting stronger US equity markets (Figure 1.15). This easing relaxed leverage constraints on global financial intermediaries, enabling greater intermediation of cross-border funding toward higher-return projects. All else equal, this implies a widening of global current account balances, as deficit economies with high-return opportunities receive higher capital inflows, while surplus economies record corresponding current account increases, mirroring the movements in deficit countries.

Currencies, Financial Flows, and Balance Sheets

Exchange Rates

The US dollar was influenced by economic fundamentals and shifts in risk sentiment, experiencing a notable appreciation and depreciation episode since the fourth quarter of 2024. A strong appreciation (in real effective terms) in the fourth quarter of 2024 was followed by a sharp depreciation around the second quarter of 2025 (Figure 1.16). Much of the US dollar depreciation against major advanced economy currencies between January and the April tariff announcement can be explained by fundamentals (Figure 1.17), including positive interest rate differentials relative to other advanced economies and upside surprises to US growth. The depreciation following the April tariff announcement, however, points to some disconnect

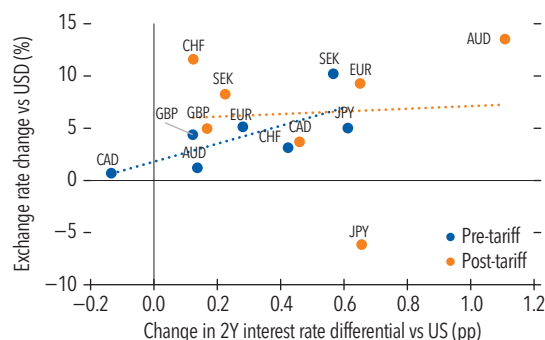
Figure 1.16. US Dollar during 2023–26
(US REER, 2000–25 average = 100; increase = appreciation)



Source: Haver Analytics.

Note: Dotted line shows average between 2023 and 2025. REER = real effective exchange rate.

Figure 1.17. Exchange Rate vs Rate Differentials: Pre & Post Liberation Day
(Percent of world GDP)



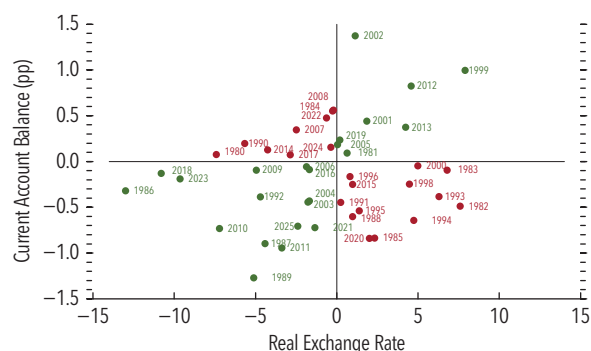
Sources: Bloomberg L.P.; and IMF staff calculations.

Note: Pre-tariff refers to Jan. 2–Apr. 1, and post-tariff refers to Apr. 2 through the latest available observation. Data labels in the figure use International Organization for Standardization country codes. Exchange rate changes are measured against the US dollar, with positive values indicating appreciation against the US dollar. The figure covers Australia (AUD), Canada (CAD), Euro area (EUR), Japan (JPY), Sweden (SEK), Switzerland (CHF), United Kingdom (GBP).

from strong economic fundamentals. It potentially reflects shifts in risk sentiment with higher policy uncertainty and concerns about the US fiscal trajectory, alongside an easing of global financial conditions (see also April 2026 *Fiscal Monitor*).

Nonetheless, the US dollar remains at a high level. It is close to the 2023–25 average and well above its 2000–25 average (Figure 1.16). It is noteworthy that a strong dollar does not necessarily imply a current account deficit in the United States (Figure 1.18; see

Figure 1.18. Dollar Exchange Rate and Current Account Balance
(Year-over-year; percent change)



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

also Bai and others, 2026), as the relationship depends on the underlying forces shaping both variables. Furthermore, despite the large swings, the dollar remained widely used in a range of areas (2025 *External Sector Report*).

Other major currencies moved heterogeneously in 2025. The euro has appreciated in nominal effective terms over the first half of the year and has remained flat since then, potentially reflecting an increased demand for euro-denominated assets, while the pound sterling also strengthened. The renminbi depreciated in the first half of the year, before appreciating toward year-end following the May trade agreement. Overall, it remained broadly stable vis-à-vis the US dollar, implying a real effective depreciation in light of inflation differentials.⁵ The Japanese yen depreciated in 2025 despite appreciating in the first half of the year and despite falling 10-year interest rate differentials relative to the United States that would have suggested further appreciation. Much of yen movements since mid-2025 remain unexplained by fundamentals, with the unexplained component co-moving with positions in the yen futures market. These developments coincided with a greater role of market perceptions of fiscal risk in driving the term premium priced into Japanese

⁵The de jure exchange rate arrangement is “managed floating” with a view to keeping the RMB exchange rate stable at an adaptive and equilibrium level based on market supply and demand with reference to a basket of currencies to preserve the stability of the Chinese economy and financial markets. The floating band of the RMB’s trading prices is 2 percent against the US dollar in the inter-bank foreign exchange market (IMF 2026b).

government bond yields (IMF 2026c), amid uncertainty around the path of monetary policy.

Other Currencies

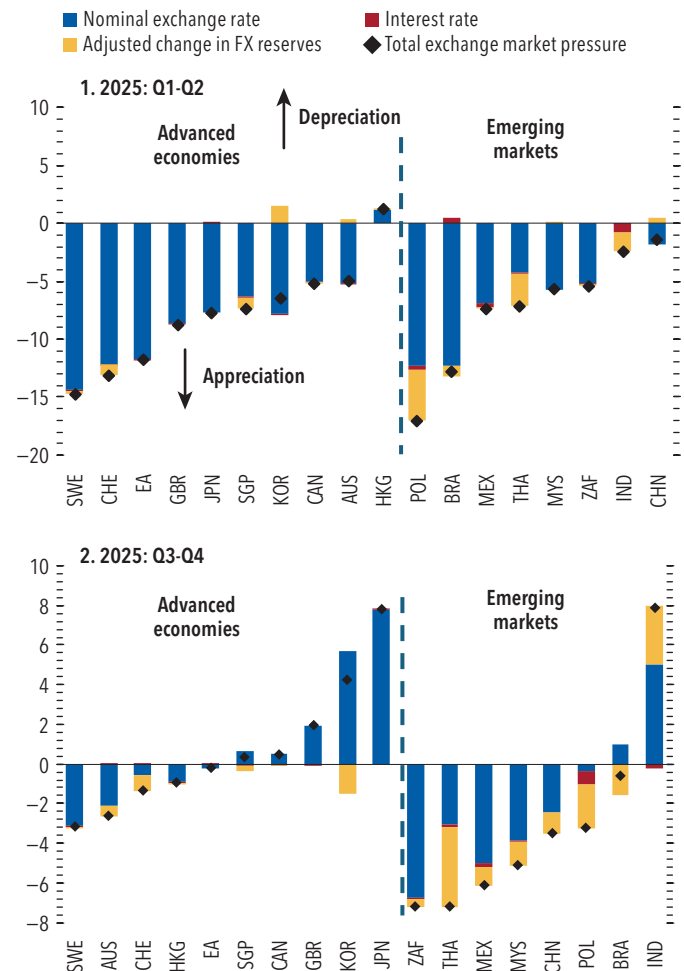
Across broader currency groups, both advanced and emerging market economies faced uniform appreciation pressure in the first half of 2025 (Figure 1.19, panel 1). Exchange rate changes were the main outlet for addressing exchange rate pressures. Adjusted changes in FX reserves also contributed to absorbing the appreciation pressure (Poland, Thailand) and depreciation pressure (Korea, China). In the second half of the year, exchange market pressure was two-sided in advanced economies, whereas the tendency toward appreciation continued in many emerging markets, supported by easing global financial conditions and strong capital flows (Figure 1.19, panel 2). Nonetheless, India faced depreciation pressure in the second half of 2025, in part reflecting further tariffs imposed by the United States. Throughout the year, the contribution from monetary policy remained subdued, even as policy rates were adjusted across many ESR sample economies alongside exchange rate pressures.

Global Financial Flows

Gross capital flows increased in 2025 in both emerging and advanced economies, as global financial conditions eased. However, diverging growth prospects and return on investment contributed to the heterogeneity in capital flows between China and other emerging markets.

- Net capital flows to emerging markets (EM) increased, but China remained an outlier. Total net capital flows to emerging markets continued to recover in 2025, supported by easing global financial conditions, while remaining negative in China—reflecting a continued decoupling of flows in China from those of other EMs (Figure 1.20).
- Gross inflows to China have remained close to zero, reflecting continued weak inward foreign direct investment (FDI)—a pattern consistent with the decline in return to capital in China (IMF 2026a). Gross outflows, by contrast, have recovered in line with other emerging economies. In other emerging markets, gross inflows picked up in 2025 with portfolio and other investment flows (largely banking-related) increasing. Nonetheless, gross FDI

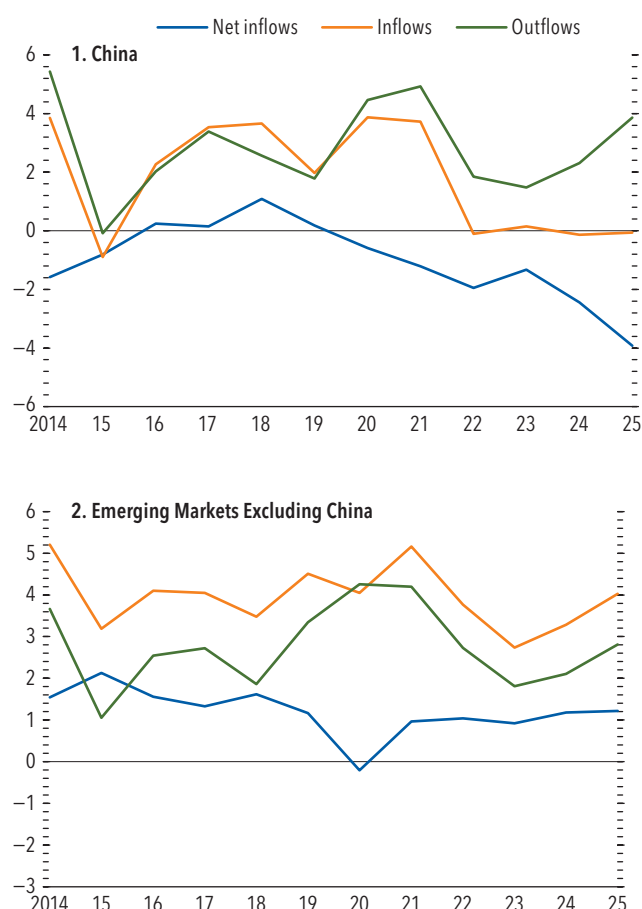
Figure 1.19. Exchange Market Pressure and Its Components
(Percent change, + = depreciation pressure)



Source: 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. Goldberg and Krogstrup (2023) weights are available through December 2024. Latest available observation is held constant for the 2025 series. 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 ESR economies covered by Goldberg and Krogstrup (2023). Missing ESR economies are Argentina, Indonesia, Saudi Arabia, and Türkiye; Russia is excluded as an outlier. The United States is not reported as the reference currency is the US dollar. Data labels in the figure use International Organization for Standardization (ISO) country codes. EA = euro area; ESR = External Sector Report; FX = foreign exchange.

Figure 1.20. Aggregate Net and Gross Capital Inflows to Emerging Markets, 2014-25
(percent of GDP)



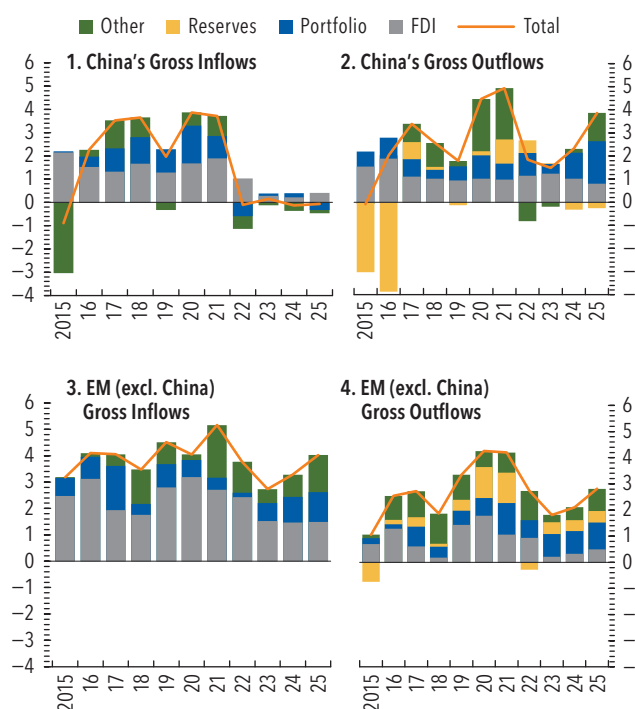
Sources: IMF, Balance of Payments database; and IMF staff calculations.

Note: Sample includes emerging market economies, subject to data availability. Derivatives are excluded.

inflows remained below their pre-COVID-19 average (Figure 1.21).

- Gross capital inflows to the United States remained robust in 2025, with a compositional shift toward equity. Portfolio inflows were the main driver, with equity accounting for the bulk of the increase—consistent with the AI-related investment boom (Figures 1.22 and 1.23). Net inflows into US treasuries eased, particularly at longer maturities. In other advanced economies, both gross inflows and outflows picked up strongly, reflecting stronger portfolio and other investment flows, consistent with the easing of global financial conditions.

Figure 1.21. Gross Capital Flows to Emerging Markets by Component, 2014-25
(percent of GDP)



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

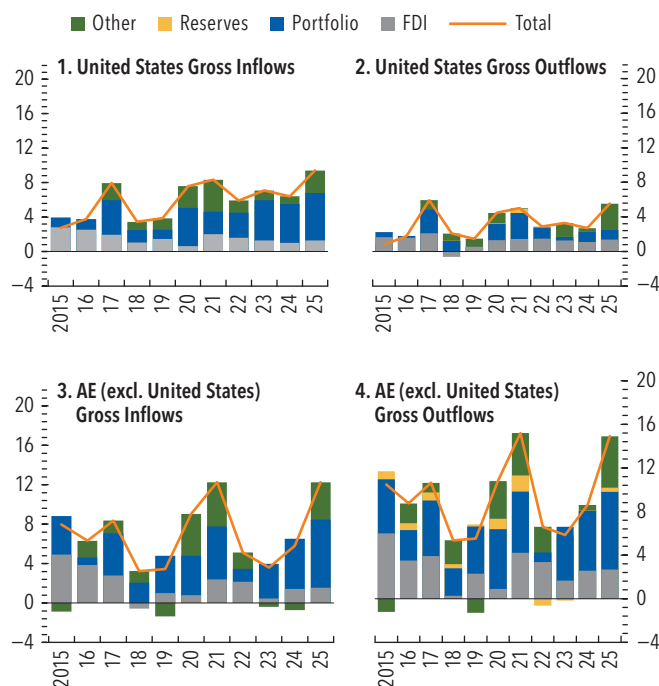
Note: Sample includes emerging market economies, subject to data availability. Derivatives are excluded. EM = emerging market; FDI = foreign direct investment.

Global Balance Sheets

Net external creditor and debtor positions narrowed slightly in 2025 after widening in 2024 (Figure 1.24). On the debtor side, the US NIIP-to-GDP ratio narrowed slightly, as positive FX valuation effects and nominal GDP growth more than offset net financial outflows and price valuation losses (Figure 1.25). The narrowing on the creditor side was driven by the declines from oil exporters, offsetting the increase in financial centers, China, and Germany.

More broadly, the composition of external positions has shifted in important ways in recent years. Strong net capital inflows in equities and persistent asset price outperformance relative to the rest of the world since COVID-19 led the United States to switch from a net long equity position to a net short one (Figure 1.26). This trend has also been accompanied by a deterioration in the net investment income balance to close to zero, consistent with a secular decline of return differential between US external assets and liabilities

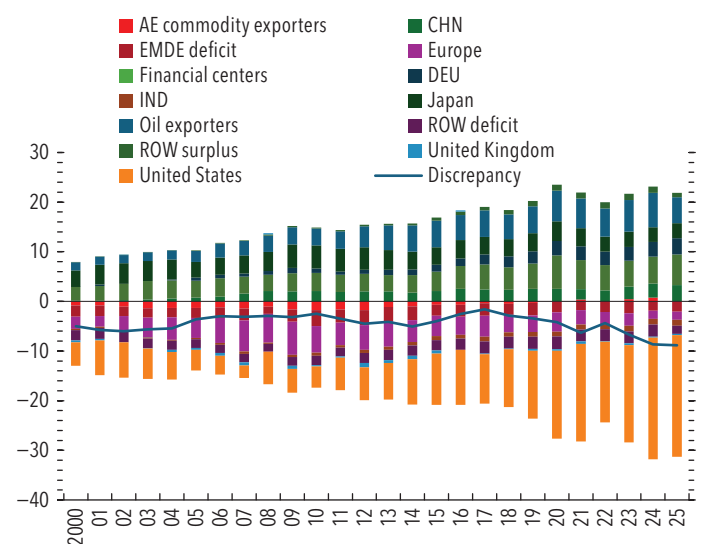
Figure 1.22. Gross Capital Flows to Advanced Economies by Component, 2014-25
(percent of GDP)



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.

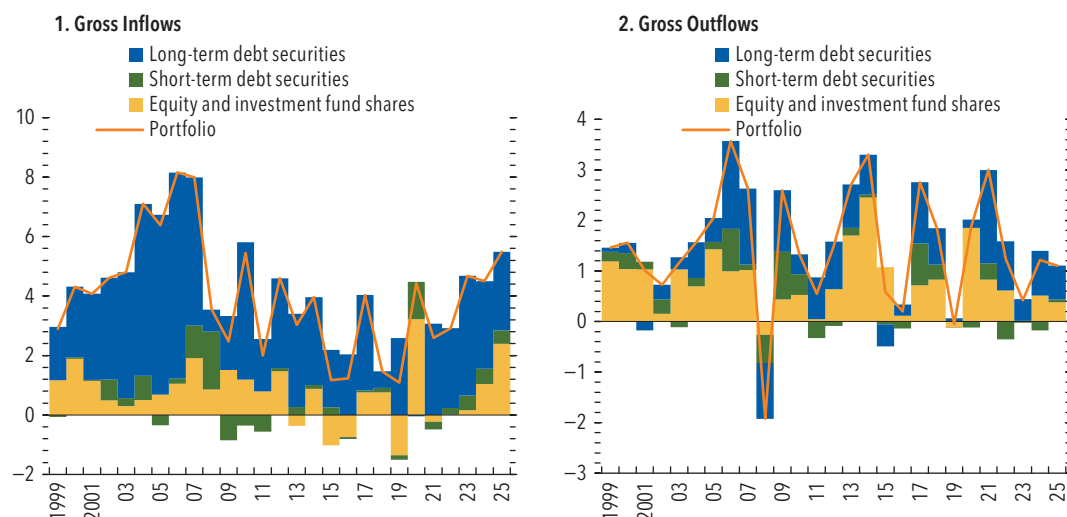
Figure 1.24. Net International Investment Positions, 2000-25
(Percent of world GDP)



Sources: External Wealth of Nations database; IMF, April 2026 *World Economic Outlook*; and IMF staff calculations.

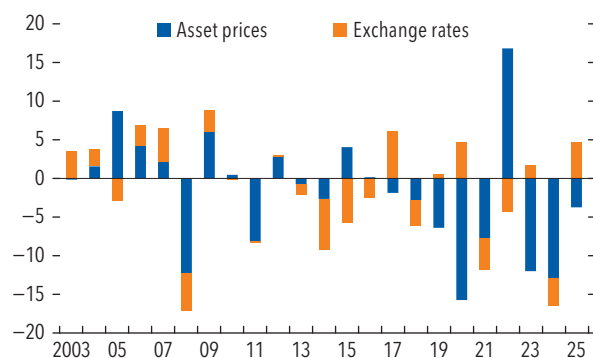
Note: Liabilities are shown on a reverse scale. Data labels in the figure use International Organization for Standardization (ISO) country codes. AE commodity exporters include Australia, Canada, and New Zealand. EMDE debtors include Brazil, Chile, Indonesia, Mexico, Peru, South Africa, and Türkiye. 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.

Figure 1.23. Gross Portfolio Flows in the United States
(percent of GDP)



Sources: Bureau of Economic Analysis Table 1.2 and Table 1.1.5; and IMF staff calculations.

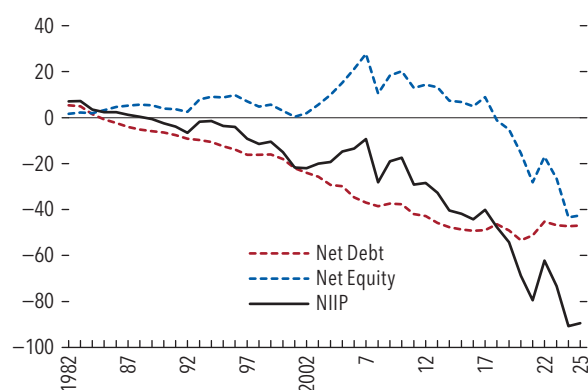
Figure 1.25. US Net Valuation Changes on External Position
(Percent of GDP)



Sources: The US Bureau of Economic Analysis (BEA) Table 1.3 and BEA via FRED, Federal Reserve Bank of St. Louis.

Note: Net = assets – liabilities. Excludes financial derivatives.

Figure 1.26. United States: Net International Investment Position
(Percent of GDP)



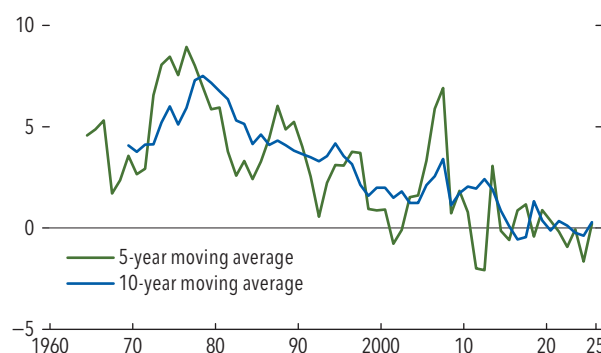
Sources: Bureau of Economic Analysis Table 1.2; IMF staff calculations.

Note: Net debt equal to net portfolio debt + net FDI debt + net other investment + reserve assets; Net equity equal to net portfolio equity + net FDI equity. Derivatives are excluded. FDI = foreign direct investment; NIIP = Net International Investment Position.

(Figure 1.27). In emerging markets and developing economies (EMDEs), as their share of domestic-currency liabilities has increased and exposures to US assets are growing—contrary to earlier “original sin” dynamics, a US dollar depreciation now tends to have negative effects on their NIIP positions (Figure 1.28). More broadly, both EMDEs and other advanced economies are increasingly exposed to asset price movements in US assets, as their holdings in US equity have become very large.⁶

⁶For more detail on the currency composition of the NIIP, see Allen and Juvenal (2025); on exposure to US assets, see Milesi-Ferretti (2024).

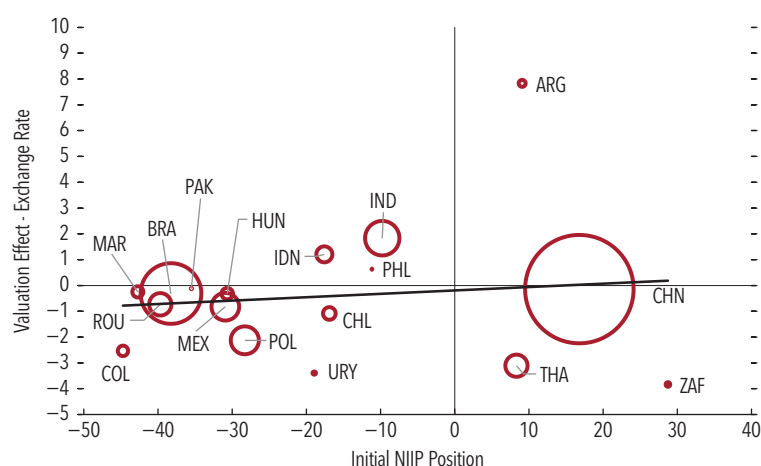
Figure 1.27. The United States’ Excess Returns on Gross External Assets and Gross Liabilities
(Percent)



Sources: US Bureau of Economic Analysis, Table 1.1. US International Transactions; US Integrated Macroeconomic Accounts; and IMF staff calculations.

Note: The series reports the difference between the implicit return on gross external assets and gross external liabilities. Five-year and 10-year moving average, centered on the end point.

Figure 1.28. Emerging Markets: Exchange Rate Valuation, 2025
(Percent of GDP)¹



Source: IMF IIP data; Allen and Juvenal 2025; and IMF staff calculations.

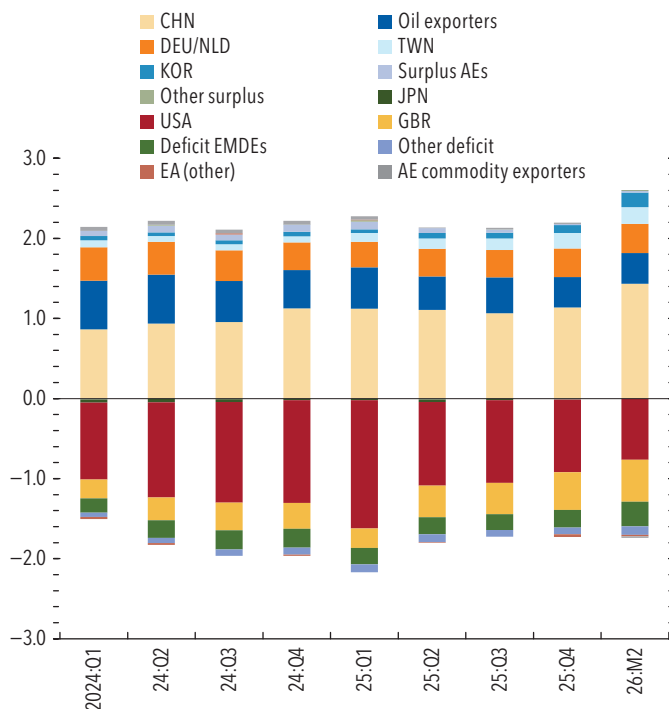
Note: Data labels in the figure use International Organization for Standardization country codes. NIIP = Net International Investment Position.

¹Bubble sizes are proportional to 2025 net international investment position change.

Developments in Early 2026

Developments in early 2026 point to a continuation of elevated global current account balances. High-frequency indicators suggest that China recorded another large increase in its trade balance in the first two months of 2026, supported by strong electronics exports. Similarly, Korea recorded historical high trade surpluses. Concurrently, trade balances in both

Figure 1.29. High-Frequency Global Balances Indicator Based on Trade Balances
(Percent of world GDP)



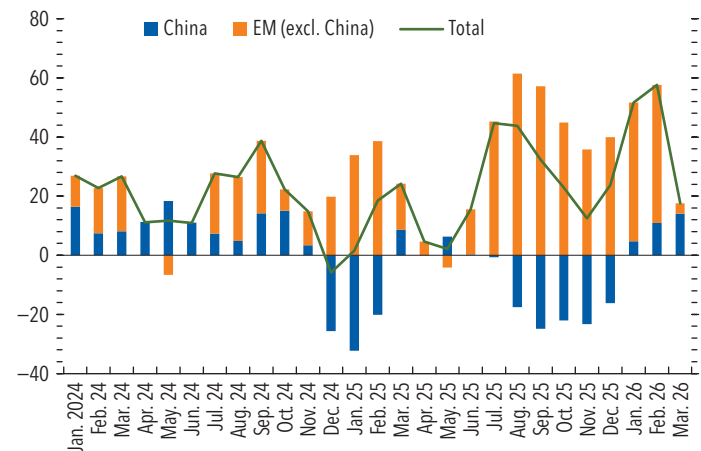
Sources: IMF, World Economic Outlook database; national statistical offices; and IMF staff calculations.

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. Oil exporters' data is kept constant from the fourth quarter of 2025.

the United States and the euro area have declined (Figure 1.29). The early 2026 trade data also indicate a larger statistical discrepancy as the sum of global surplus exceeds the sum of global deficits. This statistical discrepancy could reflect the fact that trade data are becoming increasingly more difficult to measure, although the discrepancy might be revised away over time. Over the same period, higher frequency data signal a continued strong gross portfolio inflow to EMs (excluding China) and a potential recovery of inflows to China (Figure 1.30).

Despite some volatility, the US average tariffs remained broadly unchanged. In February, following a ruling by the Supreme Court, all tariffs imposed under the authority of the International Emergency Economic Powers Act were invalidated. The US administration then implemented a 10 percent import surcharge (with certain specific exemptions) under section 122 of the Trade Act of 1974 which may remain in force for up to 150 days. Taking into account recent changes under section 122 of the Trade Act, the

Figure 1.30. High-Frequency Gross Portfolio Inflows to Emerging Markets, January 2024 – March 2026
(Three-month moving average, billions of US dollars)



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

Note: EM = emerging market.

average applied effective tariff rate on imports into the United States remains at around 7 to 8.5 percent. In addition, the US Administration has also announced an intent to return to the pre-February status quo.

The war in the Middle East created further headwinds for a reduction of global current account balances; however, its impact remains uncertain depending on the oil price development and potential second-round effects (Box 1.3). Historically, higher oil prices are accompanied by current account improvements for energy exporters and deteriorations for energy importers (2024 *External Sector Report*). However, energy exporters whose production is directly affected by the war could experience a narrowing of their current account surplus as energy revenues fall and governments provide support to their economies. The overall effect on the global CA balance is further complicated by the fact that the United States is now a modest oil exporter, so its current account deficit may narrow given the positive terms of trade shock. The war has also led to a moderate tightening of global financial conditions, which could narrow global current account balances. The dollar appreciated somewhat following the outbreak, reflecting its safe-haven status. Gross portfolio inflows to EMs have also dropped in March 2026 with the onset of the war and associated shift in risk sentiment. The decline was broad-based, but was particularly large in emerging and developing Asia, driven mainly by the reduction in gross portfolio equity inflows.

Assessment of External Positions in 2025

This report represents multilaterally consistent individual assessments of external positions for 30 of the world's largest economies, representing about 90 percent of world GDP. 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 EBA methodology produce multilaterally consistent medium-term current account and real exchange rate benchmarks, called norms, that reflect country fundamentals and desirable policies.⁷ EBA models are updated periodically to improve the conceptual framework by drawing from lessons learned in implementation and incorporating feedback from various stakeholders. Assessments this year are based on the 2026 EBA methodology refinements that include an update and extension of the data, improvement in the calculation of the commodity terms of trade gaps, and a revision of the demographic bloc. Motivated by the rise in trade barriers, refinements examine their role in current account determination (Box 1.1). The refinements also introduce an excess-adjusted Net Foreign Assets (NFA) with its implementation planned for the 2027 *External Sector Report* (Box 1.4).⁸ Details on these methodological changes and other supporting analyses can be found in online Annex 1.1.

Current account gaps are derived by comparing the norms produced by EBA models with the realized current account after adjusting for cyclical and other temporary factors. These gaps are a measure of excess external balances. The current account gaps are then translated into real exchange rate gaps, using estimated semi-elasticities. The real exchange rate models further help to inform the real exchange rate assessment. The overall external sector assessment places more weight on the current account model because real exchange rates are more volatile and difficult to explain econometri-

cally. The model inputs are then combined with other external indicators, analytically grounded judgment, and country-specific insights to reach a holistic IMF staff assessment of external sectors.⁹

IMF staff judgment plays a critical role in the assessment as the models may not capture all relevant economy characteristics and potential policy distortions and are subject to statistical uncertainty. Adjustors for economy-specific factors, such as measurement issues, have been included. The number of adjustors in 2025 decreased compared to 2024, in part due to improvements to the demographic bloc in the EBA model and a reclassification of the inflation bias adjustors brought forth by the 2026 EBA refinements (see online Annex 1.1). Annex Table 1.1.3 reports the overall set of IMF staff adjustments.

Assessment Results for 2025

External positions compared with the levels consistent with medium-term fundamentals and desirable policies in 2025 were assessed as follows (Figure 1.31):

- *Moderately stronger, stronger, or substantially stronger than the level implied by medium-term fundamentals and desirable policies:* China, Germany, India, Japan, Korea, Malaysia, the Netherlands, Singapore, Spain, Sweden, and Thailand.
- *Moderately weaker, weaker, or substantially weaker than the level implied by medium-term fundamentals and desirable policies:* Argentina, Australia, Belgium, Brazil, Canada, Italy, Russia, Saudi Arabia, Türkiye, the United Kingdom, and the United States.
- *Broadly in line with the level implied by medium-term fundamentals and desirable policies:* Euro Area, France, Hong Kong SAR, Indonesia, Mexico, Poland, South Africa, and Switzerland.

Although policy gaps explain part of the current account gaps in some countries, residuals account for a large share. Figure 1.32 reports the contributions to the staff-assessed current account gaps for 2025, illustrating that the residual is the largest contributor in many cases. Policy gaps remain relevant in some cases, including a negative credit gap in the Netherlands, weaker social safety nets in Malaysia, and a larger fiscal deficit in the United States.¹⁰

⁹See Obstfeld (2017) for a description of the external assessment process.

¹⁰The cyclically adjusted CA is composed of the contribution from fundamental factors, actual policies, and the residual while the CA norm contains fundamentals and desirable policies. The difference between the two is thus composed of the residual and the difference in the contribution of actual and desirable policies.

⁷The 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 example, 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 a relatively tighter fiscal policy.

⁸The NFA and NIIP refer to the same concept in this report.

Figure 1.31 Evolution of External Sector Assessments, 2012-25

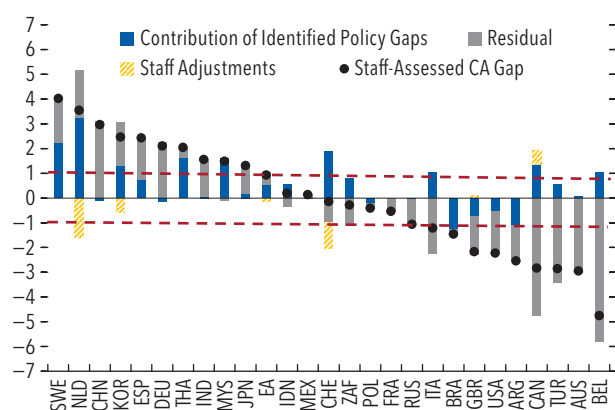
Source: IMF staff assessments.

Note: Grouping and ordering are based on economies' excess imbalance during 2025. Coverage of Argentina in the *External Sector Report* started in 2018.

The aggregated contribution of policy gaps can understate the impact of an individual economy reducing its policy gaps. By construction, policy gap contributions reflect both domestic deviations from desirable policies and the average of deviations across all econo-

mies. If all economies simultaneously close their policy gaps—that is, policies converge to their desirable levels both domestically and globally—CA gaps adjust in line with the estimated contributions from policy gaps as illustrated in Figure 1.32. However, the effect differs

Figure 1.32. External Balance Assessment Current Account Gaps, 2025
(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. CA = current account; EA = euro area; EBA = External Balance Assessment.

under unilateral action. For example, if the United States closes its fiscal gap, its CA gap would narrow by about 1 percentage point. By contrast, if all economies close their fiscal gaps simultaneously, the reduction in the US CA gap would be about 0.5 percentage points.

Residuals reflect country-specific considerations not captured by the EBA model approach. These can be fundamental variables or rigidities in the economy that result in excesses. Some country-specific examples explaining positive residuals include the following—in the case of China: elevated precautionary saving linked to social safety net weaknesses and a prolonged housing downturn; in the case of Germany, regulatory constraints that impede investment and measurement issues related to the differential statistical treatment of retained earnings. Some examples of explanations for negative residuals include, for the United States: reserve currency status, deep financial markets, and a frontier position in technological innovation, which combine to attract strong capital inflows. In the case of Türkiye, the residual potentially reflects the impact of persistently elevated inflation and inflation expectations on private saving, combined with the positive wealth effect from higher gold prices (see Chapter 2). Further analysis of country-specific residuals should be considered in subsequent surveillance work. Beyond these country-specific factors, the residual can reflect cross-cutting policy aspects excluded from the specification, for example, considerations related to pension

systems, mentioned in the case of Sweden, Singapore, and the Netherlands, or labor or product market regulation, mentioned in the case of Belgium, Canada, and India.¹¹ Difficulties in measurement, coverage, and assessment of normative stance preclude direct inclusion of such considerations in the EBA CA model. Nevertheless, available data are utilized in complementary toolboxes to analyze residuals for a subset of countries (see Online Annex Boxes 1.5.1 and 1.5.2).

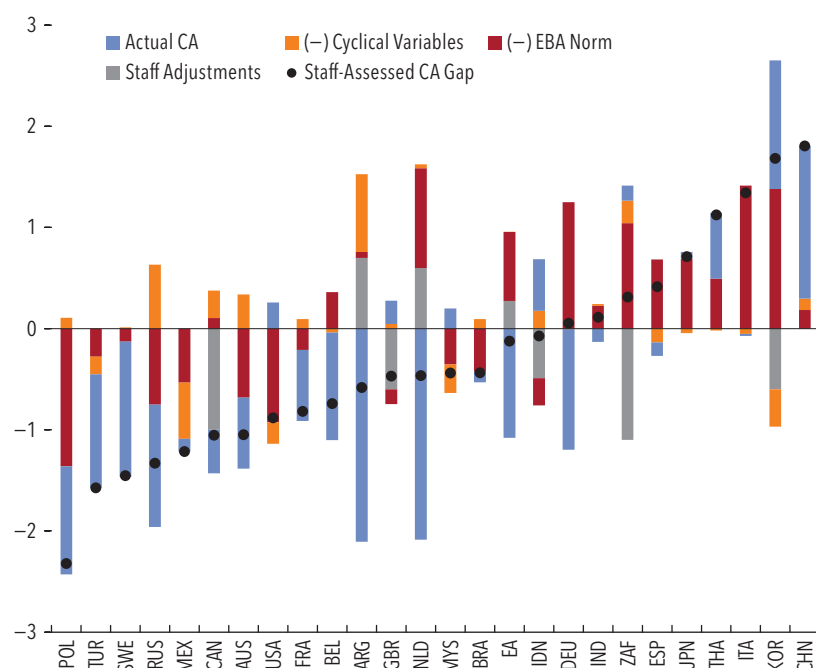
Both policy gaps and residuals capture spillovers from policy stance and distortions in other economies. EBA variables are defined relative to a GDP-weighted sample average; thus, changes in policies in large economies—or in economies with sizable policy gaps—can induce material cross-border spillovers. For example, if the United States were to close its fiscal gap, the global average fiscal balance would rise, making other countries' fiscal positions appear looser relative to the world average; and shifting the CA contribution of their fiscal policy gaps down by about 0.4 percentage points of GDP.¹² Residuals similarly reflect cross-country spillovers from country-specific structural distortions. Elevated precautionary saving in China (linked to social safety net weaknesses) and weak investment in the euro area (partly due to structural impediments) could, for instance, contribute to more negative residuals in other economies.

Consistent with the widening in global balances, assessments for 13 economies moved further from the broadly in line category. Changes in current account gaps in 2025 were driven primarily by changes in the actual current account, accounting for about 60 percent of the variation (Figure 1.33). Shifts in CA norms played an important role, in large part reflecting the 2026 refinements to the EBA methodology, as analyzed in the next section. The contribution from changes in staff adjusters also stemmed from the methodological refinements, as several economies no longer require demographic adjusters and the inflation bias adjuster has been reclassified to interpret EBA residuals.

¹¹See Online Annex 1.1, Section 1.5 for a complete discussion on approaches taken to systematically analyze residuals.

¹²In the case of a fiscal consolidation in the United States, the decline in the policy gap could be reflected by a decline in the CA gap or an increase in the residual if the consolidation results in a change to the country's CA balance.

**Figure 1.33. Sources of Changes in Current Account Gaps
2024-25**
(Percent of GDP)



Source: IMF staff calculations.

Note: The change is relative to the results in the 2025 *External Sector Report*. Data labels use International Organization for Standardization country codes. CA = current account; EA = euro area; EBA = External Balance Assessment.

Current Account Norms in 2025

As in previous years, NFA, output per worker, demographics, and desirable policies remain among the largest contributors to CA norms (Figure 1.34). NFA captures persistent cross-country differences in slow-moving fundamentals. Output per worker reflects capital flows from high-income countries to faster-growing economies where the return on capital is higher. The demographic bloc captures both the impact of the age composition of a country's population and the impact of longevity on saving. Desirable policies include fiscal policy, public health spending (as a proxy for the adequacy of the social safety net), the credit gap capturing the impact of the credit cycle, and foreign exchange intervention interacted with capital controls, all of which can affect the desired level of the CA and the exchange rate.

Changes in norms in 2025 relative to 2024 reflect both 2025 data updates and the 2026 EBA refinements. For the refinements it is instructive to separate contributions from the updated data series and re-estimated model with sample extended to 2023 versus the revised

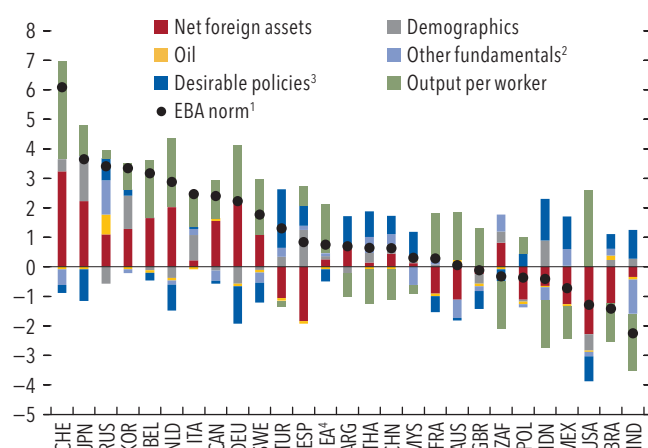
model specification. Data update and extension account for the majority of the changes in CA norms, although in some cases, the changes were largely driven by the refined model specification. (Figure 1.35).

The 2026 EBA refinements resulted in norm compression: Economies with initially positive CA norms generally saw those norms decline, while economies with initially negative norms experienced increases (Figure 1.36). Three key factors contributed to the compression:¹³

- Changing demographic trends are the primary driver of compression. Convergence in some key demographic variables across countries has reduced dispersion in demographic contributions to norms and is expected to continue (see Online Annex section 1.4). This pattern is consistent with a period of rapid demographic transition, as population aging in emerging markets rapidly converges to that of advanced economies.

¹³These factor-specific contributions include both data update and extension as well as the model revision, as reported in Figure 1.35.

Figure 1.34 External Balance Assessment Current Account Norms, 2025
(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.

¹The EBA current account norm is multilaterally consistent and cyclically adjusted.

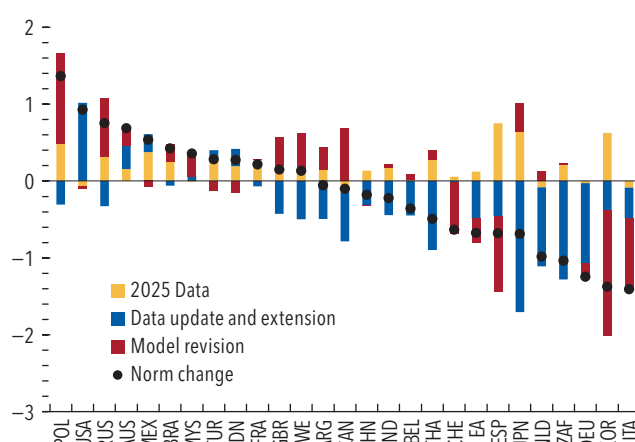
²Other fundamentals include expected GDP growth and International Country Risk Guide.

³Desirable policies include desirable credit gap, desirable fiscal balance, desirable foreign exchange intervention, desirable health, and constant and multilaterally consistent adjustment.

⁴The current account norm is corrected for reporting discrepancies in intra-area transactions, because the current account of the entire euro area is about 0.89 percent of GDP less than the sum of the individual 11 countries' balances (for which no such correction is available).

- The estimated relationship between the current account and NFA has modestly weakened, partly reflecting the growing importance of valuation effects in NFA dynamics. Nevertheless, NFA remains an important determinant of norms for economies with large creditor or debtor positions. The smaller estimated coefficient, however, reduces its contribution to cross-country dispersion, thereby contributing to a compression of norms.
- Desirable health policies also contribute to the compression. As a proxy for the strength of social safety net, the desirable health policies capture household saving due to precautionary motives. Recent shocks—including the COVID-19 pandemic and the war in Ukraine—may have further strengthened precautionary saving motives, increasing the role of social safety nets in shaping household saving behavior.
- By contrast, output per worker contributes to a widening of norms. This may reflect stronger capital outflows from advanced economies in recent years, reinforcing the mechanism through which capital

Figure 1.35. Sources of Changes in External Balance Assessment Current Account Norms 2024-25
(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. The changes to the norm are decomposed to (1) 2025 Data: Change in data from 2024 to 2025, including updates to desirable policies (P*), using the 2022 EBA model, (2) Data update and extension: full EBA sample data update, including the 2024 revision of the UN World Population Prospects, and re-estimation of the model with extended sample to 2023, and (3) Model revision: revision to the demographic specification. EA = euro area; EBA = External Balance Assessment.

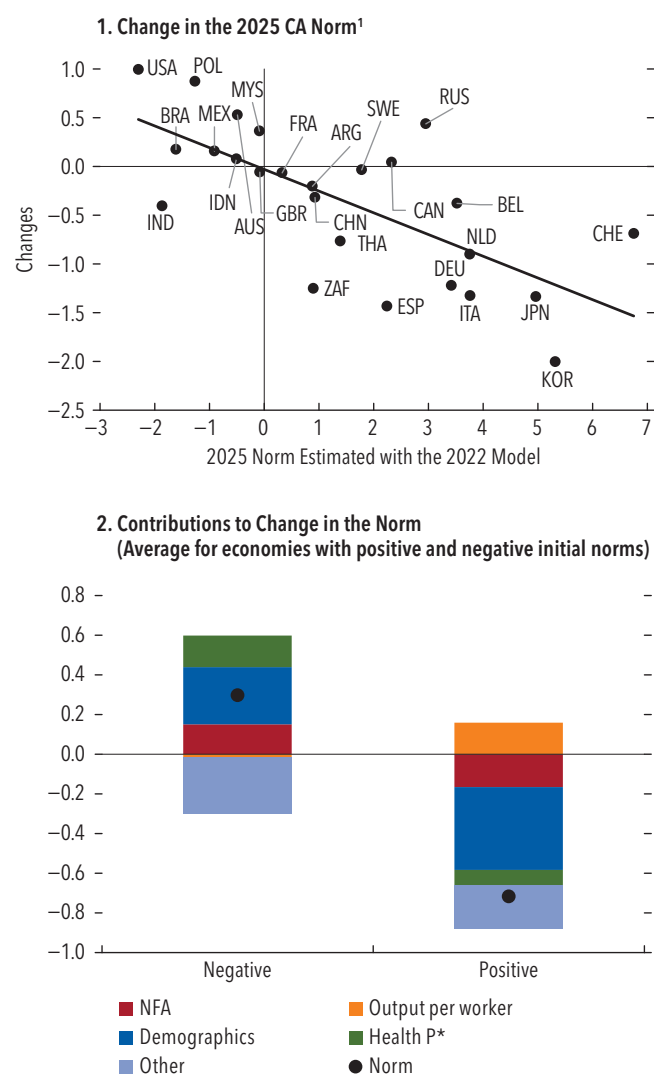
flows from capital-abundant (high capital-labor ratio) advanced economies to emerging market economies, potentially supported by improved policy and regulatory frameworks in EMEs (see further evidence in Online Annex section 1.4).

Country-specific contributions to norm changes are diverse (Online Annex Figure 1.4.2). For example, in the case of Korea and Japan, declines in the contributions from demographic variables are the main drivers. For the United States, the increase in the norm reflects comparable contributions from demographics, the net foreign asset position, and output per worker. In China, the norm has decreased, in part driven by a lower contribution from output per worker.

Global Excess Current Account Balances

Global excess CA balances for ESR economies rose by a further 0.7 percent of ESR GDP in 2025, marking the largest increase in the past decade (Figure 1.37). This widening was predominantly driven by the data revision and extension, reflecting the changing economic relationship between the

Figure 1.36. Decomposing the Change in the 2025 Current Account Norm
(Percent of GDP)



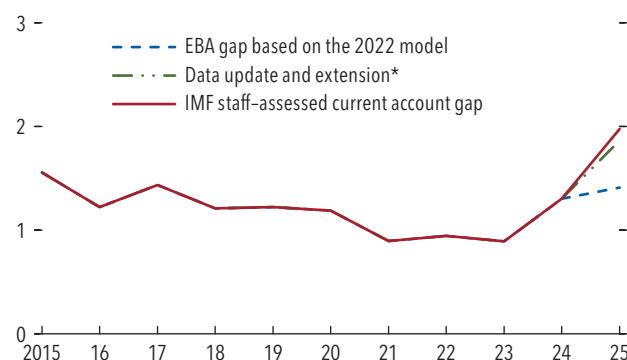
Sources: Source: IMF staff estimates.

Note: Data labels use International Organization for Standardization country codes. CA = current account; EBA = External Balance Assessment; NFA = Net Foreign Assets.

¹Figure compares the 2025 CA norm based on the 2022 EBA model with 2025 data to that from the data update and extension and model revision. Relative to Figure 1.35, the changes reflect changes driven by the data update and extension and the model revision.

current account and macroeconomic fundamentals as discussed above. Changes in headline current accounts (that is, EBA gaps based on the 2022 model in Figure 1.37) and revisions to the model specification have also played a role. The increase in excess balances is broad-based but driven predominantly by a widening of excess current account balances in China

Figure 1.37. IMF Staff and External Balance Assessment Current Account Gaps
(Percent of ESR economy GDP)

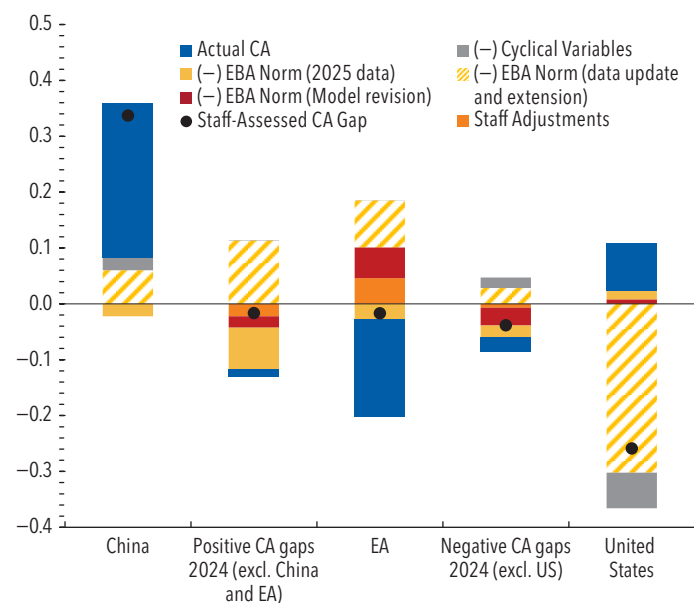


Source: IMF staff calculations.

Note: "IMF staff-assessed current account gaps" is a measure of excess current account balances for ESR economies, calculated as the sum of the absolute values of IMF staff-assessed current account gaps. The data update and extension reflects the updated terms of trade calculation, the 2024 revision of the UN World Population Prospects, and re-estimating the model with extended data to 2023. CA = current account; ESR = External Sector Report.

*Adjustors that are included in the IMF staff-assessed CA gap for 2025 are also applied here.

Figure 1.38. Changes in the External Balance Assessment Current Account Gaps, 2024-25
(Percent of ESR GDP)



Source: IMF staff calculations.

Note: The EBA norm (2025 data) shows the change to the 2024 norm from the data update to 2025, including updates to desirable policies (P*). The EBA norm (data update and extension) shows the change to the norm in the previous step due to data revisions reflecting the updated terms of trade calculation, the 2024 revision of the UN World Population Prospects, and re-estimating the model with extended data to 2023. The EBA norm (model revision) shows the change to the norm in the previous step due to the model revision to the demographic specification. (–) denotes that the value is multiplied by –1. CA = current account; EA = euro area; EBA = External Balance Assessment.

and the United States (Figure 1.38). In China, this reflects a widening of the headline current account balance. In the United States, it was driven by the data update and extension. Other economies with negative CA gaps in 2024 also contributed to the increase in excess balances, which is partly offset by the narrowing from other economies with positive CA gaps and the narrowing in the euro area. Taken together for the ESR economies, staff-assessed excess CA balances account for about 2/3 of the overall global CA balances.

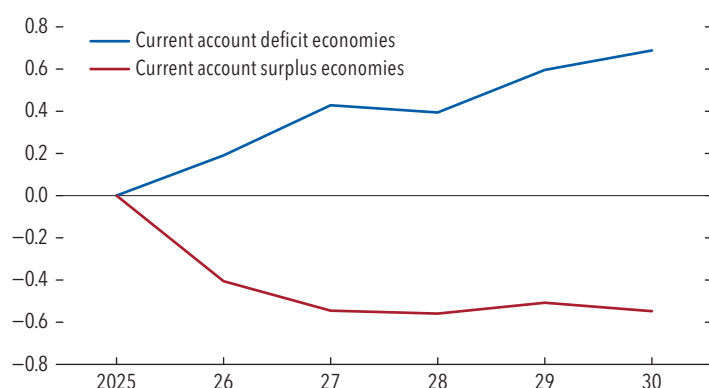
Outlook and Risks

Outlook: April 2026 World Economic Outlook Reference Forecast

Under the April 2026 *World Economic Outlook* reference forecast, global current account balances are projected to narrow over the medium term. Among the surplus countries, the current account will be reduced especially in China, Japan, Korea, and the euro area (Table 1.1). Oil exporters are also projected to see shrinking surpluses over the medium term, although the recent energy price spike implies a short-lived uptick in their surplus in 2026. Meanwhile, major deficit economies such as the United States and the United Kingdom are projected to reduce their deficits. The decline in the global balance is partly offset by a widening of current account deficits in some emerging markets (for example, India and Indonesia).

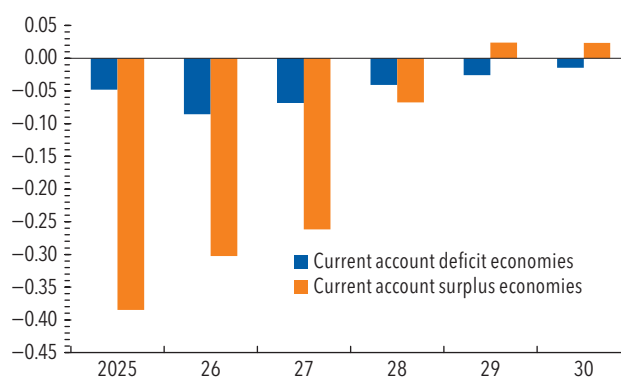
Fiscal policy and cyclical developments contribute to the projected narrowing of global balances. Among the contributing factors is the projected medium-term fiscal consolidation in current account deficit economies

Figure 1.39. Fiscal Balance Adjustment, 2025-30
(Cyclically Adjusted Fiscal Balance, percentage points of potential GDP; changes since 2025)



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

Figure 1.40. Output Gap Development, 2025-30
(Percent of potential GDP)



Sources: IMF staff calculations.

(Figure 1.39); along with fiscal expansion in current account surplus economies, it is expected to contribute about 0.2 percentage points of projected narrowing of global balances. In addition, as output gaps are currently considerably more negative in surplus economies (Figure 1.40), the waning of cyclical factors is also expected to contribute to a falling global balance by about 0.05 percentage points.¹⁴

The projected decline in global balances has only a modest contribution to the narrowing of excess global balances, as structural factors contribute to an even larger narrowing of desired current account balances. Part of the narrowing in the reference forecast—such as the contribution from cyclical developments—does not affect excess global balances.¹⁵ Structural factors, including the convergence of demographic drivers, contribute to the narrowing of desired current account balances. The contribution of projected fiscal adjustment accounts for about 10 percent of the EBA-estimated excess global balances. As a result, large excess balances remain in the reference forecast despite the projected decline in global current account balances.

Risks of Large and Persistent Global Imbalances

Globally sizable increases in excess CA balances, reflecting domestic imbalances, can indicate uneven growth drivers. Uneven growth signals a macro environment that may give rise to macro, financial, or fiscal stability risks that warrant policy adjustments to

¹⁴Expected contributions of fiscal policies and cyclical developments are based on April 2026 *World Economic Outlook* projections and applying coefficient estimates from the EBA model.

¹⁵Note that the excess current account, i.e., the CA gap, in EBA is derived as the difference between cyclically adjusted headline current account and the cyclically adjusted CA norm.

put growth on a more sustainable path. These risks are assessed in the context of bilateral surveillance.¹⁶ Excess CA balances can signal inefficient resource allocation. Sizable excess surpluses can contribute to the buildup of systemic macrofinancial risks, for example, by depressing real interest rates, building up vulnerabilities as investors tilt toward riskier assets and increasing leverage.

Large and persistent excess CA deficits are a particular source of concern when they risk unwinding in a disorderly manner. Such disorderly adjustments are often associated with abrupt capital flow reversals, sharp asset price corrections, and deep economic downturns. For example, ahead of the global financial crisis the buildup of imbalances coincided with strong growth and policy coordination played a limited role; the subsequent disorderly adjustment reduced global imbalances but impaired balance sheets lead to significant global output loss (see, for example, a discussion in IMF 2026d). More broadly, excess current account balances can heighten the risk of sudden stops or capital flow reversals, especially in economies with negative NIIP.

Increased CA surplus in large countries can alter policy tradeoffs for trading partners, potentially leading to negative spillovers on economic activity. Large surpluses can have negative spillovers when trade partners' monetary policy is constrained—for instance by the effective lower bound—and thus unable to offset reduced demand by easing monetary policy (e.g., Eggertsson, Mehrotra, and Summers, 2016; Caballero, Farhi, and Gourinchá, 2021; 2025 *External Sector Report* Box 1.2).

A rapid increase in current account surpluses can have disproportionate negative effects on specific bilateral trade partners or in specific sectors, as the speed of adjustment interacts with existing frictions. Although current account shifts may be warranted from a long-term perspective, the existing evidence suggests that swift adjustments are frequently associated with substantial short-term dislocations. For example, the surge in Chinese exports following WTO accession led to sizable employment and income losses in more exposed industries and regions across advanced economies (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 (2025 *External Sector Report* Box 1.2).

Large global imbalances can also carry political economy risks. These risks are particularly relevant in the presence of already large and persistent imbalances and when trade expands faster than economies can adjust. Even where aggregate real incomes rise, perceptions of unfair outcomes—for example, from concentrated regional or sectoral employment losses—can fuel protectionist sentiment and erode support for open markets (IMF 2026d).

Sectoral imbalances in key industries can contribute to unbalanced growth and heighten trade tensions. Targeted industrial and trade policies can affect sectoral imbalances through reallocation and scale effects. While these policies may have limited effects on aggregate trade balance unless accompanied by macro industrial policies (IMF 2026d and Box 1.2), sectoral surpluses or deficits, especially when concentrated in sectors of strategic importance (e.g., semiconductors, electronics), can fuel concerns of unfair competition or excessive dependence and signal broader economy-wide policy distortions. When one country's industrial policy contributes to producing large trade surpluses in such sectors, trading partners often respond defensively—imposing tariffs or launching retaliatory subsidies to protect their own strategic industries (Bown, 2024; Evenett and others, 2024). This tit-for-tat dynamic can escalate into a spiral of mutually distortive policies.

Scenario: Continuation of Current Trends

Model simulation is used to study the impact on global balances if major economies continue with current policies. There is a risk that the limited narrowing of current account balances in the reference forecast might not materialize. In recent years, the *World Economic Outlook* forecasts for global current account balances have tended to exhibit a downward bias.¹⁷ This section explores a scenario where countries instead continue to pursue policies that exacerbate imbalances. For the United States, this scenario assumes an intensification of the tech- and AI-driven boom (AI-boom),

¹⁶For instance, a frontloaded fiscal consolidation plan to put debt-GDP on a downward trajectory in the US (IMF 2026e), and structural reforms to facilitate higher private investment in the euro area (IMF 2026f). Similarly, raising social spending, strengthening social safety nets, and improving tax progressivity can durably reduce household savings and boost domestic demand in China (IMF 2026b).

¹⁷The April 2024 and April 2025 *World Economic Outlook* projections for global current account balances were 0.7 and 0.4 percent of world GDP, respectively, below the outturns in 2024 and 2025.

driven by domestic demand and productivity gains, as well as a renewed fiscal expansion, which comes on top of already robust consumer spending and large fiscal deficits.¹⁸ China's weak domestic demand becomes more pronounced amid weaker consumption and a protracted property sector downturn and diminishing returns to investment despite industrial production incentives. China's currency adjustment is limited. The euro area experiences persistently weak productivity growth and subdued investment.¹⁹

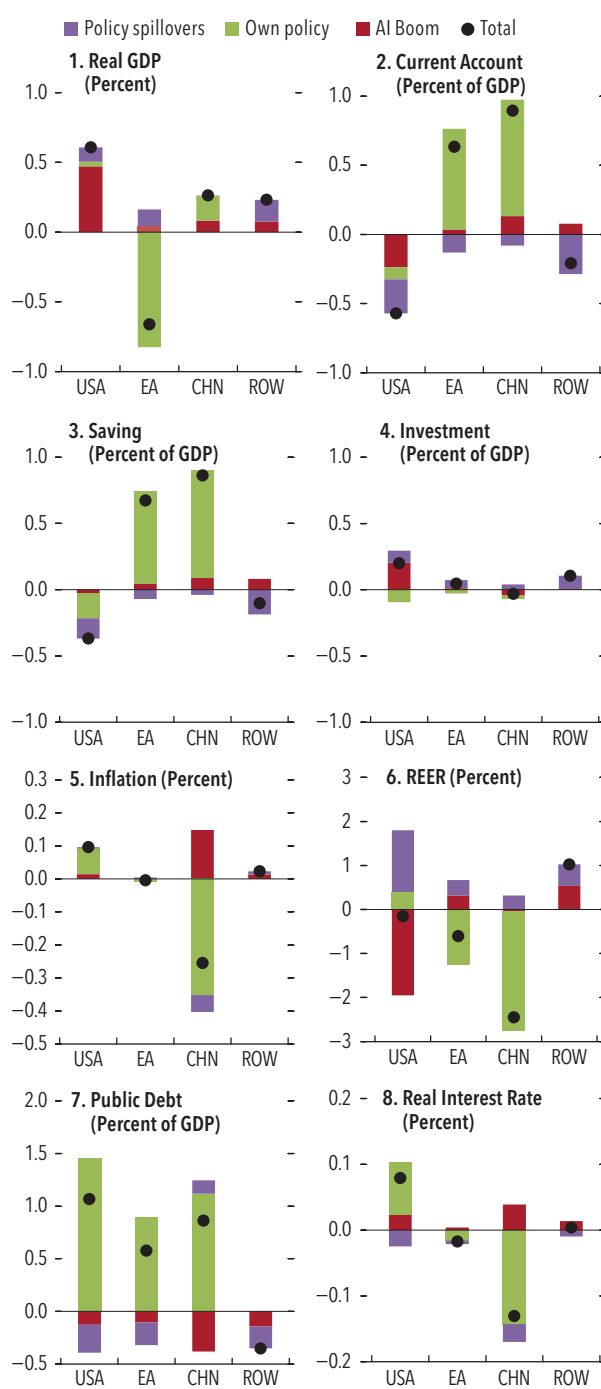
This set of policies generates larger current account surpluses in China and the euro area and deeper deficit in the United States, implying a further widening of global balances (Figure 1.41).

- In the United States, renewed fiscal expansion implies a reduction in saving, supporting domestic demand. However, the demand effect is largely offset by increased interest rates and reduced investment. At the same time, the AI-boom raises investment and import demand, leading to a depreciation of the dollar offsetting pressures from stronger domestic demand. Current account deficit widens. Output increases, supported by robust investment, productivity gains, and to a lesser extent, higher fiscal spending.
- International spillovers are positive from the AI-boom, with Emerging Asia, as the main supplier for AI-related imports, benefiting disproportionately. Output and inflation increase globally, especially in Latin American and Asian countries, supported by stronger US demand. The RMB exchange rate with respect to the US dollar is assumed to adjust to a limited extent, which leads to a depreciation in real effective terms, benefits exports, and adds upward pressure on inflation in China. The spillovers from the AI-boom on the current accounts of the euro area and the rest of the world are also positive, but smaller, as these regions do not benefit much from the US's investment surge. By contrast, spillovers from fiscal expansion in the medium term are limited, with the financial channel—through permanently higher real interest rate associated with increased public debt (Figure 1.45)—dominating the real channel of stronger US domestic demand.
- Worsening of the domestic demand weakness in China leads to an increase in private saving. At the same time, diminishing returns along with

¹⁸The general government deficit is expected to remain in the 7–7½ percent of GDP range over the medium term in the 2026 United States IMF Staff Report (IMF 2026e).

¹⁹See Box 1.5 for details of the assumptions.

Figure 1.41. Medium-Term Impact of Continuation of Current Trends
(Deviations from baseline)



Source: IMF staff calculations.

Note: The figure shows medium-term responses for selected macro variables, captured in the model as the average of the three- to five-year horizon. Short-term, not depicted in the figure, but referenced in the text, refers to responses at the one- to two-year horizon. All responses are reported as deviations from baseline. For each country/region, "Own policy" reports the response to domestic policy shock: fiscal expansion for the United States, weak demand for China, weak productivity for euro area. "AI boom" reports response to US-led AI boom. "Policy spillovers" shows total domestic impact from foreign policy shocks. 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. AI = artificial intelligence; Investment = sum of private and public investment, but their components not reported separately; REER = real effective exchange rate, with a decrease representing a depreciation; Real interest rate = short-term real interest rate; Saving = sum of private and public saving.

a more protracted weak real estate investment broadly offset the effect from production incentives, moderately reducing investment. Current account surplus widens. The policy mix widens imbalances in the tradable sector and the economy more broadly, as it reduces production costs but also constrains domestic demand. With limited nominal exchange rate adjustment, REER depreciates as deflationary pressure increases. Output in China is held up by strong net exports. Spillovers to other regions are positive. Lower global real interest rates (Figure 1.45)—reflecting permanently higher saving in China—boost investment and lower saving in the other regions. As a result, current account balances decline in the US, euro area, and the rest of the world. Output in other regions increases, supported by cheaper intermediate goods from China as well as lower global real interest rates.

- In the euro area, dimmer growth prospects lead households to increase saving, as they expect to be on a permanently lower income path. Real investment falls, but the decline in investment as a share of GDP is more modest given that output falls. Current account increases. The impact on inflation and monetary policy is limited since demand falls in lock-step with potential. Spillovers to other regions are mainly driven by the permanently lower global real interest rates as saving is persistently higher in the euro area (Figure 1.45). Lower interest rates raise investment and lower saving; therefore, current account falls in the United States, China, and the rest of the world. There is a small positive output spillover.
- Global current account balances widen further by about 0.4 percent of world GDP over the medium term, with contributions from China, the euro area, and the United States (Figure 1.46). Global real interest rates decline marginally. Although global output rises temporarily, resulting from the expansionary policies in the United States and China, it is accompanied by a buildup of inefficiencies and risks, as discussed above.

Benefits of Collective Actions

Large and persistent excess global imbalances call for policy actions but the mode of adjustment matters. Well-calibrated policies can support a gradual and orderly rebalancing. However, the resulting economic outcomes depend importantly on whether adjustment is

undertaken in a simultaneous and timely manner across economies. Simultaneous actions allow rebalancing to proceed more smoothly, limiting adverse spillovers and supporting global growth. Should simultaneous actions not be available, unilateral adjustment remains desirable, helping to reduce excess balances. Unlike simultaneous adjustment, unilateral action would exacerbate domestic imbalances elsewhere, heightening the case for other countries to take appropriate actions as well.

Simultaneous Adjustment Scenario

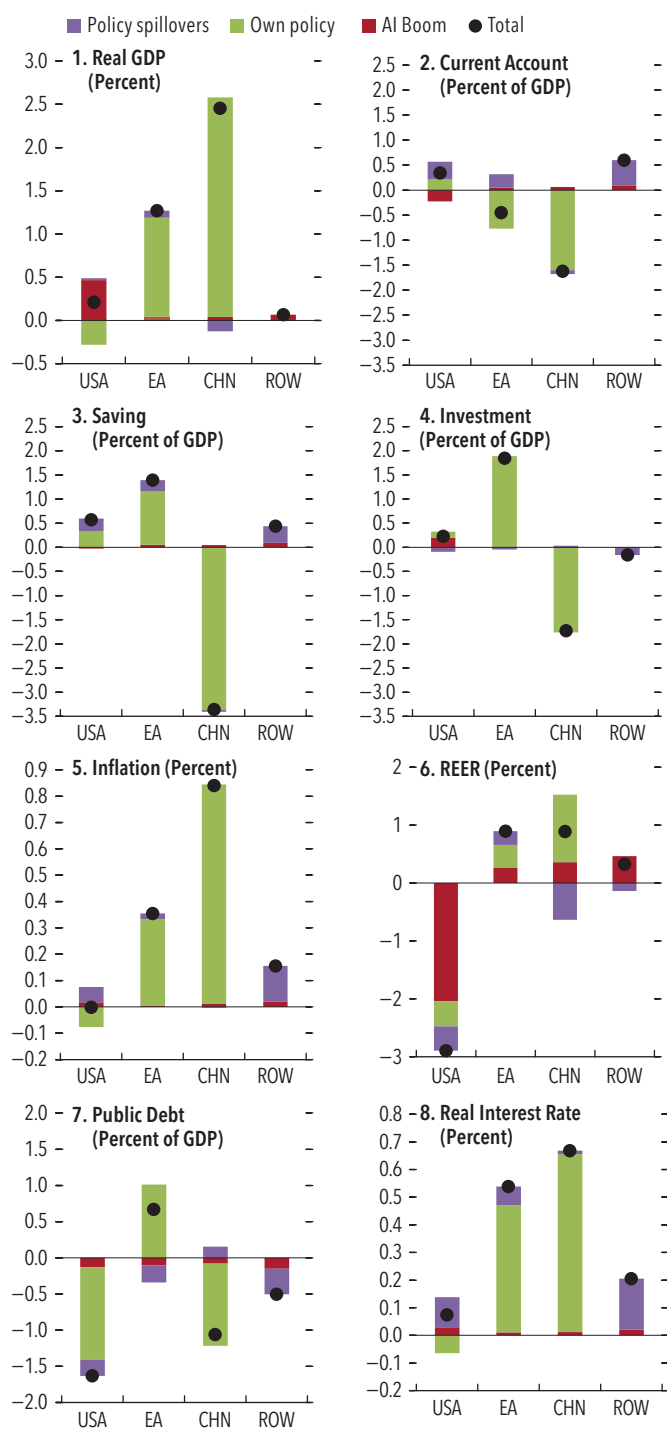
A simultaneous adjustment scenario entails major economies taking actions to address domestic imbalance.²⁰ The scenario assumes an expenditure-driven fiscal consolidation in the United States, while the AI-driven boom continues to intensify. China rebalances by increasing social spending and supporting a transition in the residential sector, together with a roll-back of industrial policy and measures to increase business dynamism, boosting productivity. The renminbi is assumed to adjust flexibly. The euro area implements higher public investment through the full utilization of Recovery and Resilience Facility and the use of fiscal space available in some member countries. Important progress in the EU-level reforms (such as savings and investment union) and national-level reforms that help lift most binding constraints to growth lead to a sustained pickup in productivity and private investment.

Addressing domestic imbalances implies a convergence of current account balances (Figure 1.42).

- US fiscal reforms significantly reduce fiscal deficit and increase public saving, improving current account balance. Resulting growth-headwinds are offset by increased private demand in response to the AI-driven boom. Improved fiscal position in the United States leads to a permanent reduction in real interest rates which increases private investment. Moreover, lower real interest rates support capital accumulation over the long run and raise output. International spillovers are limited. In China, exchange rate flexibility results in a nominal appreciation, which helps offset inflationary pressures associated with the AI-driven investment boom. At the same time, other economies ease nominal policy rates to cushion the negative demand spillovers from US fiscal consolidation.
- In China, domestic consumption surges and consumption share of GDP rises, facilitated by a strengthening of social safety nets and structural reforms that

²⁰See Box 1.5 for details of the assumptions.

Figure 1.42. Medium-Term Impact of Simultaneous Adjustment
(Deviations from baseline)



Source: IMF staff calculations.

Note: The figure shows medium-term responses for selected macro variables, captured in the model as the average of the three- to five-year horizon. Short-term, not depicted in the figure, but referenced in the text, refers to responses at the one- to two-year horizon. All responses are reported as deviations from baseline. For each country/region, "Own policy" reports the response to domestic policy shock: fiscal reform for the United States, broad reform for China, productivity reform for euro area. "AI boom" reports response to US-led AI boom. "Policy spillovers" shows total domestic impact from foreign policy shocks. 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. AI = artificial intelligence; Investment = sum of private and public investment, but their components not reported separately; REER = real effective exchange rate, with a decrease representing a depreciation; Real interest rate = short-term real interest rate; Saving = sum of private and public saving.

lead to increased business dynamism and productivity gains. The scenario implies a considerable reduction in the private saving rate. Investment also improves; however, it falls as a share of GDP. China's current account balance falls substantially. A permanently lower saving rate reduces China's demand for foreign assets and, under a flexible exchange rate, accounts for the real appreciation of the renminbi in the scenario. International spillovers from reforms in China for other countries' current accounts mainly reflect the impact of higher global real interest rates. Saving increases and investment falls in the United States, the euro area, and the rest of the world, implying an improvement of current account. Output spillovers are limited, as stronger demand from China offsets the drag on investment from higher interest rates.

- In the euro area, investment share of output increases. As the euro area returns to sustained strong growth benefitting from reforms lifting growth constraints, imports increase and net exports fall. The current account balance falls, reflecting the strong increase in investment supported by EU-level reforms and domestic structural reforms, despite an increase in the saving share amid higher interest rates.²¹ Spillovers on output for other regions are small but positive in the short term, as higher potential growth in the euro area leads to higher imports globally. Non-euro area advanced economies in Europe benefit more. Permanently higher investment in the euro area increases global real interest rates, leading to higher saving and lower investment, resulting in an increase in current account in China, the United States, and rest of the world.
- Along with a narrowing of global current account balances, global growth is revised up considerably. Global balances fall on average by 0.5 percent of world GDP already three to five years out and continuing in subsequent years. Global growth improvement in part reflects stronger domestic demand from China and the euro area as well as the AI-boom. Inflation and real interest rates are higher globally over the medium-term, although both increase more in China amid its increase in domestic demand, while remaining contained in the United States by its effort to reduce fiscal deficit.

²¹Fiscal consolidation efforts for high-debt countries, as recommended in the reference scenario of the April 2026 WEO, would partially offset the impact on the current account balance of increased investment and support a rotation from net private saving to net public saving.

A simultaneous rebalancing leads to the best outcome for the global economy as policy actions across major economies complement each other. The drag on global demand from fiscal consolidation in the United States would be offset by stronger activity in China and the euro area. World interest rates rise under this scenario in the medium term, driven mainly by higher interest rates in China and the euro area, while the disinflationary impulse from fiscal consolidation in the United States helps keep the increase in global interest rates in check (and reverse it in the long-term). In sum, when major economies implement adjustment policies collectively, global current account balances narrow while growth strengthens (Figure 1.46).

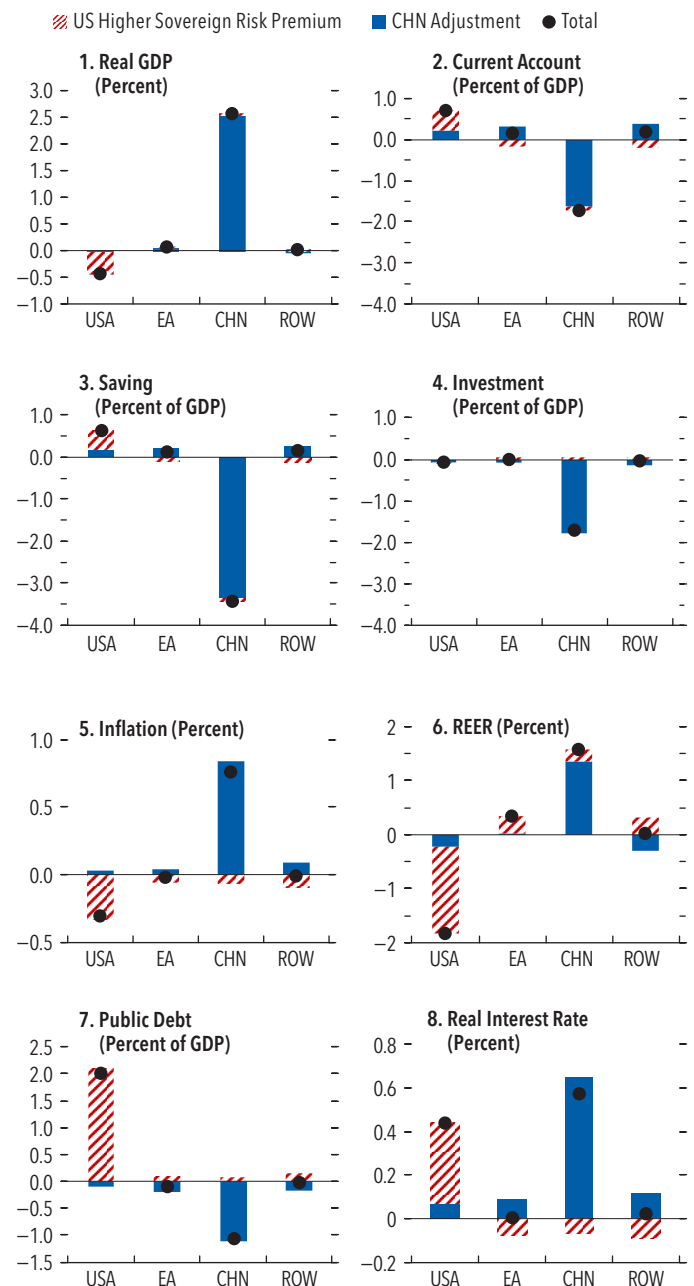
Analysis of Unilateral Adjustments

If simultaneous policy actions prove difficult, what are the potential implications of one economy acting unilaterally? To assess potential external sector implications, this section explores cases of unilateral adjustment by a single country.²² First, we consider the case in which China moves ahead with domestic rebalancing while the rest of the world follows the unchanged policies in the reference forecast. The second case assumes that the United States embarks on fiscal consolidation, while other regions follow the policies in the reference forecast. As unilateral policy actions potentially worsen domestic imbalances in other economies, we assume an additional layer of financial risks on top of the unilateral policy actions.²³ The higher global interest rates associated with China's rebalancing efforts are assumed to be accompanied by a decline in the convenience yield on US treasuries, resulting in a higher US sovereign risk premium. In the second case, weaker global demand from US fiscal consolidation tightens global financial conditions in the near term—captured by higher corporate risk premium—as investors reevaluate growth prospects. These effects are further amplified where monetary policy constraints limit the ability to cushion the decline in growth and inflation.

China Adjustment Case

Domestic reforms in China improve growth and reduce current account surplus, generating spillovers (Figure 1.43, blue bars). Higher interest rates in China

Figure 1.43. Medium-Term Impact of China Adjustment
(Deviations from baseline)



Source: IMF staff calculations.

Note: The figure shows medium-term responses for selected macro variables, captured in the model as the average of the three- to five-year horizon. Short-term, not depicted in the figure, but referenced in the text, refers to responses at the one- to two-year horizon. All responses are reported as 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. Investment = sum of private and public investment, but their components not reported separately. Real Interest rate = short-term real interest rate. REER = real effective exchange rate, with a decrease representing a depreciation. Saving = sum of private and public saving.

²²See Box 1.5 for details of the assumptions.

²³The effect of financial risk layers is captured by assumed increase in sovereign risk premium and higher corporate risk premiums. The financial risk layers are illustrative in nature and highly uncertain.

spill over to global interest rates (Figure 1.45). While the initial impact on debt is small, the higher interest rates put debt in the United States on an increasing trajectory.²⁴ US private saving increases, on account of higher interest rates, more than offsetting lower public saving, while investment as a share of GDP declines somewhat, leading to an improvement in the US current account. US output is broadly unchanged in this scenario, as positive demand spillovers offset the upward pressure on global interest rates from higher productivity in China. In the euro area and other regions, saving, investment, and current account dynamics broadly mirror those of the United States.

While direct spillovers are limited, China's rebalancing carries the risk of triggering adverse financial market reactions that amplify the spillover effects on the United States. A worsening of US debt dynamics could reduce the overall appetite for US treasuries, reducing the convenience yields. Figure 1.43 (red bars) illustrates this financial risk channel: The assumed higher sovereign risk premium leads to a larger increase in interest rates, exerting further downward pressure on US inflation and growth. Public debt increases over the short- and medium-term, as debt serving costs rise more than the improvement in primary balance. Saving increases, owing to higher interest rates, and investment declines further, leading to a larger improvement in the current account.²⁵ Over a longer horizon, however, the primary balance strengthens further to support debt stabilization. In the euro area and other regions, weaker US demand dampens inflation and reduces current account balances.

Global current account balances narrow, reflecting declines in both the China surplus and the US deficit. China's domestic reforms meaningfully reduce its CA surplus but also generate spillovers via higher global interest rates. These effects could be amplified should US sovereign risk premium increase, worsening the fragility of US fiscal trajectory with higher US interest rates and lower growth. In the simulation, US public saving improves, reinforcing the reduction in global balances (Figure 1.46). Nonetheless, higher sovereign risk premium negatively affects US growth, resulting in lower growth benefits compared to a simultaneous adjustment scenario and raising fiscal risks.

²⁴. Public debt increases persistently after year six before gradually falling to the initial level.

²⁵. Real investment declines by about ½ percent; however, its share of GDP falls by less due to the fall in output.

US Adjustment Case

US fiscal consolidation increases its current account but reduces growth and inflation globally (Figure 1.44, blue bars). US fiscal consolidation leads to much lower growth and inflation in China as external demand weakens. Since the RMB is assumed to adjust to a limited extent against the US dollar, the renminbi depreciates in real effect terms, in particular relative to the euro and other currencies, which supports net exports and cushions the blow somewhat. In contrast, REER appreciation in the euro area and the rest of the world boosts domestic demand, with stronger consumption and investment partly offsetting trade headwinds and limiting output losses. As improvement in US fiscal position reduces global real interest rates (Figure 1.45), investment increases, and saving falls in China, the euro area, and the rest of the world, lowering their current account balances.

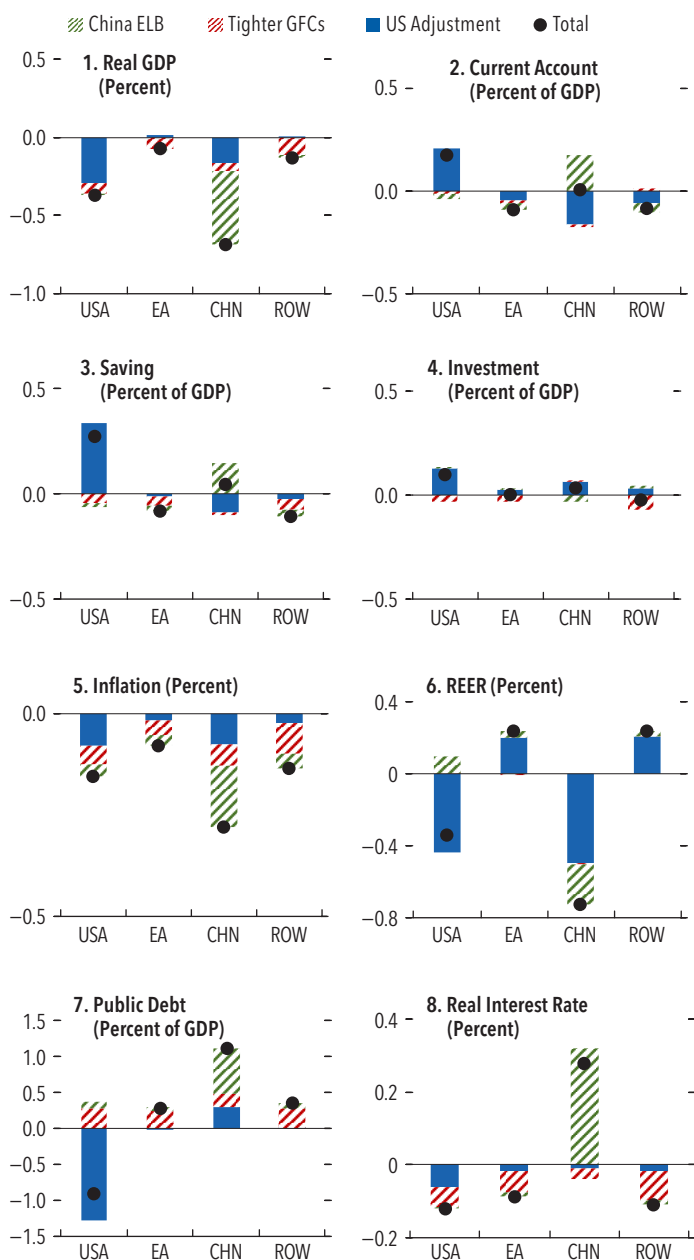
Fiscal consolidation in the US carries the risk of tightening global financial conditions in the near term, as growth weakens globally (Figure 1.44, red bars). The financial channel—captured by higher corporate risk premium—further reduces output and inflation across regions, with disproportionate effects on economies facing low growth and deflationary pressures. However, the impact on current accounts is more muted as it generally reduces both real saving and investment.

Growth in China could weaken significantly if the effective lower bound on monetary policy became binding (Figure 1.44, green bars). This risk arises when monetary policy is constrained and cannot be eased to support domestic demand; in this case both output and inflation decline sharply. Consistent with lower inflation, the REER depreciates, while real interest rates rise. Higher real interest rates increase saving and reduce investment, leading to an improvement in the current account. This more than offsets the reduction in China's surplus associated with US fiscal adjustment and the tightening of global financial conditions. Taken together, US fiscal adjustment leaves China's current account broadly unchanged when the effective lower bound is binding, accompanied by significantly weaker output and higher government debt.

Policy Priorities for Promoting External Rebalancing

A symmetric rebalancing yields the most favorable outcome for the global economy, as mutually reinforcing policy actions reduce global imbalances while

Figure 1.44. Medium-Term Impact of US Adjustment
(Deviations from baseline)



Source: IMF staff calculations.

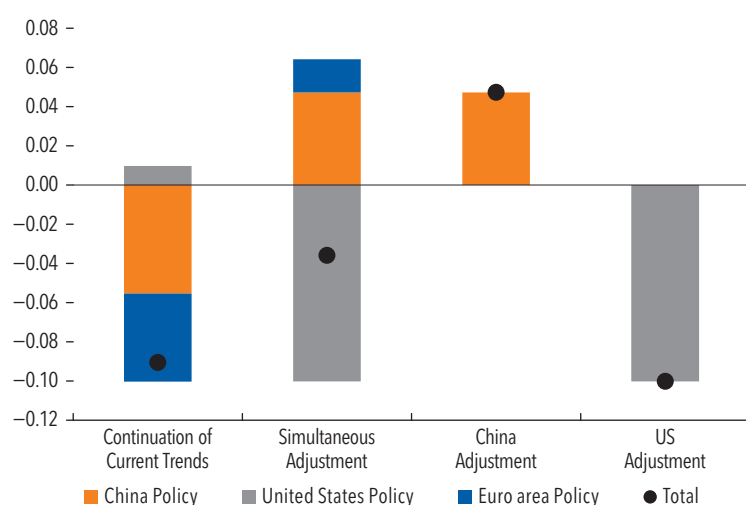
Note: The figure shows medium-term responses for selected macro variables, captured in the model as the average of the three- to five-year horizon. Short-term, not depicted in the figure, but referenced in the text, refers to responses at the one- to two-year horizon. All responses are reported as deviations 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. ELB = effective lower bound. GFCs = Global Financial Conditions. Investment = sum of private and public investment, but their components not reported separately. Real interest rate = short-term real interest rate. REER = real effective exchange rate, with a decrease representing a depreciation. Saving = sum of private and public saving.

supporting stronger growth (Figure 1.46). In particular, the drag on global demand from fiscal consolidation in the United States would be offset by stronger activity in China and the euro area. In the absence of coordination, unilateral action can still meaningfully reduce global imbalances and is often in the country's interest as it helps address domestic imbalances (see also IMF 2026e). Such adjustments could amplify domestic imbalances elsewhere and trigger adverse financial market reactions—dampening global growth and increasing negative spillovers potentially worsening economic tradeoffs. The negative effects on global growth underscore the benefits of collective actions. Conversely, continuation of current trends in major economies would result in a significant widening of global current account balances. While global output is temporarily higher, persistent current account imbalances further widen imbalances in net external creditor and debtor positions, with attendant macrofinancial risks.

Correcting external imbalances will require addressing underlying domestic imbalances in both excess current account surplus and deficit economies, as emphasized in the April 2026 *World Economic Outlook*. Fiscal consolidation in excess deficit economies can help rebuild fiscal buffers and increase saving. Market-oriented structural reforms in excess surplus economies can boost insufficient domestic demand, promote investment, and improve growth prospects. Addressing these domestic imbalances would also help narrow current account gaps elsewhere. By contrast, distortive arrangements—such as purchase commitments and quantitative restrictions—are unlikely to address external imbalances rooted in domestic saving and investment dynamics. Export controls and barriers to cross-border trade that exacerbate supply disruptions should be avoided.

Trade policy frameworks that are clear, transparent, predictable, and mutually beneficial are essential to produce more sustainable growth and international economic integration. Trade measures that are implemented to address cross-border spillovers, including those arising from industrial policies, should be carefully targeted. Pragmatic cooperation is needed to safeguard key global commons and to update international rules to reflect structural shifts such as the growing role of services and align with policies that bolster job growth and supply chain resilience. Trade negotiations at the bilateral, regional, and plurilateral levels should aim to reduce frictions, and minimize distortive provisions.

Figure 1.45. Effect of Financial Channel: Long-term Impact of Scenarios on World Real Interest Rate
(Percent deviations from baseline)



Source: IMF staff calculations.

Note: The figure shows long-term responses for short-term real interest rate. "Long-term" is at least 50 years ahead. Responses are reported as deviations from baseline. "China Policy" refers to policy shock weak demand in Continuation of Current Trends and broad reform in Simultaneous Adjustment and China Adjustment. "Euro area policy" refers to policy shock weak productivity in Continuation of Current Trends and productivity reform in Simultaneous Adjustment. "United States Policy" refers to policy shock fiscal expansion in Continuation of Current Trends, and fiscal reform in Simultaneous Adjustment and US Adjustment. See Box 1.5 for details on the policy shock assumptions.

Maintaining flexible exchange rates can facilitate adjustment to external shocks. Heightened global risks may trigger disruptive capital flows and volatile exchange rate movements; the IMF's Integrated Policy Framework provides guidance on how these pressures can be managed. Temporary foreign exchange intervention or targeted capital flow management measures may be warranted in specific circumstances but should not substitute for necessary macroeconomic adjustments or the development of domestic macroprudential policies.

A well-functioning international monetary system is essential to navigating a global economy facing heightened risks. Such a system must continue to provide global public goods—including the global financial safety net—that underpins financial stability. The approval in 2023 of the 16th General Review of Quotas was an important step toward fortifying the IMF's role in the GFSN and its ability to respond to members' needs, and its implementation awaits receiving the necessary consents from members to their respective quota increase.

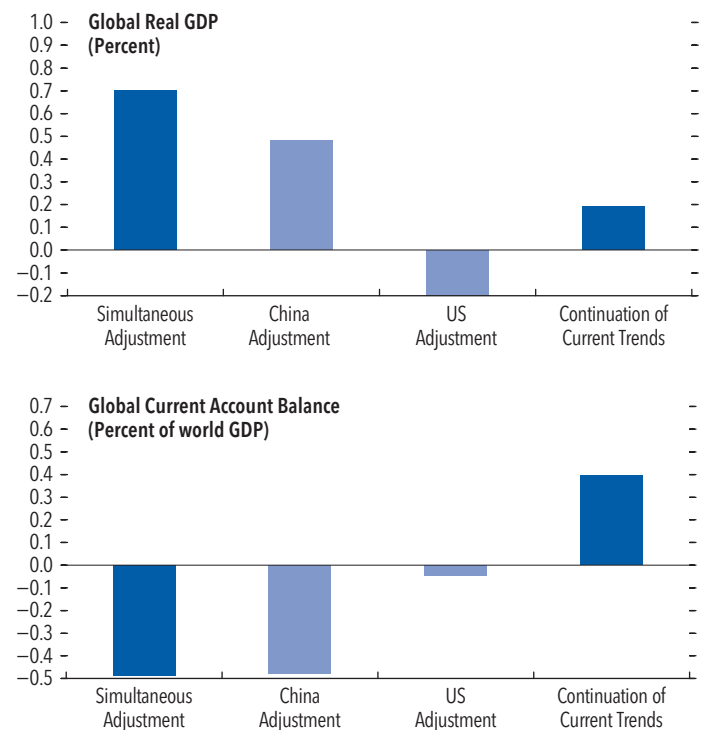
Policies to promote external rebalancing are tailored for the external position and needs of individual economies. These policies are discussed in detail in the individual economy assessments in Chapter 2 (and summarized in Annex Table 1.1.6).

- *Economies with stronger than warranted external positions* should focus on policies that promote investment and limit excess saving. In China, fiscal stimulus focused on boosting consumption would help reduce the CA surplus. Structural policies that promote investment—such as improving the business environment and liberalizing the FDI regime (India), easing regulatory constraints on domestic investment (Germany), and raising investment in infrastructure, housing, and research and development (R&D) (the Netherlands)—can support rebalancing. In some cases, higher public spending is needed to address aging populations, including through health care, social safety nets, and human capital investment (Malaysia, Singapore). Higher public spending is also planned for defense (Germany, Sweden) and infrastructure (the Netherlands, Singapore).

Growth-enhancing structural reforms, including completing the single market and supporting innovation (Spain), and expanding investment in productivity-enhancing projects (Sweden), would also help reduce excess surpluses.

- *Economies with weaker than warranted external positions* should focus on policies that boost saving and competitiveness. In the United States, fiscal consolidation to put the debt-to-GDP ratio on a downward path would help adjust the external position. Fiscal consolidation is also needed in Australia, Belgium, Brazil, Italy, Saudi Arabia, and the United Kingdom. Structural policies that boost competitiveness include removing internal trade barriers and scaling up R&D investment (Canada), enhancing productivity through pension, labor, and product-market reforms (Belgium). In Türkiye, tightening monetary and fiscal policy would help contain demand and raise saving.
- *Economies with external positions broadly in line with fundamentals and desirable policies* should continue to address domestic imbalances to head off excessive external imbalances. Fiscal consolidation is needed in several cases to maintain external balance (Hong Kong SAR, Poland, South Africa), along with structural reforms to improve productivity and increase investment (France, Indonesia, Mexico). Deepening the EU Single Market and completing the Banking Union would raise productivity in the euro area. In Switzerland, fiscal space should be used to support growth if risks materialize, with a medium-term plan to address structural fiscal needs on aging, climate, and defense.

Figure 1.46. Medium-Term Impact of Scenarios on World Output and Global Current Account Balance
(Deviations from baseline)



Source: IMF, World Economic Outlook database; April 2026 *World Economic Outlook*; and IMF staff estimates (Global Integrated Monetary and Fiscal Model).

Note: The figure shows medium-term responses for selected macro variables, captured in the model as the average of the three- to five-year horizon. Short-term, not depicted in the figure, but referenced in the text, refers to responses at the one- to two-year horizon. All responses are reported as deviations from baseline. The global current account balance is calculated as the sum of absolute values of current accounts across countries.

Table 1.1. Selected Economies: Current Account Balance, 2023–26

	Billions of US Dollars				Percent of World GDP				Percent of GDP			
	2023	2024	2025	2026 Projection	2023	2024	2025	2026 Projection	2023	2024	2025	2026 Projection
Advanced Economies												
Australia	-7	-40	-48	-49	-0.01	-0.04	-0.04	0.0	-0.4	-2.2	-2.6	-2.3
Belgium	1	-3	-14	-16	0.00	0.00	-0.01	0.0	0.2	-0.4	-1.9	-2.0
Canada	-15	-11	-22	-5	-0.01	-0.01	-0.02	0.0	-0.7	-0.5	-0.9	-0.2
France	-32	3	-11	-12	-0.03	0.00	-0.01	0.0	-1.0	0.1	-0.3	-0.3
Germany	252	276	229	212	0.24	0.25	0.19	0.2	5.5	5.9	4.5	3.9
Hong Kong SAR	32	54	52	57	0.03	0.05	0.04	0.0	8.4	13.1	12.3	12.6
Italy	5	26	28	17	0.00	0.02	0.02	0.0	0.2	1.1	1.1	0.6
Japan	158	193	217	166	0.15	0.17	0.18	0.1	3.6	4.6	4.9	3.8
Korea	33	100	123	108	0.03	0.09	0.10	0.1	1.8	5.3	6.6	5.6
The Netherlands	107	111	105	107	0.10	0.10	0.09	0.1	9.4	9.1	7.9	7.4
Singapore	84	99	101	109	0.08	0.09	0.09	0.1	16.4	17.2	16.7	16.6
Spain	44	55	55	46	0.04	0.05	0.05	0.0	2.7	3.2	2.9	2.2
Sweden	36	42	41	40	0.03	0.04	0.03	0.0	6.2	6.9	6.1	5.3
Switzerland	54	87	74	78	0.05	0.08	0.06	0.1	5.8	8.9	7.1	6.8
United Kingdom	-122	-110	-97	-144	-0.11	-0.10	-0.08	-0.1	-3.6	-3.0	-2.4	-3.4
United States	-928	-1,185	-1,116	-1,200	-0.87	-1.07	-0.94	-1.0	-3.3	-4.0	-3.6	-3.7
Emerging Market and Developing Economies												
Argentina	-21	6	-8	-5	-0.02	0.01	-0.01	0.0	-3.2	0.9	-1.1	-0.8
Brazil	-27	-66	-67	-71	-0.03	-0.06	-0.06	-0.1	-1.2	-3.0	-2.9	-2.7
China	257	462	735	725	0.24	0.42	0.62	0.6	1.4	2.5	3.8	3.5
India ¹	-26	-23	-36	-84	-0.02	-0.02	-0.03	-0.1	-0.7	-0.6	-0.9	-2.0
Indonesia	-2	-9	-2	-16	0.00	-0.01	0.00	0.0	-0.1	-0.6	-0.1	-1.1
Malaysia	4	6	8	7	0.00	0.01	0.01	0.0	1.1	1.4	1.6	1.4
Mexico	-13	-17	-8	-8	-0.01	-0.02	-0.01	0.0	-0.7	-0.9	-0.4	-0.4
Poland	12	3	-9	-13	0.01	0.00	-0.01	0.0	1.5	0.3	-0.9	-1.1
Russian Federation	49	63	43	78	0.05	0.06	0.04	0.1	2.4	2.9	1.7	2.9
Saudi Arabia	26	-16	-33	-4	0.02	-0.01	-0.03	0.0	2.1	-1.3	-2.6	-0.3
South Africa	-4	-3	-2	-4	0.00	0.00	0.00	0.0	-1.1	-0.7	-0.5	-0.9
Thailand	8	12	16	4	0.01	0.01	0.01	0.0	1.6	2.2	2.8	0.7
Türkiye	-42	-13	-30	-47	-0.04	-0.01	-0.03	0.0	-3.6	-1.0	-1.9	-2.8
Memorandum Items:²												
Euro Area	265	443	312	255	0.2	0.4	0.3	0.2	1.7	2.7	1.7	1.3
Global Current Account Balance	3,263	4,025	4,374	4,530	3.0	3.6	3.7	3.6	...	...	...	...
Statistical Discrepancy	254	498	640	432	0.2	0.4	0.5	0.3	...	...	...	...
Overall Surpluses	1,756	2,285	2,512	2,462	1.6	2.1	2.1	2.0	...	...	...	...
Of which: Advanced Economies	1,120	1,431	1,422	1,357	1.0	1.3	1.2	1.1	...	...	...	...
Overall Deficits	-1,502	-1,787	-1,872	-2,030	-1.4	-1.6	-1.6	-1.6	...	...	...	...
Of which: Advanced Economies	-1,150	-1,393	-1,379	-1,475	-1.1	-1.3	-1.2	-1.2	...	...	...	...

Sources: IMF, April 2026 *World Economic Outlook*; national authorities; 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, 2022-25

	Billions of US Dollars				Percent of World GDP				Percent of GDP			
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Advanced Economies												
Australia	-626	-527	-399	-402	-0.6	-0.5	-0.4	-0.3	-36.2	-30.1	-22.2	-21.9
Belgium	297	346	381	392	0.3	0.3	0.3	0.3	50.2	53.1	56.8	54.1
Canada	738	1,148	1,421	1,305	0.7	1.1	1.3	1.1	33.6	52.3	62.6	56.2
France	-771	-982	-702	-991	-0.8	-0.9	-0.6	-0.8	-27.6	-32.1	-22.2	-29.4
Germany	2,956	3,152	3,639	4,307	2.9	2.9	3.3	3.6	70.3	69.1	77.7	85.3
Hong Kong SAR	1,769	1,759	2,012	2,506	1.7	1.6	1.8	2.1	491.8	460.8	490.3	585.9
Italy	117	207	343	408	0.1	0.2	0.3	0.3	5.6	8.9	14.4	16.0
Japan	3,101	3,263	3,495	3,693	3.0	3.0	3.1	3.1	69.7	74.4	83.4	83.3
Korea	801	805	1,086	886	0.8	0.8	1.0	0.7	44.5	43.6	57.9	47.3
The Netherlands	576	596	730	922	0.6	0.6	0.7	0.8	55.0	52.5	60.1	69.2
Singapore	917	980	951	1,082	0.9	0.9	0.9	0.9	178.4	191.7	166.0	179.1
Spain	-819	-805	-684	-884	-0.8	-0.8	-0.6	-0.7	-56.5	-49.7	-39.6	-46.4
Sweden	216	242	394	391	0.2	0.2	0.4	0.3	37.5	41.8	65.1	58.5
Switzerland	776	944	1,159	1,212	0.8	0.9	1.0	1.0	90.4	101.7	119.4	116.1
United Kingdom	-83	-332	-228	-263	-0.1	-0.3	-0.2	-0.2	-2.6	-9.7	-6.2	-6.6
United States	-16,161	-20,417	-26,539	-27,537	-15.8	-19.1	-23.8	-23.4	-62.0	-73.4	-90.6	-89.5
Emerging Market and Developing Economies												
Argentina	123	105	56	48	0.1	0.1	0.1	0.0	19.4	16.2	8.8	7.1
Brazil	-823	-1,101	-835	-1,126	-0.8	-1.0	-0.7	-1.0	-42.2	-50.2	-38.2	-49.4
China	2,422	2,851	3,178	4,071	2.4	2.7	2.8	3.4	13.2	15.5	17.0	20.7
India	-367	-361	-369	-262	-0.4	-0.3	-0.3	-0.2	-11.3	-10.3	-9.8	-6.7
Indonesia	-250	-258	-246	-273	-0.2	-0.2	-0.2	-0.2	-19.0	-18.8	-17.6	-18.9
Malaysia	12	22	-3	-6	0.0	0.0	0.0	0.0	3.0	5.4	-0.6	-1.3
Mexico	-613	-758	-571	-638	-0.6	-0.7	-0.5	-0.5	-41.8	-42.2	-31.2	-34.8
Poland	-244	-276	-252	-321	-0.2	-0.3	-0.2	-0.3	-35.1	-34.0	-27.5	-31.0
Russian Federation	768	856	950	1,151	0.7	0.8	0.9	1.0	33.4	42.1	43.4	44.5
Saudi Arabia	778	765	781	723	0.8	0.7	0.7	0.6	62.8	62.8	62.3	56.6
South Africa	82	102	116	120	0.1	0.1	0.1	0.1	20.2	26.7	28.9	28.0
Thailand	-29	28	45	92	0.0	0.0	0.0	0.1	-5.8	5.4	8.5	15.9
Türkiye	-358	-330	-347	-324	-0.3	-0.3	-0.3	-0.3	-38.7	-28.6	-25.5	-20.3
Memorandum Items:												
Euro Area	363	628	1,957	1,985	0.4	0.6	1.8	1.7	2.5	3.9	11.8	11.0
Statistical Discrepancy	-5,122	-8,083	-9,626	-8,368	-5.0	-7.6	-8.6	-7.1	...	...	...	...
Overall Creditors ¹	19,855	22,025	25,214	27,981	19.4	20.6	22.6	23.7	...	...	...	...
Of which: Advanced Economies	15,377	17,001	19,717	21,560	15.0	15.9	17.7	18.3	...	...	...	...
Overall Debtors ¹	-24,977	-30,108	-34,840	-36,349	-24.4	-28.1	-31.3	-30.8	...	...	...	...
Of which: Advanced Economies	-19,925	-24,538	-29,825	-30,958	-19.4	-22.9	-26.8	-26.3	...	...	...	...

Sources: IMF, April 2026 *World Economic Outlook*; national authorities; US Bureau of Economic Analysis; and IMF staff calculations.

Note: "..." means data are not available or not applicable; ratios calculated in USD using annual GDP and EOP NIIP; SAR = Special Administrative Region.

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

Box 1.1. Trade Barriers and the Current Account

After decades of steady liberalization, global trade policy has reversed course. The tariff hikes that took place in 2025 follow a period of expanding non-tariff measures (NTMs) and trade-distortive industrial policies by major economies. In light of these trends, this box revisits the question of whether trade barriers affect current accounts and should be included in the External Balance Assessment (EBA) current account model.

Potential Channels of Impact

National account identities imply that the CA balance reflects the difference between aggregate saving (S) and aggregate investment (I):

$$CA = S - I$$

Trade barriers thus influence current account (CA) balances to the extent that they affect these two macroeconomic aggregates. From this perspective, there are two key determinants of the impact of trade barriers. The first is scope: Trade barriers limited to select products or bilateral relationships may not have a significant impact on the aggregate external balance.¹ The second determinant is the perceived duration. Temporary trade barriers raise import prices in the short term, encouraging higher national saving through postponed consumption, with limited effects on investment. They may thus temporarily improve the current account.² By contrast, permanent trade barriers may reduce investment over the long run owing to a higher price of imported goods, but may also lower saving if terms-of-trade improvements or redistributed tariff revenue encourage consumption. The net effect on the current account from permanent

trade barriers is therefore ambiguous. (2025 *External Sector Report*; IMF 2026d).

As this discussion illustrates, economic theory suggests that the effect of trade barriers on the CA balance is highly contingent. The nature and strength of the relationship in practice is therefore primarily an empirical question.

A Catch-All Measure of Trade Barriers

Addressing it requires a measure of aggregate trade barriers that is readily available and comparable for many countries, and covers tariffs, non-tariff policy barriers (for example, quotas, regulatory barriers) and non-policy barriers (for example, transport costs). To meet these conditions, the analysis described in this box relies on a measure of trade barriers inferred from bilateral trade flows through the lens of the gravity model of international trade. The underlying intuition is that bilateral trade barriers can be inferred from (changes in) the value of cross-border trade relative to domestic trade, building on a commonly used approach in the academic literature (Eaton and Kortum 2002; Waugh 2010; Boz and others 2019). These bilateral trade barriers are then aggregated for each country into an overall import and overall export barrier using lagged bilateral trade shares.

A key advantage of this approach is that it yields a measure of trade distortions that can be readily compared across countries and time and only requires data on bilateral trade flows and domestic production to compute. Importantly, this measure captures the effect of industrial policies that distort international relative to domestic trade (for example, export subsidies), and it can be constructed for overall trade in both goods and services.³ However, the approach also has limitations. It relies on the stability of the widely used structural gravity model (Head and Mayer 2014), it cannot identify whether systematic asymmetries in bilateral trade barriers arise from the importer or exporter side (Waugh 2010),⁴ and it does not allow to unpack the potentially heterogeneous effects of individual factors, such as industrial policies. It can also suffer from potential endogeneity problems.

Nevertheless, empirical validity checks suggest that the constructed gravity-based trade barrier measures reflect trade policy changes and display expected macro correlations (see Online Annex Table 1.7.1 and 1.7.2).

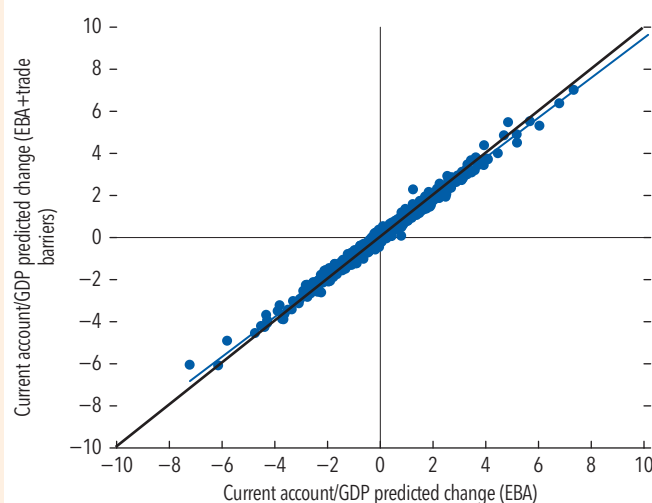
³The findings reported in this box are robust to computing trade barriers using only goods trade data.

⁴Headline results are robust to either assumption.

This box was prepared by Roman Merga and Robert Zymek.

¹Targeted industrial and trade policies reallocate activity, boosting output and net exports in targeted sectors while reducing them elsewhere. Hence, aggregate trade effects are ambiguous and typically small due to offsetting macroeconomic adjustments (Gourinchas and others 2026). These policies can nonetheless have aggregate consequences. For example, they may raise trade tensions and fragmentation risks, weighing on growth and reducing welfare, as fiscal costs are generally found to exceed efficiency gains (Rotunno and others 2026).

²Two channels with opposing impacts shape the saving response to temporary tariffs: a wealth effect and an intertemporal. Temporary tariff increases reduce saving via the wealth effect, as current income falls more than permanent income. By contrast, the substitution effect raises saving, as higher current prices shift consumption to the future.

Box 1.1 (continued)**Figure 1.1.1. External Balance Assessment Predicted Current Account and Trade Barriers**
(Percent of GDP)

Source: IMF staff calculations.

Note: All results are based on 2018 EBA regression using updated data from 1986 to 2019. The EBA regression including trade barriers for export and imports costs estimated using the Eaton Kortum (2002) method as detailed in the Online Annex 1.7. EBA = External Balance Assessment.

Table 1.1.1. Trade Barriers in EBA

	CA/GDP (2)	CA/GDP (3)	CA/GDP (4)
Full EBA controls	✓	✓	✓
Export barriers		0.006 [0.009]	0.028** [0.013]
Import barriers		-0.028*** [0.007]	-0.033*** [0.007]
R^2	0.513	0.539	0.115
Observations	1,404	1,404	1,404

Note: All results are based on EBA regression using updated data from 1986 to 2019. Column 2 presents result from standard EBA regression. Columns 3 conditions on the EBA sample and estimated trade barriers. Column 4 regresses CA over GDP only on trade barriers, using the same sample as Column 2. Standard errors in brackets. * $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$. More details on the estimation procedure and additional results are detailed in online annex 1.7.

Do Trade Barriers Improve the EBA Model?

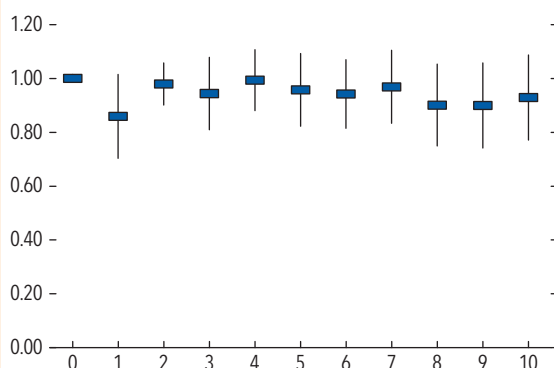
When overall import and export barriers computed from the gravity approach are incorporated into the 2019 EBA current account regression, they have a statistically significant but economically modest effect.

Table 1.1.2. Trade Barriers and Saving and Investment

	Saving/GDP (2)	Investment/GDP (3)
Export barriers	-0.022 [0.016]	-0.055*** [0.016]
Import barriers	-0.084*** [0.008]	-0.054*** [0.008]

Note: Standard errors in brackets. * $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$. More details on the estimation procedure and additional results are detailed in online annex 1.7. Estimations do not include EBA controls.

Table 1.1.1 shows the estimated relationship between the log level of trade barriers and CA/GDP, after controlling for EBA variables (first row). A ten-percent rise in import barriers reduces CA/GDP by roughly 0.3 percentage points. Similar results emerge from alternative specifications using the log change in trade barriers, or the log level of tariffs as a direct measure of trade policies. (see Online Annex Box Table 1.7.1 and 1.7.3).

Box 1.1 (continued)**Figure 1.1.2. Import Barrier Persistence**
(Coefficients)

Sources: IMF staff calculations.

Note: The figure shows the estimated response of trade barriers after a 1 percentage increase in itself, based on a local projection:

$$\text{trade barrier}_{it+h} - \text{trade barrier}_{it-1} = \gamma_{ht} + \beta_h \Delta \text{trade barrier}_{it} + \varepsilon_{it+h}$$

where μ_{hi} and γ_{ht} denote country and time effects.

While the sign and statistical significance of coefficient estimates vary somewhat across specifications, they all point to the limited economic significance of trade barriers in the EBA model. Incorporating trade barriers adds very little explanatory power to the EBA model over and above the existing set of EBA variables (columns 2 and 3 in Table 1.1.1). Furthermore, the increase in explanatory power is a fraction of what trade barriers explain without EBA controls (column 4 in Table 1.1.1), suggesting that the effect of tariffs in EBA could be potentially captured through indirect channels.⁵ Findings also reveal that adding trade

barriers to EBA has almost no impact on predicting yearly CA/GDP changes relative to the baseline EBA framework (Figure 1.1.1).

Table 1.1.2 further unpacks the estimated effect of trade barriers by considering their impact on saving and investment separately. The table shows that higher barriers are associated with both lower saving (column 2) and lower investment (column 3) relative to GDP, which mutes the net impact of trade barriers on CA balances. These findings are consistent with the theoretical effects of permanent changes in trade barriers and are supported by the estimated very persistent nature of shocks to the gravity-implied trade barriers (Figure 1.1.2).

In sum, incorporating broadly measured trade barriers using currently available data and methods would have a limited effect on the explanatory power of the EBA CA model. These findings echo earlier work on this question (Boz and others 2019; 2018 *External Sector Report*). However, the analysis is not the final verdict on the topic, suggesting several avenues for future research. First, development and application of structural models could help sharpen the identification of trade barriers and macro-relevant industrial policies and isolate the most quantitatively significant channels through which they affect current accounts. Second, more granular measurement of trade barriers, separating their transitory and permanent components, and identifying aggregate export and import costs. Third, examining significant recent policy episodes in a more granular fashion could deliver novel insights that inform the theory and estimation of relationship between trade barriers and the current account.

⁵For example, higher import costs raise the domestic prices relative to the rest of the world, appreciating the REER and dampening exports—a channel that may be captured by EBA's lagged REER variable. Trade barriers may also depress expected future growth—another variable already included in EBA. Moreover, some temporary consumption and investment responses triggered by changes in (expectations about) trade barriers may be picked up by EBA controls that strip CA balances of their cyclical components.

Box 1.2. Trade Patterns and Trade Balances in 2025

This box surveys the global trade landscape in 2025. It documents that the overall stability of global trade and the US trade balance in the wake of the April 2025 US tariff announcement masks a significant reshuffling of trade across time and space in 2025, with the aggregate effects on the US trade balance likely offset by the infrastructure boom related to Artificial Intelligence (AI).

A historic turning point for trade policy

The major trade development in 2025 was a historic shift in US trade policy. After announcing tariffs only on selected goods and trade partners during its first months in office, the new US administration released a schedule of broad-based tariffs on April 2, 2025. The announced tariffs were highly variable across trade partners, with a global minimum of 10 percent and rates as high as 50 percent on some countries. Subsequent retaliation by China and the US response caused US tariffs on China to spike briefly at over 130 percent. While tariffs declined toward the end of the year in the wake of cooling trade tensions and some bilateral US deals, the average tariff on US imports stood at over 17 percent at end-2025 (Figure 1.2.1), the highest level in 80 years.

One stated objective of the new US tariffs was to address the persistent US trade deficit by reducing imports relative to exports.¹ Despite this, the overall US trade deficit was 3.1 percent of GDP in 2025, virtually unchanged from 3.0 percent in 2024. However, this masks a significant tariff-induced reshuffling of US trade across time and space in 2025.

Substitution of imports across time and space

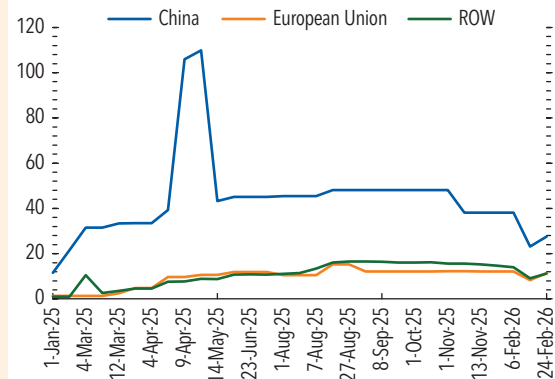
Over the course of 2025, the US trade deficit initially widened relative to trend in the first quarter, only to reverse in the second half of the year. This contrasts with other major post-War US tariff shocks, which barely moved the trade balance (Figure 1.2.2).

Unlike in these earlier episodes, the significant and lasting increase in tariffs had been widely anticipated and this expectation was broadly confirmed by the

This box was prepared by Martin Caruso Bloeck, Jeongwon Son, and Robert Zymek.

¹See USTR Presidential Tariff Actions, Executive Order on “Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits” (April 2, 2025).

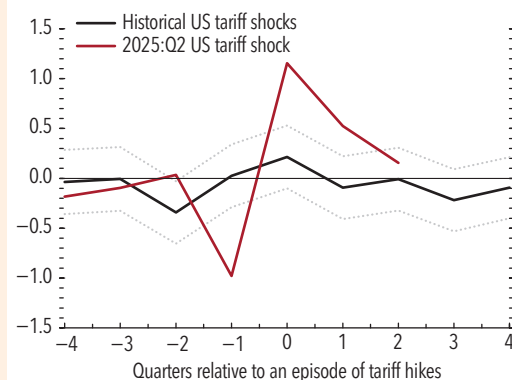
Figure 1.2.1. US Import Tariffs by Source in 2025
(Percent)



Sources: WTO-IMF Tariff Tracker and IMF staff calculations.

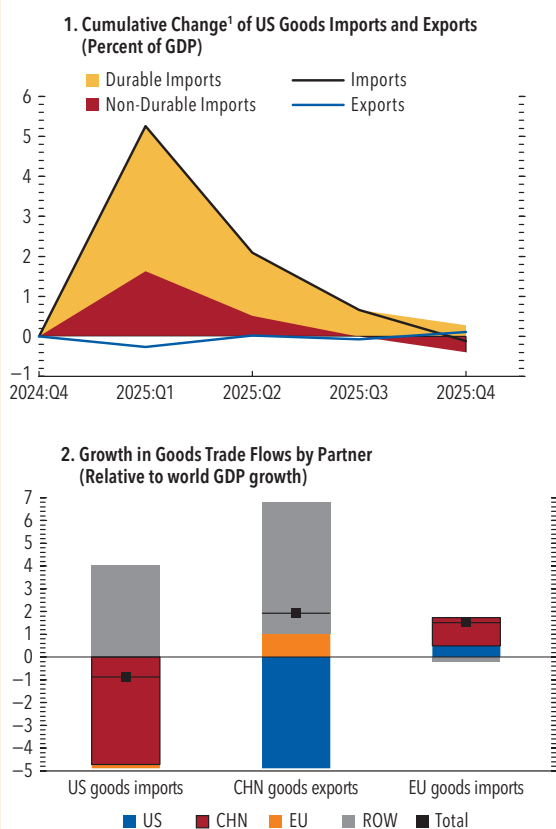
Note: This figure shows the effective statutory tariff rates imposed by the US on imports from other countries. ROW = rest of the world.

Figure 1.2.2. US Trade Balance Response to Tariff Shocks
(Percentage points of GDP)



Sources: Federal Reserve Economic Data, Schmitt-Grohé and Uribe (2025); and IMF staff calculations.

Note: This figure shows the quarter-over-quarter cyclical change in the US net trade balance from four quarters before to four quarters after an episode of large tariff hikes. The latest episode was in the second quarter of 2025 and is shown in red. Following Schmitt-Grohé and Uribe (2025), three historical episodes of US tariff hikes (the third quarter of 1971, the first quarter of 1975, and the first quarter of 2018) were used to construct the 95 percent confidence intervals. The cyclical change in the net trade balance is derived as the residual of regressing quarter-over-quarter change in the net trade balance on lagged changes in the net trade balance, GDP growth, real interest rate, and changes in the openness-weighted terms of trade.

Box 1.2 (continued)**Figure 1.2.3. United States Goods Trade in 2025**

Sources: Bureau of Economic Analysis; IMF, World Economic Outlook database; Trade Data Monitor; and IMF staff calculations.

Note: CHN = China; EU = European Union; ROW = rest of world; US = United States.

¹Change relative to the same quarter in 2024.

April 2 announcement. This led to an intertemporal substitution of goods imports, referred to as “front-loading” and “payback,” which accounted for most of the intra-year fluctuation in the trade balance. US imports surged ahead of the tariff announcement, led by a sharp increase in the imports of durables as firms ran up inventories. This was offset by more modest imports in later quarters (Figure 1.2.3, panel 1).

The difference in tariff rates applied to US trade partners also reconfigured bilateral trade patterns. 2025 saw a sharp decline in US imports from China, the major economy that experienced the largest increase in US-imposed tariffs. US imports from the EU expanded broadly in line with the growth of world GDP. However, US imports from the rest of the world grew more rapidly, replacing most of the shortfall in imports from China. China’s exports kept pace with

the growth of world GDP, with the data suggesting that some of its previously US-bound exports may have been diverted to the EU and, to a greater extent, to the rest of the world including ASEAN economies (Emlinger and others 2026). Imports from China accounted for most of the strong growth of imports into the EU (Figure 1.2.3, panel 2).²

²Figure 1.1.3, panel 2, uses trade data from the Trade Data Monitor that records data from national customs authorities and statistical agencies which includes trade in gold. Despite the volatile movement of gold in 2025, trade in gold only contributed 0.4, 0.4, and 0.3 percentage points to US import growth, CHN export growth, and EU import growth, respectively, in 2025, similar in magnitude to previous years.

Box 1.2 (continued)

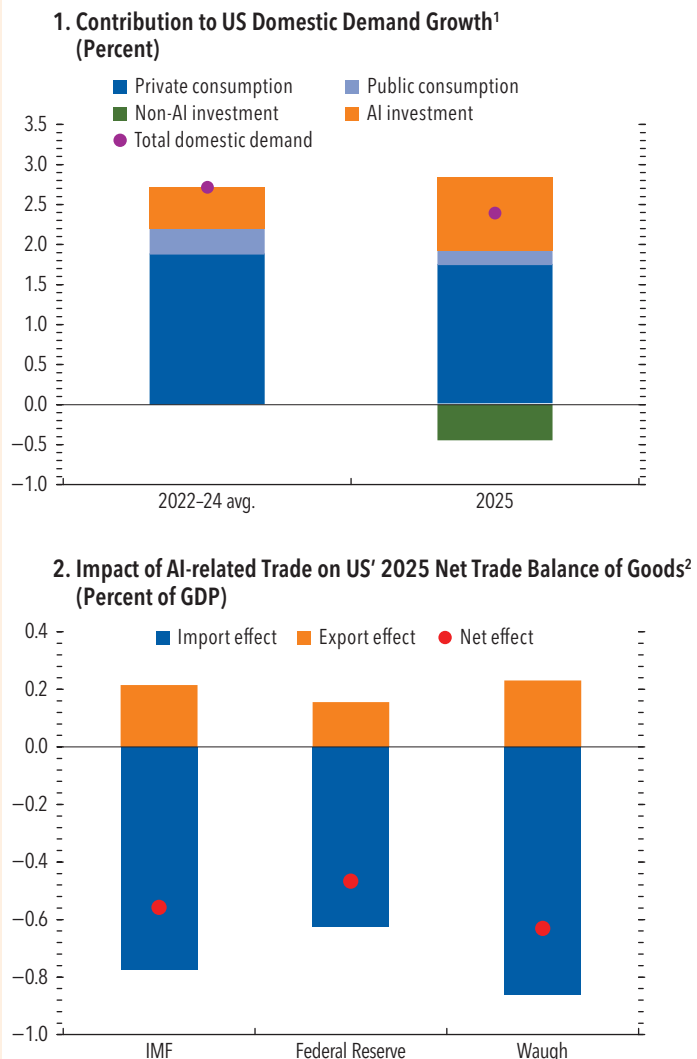
According to textbook macroeconomic models, the negative effect on imports from the imposition of tariffs should be offset by an appreciation of the exchange rate, which may leave the overall trade balance largely unaffected. However, the behavior of the US dollar did not conform to this prediction. Instead, the dollar *depreciated* in the wake of the April 2 tariff announcement, reversing a multi-month appreciation in the previous months. This left the dollar at the end of 2025 at roughly the same value relative to a basket of major currencies as in early 2024 (Figure 1.17). It suggests that the exchange rate played at best a neutral role in stabilizing the US trade balance.

AI-driven trade

Instead, US imports appear to have been bolstered by the boom in relatively import-intensive investment in AI infrastructure. In 2025, AI investment stood out as the driver of growth in US domestic demand, increasing its contribution compared to 2022–24, effectively buoying growth as contributions from private consumption, non-AI private investment, and government expenditure all declined (Figure 1.2.4, panel 1). A simple accounting exercise—assuming that US imports and exports of AI-related goods had grown at the same rate as non-AI products in 2025—suggests that everything else constant the US trade deficit would have declined by 0.6 percent of GDP absent the AI-boom, largely due to a decline in imports. This is robust across alternative classifications of AI-related products (Figure 1.2.4, panel 2).

Trade-partner spillovers

While the response of the US dollar to US tariffs may have appeared inconsistent with macroeconomic models at the aggregate level, it was more consistent with theory at the bilateral level. During 2025, the dollar appreciated in *relative* terms against the currencies of

Figure 1.2.4. Impact of AI on the United States Economy

Sources: Bureau of Economic Analysis; Haver; IMF, World Economic Outlook database; Trade Data Monitor; Waugh (2026); de Soyres, Haag, Liu, and Van Leemput (2026); and IMF staff calculations.

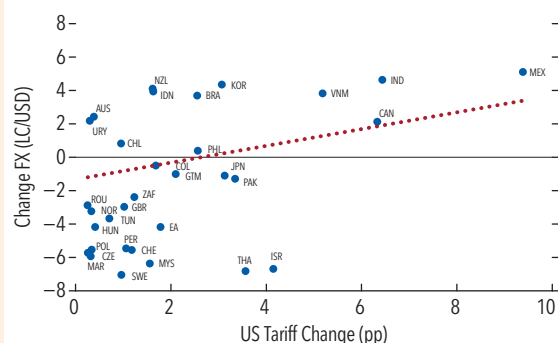
Note: AI = artificial intelligence; HS = harmonized system; LLM = large language model.

¹Relative to previous year. AI-investment is derived as the sum of private investment in software, information processing equipment, research and development, data centers and power and communication facilities using chained 2017 dollar values.

²This chart decomposes the net effect of AI-related trade on the US 2025 net trade balance of goods as a percentage of GDP using three different definitions of AI-related goods. The IMF definition assumes HS codes 8419, 8470-8473, and 85 to be AI-related. The Fed definition follows de Soyres, Hagg, Liu, and Van Leemput (2026) and assumes HS codes 847150, 847180, and 847330 to be AI-related. The Waugh definition follows Waugh (2026) which uses an LLM to classify AI-related goods.

Box 1.2 (continued)

Figure 1.2.5 Tariffs and Exchange Rate: 2024 vs 2025
(Percent change between 2024 and 2025)



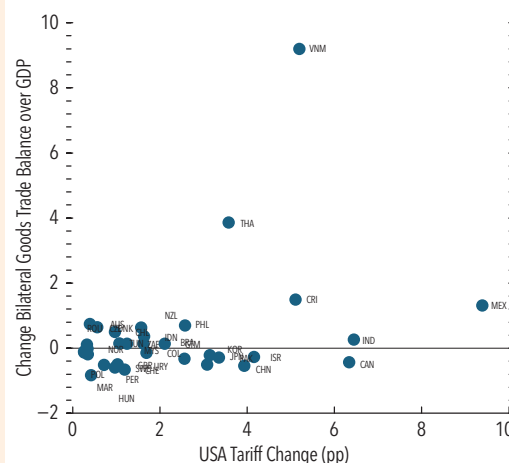
Sources: IMF, World Economic Outlook database; IMF-WTO Tariff Tracker; and IMF staff calculations.

Note: Sample includes EBA countries with exchange rate regimes different from classification 2, 3, and 14–15 (based on the classification used in Ilzetzki, Reinhart, and Rogoff, 2019). US tariff change represents the change in trade-weighted average tariffs between January 1, 2025, and December 31, 2025. Weights use 2023 HS6-Level exports to the United States as a share of total origin-country exports. Annual average exchange rates were used to calculate the change in exchange rates. Current account and tariff variables were winsorized at the 1 percent level. The red dotted line is the fitted line. Data labels use International Organization for Standardization country codes. FX = foreign exchange; EBA = External Balance Assessment; HS = harmonized system; LC = local currency; pp = percentage points; USD = US dollar; WEO = *World Economic Outlook*; WTO = World Trade Organization.

countries whose exports were more exposed to US tariff increases (Figure 1.2.5). This may have helped to level the effect of tariff differences across US trade partners.

Along with continued strong US import demand, the behavior of bilateral exchange rates may explain why tariffs have had no systematic effect on US bilateral trade balances with major trade partners. Among 28 major US trade partners, the average change in their bilateral goods trade balance with the US between 2024 and 2025 was about 0.5 percentage points of GDP, and the direction of this change uncor-

Figure 1.2.6. Bilateral Goods Trade Balance with the United States: 2024 vs 2025
(Percent of GDP)



Sources: IMF, World Economic Outlook database; IMF-WTO Tariff Tracker; and IMF staff calculations.

Note: Sample includes EBA countries with exchange rate regimes different from classification 2, 3, and 14–15 (based on the classification used in Ilzetzki, Reinhart, and Rogoff, 2019). Tariff changes represent trade-weighted averages between January 1, 2025 and December 31, 2025. Weights use 2023 HS6-Level exports to the United States as a share of total origin-country exports. Tariff variables were winsorized at the 1-percent level. EBA = External Balance Assessment; pp = percentage points; WTO = World Trade Organization.

related with their exposure to US tariffs. (Figure 1.2.5) Consequently, there is also little evidence of an impact from US tariffs on trade partners' current account balances (Figure 1.24).

In sum, there is limited evidence so far of an effect from tariffs on global imbalances in trade and capital flows. This is consistent with economic theory and a broader body of evidence suggesting that the effect of changes in trade barriers on external imbalances is small and highly contingent (see Box 1.1), and therefore easily swamped by other factors.

Box 1.3. Energy Price Shock and External Balances

This box explores the effect of an energy price shock resulting from the conflict in the Middle East on external balances in major economies using IMF's G20 model, building on the severe scenario of the April 2026 *World Economic Outlook*. The conflict led to a sharp and unexpected increase in energy prices. For example, Brent oil futures for July 2026 rose from about \$66 per barrel in fall 2025 to \$82.6 in March 2026 (April 2026 *World Economic Outlook*), and have increased further since (Figure 1.3.1).

Model scenario. The reference forecast assumes a relatively short-lived conflict.¹ However, a more protracted disruption to production and transport, including possible scarring to energy infrastructure, could lead to substantially larger macroeconomic effects, with commodity prices rising sharply and persistently. Such a *severe scenario* assumes that oil prices increase by about 100 percent starting in the second quarter of 2026, relative to the January 2026 *World Economic Outlook Update* baseline, and remain elevated through 2027 before dissipating in 2028. Gas prices in Europe and Asia, as well as food prices, also increase. Another set of assumptions is that one-year-ahead inflation expectations ratchet up by as much as 100 basis points in advanced economies by 2027 and

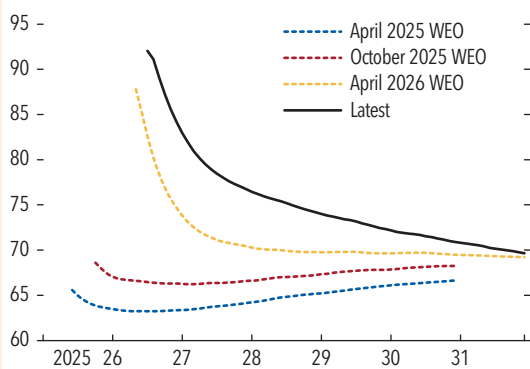
by as much as 130 basis points in emerging markets excluding China, also by 2027. Finally, a significant risk-off episode pushes up corporate premiums in advanced economies and in China, while emerging markets excluding China experience a widening in sovereign spreads and an even larger increase in corporate spreads. The monetary policy response is geared toward containing inflationary pressures rather than stabilizing output.

Model results. The shock leads to a significant global slowdown. Global growth is about 1.3 percentage points lower, with about half of the effect coming from the energy shock itself and the remainder from second-round effects and the risk-off episode. The impact varies across countries: The energy shock has a small and positive effect on output in the United States, which, as a modest net oil exporter in 2026, benefits from higher oil prices but does not see reductions in the production volume. However, the total impact once second round effects and the risk-off episode are considered, is negative, at about –0.6 percent. Output of energy importers like the euro area and China falls in response to the energy shock, about –0.5 percent, further amplified through other effects to a total of –1.0 and –0.7 percent, respectively. Energy exporters experience declines in real GDP as well, reflecting oil and gas production disruptions, though higher prices boost nominal income. Inflation increases by as much as 2 percent globally, and policy rates generally increase, especially because of an increase in inflation expectations.

The shock has sizable and heterogeneous effects on external balances, driven primarily by the energy price shock itself rather than second-round channels (Figure 1.3.2). The impact on the United States' current account is limited, reflecting its near-balanced position in energy trade. The US dollar appreciates against major currencies, so the US REER increases. Large energy importers like the euro area (–1.4 percent of GDP) and China (–0.5 percent of GDP) see a negative impact on their current account. This is mostly due to a fall in aggregate saving, as households cushion the impact on consumption from higher energy prices. The impact on oil exporters' current account is large and positive (more than 6 percent of GDP) reflecting an increase in aggregate saving as additional revenues from higher value of energy exports are saved.

The energy shock increases global current account balances by around 0.2 percent of world GDP in 2026,

Figure 1.3.1. Brent Crude Oil Price Forecasts
(US dollars per barrel)

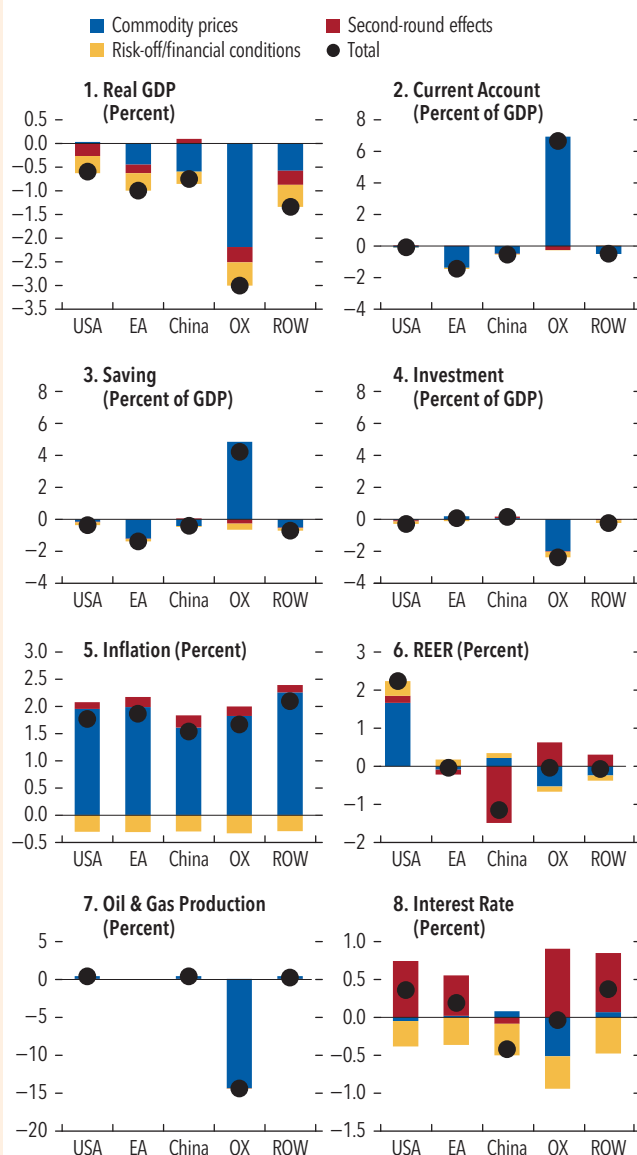


Sources: Bloomberg Finance, L.P.

Note: Expiration dates are on the x-axis. "Latest" refers to data as of June 4, 2026. WEO = *World Economic Outlook*.

This box was prepared by Josef Platzer.

¹ See April 2026 *World Economic Outlook*, Chapter 1, for the assumptions underlying both the reference forecast and the severe scenario.

Box 1.3 (continued)**Figure 1.3.2. Impact of Energy Shock Scenario**
(Deviations from baseline)

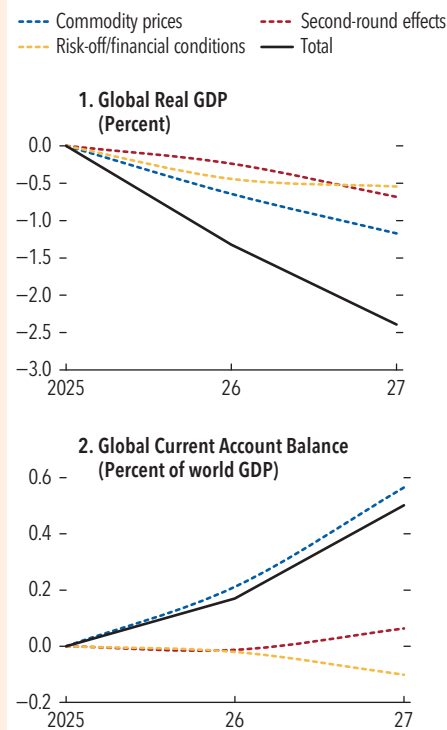
Source: IMF staff calculations.

Note: The figure shows responses for selected macro variables in 2026. All responses are reported as deviations from baseline. The figure shows the results from simulations using the IMF's G20 model. Reported model responses are for five countries/regions: (1) China, (2) the euro area, (3) the United States, (4) oil exporting countries and (5) the rest of the world. Data labels in the figure use International Organization for Standardization country codes. Oil exporting countries are AGO, ARE, AZE, BHR, BRN, COG, DZA, ECU, GAB, GNQ, IRN, IRQ, KAZ, KWT, LBY, NGA, OMN, QAT, SAU, TCD, TKM, TLS, TTO, UZB, YEM. EA = euro area. Interest rate = short-term nominal interest rate. Investment = sum of private and public investment, but their components not reported separately. Oil & Gas production = Real production of oil and gas. OX = oil exporting countries. REER = real effective exchange rate, with a decrease representing a depreciation. ROW = the rest of the world. Saving = sum of private and public saving.

Box 1.3 (continued)

and up to 0.5 percent in 2027 (Figure 1.3.3). Most of the effect is driven by the energy shock layer. While the current account is in deficit for some oil exporters in 2025, notably Saudi Arabia, the shock raises oil exporters' current accounts to a strong surplus, contributing to a widening of global imbalances. For major deficit economies, the impact varies with oil exporter status: Canada's current account moves from deficit to a small surplus, while deficits in Australia and the United Kingdom widen. For the United States, the current account deficit increases only slightly as percent of GDP, but given the economy's size, it still contributes to widening global imbalances. Meanwhile, current accounts in major surplus economies such as China, the euro area, and Japan weaken, partly counteracting the widening of global imbalances.

Figure 1.3.3. Impact of Energy Shock Scenario on World Output and Global Current Account Balance
(Deviations from baseline)



Source: IMF, World Economic Outlook database; IMF, April 2026 *World Economic Outlook*; and IMF staff estimates (IMF G20 model).

Note: The figure shows responses for selected macro variables in 2026 and 2027, using simulation results from the IMF's G20 model. All responses are reported as deviations from baseline. "Total" is the sum of the individual components "Commodity prices," "Second-round effects," and "Risk-off/ financial conditions." The top panel shows response of world GDP. The bottom panel shows the change in global current account balance and is calculated as the sum of absolute values of current accounts across countries.

Box 1.4. An Excess-Adjusted NFA in EBA

This box introduces the Adjusted Net Foreign Assets (NFA) methodology, with technical details and expanded discussion in Section 1.6 of Online Annex 1.1. The box (1) motivates the new concept, (2) outlines the methodology, (3) discusses implementation trade-offs, and (4) illustrates the impact on external sector assessments, with particular attention to countries running persistent excess surpluses or deficits. The new methodology will be implemented in next year's assessment.

Motivation. The External Balance Assessment (EBA) framework regresses the current account to GDP ratio on cyclical variables, medium-term structural features, policy variables, and the lagged NFA. The lagged NFA enters to absorb persistent cross-country differences that observable fundamentals and policies do not capture—the cumulative imprint of slow-moving steady-state drivers (such as structural asset demand and supply) that are not directly measurable.

However, headline NFA reflects not only steady-state fundamentals but also accumulated past excess imbalances—deviations from norms that have persisted over time. The positive coefficient on NFA in the EBA regression creates a problematic feedback loop: Persistent excess imbalances today accumulate into larger NFA positions that subsequently justify greater imbalances by shifting the current account (CA) norm upward (for creditors) or downward (for debtors), gradually explaining away the excess. The size of the inconsistency grows over time. Constructing excess-adjusted NFA from accumulated CA norms, thus stripping out past excess CA balances, and basing the CA gap on this adjusted NFA breaks the loop. When a country runs CA above its norm, headline NFA accumulates faster than the adjusted NFA; the resulting divergence raises the assessed CA gap rather than being absorbed into a larger justified norm.

Methodology. The construction of the adjusted NFA is an iterative procedure involving several steps (formal expressions are reported in Section 1.6 of Online Annex 1.1):

- Starting from an anchor year, the adjusted NFA is built by accumulating CA norms year by year, with each year's norm corrected to use the adjusted lagged NFA in place of the actual one (ensuring the iteration is internally consistent).
- Realized valuation effects are applied identically to actual and adjusted NFA, so the gap between the two reflects cumulated excess CA flows alone. The resulting NFA adjustment which removes the

part of the CA norm driven by past excesses, is used to recalculate the headline CA gap.

Constructing the adjusted NFA requires two key ingredients: an initial NFA position in the anchor year and a sequence of CA norms. These involve methodological choices with material trade-offs, discussed below.

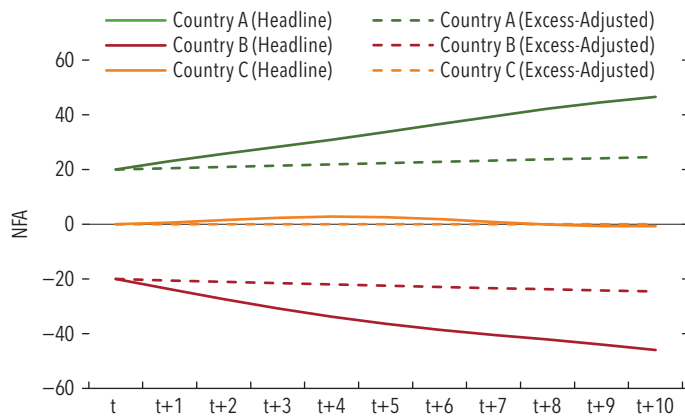
Impact on EBA results. A stylized three-country example is used to illustrate the methodology's effects on external sector assessments, where two countries run correspondingly persistent excess CA surplus (Country A) or deficit (Country B), while Country C exhibits transitory excess CA.¹ The case of no excess CA is excluded, as it does not require an NFA adjustment.

The adjusted NFA has a significant effect on assessed CA gaps only when CA excesses are persistent. In the transitory case (Country C) headline and adjusted NFA paths remain closely aligned, with virtually identical CA gaps (Figures 1.4.1 and 1.4.2). The persistent excess cases (Countries A and B) tell a different story: Headline and adjusted NFA diverge by around 22 percentage points over a decade, in both cases widening the assessed CA gap by around 0.6 percentage points, with the correction accumulating gradually over time.

Implementation challenges. Implementation of the excess-adjusted NFA presents tradeoffs among five dimensions—(1) addressing the normative inconsistency stemming from the problematic feedback loop, (2) containing accumulation uncertainty embedded in the excess-adjusted NFA, (3) preserving multilateral consistency of the EBA exercise, (4) maintaining even-handed treatment of EBA sample countries, and (5) incorporating past staff judgment into the excess-adjusted NFA construction procedure. Two choices are particularly consequential:

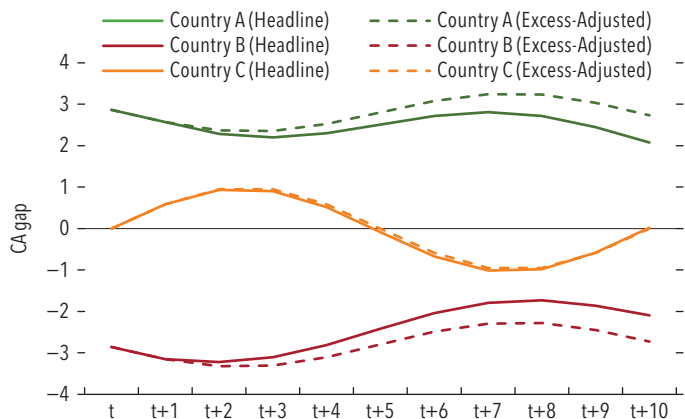
This box was prepared by Cian Allen.

¹ This example uses the estimated NFA coefficient from EBA (0.032) and assumes 6 percent nominal growth. Countries start in t with initial NFA positions of +20 percent (Country A), -20 percent (Country B), and 0 (Country C). Country A (Persistent Surplus): actual CA = 4.5 percent and norm = 1.0 percent, implying a persistent 3.5pp excess surplus. Country B (Persistent Deficit): Mirror of Country A with actual = -4.5 percent and norm = -1.0 percent, implying a persistent 3.5pp excess deficit. Country C (Transitory): actual CA swings ± 1 percent and norm = 0 percent, implying transitory excess imbalances. For multilateral consistency in any given year, the counterpart of Country C's transitory gap is allocated equally between Countries A and B, so that CA gaps sum to zero across countries by construction.

Box 1.4 (continued)**Figure 1.4.1. Headline vs Excess-Adjusted Net Foreign Assets**
(Percent of GDP)

Sources: IMF staff calculations.

Note: Three-country example, over a t to $t+10$ period. Solid lines represent NFA accumulated from headline CA flows; dashed lines represent adjusted NFA accumulated from CA norms. Assumes 6 percent nominal growth and coefficient on NFA = 0.031. Characteristics of Countries A (persistent excess surplus), B (persistent excess deficit) and C (transitory excess) defined in Footnote 2. CA = current account; NFA = net foreign assets.

Figure 1.4.2. Current Account Gaps with Headline vs Excess-Adjusted Net Foreign Assets
(Percent of GDP)

Sources: IMF staff calculations.

Note: Three-country simulation over a t to $t+10$ period. Solid lines represent EBA CA gaps using lagged headline NFA; dashed lines represent CA gaps with lagged excess-adjusted NFA. Characteristics of Countries A (persistent excess surplus), B (persistent excess deficit) and C (transitory excess) defined in Footnote 2. CA = current account; EBA = External Balance Assessment; NFA = net foreign assets.

- **Anchor year and memory of the adjustment.** A longer horizon captures more of the historical excess imbalance, addressing the inconsistency more fully, but accumulates more uncertainty around the cumulated norm path. A short horizon limits accumulation noise but only corrects for the more recent CA excesses (see Table 1.6.2 in Online Annex 1.1).

- **Choice of CA norms.** Using staff-assessed norms incorporates richer country-specific judgment but at the cost of reduced multilateral consistency and evenhanded coverage. Using EBA norms (with selected adjustors where warranted) balances coverage, multilateral consistency, and judgment, at the cost of some country-specific staff-assessed adjustments (see Table 1.6.3 in Online Annex 1.1).

An earlier anchor year tends to significantly increase the NFA adjustment for persistent excess surplus and deficit economies. By contrast, the choice of the CA norms does not materially change the adjusted CA gaps for the majority of ESR economies (see Section 1.6.4 in Online Annex 1.1).

Overall, the adjusted NFA methodology resolves a normative inconsistency that has grown more material over time, at limited implementation cost and without altering the EBA framework. The focus of external sector assessments remains on the CA norm, corrected for past excesses, and not on closing the gap between the headline and excess-adjusted NFA.

Box 1.5. Scenario Assumptions

This box lays out the key assumptions under the alternative scenarios used to discuss risks surrounding the outlook.

Scenario 1: Continuation of Current Trends¹

- United States
 - AI-Boom: Additional surge in US business investment to capture higher-than-expected productivity from AI technologies. The surge is concentrated in computing and in infrastructure. Investment rises 2.5 percent above the reference forecast by 2030 and stays 1 percent higher beyond that. Because many AI-related capital goods are sourced from emerging Asia, the import intensity of US investment increases.
 - Fiscal Expansion: US fiscal deficit increases by 0.5 percent of GDP for five years, driven by higher public spending. Public debt increases by 2.5 percent of GDP in the long term.
- China
 - Weak demand: The scenario assumes that investment declines by one percent over 3 years, reflecting diminishing returns to investment and the risk of a more protracted recovery in residential investment despite industrial production incentives, financed by higher fiscal spending. These incentives result in a gradual loss of productivity in the tradable sector (0.5 percent).
- Euro Area
 - Weak productivity: Starting in 2026, total factor productivity growth in the euro area picks up less than expected and is 0.1 percentage point lower per year over five years, relative to the reference forecast. Investment-specific productivity growth declines by 0.05 percentage point per year over

¹ The scenario follows in large parts Scenario A in Box 1.3 of the April 2026 *World Economic Outlook*, where broader short-term and longer-term macroeconomic effects are presented. China's currency adjustment is assumed to be limited, unless stated otherwise.

the same period. Productivity growth returns to the level in the reference forecast after 2030, but the effect on productivity is permanent. Lackluster growth prospects result in a persistent increase in the private saving rate, by 1 percentage point by 2030.

Scenario 2: Simultaneous Adjustment²

- United States
 - AI-Boom (as in the “Continuation of Current Trends” scenario)
 - Fiscal reform: Government consumption is permanently reduced. The overall fiscal deficit gradually decreases, reaching 1 percent of GDP by the fifth year. Public debt decreases by 25 percent of GDP in the long term.
- China
 - Broad reform: A short-term fiscal expansion of about 0.5 percent of GDP, including higher social spending that elicits a reduction in the saving rate and measures to support residential investment, followed by a gradual consolidation. Industrial policy support is cut in half and coupled with efforts to increase business dynamism, boosting productivity. China's currency adjusts flexibly.
- Euro Area
 - Productivity reform: Corporate financing costs are permanently reduced by 25 basis points driven by EU-level and national-level reforms. Public investment increases with a full utilization of the Recovery and Resilience Facility, as well as in some member states with fiscal space initially financed by higher deficits. From 2030 onward, there is a reallocation of existing spending, such that debt ratios gradually return to their level in the reference forecast.

² The scenario follows in large parts Scenario C in Box 1.3 of the April 2026 *World Economic Outlook*, where broader short-term and longer-term macroeconomic effects are presented. China's currency adjustment is assumed to be limited, unless stated otherwise.

Box 1.5 (continued)**China Adjustment Case**

- China
 - Broad reform (as in the “Simultaneous Adjustment” scenario)
- Risk layer

Higher sovereign risk premium in the US: The interest rate on government debt temporarily increases by about 25 basis points as investors reduce the appetite for US treasuries.

US Adjustment Case

- United States
 - Fiscal reform: (as in the “Simultaneous Adjustment” scenario)
- Risk layer
 - Tighter global financial conditions: corporate risk premiums temporarily rise by up to 30 basis points globally as growth prospects weaken.
 - Effective lower bound in China: Monetary policy is constrained by the effective lower bound on interest rates.

Annex Table 1.1.1. Selected Economies: Foreign Reserves, 2022-25¹

	Gross Official Reserves ²								IMF Staff-Estimated Change in Official Reserves ³				Gross Official Reserves, 2025 (Percent of ARA metric) ⁴	FXI Data Publication
	(Billions of US Dollars)				(Percent of GDP)				(Percent of GDP)					
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025		
Advanced Economies														
Australia	57	62	60	73	3.3	3.5	3.4	3.9	-0.2	0.2	0.0	0.2	...	Yes, daily
Canada	107	116	123	127	4.9	5.3	5.4	5.5	0.5	0.3	0.2	0.0	...	Yes, monthly
Euro Area	1,186	1,268	1,449	2,106	8.1	7.9	8.7	11.7	0.1	-0.1	0.0	0.1	...	Yes, quarterly
Hong Kong SAR	424	426	422	428	118.2	111.8	103.2	100.2	-13.1	-2.7	-2.8	-2.1	...	Yes, daily
Japan	1,228	1,295	1,231	1,370	27.6	29.5	29.4	30.9	-1.1	0.6	-1.5	0.8	...	Yes, daily
Korea	423	421	418	437	23.5	22.8	22.3	23.3	-1.6	-0.4	-0.1	-0.1	...	Yes, quarterly
Singapore	289	351	371	409	56.3	68.7	64.8	67.8	-25.4	10.5	3.3	3.2	...	Yes, semiannually
Sweden	64	61	63	74	11.2	10.5	10.3	11.1	1.3	-0.9	0.6	0.4	...	Yes, weekly
Switzerland	924	864	909	1,076	107.6	93.0	93.7	103.1	-1.7	-14.0	2.2	2.2	...	Yes, quarterly
United Kingdom	176	178	175	214	5.5	5.2	4.7	5.4	0.0	-0.1	0.1	0.2	...	Yes, monthly
United States	707	773	910	1,385	2.7	2.8	3.1	4.5	0.0	0.0	0.0	0.0	...	Yes, quarterly
Emerging Market and Developing Economies														
Argentina	45	23	30	41	7.1	3.6	4.6	6.0	-2.5	-4.8	1.4	-1.9	34	Yes, daily
Brazil	325	355	330	359	16.6	16.2	15.1	15.7	-1.2	0.9	-1.3	0.5	121	Yes, daily
China	3,307	3,450	3,456	3,744	18.0	18.8	18.2	19.1	0.5	0.0	-0.3	0.2	100	No
India	567	628	643	700	17.5	17.9	17.1	17.9	-1.6	1.7	-2.0	1.0	108	Yes, monthly
Indonesia	137	146	156	156	10.4	10.7	11.2	10.8	-0.3	0.0	0.1	-0.4	120	No
Malaysia	115	113	116	126	28.1	28.4	27.5	26.6	-1.7	-0.4	-0.5	2.2	103	No
Mexico	201	214	232	256	13.7	11.9	12.7	14.0	-0.1	0.4	0.8	0.6	131	Yes, monthly
Poland	167	194	223	272	24.0	23.8	24.3	26.2	1.8	2.6	3.2	0.8	161	No
Russian Federation	582	597	608	755	25.3	29.4	27.8	29.2	-0.3	-0.5	-0.2	-0.7	379	Yes, daily
Saudi Arabia	460	437	437	460	37.1	35.9	34.8	36.0	0.4	-1.9	0.0	2.3	176	No
South Africa	61	62	65	76	14.9	16.4	16.3	17.8	-0.7	0.1	0.5	0.5	109	No
Thailand	217	224	237	282	43.7	43.4	44.8	48.9	-2.9	0.7	1.4	2.8	231	No
Türkiye	129	141	156	186	13.9	12.2	11.5	11.6	0.4	-0.3	3.5	-1.2	79	No
Memorandum Items:														
Aggregate ⁵	11,914	12,420	12,847	15,156	11.6	11.6	11.5	12.8	-0.2	0.0	-0.1	0.2	...	...
AEs	5,585	5,814	6,131	7,699	5.4	5.4	5.5	6.5	-0.2	-0.1	0.0	0.1	...	...
EMDEs	6,329	6,606	6,716	7,458	6.2	6.2	6.0	6.3	0.0	0.0	-0.1	0.1	...	...

Sources: IMF, Assessing Reserve Adequacy data set; IMF, *International Financial Statistics*; IMF, International Reserves and Foreign Currency Liquidity; IMF, April 2026 *World Economic Outlook*; national authorities; 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.

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, 2025

Economy	Overall Assessment	Current Account (Percent of GDP)		IMF Staff CA Gap (Percent of GDP)		IMF Staff REER Gap (Percent)		International Investment Position (Percent of GDP)			CA NFA Stabilizing (Percent of GDP)	SE of CA Norm (Percent)
		Actual	Cycl. Adj.	Midpoint	Range	Midpoint	Range	Net	Liabilities	Assets		
Argentina	Weaker	-1.1	-1.9	-2.5	±1	15.9	±6.3	7	65	72	0.4	0.5
Australia	Weaker	-2.6	-2.9	-3.0	±0.5	16.8	±2.8	-22	182	160	-1.1	0.5
Belgium	Substantially weaker	-1.9	-1.6	-4.7	±0.3	7.1	±0.5	52	362	414	2.3	0.3
Brazil	Moderately weaker	-2.9	-2.9	-1.5	±0.5	11.2	±3.5	-49	97	47	-2.7	0.5
Canada	Weaker	-0.9	-1.1	-2.8	±0.4	10.9	±1.6	56	296	352	2.6	0.4
China	Stronger	3.8	3.6	3.0	±0.6	-21.3	±4	21	39	60	1.3	0.6
Euro Area ¹	Broadly in line	1.7	1.8	0.9	±0.8	-2.6	±2.3	11	246	257	0.5	0.5
France	Broadly in line	-0.3	-0.3	-0.5	±0.4	2.0	±1.4	-28	412	384	-0.9	0.4
Germany	Stronger	4.5	4.3	2.1	±0.5	-6.6	±1.6	85	250	335	3.1	0.5
Hong Kong SAR	Broadly in line	12.3	11.8	-0.1	±0.8	0.2	±2.4	586	1,220	1,806	...	...
India	Moderately stronger	-0.9	-0.7	1.6	±0.6	-8.4	±3.3	-7	38	31	-0.7	0.6
Indonesia	Broadly in line	-0.1	-0.2	0.2	±0.5	-1.2	±3.3	-19	58	39	-1.5	0.5
Italy	Moderately weaker	1.1	1.2	-1.2	±0.5	4.8	±2.1	16	178	194	0.6	0.5
Japan	Moderately stronger	4.9	4.9	1.3	±1	-7.2	±5.4	85	187	272	3.1	1.0
Korea	Stronger	6.6	6.4	2.5	±0.6	-7.5	±1.7	47	106	153	2.4	0.6
Malaysia	Moderately stronger	1.6	1.8	1.5	±0.5	-2.9	±1	-1	128	127	0.1	0.5
Mexico	Broadly in line	-0.4	-0.6	0.1	±0.4	-0.4	±1.3	-35	87	52	-1.5	0.4
The Netherlands	Stronger	7.9	8.0	3.6	±0.5	-5.6	±0.8	46	833	878	2.9	0.4
Poland	Broadly in line	-0.9	-0.8	-0.4	±0.4	1.1	±0.9	-31	95	64	-1.2	0.4
Russian Federation	Moderately weaker	1.7	2.3	-1.1	±0.7	7.0	±4.8	43	27	70	1.8	0.7
Saudi Arabia	Moderately weaker	-2.6	-1.9	-1.1	±2	6.7	±9.7	57	70	126	...	...
Singapore	Substantially stronger	16.7	17.0	7.6	±2	-15.2	±4	179	960	1,139	...	...
South Africa	Broadly in line	-0.5	-0.6	-0.3	±0.7	1.2	±3.4	28	117	145	1.5	0.7
Spain	Stronger	2.9	3.2	2.4	±0.6	-8.7	±2.1	-45	254	210	-2.0	0.6
Sweden	Stronger	6.1	5.8	4.0	±0.4	-12.4	±6.4	55	280	335	2.8	0.4
Switzerland	Broadly in line	7.1	7.0	-0.1	±0.7	0.3	±1.3	111	504	616	5.6	0.7
Thailand	Stronger	2.8	2.7	2.0	±0.6	-4.0	±1.2	16	115	131	0.7	0.6
Türkiye	Weaker	-1.9	-1.6	-2.9	±0.5	12.1	±2.3	-20	46	26	-1.4	0.5
United Kingdom	Weaker	-2.4	-2.4	-2.2	±0.3	8.2	±1	-7	493	486	-0.3	0.3
United States	Weaker	-3.6	-3.5	-2.2	±0.7	19.9	±6.3	-88	224	137	-4.3	0.7

Sources: IMF, *International Financial Statistics*; IMF, April 2026 *World Economic Outlook*; US Bureau of Economic Analysis; national authorities; 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, 2025
(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]	CA [G]	Norm [H]	
Argentina	-1.1	-1.9	0.7	-2.5	-2.5	0.0	0.0	0.0	
Australia	-2.6	-2.9	0.0	-3.0	-3.0	0.0	0.0	0.0	
Belgium	-1.9	-1.6	3.2	-4.7	-4.7	0.0	0.0	0.0	
Brazil	-2.9	-2.9	-1.4	-1.5	-1.5	0.0	0.0	0.0	
Canada	-0.9	-1.1	2.4	-3.4	-2.8	0.6	0.6	0.0	Portfolio Equity Retained Earnings Bias
China	3.8	3.6	0.6	3.0	3.0	0.0	0.0	0.0	
Euro Area ⁴	1.7	1.8	0.7	1.0	0.9	-0.1	-0.1	0.0	Portfolio Equity Retained Earnings Bias
France	-0.3	-0.3	0.3	-0.5	-0.5	0.0	0.0	0.0	
Germany	4.5	4.3	2.2	2.1	2.1	0.0	0.0	0.0	
India	-0.9	-0.7	-2.3	1.6	1.6	0.0	0.0	0.0	
Indonesia	-0.1	-0.2	-0.4	0.2	0.2	0.0	0.0	0.0	
Italy	1.1	1.2	2.4	-1.2	-1.2	0.0	0.0	0.0	
Japan	4.9	4.9	3.6	1.3	1.3	0.0	0.0	0.0	
Korea	6.6	6.4	3.3	3.1	2.5	-0.6	0.0	0.6	Demographics (population aging)
Malaysia	1.6	1.8	0.3	1.5	1.5	0.0	0.0	0.0	
Mexico	-0.4	-0.6	-0.7	0.1	0.1	0.0	0.0	0.0	
The Netherlands	7.9	8.0	2.9	5.2	3.6	-1.6	-1.6	0.0	Portfolio Equity Retained Earnings Bias
Poland	-0.9	-0.8	-0.4	-0.4	-0.4	0.0	0.0	0.0	
Russian Federation	1.7	2.3	3.4	-1.1	-1.1	0.0	0.0	0.0	
South Africa	-0.5	-0.6	-0.3	-0.3	-0.3	0.0	0.0	0.0	
Spain	2.9	3.2	0.8	2.4	2.4	0.0	0.0	0.0	
Sweden	6.1	5.8	1.8	4.0	4.0	0.0	0.0	0.0	
Switzerland	7.1	7.0	6.1	1.0	-0.1	-1.1	-1.1	0.0	Portfolio Equity Retained Earnings Bias
Thailand	2.8	2.7	0.6	2.0	2.0	0.0	0.0	0.0	
Türkiye	-1.9	-1.6	1.3	-2.9	-2.9	0.0	0.0	0.0	
United Kingdom	-2.4	-2.4	-0.1	-2.3	-2.2	0.1	0.0	0.0	
United States	-3.6	-3.5	-1.3	-2.2	-2.2	0.0	0.0	0.0	
Hong Kong SAR	12.3	11.8	...	...	-0.1	9.0	0.0	-9.0	NIIP and gold trade
Singapore	16.7	17.0	...	...	7.6	4.6	0.0	-4.6	NFA composition, health spending
Saudi Arabia	-2.6	-1.9	...	...	-1.1	0.0	0.0	0.0	
Absolute sum of excess surpluses and deficits ⁵	...	...	...	2.0	2.0	...	...	...	
Discrepancy ⁶	...	...	...	...	-0.03	...	...	...	

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 economy-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 GDP-weighted IMF staff-assessed CA gaps for economies included in the 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, 2025

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 2025/ Average 2024	March 2026/ Average 2025
Argentina	15.9	15.9	18.6	14.5	0.16	2.9	0.2
Australia	16.8	16.8	24.4	3.8	0.18	-2.4	9.0
Belgium	7.1	7.1	21.4	9.5	0.67	1.7	0.0
Brazil	11.2	11.2	-21.3	-30.4	0.13	-2.5	5.5
Canada	10.9	10.9	-21.0	1.6	0.26	-2.7	0.7
China	-21.3	-21.3	-2.7	0.5	0.14	-3.5	3.0
Euro Area	-2.6	-2.6	2.7	5.1	0.35	2.2	0.8
France	2.0	2.0	2.9	-10.0	0.27	0.0	-0.3
Germany	-6.6	-6.6	-9.1	8.2	0.32	1.4	0.5
India	-8.4	-8.4	-5.6	0.8	0.18	-4.9	-6.7
Indonesia	-1.2	-1.2	-22.9	-5.8	0.16	-4.9	-2.6
Italy	4.8	4.8	2.6	3.3	0.25	0.6	0.2
Japan	-7.2	-7.2	-38.7	-37.3	0.18	1.9	-8.1
Korea	-7.5	-7.5	-9.8	-5.8	0.33	-4.6	-5.7
Malaysia	-2.9	-2.9	-26.8	-20.4	0.51	5.5	6.9
Mexico	-0.4	-0.4	20.2	4.8	0.31	-4.1	9.1
The Netherlands	-5.6	-5.6	5.9	21.5	0.64	2.2	0.5
Poland	1.1	1.1	-9.7	21.8	0.38	3.8	-0.2
Russian Federation	7.0	7.0	-29.8	-2.4	0.15	14.5	1.7
South Africa	1.2	1.2	-8.8	-19.0	0.24	1.6	9.3
Spain	-8.7	-8.7	19.7	4.7	0.28	1.7	0.9
Sweden	-12.4	-9.8	-15.2	-10.7	0.41	3.0	1.5
Switzerland	0.3	0.3	22.0	15.5	0.56	1.4	2.1
Thailand	-4.0	-4.0	-3.5	11.5	0.50	4.4	-0.2
Türkiye	12.1	12.1	-34.6	-24.6	0.24	7.5	4.7
United Kingdom	8.2	8.2	13.3	4.4	0.26	2.2	-0.2
United States	19.9	19.9	21.3	9.5	0.11	0.3	-1.9
Hong Kong SAR	0.2	0.2	...	...	0.32	-0.3	-2.2
Singapore	-15.2	-15.2	...	...	0.50	0.6	1.1
Saudi Arabia	6.7	6.7	...	...	0.20	-0.7	-1.7
Discrepancy ⁴	2.1	...	...	...	...	...	...

Sources: Bank for International Settlements (BIS); IMF, Information Notice System; national authorities; 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. A REER gap does not always suggest a need for nominal exchange rate adjustment. For specific recommendations to address CA and related REER gaps, please see the policy section in the individual economy pages.

² Implied REER gap = -(IMF staff-assessed CA gap/CA-to-REER elasticity).

³ CA-to-REER semi-elasticity used by IMF country teams.

⁴ GDP-weighted average sum of IMF staff-assessed REER gaps.

Annex Table 1.1.5. Selected External Sector Report Economies: External Balance Assessment Current Account Regression Policy Gap Contributions, 2025
(Percent of GDP)

Economy	EBA Gap				Fiscal Gap				Public Health Expenditure Gap				Private Credit Gap				Foreign Exchange Intervention and Capital Controls Gap									
	Total ¹	Identified	Dom ²	Residual	Domestic				Domestic				Domestic				Domestic									
					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*	KC P	KC P*
Argentina	-2.5	-1.1	-1.1	-1.4	0.9	0.0	0.3	0.7	0.5	0.0	0.1	-0.4	6.3	6.5	-0.8	0.0	-0.1	0.6	0.0	-1.2	-1.2	0.6	-1.9	1.7	0.7	0.3
Australia	-3.0	0.1	0.1	-3.0	0.3	-0.6	0.3	-3.7	-1.5	-0.2	-0.1	-0.4	7.5	7.2	0.1	0.8	-0.1	-9.2	0.0	0.0	0.0	0.6	0.2	0.0	0.1	0.1
Belgium	-4.7	1.0	1.0	-5.8	-0.3	-1.2	0.3	-5.4	-1.1	-0.2	-0.1	-0.4	8.1	7.9	1.6	2.3	-0.1	-27.7	0.0	-0.1	0.0	0.6	-0.2	0.0	0.1	0.1
Brazil	-1.5	-1.2	-1.2	-0.2	-0.5	-1.4	0.3	-8.5	-3.5	0.0	0.1	-0.4	4.1	4.4	-0.8	-0.1	-0.1	0.9	0.0	0.1	0.1	0.6	0.5	0.0	0.4	0.3
Canada	-3.4	1.3	1.3	-4.8	0.8	-0.1	0.3	-1.4	-1.1	-0.3	-0.2	-0.4	7.9	7.5	0.9	1.6	-0.1	-18.8	0.0	0.0	0.0	0.6	0.0	0.0	0.1	0.1
China	3.0	-0.1	-0.1	3.1	-0.4	-1.3	0.3	-7.6	-3.1	0.5	0.6	-0.4	2.9	4.4	-0.3	0.4	-0.1	-5.1	0.0	0.1	0.1	0.6	0.2	0.0	0.7	0.3
Euro Area ⁴	1.0	0.6	0.6	0.5	0.4	-0.5	0.3	-2.9	-1.3	-0.2	-0.1	-0.4	8.4	8.2	0.4	1.1	-0.1	-13.5	-0.4	0.0	0.0	0.6	0.2	0.0	0.1	0.1
France	-0.5	0.0	0.0	-0.5	-0.2	-1.1	0.3	-5.0	-1.1	-0.3	-0.2	-0.4	9.0	8.6	0.5	1.3	-0.1	-14.9	0.0	0.0	0.0	0.6	0.1	0.0	0.1	0.1
Germany	2.1	-0.1	-0.1	2.2	0.9	0.0	0.3	-2.1	-2.3	-0.5	-0.4	-0.4	10.6	9.6	-0.5	0.2	-0.1	-2.6	0.0	0.0	0.0	0.6	0.0	0.0	0.3	0.3
India	1.6	0.0	0.0	1.5	0.1	-0.7	0.3	-8.2	-5.6	0.0	0.1	-0.4	1.5	1.8	-0.6	0.2	-0.1	-1.8	0.0	0.4	0.5	0.6	1.0	0.0	0.8	0.3
Indonesia	0.2	0.6	0.6	-0.4	0.7	-0.2	0.3	-2.9	-2.3	0.5	0.6	-0.4	1.5	3.0	-0.5	0.2	-0.1	-2.5	0.0	-0.2	-0.1	0.6	-0.4	0.0	0.5	0.3
Italy	-1.2	1.0	1.0	-2.3	0.4	-0.5	0.3	-3.1	-1.5	0.1	0.2	-0.4	6.3	6.8	0.5	1.3	-0.1	-14.9	0.0	0.0	0.0	0.6	0.2	0.0	0.0	0.0
Japan	1.3	0.2	0.2	1.2	1.1	0.3	0.3	-1.2	-2.2	-0.1	0.1	-0.4	9.0	9.1	-0.9	-0.2	-0.1	2.6	0.0	0.0	0.1	0.6	0.8	0.0	0.1	0.1
Korea	3.1	1.3	1.3	1.8	0.5	-0.3	0.3	-1.2	0.0	0.9	1.0	-0.4	5.0	7.5	-0.1	0.6	-0.1	-7.2	0.0	-0.1	0.0	0.6	-0.1	0.0	0.1	0.1
Malaysia	1.5	1.6	1.6	-0.1	0.5	-0.3	0.3	-3.7	-2.5	0.8	0.9	-0.4	2.0	4.1	-0.5	0.3	-0.1	-3.2	0.0	0.7	0.8	0.6	2.2	0.0	0.6	0.3
Mexico	0.1	0.0	0.0	0.1	0.2	-0.6	0.3	-4.7	-2.5	0.2	0.3	-0.4	2.9	3.6	-0.6	0.1	-0.1	-1.8	0.0	0.1	0.2	0.6	0.6	0.0	0.4	0.3
The Netherlands	5.2	3.2	3.2	1.9	0.8	0.0	0.3	-2.1	-2.0	0.1	0.2	-0.4	8.3	8.8	2.3	3.1	-0.1	-36.2	0.0	0.0	0.0	0.6	0.2	0.0	0.0	0.0
Poland	-0.4	-0.2	-0.2	-0.2	-0.5	-1.4	0.3	-6.9	-2.0	0.0	0.1	-0.4	6.3	6.6	0.1	0.8	-0.1	-14.7	-5.0	0.2	0.2	0.6	0.8	0.0	0.4	0.3
Russian Federation	-1.1	0.0	0.0	-1.0	-0.2	-1.1	0.3	-4.8	-1.0	0.1	0.2	-0.4	4.9	5.5	0.4	1.1	-0.1	-12.9	0.0	-0.3	-0.3	0.6	-0.7	0.0	0.6	0.3
South Africa	-0.3	0.8	0.8	-1.1	0.2	-0.6	0.3	-5.7	-3.5	1.0	1.1	-0.4	4.0	6.6	-0.5	0.2	-0.1	-2.4	0.0	0.1	0.2	0.6	0.5	0.0	0.6	0.3
Spain	2.4	0.8	0.8	1.7	0.0	-0.9	0.3	-3.2	-0.1	-0.2	-0.1	-0.4	6.7	6.5	1.0	1.7	-0.1	-21.4	-1.0	0.0	0.0	0.6	0.0	0.0	0.2	0.2
Sweden	4.0	2.2	2.2	1.8	0.6	-0.2	0.3	-0.8	0.0	-0.1	0.0	-0.4	9.7	9.7	1.7	2.4	-0.1	-28.9	0.0	0.0	0.0	0.6	0.4	0.0	0.2	0.2
Switzerland	1.0	1.9	1.9	-0.9	1.3	0.4	0.3	0.5	-1.0	-0.1	0.0	-0.4	8.0	8.0	0.5	1.2	-0.1	-14.3	0.0	0.2	0.3	0.6	2.2	0.0	0.2	0.2
Thailand	2.0	1.6	1.6	0.4	0.8	0.0	0.3	-1.7	-1.6	0.0	0.1	-0.4	4.5	4.8	0.0	0.7	-0.1	-8.0	0.0	0.8	0.9	0.6	2.8	0.0	0.5	0.3
Turkiye	-2.9	0.5	0.6	-3.4	1.1	0.2	0.3	-2.8	-3.5	-0.1	0.0	-0.4	3.7	3.6	0.2	0.9	-0.1	-21.8	-10.9	-0.6	-0.5	0.6	-1.2	1.2	0.4	0.3
United Kingdom	-2.3	-0.7	-0.7	-1.5	0.1	-0.7	0.3	-5.0	-2.4	-0.6	-0.5	-0.4	9.1	7.9	-0.2	0.5	-0.1	-5.6	0.0	0.0	0.0	0.6	0.2	0.0	0.1	0.1
United States	-2.2	-0.6	-0.5	-1.7	-0.5	-1.3	0.3	-7.3	-2.5	-0.3	-0.2	-0.4	8.8	8.4	0.2	1.0	-0.1	-11.4	0.0	0.0	0.0	0.6	0.0	0.0	0.2	0.2

Source: IMF staff estimates.

Source: IMF staff estimates.

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

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

²Includes the contribution of domestic policy gaps to the identified gap. The total foreign policy gap contribution is constant and equal to 0.01 percent for all economies. Foreign contributions are estimated as follows (in percent of GDP): fiscal = -0.9; public health = 0.1; private credit = 0.7; foreign exchange intervention = 0.0.

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

⁴The 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. 2025 Individual Economy Assessments: Summary of Policy Recommendations

Economy	Overall 2025 Assessment	Policy Recommendations
Argentina	Weaker	Implement a more balanced stabilization program with greater emphasis on external stability to proactively rebuild reserves, sustain a gradual disinflation process, and durably access international capital markets.
Australia	Weaker	A gradual medium-term fiscal consolidation could contribute to narrowing the CA deficit. Meaningful progress on the authorities' structural reforms agenda to boost productivity could strengthen export competitiveness and support medium-term external rebalancing.
Belgium	Substantially weaker	Implement a sustained expenditure-led fiscal consolidation beyond current plans. Fiscal buffers should be rebuilt, and space needs to be created to increase public investment to boost potential growth and support the green transition. Significant pension, social benefit, tax, labor, product-market, and wage-setting reforms are needed to enhance productivity, potential growth, and competitiveness.
Brazil	Moderately weaker	Implement efforts to raise national savings, increasing scope for priority investments. A sustained and more ambitious fiscal consolidation would help increase net public saving.
Canada	Weaker	Strengthen external competitiveness by removing internal trade barriers, enhancing labor productivity, and scaling up investment in R&D. Targeted and temporary fiscal support may be necessary to allow businesses and households to adjust to the new trade landscape.
China	Stronger	Fiscal stimulus focused on boosting consumption by investing in people and facilitating a more efficient property sector adjustment, while scaling back inefficient investment and unwarranted industrial policy support. Further monetary easing accompanied by a strong fiscal and structural package can facilitate deflation and exchange rate flexibility can help absorb external shocks. Structural reforms that durably reduce household savings and boost investment in services would further reduce the CA surplus.
Euro Area	Broadly in line	Deepening the EU Single Market and completing the Banking Union would raise productivity while enhancing resilience through scale and internal diversification. Improving coordination on public goods investment and enacting structural reforms can boost investment and private demand. These measures can help address the identified credit-related policy gap and offset the need for increased public savings in some countries. Delayed fiscal consolidation would support the external balance only temporarily, as it would eventually require a sharper and more disruptive fiscal correction.
France	Broadly in line	Structural reforms to support productivity, boost innovation, and incentivize private investment would help maintain the external position in line with medium-term fundamentals.
Germany	Stronger	Planned policies aimed at promoting investment and diminishing excess saving would support external rebalancing. Structural reforms to ease regulatory constraints on domestic investment could avoid a widening of external imbalances in the longer run due to fiscal adjustment that will be needed to eventually stabilize the debt-to-GDP ratio. Training to enhance employability of older workers could also extend working lives and reduce the need for savings.
Hong Kong SAR	Broadly in line	Implement gradual fiscal consolidation over the medium term to raise public savings to offset stronger private demand and aging-related spending pressures, while addressing gaps in the social safety net. Maintain wage and price flexibility to support real exchange rate adjustment and preserve competitiveness under the currency board arrangement. Continued strong financial supervision, prudent fiscal management, and flexible markets will sustain the credibility of the LERS and its stabilizing role.
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. These efforts should be complemented by the development of trade infrastructure and continued expansion of trade networks.
Indonesia	Broadly in line	Enhance buffers within the fiscal rule, and implement structural reforms to raise productivity and promote trade including, higher and more efficient infrastructure investment; higher, more efficient and better targeted social spending to foster human capital development and strengthening the social safety net; reducing or eliminating restrictions on inward FDI and external trade, including by moving away from non-tariff barriers; and promoting greater labor market flexibility.
Italy	Moderately weaker	Implement reforms to boost productivity, competitiveness, and potential growth, including reforms that boost the labor force participation of women and youth to further boost economic activity and savings. Simultaneously, strengthening the external position would require an increase in public sector savings, supported by decisive public debt reduction.
Japan	Moderately stronger	Implement structural reforms to reduce labor market duality, improve labor mobility, boost labor force participation, and improve firm dynamism to boost private-sector-led potential growth. Fiscal adjustment, including a medium-term plan to offset rising interest, health, and long-term care costs, is needed to preserve debt sustainability.
Korea	Stronger	While fiscal consolidation would push the CA surplus higher, this would be offset by higher investment and a decrease in private savings. The continuation of soft-landing measures for the financing of real estate, along with structural reforms aimed at facilitating the AI transition would support the recovery of private investment in the near term. Over the medium term, adopting policies to enhance social protection and encourage the orderly deleveraging of household debt would help reduce the need for household life cycle saving and support household consumption while bringing the external position in line with fundamentals.
		Structural reforms aimed at boosting innovation and diversifying trade destinations and supply chains would help sustain Korea's export competitiveness and reduce exposure to external shocks.
Malaysia	Moderately stronger	Implement policies to strengthen social safety nets and public health care, including through a reorientation of fiscal spending. Strengthening social safety nets and swiftly implementing structural reforms under the 13th Malaysia Plan would help lower private sector net savings and strengthen domestically driven growth. Structural policies should be implemented to encourage private investment and improve productivity growth.

Annex Table 1.1.6. 2025 Individual Economy Assessments: Summary of Policy Recommendations (continued)

Economy	Overall 2025 Assessment	Policy Recommendations
Mexico	Broadly in line	Structural reforms are critical to boost investment in the medium to long term. In addition to boosting growth, this would offset the effect of needed fiscal consolidation and, thus, help maintain external balance. Priorities include addressing infrastructure and governance gaps, reducing informality, promoting financial deepening, and increasing private sector participation in the energy sector.
The Netherlands	Stronger	Sustained efforts to raise public investment and foster private investment are needed, notably in infrastructure and housing, while easing electricity grid and nitrogen-related growth bottlenecks. The new coalition government's plans to increase R&D spending, advance the climate transition, and substantially expand residential investment are appropriately aligned with the need to reduce external imbalances.
Poland	Broadly in line	Implement a cumulative fiscal adjustment of at least 4 percent of GDP by 2030, reducing the fiscal deficit from about 7 percent of GDP in 2025 to 3 percent over the medium term. To boost Poland's structurally low private investment levels, efforts should focus on easing regulatory hurdles to private sector participation and advancing the EU's Savings and Investment Union.
Russian Federation	Moderately weaker	...
Saudi Arabia	Moderately weaker	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, and boost non-oil exports.
Singapore	Substantially stronger	Implement higher public investment to address the structural transformation from a rapidly aging population and a transition to a green and digital economy. This includes spending on health care, green and other physical infrastructures, and human capital, as well as ongoing reforms to strengthen social safety nets, to help reduce external imbalances over the medium and long term by reducing net saving in both the public and private sectors of the economy.
South Africa	Broadly in line	Implement structural reforms supporting competitiveness, jobs, investment, and growth, that 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 stabilize and put debt on a sustained downward path toward a more prudent level, while protecting vulnerable groups.
Spain	Stronger	Sustained fiscal consolidation efforts would rebuild fiscal space and raise public saving, thus increasing the CA and the NIP. This could be offset by the negative CA impact of the growth-enhancing structural reforms recommended by staff, which include further efforts to complete the single Spanish market (in addition to the single EU market) for goods and services, facilitate firms' access to financing through domestic initiatives to boost access to equity and support innovation by young firms by redesigning the R&D tax credit and streamlining red tape.
Sweden	Stronger	The expansionary fiscal stance is supportive of the economic recovery and external rebalancing. There is scope to enhance both private and public investment in productivity-enhancing projects, the green transition, and the health sector. Higher domestic absorption would help reduce external imbalances, while enabling Sweden to maintain its high living standards amid demographic challenges, support meeting the country's ambitious climate goals and scaling up of defense spending.
Switzerland	Broadly in line	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 a very low or negative level.
Thailand	Stronger	Promote productive investment, further liberalize the services sector, and reduce competition-distorting tax incentives and subsidies to support durable growth, reduce internal imbalances, and facilitate external rebalancing. Fiscal policy should remain prudent given elevated public debt, with spending focused on targeted social transfers and growth-enhancing investment, while revenue-driven medium-term fiscal consolidation would help rebuild fiscal buffers.
Türkiye	Weaker	Strengthen the policy framework to underpin external sustainability going forward. Tighten both the monetary and fiscal policy stance to contain demand, raise savings, bring down inflation, make medium-term growth more sustainable, and help pave the way for lower CA deficits over the medium-term. Collectively, these policies would improve confidence and help sustain capital inflows, which would allow for a welcome accumulation of international reserves.
United Kingdom	Weaker	The fiscal consolidation path will support external rebalancing by containing import growth and reducing interest rates on domestic liabilities, while progress in the net-zero transition should help mitigate risks of further energy-related terms of trade shocks.
United States	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 and adjust the external position to the level implied by medium-term fundamentals and desirable policies.

Source: IMF, 2025 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.

References

- Allen, Cian, and Luciana Juvenal. 2025. "The Role of Currencies in External Balance Sheets." *Journal of International Economics*, 157(C).
- Arbatli, Elif C., Steven J. Davis, Arata Ito, and Naoko Miake. 2022. "Policy Uncertainty in Japan." *Journal of the Japanese and International Economies*, 64.
- Autor, David H., David Dorn, and Gordon H. Hanson. 2013. "The China Syndrome: Local Labor Market Effects of Import Competition in the United States." *American Economic Review* 103 (6): 2121–68.
- Baker, Scott R., Nicholas Bloom, and Steven J. Davis. 2016. "Measuring Economic Policy Uncertainty." *The Quarterly Journal of Economics*, 131 (4): 1593–1636.
- Bai, Chong-En, Gita Gopinath, Hélène Rey, and Axel Weber. 2026. "G7 Economists Memo on Global Imbalances."
- Bown, Chad P. 2024. "Trade Policy, Industrial Policy, and the Economic Security of the European Union." Peterson Institute for International Economics Working Paper 24–2.
- Boz, M. Emine, Nan Li, and Hongrui Zhang. 2019. "Effective Trade Costs and the Current Account: An Empirical Analysis." International Monetary Fund, Washington, DC.
- Caballero, Ricardo J., Emmanuel Farhi, and Pierre-Olivier Gourinchas. 2021. "Global Imbalances and Policy Wars at the Zero Lower Bound." *The Review of Economic Studies*, 88 (6): 2570–2621.
- Chari, Anusha, Karlye Dilts Stedman, and Christian Lundblad. 2025. "Risk-on/Risk-off: Measuring Shifts in Investor Risk Bearing Capacity." *Journal of International Money and Finance* 159: 103438.
- Davis, Steven J. 2016. "An Index of Global Economic Policy Uncertainty." NBER Working Paper No. w22740. National Bureau of Economic Research, Cambridge, MA.
- Davis, Steven J., Dingqian Liu, and Xuguang S. Sheng. 2019. "Economic Policy Uncertainty in China since 1949: The View from Mainland Newspapers. In *Fourth Annual IMF-Atlanta Fed Research Workshop on China's Economy*, 19, 1–37.
- de Soyres, François, Alex Haag, Mike Liu, and Eva Van Leemput. 2026. "The Global Trade Effects of the AI Infrastructure Boom." FEDS Notes. Washington: Board of Governors of the Federal Reserve System, February 13, <https://doi.org/10.17016/2380-7172.3994>.
- Donoso, Vicente, Víctor Martín, and Asier Minondo. 2015. "Do Differences in the Exposure to Chinese Imports Lead to Differences in Local Labour Market Outcomes? An Analysis for Spanish Provinces." *Regional Studies* 49 (10): 1746–64.
- Eaton, Jonathan, and Samuel Kortum. 2002. "Technology, Geography, and Trade." *Econometrica*, 70 (5), 1741–79.
- Eggertsson, Gauti B., Neil R. Mehrotra, and Lawrence H. Summers. 2016. "Secular Stagnation in the Open Economy." *American Economic Review* 106 (5): 503–07.
- Emlinger, Charlotte, Isabelle Mejean, Kevin Lefebvre, and Vincent Vicard. 2026. "EU Under Pressure? Exploring Chinese Trade Deflection." in Rey, Hélène, Beatrice Weder di Mauro, and Jeromin Zettelmeyer (eds.), *Paris Report 4: The New Global Imbalances*, CEPR Press, Paris and London. <https://cepr.org/publications/books-and-reports/paris-report-4-new-global-imbalances>.
- Evenett, Simon, Adam Jakubik, Fernando Martín, and Michele Ruta. 2024. "The Return of Industrial Policy in Data." IMF Working Paper No. 2024/001. Washington, DC: International Monetary Fund.
- Foliano, Francesca, and Rebecca Riley. 2017. "International Trade and UK de-industrialisation." *National Institute Economic Review* 242 (1): R3–R13.
- Ghirelli, Corinna, Javier J. Pérez, and Alberto Urtasun. 2019. "A New Economic Policy Uncertainty Index for Spain." *Economics Letters*, 182, 64–7.
- Gilchrist, Simon, and Egon Zakrajšek. 2012. "Credit Spreads and Business Cycle Fluctuations." *American Economic Review* 102 (4): 1692–1720.
- Gourinchas, Pierre-Olivier, Gene Kindberg-Hanlon, Manasa Patnam, Lorenzo Rotunno, and Michele Ruta. 2026. "Global Imbalances, Industrial Policy and Tariffs." IMF Working Paper No. 2026/067. Washington, DC: International Monetary Fund.
- Head, Keith, and Thierry Mayer. 2014. "Gravity Equations: Workhorse, Toolkit, and Cookbook." in Gita Gopinath, Elhanan Helpman, and Kenneth S. Rogoff (eds.), *Handbook of International Economics*, 4, 131–95.
- Ilzetzki, Ethan, Carmen M. Reinhart, and Kenneth S. Rogoff. 2019. "Exchange Arrangements Entering the Twenty-First Century: Which Anchor will Hold? *The Quarterly Journal of Economics*, 134 (2), 599–646.
- International Monetary Fund (IMF). 2026a. China's Evolving Economic Landscape: Exceptional Growth, Mounting Challenges and Reform Priorities. in *Toward a New Growth Model for China* (forthcoming).
- International Monetary Fund (IMF). 2026b. *People's Republic of China: 2025 Article IV consultation—Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China*. IMF Staff Country Reports, 2026 (044).
- International Monetary Fund (IMF). 2026c. *Japan: 2026 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Japan*. IMF Staff Country Reports, 2026 (075).
- International Monetary Fund (IMF). 2026d. *Understanding Global Imbalances*. IMF Policy Papers, 2026 (006).
- International Monetary Fund (IMF). 2026e. *United States: 2026 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for United States*. IMF Staff Country Reports, 2026 (076).
- International Monetary Fund (IMF). 2026f. *Euro Area: 2026 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Member Countries*. IMF Staff Country Reports (forthcoming).
- Lehr, Nils Haakon, and Pascual Restrepo. 2022. *Optimal Gradualism*. NBER Working Paper No. w30755. National Bureau of Economic Research, Cambridge, MA. 2022.

- Milesi-Ferretti, Gian Maria. 2024. Many Creditors, One Large Debtor: Understanding the Buildup of Global Stock Imbalances After the Global Financial Crisis. *IMF Economic Review*, 72 (2), 509–53.
- Obstfeld, Maurice. 2017. “Assessing Global Imbalances: The Nuts and Bolts.” *IMF Blog*, June 26. <https://www.imf.org/en/blogs/articles/2017/06/26/assessing-global-imbalances-the-nuts-and-bolts>.
- Rogoff, Kenneth S., and Yuanchen Yang. 2026. *A Tale of Two Countries—The Real Estate Crises in 1990s Japan and Contemporary China*. NBER Working Paper No. 35054. Cambridge, MA: National Bureau of Economic Research. April. <https://doi.org/10.3386/w35054>.
- Schmitt-Grohé, Stephanie, and Martín Uribe. 2025. “Transitory and Permanent Import Tariff Shocks in the United States: An Empirical Investigation.” NBER Working Paper No. 33997. National Bureau of Economic Research, Cambridge, MA. <https://doi.org/10.3386/w33997>.
- Waugh, Michael E. 2010. “International Trade and Income Differences.” *American Economic Review*, 100 (5), 2093–2124.
- Waugh, Michael E. 2026. “Trade in AI-Related Products.” Working Paper, Federal Reserve Bank of Minneapolis.
- Zalla, Ryan. 2017. “Economic Policy Uncertainty in Ireland.” *Atlantic Economic Journal*, 45 (2), 269–71.