CHAPTER 2

2025 INDIVIDUAL ECONOMY ASSESSMENTS

Methodology and Process

The individual economy assessments use a wide range of methods to form an integrated and multilaterally consistent view of economies' external sector positions. These methods are grounded in the latest vintage of the External Balance Assessment (EBA), developed by the IMF's Research Department to estimate desired current account balances and real exchange rates.[1] Model estimates and associated discussions on policy distortions (see Box 2.1 for an example) are accompanied by a holistic view of other external indicators, including capital and financial account flows and measures, foreign exchange intervention and reserve adequacy, and foreign asset or liability positions.[2] The policy discussion in the individual economy assessments highlights policies and reforms that contribute to supporting convergence toward (or maintenance of) external balance, in the context of a summary of the overall policy advice.

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

External assessments are presented in ranges, in recognition of inherent uncertainties, and in different categories generally reflecting deviations of the overall external position from fundamentals and desired policies. As reported in Annex Table 1.1.2 (Chapter 1), the ranges of uncertainty for IMF staff–assessed current account gaps are based on country-specific estimated measures. For the REER, the ranges of uncertainty vary by country, reflecting country-specific factors, including different exchange rate semi-elasticities applied to the staff-assessed current account gaps. Overall external positions are labeled as either "broadly in line," "moderately weaker (stronger)," "weaker (stronger)," or "substantially weaker (stronger)" (see Table 2.A). The criteria for applying the labels to overall external positions are multidimensional.

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

Selection of Economies

The 30 systemic economies analyzed in detail in this report and included in the individual economy assessments are listed in Table 2.B. They were generally chosen on the basis of a set of criteria, including each economy's global rank in terms of purchasing power GDP, as reported in the IMF's *World Economic Outlook*, and in terms of the level of nominal gross trade and degree of financial integration.

[1]See online Annex 1.1 for details on the latest refinements to the EBA methodology.

[2]The individual economy assessments for 2025 are based on external sector data as of May 18, 2026 and IMF staff projections in the April 2026 *World Economic Outlook*.

Table 2.A. Description in *External Sector Report* Overall Assessment

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

Table 2.B. Economies Covered in the *External Sector Report*

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

Note: CA = current account; REER = real effective exchange rate; SAR = Special Administrative Area.

Box 2.1. Assessing Imbalances: The Role of Policies–An Example

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

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

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

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

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

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

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

Abbreviations and Acronyms

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

Table 2.1. Argentina: Economy Assessment

Overall Assessment: *The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies*. The assessment reflects very precarious reserve coverage and the absence of sustainable market access against the backdrop of large FX debt obligations. Since end-2025, record agricultural exports and renewed portfolio inflows have led to an incipient reserve recovery as well as some real appreciation of the currency. The external assessment continues to be subject to high uncertainty; yet reducing associated elevated risks requires policy continuity and competitiveness-enhancing reforms.

Potential Policy Responses: Implementation of a more balanced stabilization program with greater emphasis on external stability is now required to proactively rebuild reserves, sustain a gradual disinflation process, and durably access international capital markets. The strong fiscal anchor needs to be complemented by the sustained implementation of structural reforms aimed at boosting exports and attracting investment. More specifically, greater exchange rate flexibility, the channeling of commodity export windfalls toward reserve accumulation, and a transition toward a more open and competitive economy with reduced barriers in product, labor, and external markets are essential to improve productivity and strengthen competitiveness. The easing of the remaining FX restrictions should proceed as conditions permit, while macroprudential regulations continue to contain FX mismatches. Ongoing efforts to develop capital markets and formalize USD holdings by residents are welcome, as well as the ongoing reduction in export duties. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks.

Foreign Asset and Liability Position and Trajectory

Background. Argentina's NIIP rose from −20 percent of GDP in 1999 to an average of 24 percent between 2020 and 2023, reflecting a sharp rise in resident savings abroad and lack of access to external borrowing for the private sector, which more than offset increases in public sector external debt. These external dynamics have started changing since early 2024. While the household sector continued to accumulate assets abroad on a net basis in 2025 (US$30 billion, 2.3 percent of GDP with pre-election uncertainties offsetting earlier tax amnesty inflows), corporates increased their external liabilities (around US$55 billion, 4.2 percent of GDP including valuation gains), mainly in the form of direct investment and other portfolio/investment flows, supported by strong balance sheets and energy/mining potential. As such, the NIIP declined from US$105.4 billion (16.2 percent of GDP) in 2023 to US$48 billion (7.1 percent of GDP) at end-2025. Public sector external exposure has remained generally unchanged since end-2023, with increases in official debt liabilities generally matched by lower bondholder debt and higher gross reserve assets (IMF).

Assessment. External vulnerabilities remain. Despite a positive NIIP, reflecting private sector holdings of external low-yielding assets, the government's foreign position remains firmly in negative territory and high-yielding, while the central bank's net reserve asset position remains deeply negative, generally unchanged since end-2023.

2025 (% GDP)	NIIP: 7.1	Gross Assets: 72.4	Debt Assets: 40.8	Gross Liab.: 65.3	Debt Liab.: 40.1

Current Account

Background. The CA averaged about negative 0.2 percent of GDP over 2020 to 2024, reaching a surplus of 1 percent in 2024 largely due to investment compression. In 2025, the CA moved to a deficit (1.1 percent of GDP), consistent with a recovery of the economy and demand. Robust goods export growth (of about 10 percent, in volume) was more than offset by a sharp rise in imports (30.5 percent) and a further deterioration in the services balance. The deficit is projected at about −0.8 percent in 2026, supported by tight fiscal policy, a more robust monetary and FX regime, and continued improvements in Argentina's energy balance, driven by increased production via Vaca Muerta. The projected medium-term CA path is consistent with rebuilding reserves to 100 percent of the ARA metric.

Assessment. The 2025 EBA cyclically adjusted CA balance is estimated at around −1.9 percent of GDP, compared to the estimated EBA CA norm of 0.7 percent of GDP, implying an EBA CA gap in the range of (−1.5 to −3.5) percent of GDP, with a midpoint estimate of −2.5 percent. Half of the gap is accounted for by an unexplained residual, which reflects transitional factors not captured by the EBA framework, including longstanding structural competitiveness constraints in the tradable sector, as well as the release of pent-up import demand (particularly for capital goods and investment inputs) following the easing of current and capital account restrictions. Structural constraints are expected to diminish as the reform agenda advances. The staff-assessed CA norm is subject to significant uncertainty, reflecting in part the pace at which structural reforms improve productivity and competitiveness.

2025 (% GDP)	CA: −1.1	Cycl. Adj. CA: −1.9	EBA Norm: 0.7	EBA Gap: −2.5	Staff Adj.: 0.0	Staff Gap: −2.5

Real Exchange Rate

Background. While average REER modestly appreciated by 3 percent between 2024 and 2025, the REER weakened by 16 percent between December 2024 and December 2025. The real depreciation was supported by a move toward greater exchange rate flexibility, in the context of increased political uncertainties. The REER appreciated in 2026:Q1, on the back of record agricultural/energy exports and stronger capital inflows and comes despite FX purchases by the BCRA. Price-based and wage-based REER measures followed similar patterns, although wage-based indices adjusted with a lag, likely reflecting a substantial narrowing in profit margins.

Assessment. The staff-assessed CA gap for 2025 implies an average REER gap of 9.6–22.2 percent, with a mid-point 15.9 percent, based on a semi-elasticity of 0.16. These estimates are broadly consistent with the EBA REER models and longer-term REER trends.[1] Considering REER dynamics since April 2025, the REER gap is estimated to have narrowed as of end-2025 compared to the annual average, although recent appreciation amid very strong FX inflows has eroded these gains. Over the medium term, a stronger REER could be justified if ongoing structural reforms deliver sustained productivity and competitiveness gains.

Capital and Financial Accounts: Flows and Policy Measures

Background. On the financial account, Argentina recorded a net capital inflow of about US$11.4 billion in 2025 (1.7 percent of GDP), reversing 2024's small net outflow. Gross liabilities reached 5.5 percent of GDP, largely reflecting IMF and multilateral disbursements and corporate borrowing, with smaller contributions from portfolio debt issuance. Net asset acquisition by residents reached 3.8 percent of GDP, with reserve assets up by US$7.2 billion. Trade and capital account restrictions have been gradually eased since early 2024, despite a temporary tightening ahead of the October midterm elections. Post-elections, market confidence improved, and starting January 2026, corporates can freely repatriate dividends from 2025 investments onward.

Assessment. A careful easing of remaining exchange rate restrictions and capital flow management measures, along with tight macroeconomic policies and competitiveness enhancing reforms, are expected to support exchange rate flexibility, boost reserve accumulation, attract foreign investment, and facilitate sustained access to international capital markets. These measures will need to be complemented by tight macroprudential policies to ensure the sustainability of capital inflows. Risks to capital inflows remain tilted to the downside amid rising global geopolitical tensions and a more challenging external financing environment.

FX Intervention and Reserves Level

Background. NIR fell to −$11.7 billion (at current rates) by end-2025, well below end-2024 levels (−$2.4 billion) and similar to end-2023 levels (−$11.2 billion), reflecting reserve sales ahead of the midterm elections triggered by a sharp rise in resident FX hedging and dollarization. GIR, in contrast, rose by about $10.9 billion in 2025 (to $27.5 billion at end-December), reflecting IMF disbursements and the post-election normalization of FX markets, and increased by a further $5.0 billion through May 13, 2026 (US$32.5 billion). Adjustments to the FX framework and the introduction of a reserve purchase program have resulted in the BCRA purchasing about $8.0 billion year-to-date, with NIR at program rates increasing by about US$4.5 billion (as of May 13, 2026). Bank FX deposits have risen (about US$16.2 billion, at the same time), supporting improvements in GIR.[2]

Assessment. Reserve coverage remains very inadequate. The GIR is estimated at 34.1 percent of the standard ARA EM metric (and 36.6 percent of the CFM-adjusted metric) as of end-2025. Sustained efforts to organically rebuild reserves will be essential to secure access to international capital markets at more favorable terms and allow Argentina to manage shocks, particularly in the context of elevated global uncertainty and volatile external financing conditions.

Table 2.2. Australia: Economy Assessment

<table>
<tr><td colspan="7">Overall Assessment: The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies. The CA deficit widened from 2.2 percent of GDP in 2024 to 2.6 percent of GDP in 2025 due to a lower trade surplus, partly driven by weaker terms of trade. Over the medium term, the CA deficit is expected to improve from the 2025 level and remain below the pre-COVID average (2015–19), thanks to new structural policies that would raise productivity over time.

Potential Policy Responses: 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. Industrial policies should be narrowly targeted and minimize trade and investment distortions. The exchange rate should continue to adjust flexibly and remain the primary shock absorber. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. Australia's NIIP improved to −22.4 percent of GDP in 2025, from −23 percent of GDP in 2024 and an average of −58 percent of GDP pre-COVID (2015−19). The improvement has been driven by valuation gains on the holdings of foreign equities and reduced value of external debt. About 48 percent of Australia's gross liabilities are debt obligations, out of which about 57 percent are denominated in domestic currency, while assets are largely denominated in foreign currency. Foreign liabilities are composed of about one-quarter FDI, one-half portfolio investment (principally banks' borrowing abroad and foreign holdings of government bonds), and one-quarter other investments and derivatives.

Assessment. The NIIP level and trajectory are sustainable. The structure of Australia's external balance sheet reduces the vulnerability associated with its negative NIIP. With a positive net foreign currency asset position, notably from large and fast-rising (compulsory pension) assets invested abroad, a nominal depreciation would strengthen the external balance sheet, all else equal. The banking sector's net foreign currency liability position is mostly hedged, and the maturity of banks' external funding has lengthened since the global financial crisis. Growing exposure to foreign equity markets in recent years (most notable for pension funds) may raise vulnerability to extreme global financial market volatility.</td></tr>
<tr><td>2025 (% GDP)</td><td>NIIP: −22.4</td><td>Gross Assets: 159.7</td><td>Debt Assets: 38.1</td><td>Gross Liab.: 182.1</td><td colspan="2">Debt Liab.: 88</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. Australia's CA deficit widened further in 2025 to 2.6 percent of GDP compared to 2.2 percent of GDP in 2024 driven by weaker terms of trade. Australia's current account has been historically volatile and, after some exceptional surpluses around COVID years, it is converging back to the pre-pandemic average deficit levels (2.8 percent of GDP in 2015–19). Australia has been able to fund the current account deficits over the years as high-quality institutions and being a commodity-rich country made it attractive to foreign investors. Despite a trade surplus, the persistence of the CA deficit reflects a negative primary income balance, particularly from remittances of profits from FDI. Following similar trends, the merchandise trade surplus continued to decline from 2.5 percent of GDP in 2024 to 1.6 percent of GDP in 2025, reflecting weakening terms of trade, while the services deficit reduced marginally to 1.3 percent of GDP. Against a backdrop of elevated uncertainty around external demand in 2026, stronger terms of trade, reshoring, higher defense spending, and the data-center expansion could support external demand for base metals and critical minerals and narrow the current account deficit. At the same time, investment-promoting reforms may temporarily weaken the savings-investment balance, partly offsetting these impacts.

Assessment. The EBA model estimates a CA norm of 0.0 percent of GDP, relative to the cyclically adjusted CA deficit of −2.9 percent of GDP in 2025; this suggests a model-based CA gap of −3.0 percent of GDP with a range of −3.5 to −2.5 percent of GDP. The contribution from the policy gap relative to other countries is minimal (while domestic fiscal policy contributed to a larger deficit, it is more than compensated for by more expansionary policy in other countries). The CA gap is mainly reflected in the model residual, which implies that the EBA model does not fully capture Australia's specific factors, including its attractiveness to foreign investors due to being a resource-rich economy with strong institutions and a stable policy environment.</td></tr>
<tr><td>2025 (% GDP)</td><td>CA: −2.6</td><td>Cycl. Adj. CA: −2.9</td><td>EBA Norm: 0.0</td><td>EBA Gap: −3.0</td><td>Staff Adj.: 0.0</td><td>Staff Gap: −3.0</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. The Real Effective Exchange Rate in 2025 was on average 2.4 percent lower than in 2024, and around the same level as the previous five years (average). In nominal terms, the Australian dollar depreciated by 3.6 percent in 2025 relative to 2024 against a basket of peer currencies. As of March 2026, the REER was 9 percent above its 2025 average. The movements in the Australian dollar likely reflected interest rate differentials and commodity price movements.

Assessment. The staff-assessed CA gap implies a REER gap of 16.7 percent (applying an elasticity of 0.18). The EBA REER level model points to an overvaluation of 24.4 percent, while the index model points to an overvaluation of 3.8 percent. Consistent with the CA gap, staff assess the REER gap to be in a range of 14.0 to 19.6 percent, with a midpoint of 16.8 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. The financial account recorded net inflows in 2025, driven by net inflows in portfolio investment and direct investment, which more than offset the outflows in financial derivatives. Net inflows in portfolio investment were driven by debt inflows, while equity flows remained negative in net terms.

Assessment. Vulnerabilities related to the financial account remain contained, supported by a credible commitment to a floating exchange rate.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Background. The currency has been free floating since 1983. The central bank has not intervened in the FX market since the global financial crisis. The value of reserve assets increased in 2025 to US$75.3 billion, from US$63.6 billion at the end of 2024.

Assessment. The authorities are strongly committed to a floating exchange rate regime, which reduces the need for reserve holdings. Although domestic banks' external liabilities remain sizable, they are either in local currency or hedged.</td></tr>
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Table 2.3. Belgium: Economy Assessment

Overall Assessment: *The external position in 2025 was substantially weaker than the level implied by medium-term fundamentals and desirable policies.* The current account (CA) deficit worsened in 2025 to 1.9 percent of GDP, driven by higher trade deficits. In the medium term, the CA deficit is expected to narrow to 0.5 percent of GDP as global trade recovers, while fiscal consolidation and structural reforms are expected to further reduce it in the longer term.

Potential Policy Responses: Bringing the external position closer in line with medium-term fundamentals and desirable policy settings will require 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. Additionally, Belgium should work with EU partners to deepen the single market and further the saving and investment union to increase productivity and resilience by adding scale, internal diversification, and improved risk sharing. This will add to economic stability and lower the risk of negative spillovers to the rest of the world.

Foreign Asset and Liability Position and Trajectory

Background. Belgium's net international investment position (NIIP) declined to 52.1 percent of GDP in 2025 from 58.6 percent at end-2024 (compared to an average of 54.6 percent of GDP over 2020–24). The decline reflected a reduction in gross foreign assets (by 2.0 ppts of GDP) and a more pronounced increase in gross foreign liabilities (by 4.5 pp of GDP), mostly driven by higher portfolio liabilities and other investment liabilities. Net portfolio investment remained the largest contributor to the positive NIIP, increasing by 0.5 pp of GDP to 37.5 percent of GDP in 2025, primarily due to an increase in net equity investment that more than offset the decline in debt securities. The latter is mostly driven by a decline in net long-term debt securities from negative net transactions and exchange rate effects. Net foreign direct investment declined by 8.3 pp of GDP to 14.1 percent of GDP. Meanwhile, net other investment liabilities continued to decline to 6.8 percent of GDP in 2025, down from a peak of 15.3 percent at end-2022. Interbank debt on the liabilities side has remained elevated since 2022 due to economic sanctions on Russia. Over the last five years, the decline in the NIIP reflects lower net direct investment and portfolio investment positions (in percent of GDP).

Assessment. Belgium's NIIP-to-GDP ratio has declined modestly since 2024 and is expected to continue to edge lower over the medium term, reflecting projected current account deficits and underlying growth dynamics. Nonetheless, the NIIP remains substantially positive and does not raise sustainability concerns. Belgium's large gross international asset and liability positions are primarily driven by the activities of corporate treasury centers. These positions, while sizeable, do not appear to give rise to macro-relevant balance sheet mismatches.

2025 (% GDP)	NIIP: 52.1	Gross Assets: 413.9	Debt Assets: 127.1	Gross Liab.: 361.8	Debt Liab.: 148.0

Current Account

Background. Belgium's CA balance averaged 0.1 percent of GDP over 2020–24, fluctuating between modest surpluses and deficits. In 2025, the CA deficit widened to 1.9 percent of GDP, from 0.4 percent for the full year in 2024. The deterioration was primarily driven by a widening goods and services deficit, which reached 1.9 percent of GDP in 2025, mainly due to weakening exports of goods. The primary income balance and current transfers continued to have a broadly neutral impact on the current account. From a saving-investment perspective, the decline in the CA balance reflected an increase in investment to 25.6 percent of GDP in 2025 (from 24.5 percent in 2024), driven by private investment, and a modest decline in savings to 23.7 percent of GDP (from 24.1 percent in 2024).

Assessment. The EBA model estimates a CA norm of 3.2 percent of GDP, against a cyclically adjusted CA balance of −1.6 percent of GDP, implying a gap of −4.7 percent of GDP. Staff assess the CA gap to be in the range between −5.0 and −4.4 percent of GDP, applying the standard error of the CA norm estimated at ±0.3 percent of GDP. The overall policy gap is positive (1 percent of GDP), with negative contributions from the fiscal balance and health expenditure more than offset by the positive credit gap. This implies large unexplained residuals, which could be driven by structural factors that constrain competitiveness (such as labor market regulations and automatic wage indexation), measurement challenges notably driven by operations of multinational enterprises (MNEs) and, as a small open economy, spillovers from trading partner economies.

2025 (% GDP)	CA: −1.9	Cycl. Adj. CA: −1.6	EBA Norm: 3.2	EBA Gap: −4.7	Staff Adj.: 0	Staff Gap: −4.7

Real Exchange Rate

Background. Both the CPI- and ULC-based REERs appreciated in 2025, rising by 1.7 and 1 percent, respectively, relative to their 2024 annual averages, driven by higher inflation and wage increases than trading partners, and currency appreciation. As of March, the CPI-based REER was 0 percent above the 2025 average, and as of February 2026, the ULC-based REER was 0.3 percent above the 2025 average. This continues the trend of appreciation observed in previous years, with the ULC-based and CPI-based REERs rising by 5.9 percent and 4.4 percent between January 2020 and December 2024, reflecting higher inflation than in trading partners.

Assessment. Consistent with the staff CA gap, staff assess the REER to be overvalued with a midpoint of 7.1 percent ±0.5 percent, using an elasticity of 0.67.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2025, the financial account recorded a net outflow of 1.6 percent of GDP. The direct investment balance was positive at 1.3 percent of GDP, reflecting larger negative transactions on the liabilities than on the asset side. Portfolio investment posted a net outflow of 3.4 percent of GDP, driven by a larger increase on the liability side, reflecting strong investment in Belgian bonds by non-residents. In contrast, the balance of other investment registered a net inflow of 0.8 percent of GDP, partially offsetting the portfolio outflows, due to financial transactions in the banking sector.

Assessment. Belgium remains exposed to financial market risks and vulnerabilities associated with high external public debt. However, these vulnerabilities are limited by the large, positive NIIP.

FX Intervention and Reserves Level

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

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

Table 2.4. Brazil: Economy Assessment

Overall Assessment: *The external position in 2025 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* The CA deficit narrowed slightly to 2.9 percent of GDP and is projected to decline further to 1.7 percent of GDP over the medium term, supported by rising oil exports and public saving. Risks to Brazil's external position over the medium term relate to geopolitical tensions and trade disruptions, volatility in global commodity markets, and insufficient progress on fiscal adjustment and structural reforms to boost competitiveness.

Potential Policy Responses: Policies to bring the external position in line with medium-term fundamentals and desirable policy settings include raising national saving, which would also increase scope for priority investments. A sustained and more ambitious fiscal consolidation would help increase net public saving. Industrial policies should be targeted to where externalities or market failures prevent effective market solutions, while minimizing trade and investment distortions. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks. The recent progress in deepening integration through trade agreements is welcome.

Foreign Asset and Liability Position and Trajectory	**Background.** Brazil's NIIP fell to −49.4 percent of GDP in 2025, from −38.2 percent of GDP in 2024 and an average of −41.5 percent of the GDP during 2020–23. The NIIP decrease in 2025 reflected a 1.9 percentage points of GDP rise in gross foreign assets from 2024 alongside a much larger, 13 percentage points of GDP increase in gross foreign liabilities, driven by continued strong FDI inflows, a pickup in portfolio inflows, and valuation effects from currency appreciation. FDI accounts for about 70 percent of total liabilities. At the end of 2025, external debt rose to 35.9 percent of GDP and 202.4 percent of exports, from about 32.8 percent of GDP and 184.6 percent of exports in 2024. **Assessment.** The NIIP has remained negative since the series was first published in 2001. Over the medium term, gross external financing needs are expected to remain moderate, at about 10 percent of GDP annually. The NIIP is projected to stabilize around −44 percent of GDP, as continued CA deficits are broadly offset by robust nominal GDP growth.

2025 (% GDP)	NIIP: −49.4	Gross Assets: 47.1	Reserve Assets: 15.7	Gross Liab.: 96.5	Debt Liab.: 35.9

Current Account	**Background.** During 2020–23, the CA deficit averaged 1.8 percent of GDP. It widened to 3 percent in 2024 and lowered to 2.9 percent in 2025. A narrowing goods trade balance (from 3.0 to 2.6 percent of GDP) was offset by a smaller service deficit (−2.2 percent of GDP from −2.5 percent of GDP in 2024) and a reduced primary income deficit (−3.6 percent of GDP from −3.7 percent of GDP in 2024). From a saving-investment perspective, national saving has declined slightly, with an increase in private saving more than offset by a deterioration in public saving. Investment also edged down, driven by the private sector, leaving the overall deficit slightly smaller. The CA deficit is expected to narrow to 1.7 percent of GDP over the medium term, supported by rising oil exports and public saving. **Assessment.** In 2025, the cyclically adjusted CA balance was −2.9 percent of GDP and EBA estimates suggest a CA norm of −1.4 percent of GDP. Staff estimate the CA gap to be in the range of −1.9 to −1.0 percent of GDP, with a midpoint of −1.5 percent. EBA-identified policy gaps explain most of the CA gap and are estimated at −1.2 percent of GDP, mainly reflecting a larger overall fiscal deficit in Brazil compared to trading partners, as well as a small positive credit gap in Brazil compared with a generally negative credit gap among trading partners.

2025 (% GDP)	CA: −2.9	Cycl. Adj. CA: −2.9	EBA Norm: −1.4	EBA Gap: −1.5	Staff Adj.: 0	Staff Gap: −1.5

Real Exchange Rate	**Background.** The REER appreciated by 10 percent in 2025 at a 12-month rate as of end-2025, following a sharp 17 percent depreciation in 2024. The average REER in 2025 depreciated by 2.5 percent compared to 2024. The nominal exchange rate against the US dollar strengthened by 11 percent on a 12-month basis by December 2025. In early 2026, despite the war in the Middle East, the exchange rate had appreciated further, both against the US dollar and in REER terms. As of March 2026, the REER was 5.5 percent above the 2025 average. **Assessment.** The staff CA gap estimate implies a REER gap of 11.2 percent in 2025 (applying an estimated elasticity of 0.13). The REER index model suggests a REER gap of −30.4 percent and the REER level model suggests a gap of −21.3 percent. Consistent with the CA gap, staff assess the REER gap to be in the range of 7.8–14.7 percent, with a midpoint of 11.2 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Brazil continues to attract sizable capital flows. Net FDI flows have consistently financed the CA deficit, averaging 2.8 percent of GDP during 2015–24 and remaining a sizable 2.1 percent of GDP in 2025. Portfolio investment rebounded strongly in the second half of 2025, although net annual flows registered a modest outflow of 0.4 percent of GDP. **Assessment.** The composition of capital flows is expected to maintain a favorable risk profile over the medium term, with sustained net FDI inflows outweighing relatively small and volatile net portfolio flows, and with foreign liabilities increasingly dominated by FDI liabilities. However, tighter global financial conditions and the risk of limited progress on domestic reforms pose downside risks to these capital flows. The IOF-FX tax applicable to capital transactions, assessed to be a capital flow management measure under the Institutional View, should be phased out.
FX Intervention and Reserves Level	**Background.** Brazil has a floating exchange rate. During 2020–22 and 2024, the authorities intervened in the FX markets (including spot, repo, and FX swap markets) to ensure smooth market functioning and reduce excessive volatility. In 2025, the authorities largely refrained from spot FX intervention, while unwinding the FX swap stock accumulated from previous interventions. International reserves increased by US$28.5 billion to US$359 billion at the end of 2025, largely reflecting valuation effects. **Assessment.** The flexible exchange rate has continued to serve as an important shock absorber. Reserves remain adequate, including according to the IMF's reserve adequacy metric, which stood at 121 percent at the end of 2025, providing insurance against external shocks. In general, FX intervention could be used to address episodes of higher risk premiums when FX liquidity becomes shallow, without substituting for warranted adjustment of macroeconomic policies.

Table 2.5. Canada: Economy Assessment

Overall Assessment: *The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies.* The CA deficit increased in 2025, as Canada's trade deficit widened sharply after goods exports to the United States fell in 2025:Q2–Q3 before recovering toward year-end. Canada's strong international investment position, access to stable financing, and flexible exchange rate are important risk mitigants.

Potential Policy Responses: Policies should aim to strengthen Canada's external competitiveness in the context of a more fragmented global trade and investment landscape. Priority actions include: (1) removing inter-provincial trade barriers to support structural adjustment and reduce resource misallocation; (2) enhancing labor productivity through targeted skills development and stronger links between training and labor market needs; and (3) scaling up investment in research and development, innovation, and infrastructure, and fostering technology adoption and firm-level dynamism, especially in the nonfuel tradable sectors. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks, and encourage diversification and continued continental economic integration, including through the USMCA. Targeted and temporary fiscal support may be necessary to allow businesses and households to adjust to the new trade landscape. Industrial policy can support adjustment and resilience if tightly targeted to address market failures, and governed by strong guardrails that preserve openness, contestability, and fiscal discipline.

Foreign Asset and Liability Position and Trajectory

Background. Canada's NIIP position remained firmly positive at 55.5 percent of GDP. This follows a sharp rise to 64.8 percent of GDP in 2024 (from 52 percent in 2023) reflecting valuation gains linked to market price movements and exchange rate fluctuations. The position is expected to remain broadly stable this year. That said, gross external debt reached 147.8 percent of GDP in 2025 (up from 145 percent in 2024), with around 38 percent of total debt maturing in the short term.

Assessment. Canada's foreign assets have a higher foreign-currency component than its liabilities, providing a hedge against currency depreciation. The NIIP level and trajectory are assessed to be sustainable, supported by strong underlying asset positions and access to stable external financing.

2025 (% GDP)	NIIP: 55.5	Gross Assets: 351.6	Debt Assets: 96.2	Gross Liab.: 296.0	Debt Liab.: 146.0

Current Account

Background. The CA deficit reached 0.9 percent of GDP in 2025, slightly larger than in 2024 (0.5 percent of GDP), in a year in which tariffs and trade policy uncertainty weighed heavily on exports and accentuated the deterioration of the trade deficit. With domestic investment remaining broadly constant, supported by construction and public investment, the wider deficit reflects a decline in national savings, which fell to a five-year low as households smooth consumption in response to the shock. The current account is expected to improve in 2026, supported by more favorable terms of trade and stronger income from higher oil and gas prices, as well as firm US demand. Over the medium term, the CA balance is expected to improve slightly but remain in a small deficit, with net exports gradually recovering as trade tensions ease, fiscal support is unwound, and productivity-enhancing reforms start to bear fruit. However, the medium-term path is subject to unusual uncertainty as tariff changes and elevated trade policy uncertainty may affect trade volumes, prices, timing, and investment-saving behavior, making it difficult to distinguish temporary shock-driven movements from the underlying external position.

Assessment. The cyclically adjusted CA was −1.1 percent of GDP in 2025, compared with the EBA CA norm of 2.4 percent of GDP. After accounting for the measuring bias stemming from the statistical treatment of retained earnings on portfolio equity, staff assess the CA gap to lie between −3.2 and −2.4 percent of GDP, with a midpoint of −2.8 percent of GDP. EBA-identified policy gaps are estimated at 1.3 percent of GDP mostly driven by an expansionary fiscal stance in the rest of the world (while Canada's own fiscal position is assessed to be broadly in line with its desirable level over the medium term), and by a credit gap explained by credit conditions that are easing, though still tight by past standards. The large unexplained residual suggests that factors not captured by the model, such as internal trade barriers and stringent regulation that hamper productivity and business dynamism, may also be driving the gap estimate.

2025 (% GDP)	CA: −0.9	Cycl. Adj. CA: −1.1	EBA Norm: 2.4	EBA Gap: −3.4	Staff Adj.: 0.6	Staff Gap: −2.8

Real Exchange Rate

Background. The average REER for 2025 was 2.7 percent below the 2024 average, reflecting continued depreciation of the Canadian dollar against a broader set of trading partners, and stood about 4.8 percent below its 2020–24 average. As of March 2026, the REER had rebounded modestly, rising by 0.7 percent with respect to its 2025 average.

Assessment. The EBA REER index model points to a slight overvaluation of 1.6 percent in 2025, while the REER level model suggests an undervaluation of 21.0 percent. Consistent with the staff CA gap (applying an estimated elasticity of 0.26), staff assess the REER to be overvalued by between 9.3 and 12.5 percent, with a midpoint of 10.9 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The balance on the financial account remained broadly unchanged, at −0.7 percent of GDP. Net inflows stemmed mainly from FDI and other investments, moderated by net outflows in portfolio investments. Net FDI inflows were 0.5 percent of GDP in 2025, compared to net outflows over the last 10 years (outflows of 1.2 percent of GDP in 2024), while other investments recorded net inflows of 0.7 percent of GDP (compared with outflows of 0.5 percent of GDP in 2024). These inflows were partially offset by portfolio investments, which recorded net outflows of 0.5 percent of GDP, a reversal from 2024 (2.6 percent of GDP inflow). Errors and omissions were small at 0.3 percent of GDP.

Assessment. Canada has an open capital account, and external vulnerabilities are limited by a positive NIIP position, along with a credible commitment to a floating exchange rate and well-developed financial markets.

FX Intervention and Reserves Level

Background. Canada has a free-floating exchange rate regime and has not intervened in the FX market since September 1998 (except for participating in joint interventions with other central banks). Canada has limited reserves, but its central bank has standing swap arrangements with the US Federal Reserve and four other major central banks. (The Bank of Canada has not drawn on these swap lines.) Importantly, the private sector's positive external balance sheet position shields the economy from exchange rate shocks.

Assessment. Policies in this area are appropriate to the circumstances of Canada. The authorities are strongly committed to a floating regime which, together with the swap arrangements, reduces the need for reserve holdings.

Table 2.6. China: Economy Assessment

Overall Assessment: *The external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policies.* The current account (CA) surplus strengthened to 3.8 percent of GDP in 2025, largely due to a higher trade balance. Exports surged, driven by improved competitiveness and strong external demand, while imports stagnated amid weak domestic demand. Net capital outflows remained sizable in 2025, despite some moderation after the May trade deal with the United States. While the RMB depreciated by 3.5 percent in real effective terms in 2025, this reflected an initial depreciation through July, followed by a 2.9 percent appreciation from August through the end of the year. Over the medium term, the CA surplus is expected to narrow modestly, supported by a recovery in domestic demand, although uncertainty around the outlook is high.

Potential Policy Responses: Strong and coordinated policy action is urgently needed to boost domestic demand, reflate the economy, and bring the external position in line with fundamentals. Fiscal stimulus should be focused on durably 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 can facilitate reflation and exchange rate flexibility can help absorb external shocks, but in the current conjuncture should be accompanied by a strong fiscal and structural package. Structural reforms that durably reduce household savings (for example, Hukou reforms) and boost investment in services (for example, lighten regulatory requirements) would further reduce the CA surplus. Industrial policies should be targeted to where externalities or market failures prevent effective market solutions, while minimizing trade and investment distortions. Such a policy package that combines macro policies with complementary structural reforms would close the output gap and reflate the economy, while also facilitating further real appreciation and a narrower current account surplus. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP reached 20.7 percent of GDP in 2025, rising steadily from 12.0 percent in 2021 but significantly below the peak of 29.9 percent in 2008. The increase largely reflects the CA surpluses. **Assessment.** The NIIP-to-GDP ratio is expected to remain positive and increase modestly over the medium term in line with the persistent though narrowing CA surplus. The NIIP is not a major source of risk, as assets remain high—partly reflecting sizable foreign reserves (19.1 percent of GDP)—and liabilities are mostly related to FDI.

2025 (% GDP)	NIIP: 20.7	Gross Assets: 60.1	Debt Assets: 17.2	Gross Liab.: 39.3	Debt Liab.: 12.0

Current Account	**Background.** The 2025 CA surplus increased to 3.8 percent of GDP from 2.5 percent of GDP in 2024. The higher CA was due to a stronger goods balance (5.4 percent of GDP, up from 4.3 percent of GDP in 2024), as exports rose by 6.5 percent despite lower export prices, reflecting higher competitiveness as weak domestic demand and low inflation resulted in REER depreciation and robust external demand, in part linked to the global technology/AI cycle. Weakness in imports continued to reflect subdued domestic demand. The services deficit (1.2 percent of GDP) and the income deficit (0.6 percent of GDP) remained broadly unchanged. The latter reflected a large FDI income deficit, which is only partially offset by a non-FDI income surplus.[1] From a savings-investment perspective, the higher CA largely reflected lower private investment (1.5 percentage points—pp—of GDP) and higher private savings (0.4 pp of GDP), which were only partially offset by lower public savings (0.9 pp of GDP). In the near-term, the CA is expected to remain elevated, with private savings remaining high given weak confidence, and subdued private investment, reflecting weak real estate investment and the anti-involution campaign aimed at tackling excess capacity in some sectors. Over the medium term, the projected modest decline in the CA is driven by a gradual recovery in domestic demand and reduction in private savings, partially offset by fiscal consolidation. **Assessment.** Based on the EBA CA model, the CA gap ranges from 2.4 to 3.6 percent of GDP with a midpoint of 3.0 percent of GDP. EBA-identified policy gaps are at −0.1 percent of GDP, as a currently accommodative fiscal stance is offset by insufficient health spending. The large residuals for China likely reflect elevated precautionary savings linked to social safety net weaknesses and a prolonged housing downturn.

2025 (% GDP)	CA: 3.8	Cycl. Adj. CA: 3.6	EBA Norm: 0.6	EBA Gap: 3.0	Staff Adj: 0.0	Staff Gap: 3.0

Real Exchange Rate	**Background.** In the first seven months of 2025, the REER depreciated by 3.2 percent relative to the 2024 average, primarily due to low inflation in China relative to its trading partners. Between July 2025 and March 2026, the REER appreciated by 4.8 percent (point-to-point), as nominal appreciation offset the inflation differential. As of March 2026, the REER appreciated by 2.8 percent relative to the 2025 average but remained 11.8 percent weaker than its 2021 level. **Assessment.** The EBA REER index model estimates the REER gap at 0.5 percent and the EBA REER level model estimates it at −2.7 percent. Consistent with the staff CA gap, staff assess the REER gap to be in the range of −17.3 to −25.3 percent with a midpoint of −21.3 percent (with an estimated elasticity of 0.14 applied).
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In 2025, the financial account deficit (excluding net errors and omissions) increased to 4.0 percent of GDP (from 2.7 percent of GDP in 2024), which was driven by continued weak inward FDI (0.4 percent of GDP) and large equity purchases by the Chinese private non-financial sector (1.0 percent of GDP). In the first four months of 2026, the authorities modestly relaxed several CFMs, including easing restrictions on overseas lending for corporates and selected banks, lowering the reserve requirement on banks' FX forward purchases to zero, and increasing the QDII quota.[2] **Assessment.** Net outflows remained sizable (despite some moderation in 2025:Q2), mirroring the large CA surplus. Concerns about China's growth outlook, the interest rate differential between China and advanced economies and trade tensions with the United States contributed to the large outflows. CFMs should not be used to actively manage the capital flow cycle or substitute for warranted macroeconomic adjustment and exchange rate flexibility. In the medium term, China should gradually phase out CFMs in a sequence consistent with greater exchange rate flexibility and accompanying reforms.
FX Intervention and Reserves Level	**Background.** Despite a small overall deficit in the BOP in 2025, PBOC reserves recovered from the end-2024 trough, increasing by about US$290 billion to $3.7 trillion by end-2025, mostly reflecting valuation effects. As of end-March, reserves were at about $3.8 trillion. **Assessment.** As of end-2025, the reserves coverage remained stable at about 100 percent of the IMF ARA metric adjusted for capital controls and is assessed to be adequate. Temporary FX intervention can provide short-term benefits when large non-fundamental shocks coincide with shallow FX markets and pose significant risks to macroeconomic and financial stability.

Table 2.7. Euro Area: Economy Assessment

Overall Assessment: *The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA balance declined to 1.7 percent of GDP in 2025—down from 2.7 percent of GDP in 2024—driven mainly by weaker net investment income and services, while the goods balance held up. While the euro area's CA surplus is projected to gradually increase over the medium term, it is projected to remain below 2 percent of GDP, though with imbalances in some countries.

Potential Policy Responses: Policy responses should ensure sustainable external balance by supporting stronger domestic demand and a smooth handoff from public to private investment, while reducing country-level imbalances where needed. Deepening the EU Single Market and completing the Banking Union would offer a key win-win–raising 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. Where historical policy gaps at the national level are projected to persist, countries with excess CA surpluses should strengthen domestic demand. Germany's increase in defense and public investments and the recommended rotation from public to private spending in other countries will boost investment and help lift productivity, thereby helping to preserve external stability and generate positive spillovers. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks. Industrial policies should remain targeted to where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and minimize distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP turned positive in 2022 and remained comfortably positive in 2025, reaching 11.0 percent of GDP (roughly unchanged from end-2024). Movements in 2025 were largely valuation-driven. Gross external debt declined modestly by end-2025:Q4, with the euro area's gross cross-border balance sheet remaining large even as the net position stays positive. As in past years, the aggregate NIIP continues to mask sizeable cross-country heterogeneity, with creditor countries holding large net external assets and debtor countries still carrying elevated net liabilities. SPEs account for a sizable share of direct investment positions. **Assessment.** Projections of continued CA surpluses over the medium term suggest that the NIIP-to-GDP ratio will rise further, at a moderate pace. However, year-to-year movements may remain volatile given the prominent role of valuation effects in 2025, even as the euro area retains a net creditor position. While the region's overall NIIP financing vulnerabilities appear low, large net external debtor countries bear an elevated risk of a sudden stop of gross inflows, especially in the presence of large gross cross-border balance sheets.

2025 (% GDP)	NIIP: 11.0	Gross Assets: 256.8	Debt Assets: 93.8	Gross Liab.: 245.7	Debt Liab.: 87.2

Current Account	**Background.** The CA surplus narrowed to 1.7 percent of GDP in 2025, from 2.7 percent of GDP in 2024, driven mainly by a deterioration in the income and services balances: Primary income shifted from surplus to deficit, consistent with weaker net investment income, while the services surplus fell, as larger deficits in charges for the use of intellectual property more than offset continued strength in ICT-related services. The growing profit footprint of US affiliates weighed on direct investment income, while royalty payments by these firms to parent companies contributed to the widening services deficit. By contrast, the goods surplus edged up, supported in part by a continued decline in the energy deficit and strength in chemicals. The household saving rate eased from 14.8 in 2024:Q4 to 14.4 percent in 2025:Q4, while the household investment rate edged up from 8.5 percent to 8.8 percent over the same period. Business investment weakened further, with the corporate investment rate falling to 21.4 percent in 2025:Q4–its lowest since 2015. As in previous years, surpluses remained concentrated in creditor economies, reflecting high saving and comparatively weak investment. **Assessment.** The EBA model estimates a CA norm of 0.7 percent of GDP, against a cyclically adjusted CA of 1.8 percent of GDP. This implies a gap of 1.0 percent of GDP. Adjustments of −0.1 percent of GDP were made to the underlying CA to account for portfolio retained earnings bias in the Netherlands. The unexplained residual of 0.5 percent partly reflects the activity of multinationals in Ireland. Staff assesses the CA gap to be 0.9 percent of GDP in 2025, with a range of 0.1–1.7 percent of GDP (considering a standard error of 0.8).

2025 (% GDP)	CA: 1.7	Cycl. Adj. CA: 1.8	EBA Norm: 0.7	EBA Gap: 1.0	Staff Adj.: −0.1	Staff Gap: 0.9

Real Exchange Rate	**Background.** In 2025, the CPI-based REER appreciated by 2.2 percent, and the euro appreciated by 4.4 percent against the US dollar. The euro area CPI-based REER appreciated by 7.3 percent between 2015 and 2025 following a depreciation of nearly 20 percent in the post-global financial crisis period. As of March 2026, the CPI-based REER was 0.8 percent above its 2025 average. **Assessment.** Consistent with the IMF staff CA gap, the IMF staff assesses the REER gap to be −2.6 percent in 2025, with a range of −0.4 to −4.8 percent, based on the estimated CA-REER elasticity of 0.35. As with the CA gap, the aggregate REER gap masks a large degree of heterogeneity in REER gaps across euro area member states. In contrast, the EBA REER index and level models suggest an overvaluation of 5.1 percent and 2.7 percent, respectively.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The euro area recorded a broadly balanced capital account in 2025 and sizable financial account flows. Net direct investment outflows persisted, as euro area residents increased net direct investment abroad while non-residents were slight net disinvestors in the euro area. Other investment expanded sharply on both the asset and liability sides, indicating stronger cross-border intermediation (for example, deposits/loans). Portfolio investment flows were broadly offsetting in aggregate, with residents' net purchases of foreign securities roughly matched by non-residents' purchases of euro area securities, and financial derivatives remaining a small contributor. **Assessment.** Aggregate risks appear contained, supported by the euro area's net external creditor position and the euro's role as the second most important international currency. However, sizable gross financing needs and large cross-border balance sheets leave parts of the euro area vulnerable to tighter global financial conditions and episodes of market volatility, including via sovereign risk repricing and bank–non-bank linkages.
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by euro area economies are typically low relative to standard metrics, but the currency is free floating.

Table 2.8. France: Economy Assessment

Overall Assessment: *The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The current account (CA) balance declined to −0.3 percent of GDP in 2025 from a surplus of 0.1 percent in 2024, driven by a fall in the income balance, while the trade balance declined only slightly to −0.2 percent of GDP. Over the medium term, the CA balance is projected at 0.4 percent of GDP by 2031, as commodity prices stabilize at lower levels and external demand improves, more than offsetting the strengthening of domestic demand.

Potential Policy Responses: The increase in the CA balance from sustained fiscal adjustment is expected to be partly offset by higher private investment and lower precautionary savings by households, benefiting from reduced policy uncertainty. Structural reforms to raise productivity, boost innovation, and incentivize private investment would help maintain the external position in line with medium-term fundamentals. Deepening the EU single market would further strengthen productivity and resilience by adding scale, internal diversification, and improved risk sharing. Industrial policies should remain targeted to where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and minimize distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP stood at −28.4 percent of GDP in 2025, slightly below the range observed during 2014–19 (between −19 percent and −28 percent of GDP), but broadly stable since 2023. While the net position is moderately negative, gross positions are large. Gross assets stood at 384 percent of GDP in 2025, of which non-FDI- and non-portfolio-related assets accounted for about 49 percent, reflecting in part the financial sector's global activities. Gross liabilities increased to 412 percent of GDP in 2025, of which external debt was about 241 percent of GDP (56 percent accounted for by banks and 30 percent by the public sector) in 2025. Most of France's external debt liabilities are denominated in domestic currency. The average TARGET2 balance in 2025 was about −€198.0 billion. **Assessment.** The NIIP is negative. While its size and projected stable trajectory do not raise sustainability concerns, composition-related vulnerabilities relate to the large public external debt (55 percent of GDP in 2025) and banks' short-term gross financing needs.					
2025 (% GDP)	NIIP: −28.4	Gross Assets: 384	Debt Assets: 213	Gross Liab.: 412	Debt Liab.: 241	
Current Account	**Background.** The CA balance weakened to −0.3 percent of GDP in 2025, down from a surplus of 0.1 percent of GDP in 2024, on the back of slightly weakening goods and services balances, resulting in a small increase in the trade deficit of 0.1 percent of GDP, down to −0.2 percent of GDP. In addition, net factor income also softened, while the drag from transfers increased, with a combined contribution of −0.1 percent of GDP to the CA balance in 2025 (down from a 0.2 percent contribution of GDP in 2024). While growth of national savings accelerated in 2025, driven by higher household savings, it was more than offset by an expansion in private investment. In 2026, the CA balance is projected at −0.3 percent of GDP, with improvements in the trade balance expected to be compensated by a further decline in the income balance. Exports are expected to benefit from base effects due to suppliers' backlogs that caused export delays in the aeronautics sector in the first part of 2025, while euro appreciation and still-subdued domestic demand help to contain the effects of higher commodity prices on imports. Over the medium term, the CA balance is projected at about 0.4 percent of GDP by 2031 as external demand strengthens and positive terms-of-trade effects, in part due to normalization of commodity prices, offset the effects of strengthening of domestic demand and higher real imports. The contribution of net factor income and external transfers to the current account balance is projected to remain negative throughout the forecasting horizon. Overall, the net improvement in the CA mirrors the slow growth of investment relative to savings over the medium term. **Assessment.** The 2025 cyclically adjusted CA balance is estimated at −0.3 percent of GDP compared with an EBA-estimated norm of 0.3 percent. On this basis, staff assess that the CA gap in 2025 is between −0.9 and −0.1 percent of GDP, with a midpoint of −0.5 percent of GDP. The policy gap is zero as the positive contribution from the credit gap is broadly offset by the negative contributions from fiscal and health expenditure.					
2025 (% GDP)	CA: −0.3	Cycl. Adj. CA: −0.3	EBA Norm: 0.3	EBA Gap: −0.5	Staff Adj.: 0.0	Staff Gap: −0.5
Real Exchange Rate	**Background.** Limited wage and price increases compared to trading partners resulted in weak real appreciation since 2022. In 2025, the CPI-based REER remained flat, but ULC-based REER appreciated by 3 percent. As of March 2026, the CPI-based REER was 0.3 below the 2025 average, and as of February the ULC-based REER was 2 percent above the 2025 average. **Assessment.** Consistent with the staff CA gap, staff assess the REER gap to be 2.0 percent and a range of ±1.4 percent, using an elasticity of 0.27.					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The financial account recorded a net outflow of 0.9 percent of GDP, an increase from a net outflow of 0.2 in 2024. Both inward and outward investment increased significantly, by 12.1 and 12.8 percentage points of GDP, respectively. The financial account is open. **Assessment.** France remains exposed to financial market risks owing to the large refinancing needs of the sovereign and banking sectors.					
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.					

Table 2.9. Germany: Economy Assessment

Overall Assessment: *The external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policies.* In 2025, the CA decreased versus 2024 due mainly to a drop in goods exports as a percent of GDP, while goods imports rose slightly. Exports to North America and Asia contracted sharply, with this decline only partly offset by an increase in exports to other EU countries. In 2026, the CA is expected to decline further as the trade balance is projected to weaken in response to fiscal easing and higher energy import prices. In subsequent years, the CA is projected to remain broadly stable as a percent of GDP, with a projected reversal in energy import prices being broadly offset by further fiscal easing in 2027.

Potential Policy Responses: As planned by the government, policies aimed at promoting investment and diminishing excess saving would support external rebalancing and a reduction of the CA balance toward its norm. In 2026 and 2027, the authorities are expected to generate higher fiscal deficits, including due to higher defense spending and higher public investment in transportation, energy, and digitalization. Structural reforms to ease regulatory constraints on domestic investment, such as accelerating licensing and permitting procedures and supporting EU-level reforms to make it easier to start up and expand firms (for example, a 28th corporate regime), could further stimulate investment and thereby 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. Industrial policies should remain targeted to where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and minimize distortions.

Foreign Asset and Liability Position and Trajectory[1]	**Background.** The NIIP increased to 85 percent of GDP in 2025 versus 78 percent of GDP in 2024. This increase was due to a CA surplus (even though it was smaller than in 2024) as well as valuation gains on Germany's external assets, mainly portfolio investments, versus its liabilities. Germany's TARGET claims on the Eurosystem were €1.0 trillion at end-2025, roughly unchanged from end-2024. In the past five years, the NIIP has increased by 17 percent of GDP, lifting the primary income balance. **Assessment.** Germany's exposure to the Eurosystem remains large.					
2025 (% GDP)[1]	NIIP: 85	Gross Assets: 335	Debt Assets: 168	Gross Liab.: 250	Debt Liab.: 156	
Current Account	**Background.** The CA surplus was 4.5 percent of GDP in 2025, compared with 5.9 percent in 2024 and 8.1 percent on average in the pre-pandemic period over 2017–19. The decrease in the CA in 2025 was due mainly to a decline in the goods balance. The primary income balance in 2025 was largely unchanged. From a savings-investment perspective in 2025 versus 2024, the change in the CA balance was driven mainly by lower savings-investment balances for the private sector. For households, consumption picked up and the savings rate fell as a lagged response to past increases in real incomes. Corporate saving also fell as lessened competitiveness reduced income. Going forward, the household saving rate is projected to remain broadly stable over the medium term while higher public investment and gradually recovering sentiment "crowd in" somewhat higher private investment. **Assessment.** The cyclically adjusted CA balance is estimated by the EBA model to be 4.3 percent of GDP in 2025. Staff assess the CA norm to be between 1.7 and 2.7 percent of GDP, with a midpoint of 2.2 percent of GDP, in line with the EBA model. The difference between the cyclically adjusted CA and the CA norm implies that the CA gap for 2025 is in the range of 1.6–2.6 percent of GDP, with a midpoint of 2.1 percent of GDP. The total of policy gaps identified in the EBA model is negligible (–0.1 percent of GDP). The CA gap is instead due to the residual (2.2 percent of GDP), which reflects factors not captured by the EBA model. Possible explanations for the residual include regulatory constraints that impede investment in Germany (for example, excessive red tape resulting in slow permitting procedures) and measurement issues, such as the different statistical treatment of retained earnings from portfolio equity versus the treatment of retained earnings from FDI.					
2025 (% GDP)	CA: 4.5	Cycl. Adj. CA: 4.3	EBA Norm: 2.2	EBA Gap: 2.1	Staff Adj.: 0.0	Staff Gap: 2.1
Real Exchange Rate	**Background.** The REER depreciated by about 6 percent (based on consumer prices) during the energy crisis (early 2021–mid-2022), recovered this ground by mid-2023, and then broadly stabilized through end-2024. In 2025, the REER appreciated by 1.4 percent based on both CPI and ULC measures. This was due to nominal exchange rate appreciation rather than relative inflation between Germany and its trade partners. As of March 2026, the REER was 0.5 percent above the 2025 average. **Assessment.** The staff CA gap implies a REER gap of –6.6 percent in 2025 (with an estimated elasticity of 0.32 applied). The EBA REER level and index models suggest an undervaluation of 9.1 percent and an overvaluation of 8.2 percent, respectively. Consistent with the staff CA gap, staff assess the REER to be undervalued, with a midpoint of 6.6 percent and a range of uncertainty of ±1.6 percent.					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In 2025, the capital and financial accounts widened slightly versus 2024. This was mainly due to an increase in net portfolio investment, with German capital flows into foreign equity assets increasing sharply. Net FDI declined as FDI into Germany increased more than outward FDI. Errors and omissions increased. **Assessment.** Risks are limited, given Germany's safe-haven status and the strength of its external position.					
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by euro area economies are typically low relative to standard metrics. The currency floats freely.					

Table 2.10. Hong Kong Special Administrative Region: Economy Assessment

Overall Assessment: *The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The current account surplus declined to 12.3 percent of GDP (from 13.1 percent in 2024), as strong exports of goods and services were offset by a surge in imports in 2025:Q4. The surplus is expected to rise somewhat in 2026 as the import surge unwinds, before moderating over the medium term with a recovery in investment, particularly private investment. Under the Linked Exchange Rate System (LERS), short-term REER movements largely reflect US dollar developments. The credibility of the currency board arrangement is underpinned by transparent rules, ample fiscal and FX reserves, strong financial regulation and supervision, economic flexibility, and a prudent fiscal framework.

Potential Policy Responses: A gradual pace of fiscal consolidation over the medium term will help keep the external position broadly in line with fundamentals by raising public savings to offset stronger private demand and aging-related spending pressures, while addressing gaps in the social safety net. Maintaining wage and price flexibility will 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, helping keep the external position aligned with medium-term fundamentals and desirable policies.

Foreign Asset and Liability Position and Trajectory

Background. The net international investment position (NIIP) stood at 586 percent of GDP at end-2025, a significant increase from its end-2024 position of 490 percent, driven largely by a large increase in gross assets (+172 percentage points of GDP). Gross assets and liabilities are high, reflecting Hong Kong SAR's status as an international financial center. Valuation effects in 2025 were sizable as the change in the NIIP (+96 percentage points of annual GDP) exceeded the financial account balance (17 percent of GDP).

Assessment. Vulnerabilities are low given the positive and sizable NIIP and its favorable composition. FX reserves remain large (100 percent of GDP at the end of 2025) and direct investments account for a large share of gross assets and liabilities (35 and 54 percent, respectively, at end-2025), while only 13 percent of gross liabilities are portfolio investments.

2025 (% GDP)	NIIP: 586	Gross Assets: 1,806	Debt Assets:[1] 436	Gross Liab.: 1,220	Debt Liab.:[1] 224

Current Account

Background. The CA surplus remained substantial at 12.3 percent of GDP in 2025 (2024: 13.1 percent) as both gross national savings (+1.3 pp) and investment (+2.2 pp) rose. The wider goods deficit (2.2 percent of GDP) reflected the strong growth in merchandise imports (17.4 percent y/y), which outpaced the growth in exports (16.3 percent y/y). The services surplus widened to 5.1 percent of GDP in 2025 (2024: 4.3 percent), with visitor numbers rising by 12.1 percent y/y during the year. The income balance remained significant at 9.3 percent of GDP, similar to the level recorded in 2024. The CA balance is projected to gradually decline over the medium term due to higher investment (+2.8 pp of GDP by 2031 compared to 2025), while the GNS rate is expected to converge to around 32.5 percent of GDP (2025: 30.6 percent of GDP). Specifically, the ongoing recovery in private investment (+4.9 pp by 2031) is expected to be the main driver of the higher investment rate.

Assessment. After adjusting for cyclical factors,[2] the CA surplus is estimated to be 11.8 percent of GDP in 2025, which is within the staff-assessed CA norm range of 11.1–12.7 percent of GDP (midpoint of 11.9 percent). The staff-assessed CA gap range is hence between −0.9 and 0.7 percent of GDP, with a midpoint of −0.1 percent. Since Hong Kong SAR is not in the EBA sample, the CA norm was estimated by applying EBA-estimated coefficients to Hong Kong SAR and was adjusted for the composition of the NIIP, which impacts net income inflows in the CA due to a large share of low-yielding debt assets, and measurement issues related to the increased physical settlement of gold futures contracts resulting from the opening of a Precious Metals Depository.[3]

2025 (% GDP)	CA: 12.3	Cycl. Adj. CA: 11.8	EBA Norm: –	EBA Gap: –	Staff Adj.: –	Staff Gap: −0.1

Real Exchange Rate

Background. Under the currency board arrangement, REER dynamics are largely determined by US dollar developments and inflation differentials between the United States and Hong Kong SAR. The REER depreciated modestly in 2025 (−0.3 percent), largely reflecting a 0.7 depreciation of the NEER due to the weaker US dollar. However, the domestic inflation rate (1.4 percent), which was lower than most trade partners, partially offset the nominal depreciation, leading to a more modest real depreciation. The REER in March 2026 was 2.2 percent below the average for 2025, largely reflecting a 2.3 percent depreciation of the NEER.

Assessment. Staff assess the REER gap, based on the staff CA gap range, to be in the range of −2.2 to 2.7 percent, with a midpoint of 0.2 percent (based on a CA-REER elasticity[4] of −0.321).

Capital and Financial Accounts: Flows and Policy Measures

Background. As an international financial center, Hong Kong SAR has an open capital account. The net outflow in non-reserve financial flows (before accounting for net errors and omissions) amounted to 18.7 percent of GDP in 2025, somewhat higher than the 17.3 percent recorded in 2024, driven by lower net portfolio outflows. The financial account is typically very volatile, reflecting financial conditions in Hong Kong SAR and the Chinese mainland (transmitted through growing cross-border financial linkages),[5] shifting expectations of US monetary policy, and related arbitraging in the FX and rates markets.

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

FX Intervention and Reserves Level

Background. The HKD continued to trade in a smooth and orderly manner within the Convertibility Zone in 2025. The HKMA conducts FX operations as part of the currency board operations ("Convertibility Undertaking"). In 2025, the HKMA recorded a net injection amounting to US$1.4 billion in support of the Undertaking, purchasing US$16.7 billion in May in response to large financial inflows. These were partially unwound over the following 3 months as conditions normalized. Total reserve assets amounted to USD 428 billion at the end of 2025 (1.6 times the monetary base at end-November), decreasing modestly to 100 percent of GDP from 103 percent of GDP at the end of 2024.

Assessment. FX reserves are currently adequate for precautionary purposes and should continue to evolve in line with the automatic adjustment inherent in the currency board system. Despite a large fiscal deficit in 2025, Hong Kong SAR still holds significant fiscal reserves (estimated at about 21 percent of GDP at the end of 2025) accumulated through strong fiscal discipline in previous years.

Table 2.11. India: Economy Assessment

Overall Assessment: *The external position in FY2025/26 (ending in March 2026) was moderately stronger than the level implied by medium-term fundamentals and desirable policies*. Buoyant service exports and inward remittances contained the current account (CA) deficit at an estimated 0.9 percent of GDP, despite precious metal price increases. The CA deficit is expected to increase to 2 percent of GDP in FY2026/27, reflecting higher commodity prices, before narrowing as commodity prices normalize and then converging close to its estimated norm over the medium term. External risks are related to commodity price pressures, supply chain disruptions, weakening external demand, and global financial conditions. India is subject to reduced US tariffs following the interim agreement and the US Supreme Court decision in February 2026 has made progress on bilateral free trade agreements, including with the EU, and has taken incremental steps to lower tariffs and non-tariff trade restrictions. At the same time, its trade and capital account regimes remain relatively restricted, weighing on both exports and imports.

Potential Policy Responses: To facilitate medium-term external rebalancing, priority should be given to further reducing import restrictions, especially on intermediate goods, while continuing to improve the business environment to boost private investment and liberalize the FDI regime. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks. These efforts should be complemented by the development of trade infrastructure and continued expansion of trade networks. Industrial policies should be pursued cautiously, remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, and aim to minimize trade and investment distortions. Exchange rate flexibility should act as the main shock absorber, with intervention limited to periods marked by destabilizing risk premiums.

Foreign Asset and Liability Position and Trajectory

Background. India's NIIP improved to −6.7 percent of GDP as of end-2025, from −9.8 percent of GDP in 2024, reflecting valuation changes and nominal GDP growth more than offsetting the impact of the CA deficit. Gross foreign assets increased to 30.9 percent of GDP (from 28.9 percent of GDP in 2024). Gross foreign liabilities declined to 37.6 percent of GDP (from 38.7 percent of GDP in 2024), reflecting FDI disinvestment and reductions in portfolio equity liabilities amid high US tariffs (50 percent additional tariffs in effect between August 2025 and February 2026) and elevated US trade policy uncertainty. The bulk of India's foreign assets were in the form of official reserves and outward FDI, whereas liabilities consisted mostly of debt liabilities and inward FDI.

Assessment. Over the medium term, the NIIP-to-GDP ratio is projected to widen modestly, with the impact of CA deficits mitigated by robust nominal GDP growth. India's external debt liabilities are relatively low compared with those of its peers, and short-term rollover risks are limited. The moderate level of foreign liabilities reflects India's incremental approach to capital account liberalization.

2025 (% GDP)	NIIP: −6.7	Gross Assets: 30.9	Debt Assets: 4.1	Gross Liab.: 37.6	Debt Liab.: 18.2

Current Account

Background. The CA deficit edged up to an estimated 0.9 percent of GDP in FY2025/26, from 0.6 percent of GDP in the previous year, driven by precious metal imports. Merchandise exports were broadly stable at around 11 percent of GDP, as diversification to other export markets and frontloading of exports to the United States largely offset the impacts of high US tariffs within the year. Gross domestic savings in FY2025/26 are estimated to have slightly declined by 0.8 percentage points to 32.9 percent of GDP, driven by a rise in private consumption. Gross domestic investment declined by an estimated 0.5 percentage points to 33.9 percent of GDP, reflecting US tariff hikes and trade policy uncertainty. The CA deficit is projected to widen to 2 percent of GDP in FY2026/27 reflecting commodity price increases.

Assessment. The EBA cyclically adjusted CA balance is estimated at −0.7 percent of GDP in FY2025/26. The EBA CA model estimates a norm of −2.3 percent of GDP, with a standard error of 0.6 percentage points. Staff thus assess the CA gap to be 1.6 percent of GDP, within a range of 1.0–2.2 percent of GDP. The contribution of policy gaps to the CA gap is negligible. India's competitiveness in tradeable services, combined with relatively restrictive trade and capital account regimes, and comparatively stringent product market regulations could be among the factors contributing to a positive CA residual of 1.5 percent of GDP.

2025 (% GDP)	CA: −0.9	Cycl. Adj. CA: −0.7	EBA Norm: −2.3	EBA Gap: 1.6	Staff Adj.: 0.0	Staff Gap: 1.6

Real Exchange Rate

Background. The Indian rupee (INR) came under depreciation pressure, as India faced 50 percent additional US tariffs from August 2025 to February 2026. Although US tariffs have since been reduced markedly, commodity price pressures stemming from the conflict in the Middle East and India's exposure to energy price shocks have contributed to sizeable portfolio equity outflows, and INR depreciated by more than 5 percent over January–March 2026. Amid benign inflation in FY2025/26, the REER depreciated, helping to absorb the BOP pressures. As of March 2026, the REER was 6.7 percent below its 2025 annual average.

Assessment. The EBA REER index and level models suggest an overvaluation of 0.8 percent and an undervaluation of 5.6 percent, respectively. Consistent with the staff CA gap, however, staff assess the REER gap to be in the range of −11.7 to −5.1 percent, with a midpoint of −8.4 percent, for FY2025/26 (based on an estimated semi-elasticity of 0.18).

Capital and Financial Accounts: Flows and Policy Measures

Background. In FY2025/26, net FDI inflow remained muted at an estimated 0.3 percent of GDP, as stronger gross inward FDI was offset by elevated disinvestment and growing outward FDI. Net portfolio investment recorded an outflow of an estimated 0.2 percent of GDP amid high US tariffs for parts of the year and then higher energy prices linked to the conflict in the Middle East. In a continued effort to attract FDI, the Indian authorities further relaxed FDI restrictions including on land-bordering countries.

Assessment. Regulatory changes to relax the FDI regime and lower US tariffs since February 2026 are expected to support a rebound in FDI over the medium term to cover more than half of the CA deficit. Continued structural reforms to improve the business environment and investment regime can further promote FDI. Portfolio flows are sensitive to changes in global financial conditions and country risk premiums, although India's reliance on portfolio inflows for CA deficit financing is limited.

FX Intervention and Reserves Level

Background. Official international reserves increased overall in FY2025/26, buoyed by valuation gains. During this time, the Reserve Bank of India's FX interventions aimed to smooth market volatility that the authorities considered to be excessive, albeit generally at a smaller scale than FY2024/25. The INR/USD exchange rate showed increased volatility during the year. Reserves increased from $668.3 billion at end FY2024/25 to $691.1 billion at end-FY2025/26, as valuation gains of gold offset the reduction in FX holdings.

Assessment. Official international reserves are adequate for precautionary purposes. At end-FY2025/26, they represented about 224 percent of short-term debt (on residual maturity), about 108 percent of the IMF's ARA EM metric, and close to eight months of import coverage. In view of India's generally deep and liquid FX markets, limited FX mismatches, and well-anchored inflation expectations, FX interventions should be limited to periods marked by destabilizing risk premiums.

Table 2.12. Indonesia: Economy Assessment

<table>
<tr><td colspan="7">Overall Assessment: The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies. In the medium term, external balance is expected to be sustained despite external shocks and higher uncertainty, while exchange rate flexibility and structural policies would help contain the CA deficit. External financing needs appear sustainable. Amid still-deepening domestic markets, Indonesia’s reliance on foreign portfolio investment exposes the economy to sharp swings in market sentiment and risk premiums, and to fluctuations in global financial conditions.

Potential Policy Responses: Maintaining external balance into the medium term would be supported by enhancing buffers within the fiscal rule, and structural reforms to raise productivity and promote trade–given a shock-prone external environment and policy uncertainty. Structural reforms should include (1) higher and more efficient infrastructure investment; (2) higher, more efficient, and better targeted social spending to foster human capital development and strengthening the social safety net; (3) reducing or eliminating restrictions on inward FDI and external trade, including by moving away from non-tariff barriers; and (4) promoting greater labor market flexibility (see 2024 Indonesia Article IV, Selected Issues). Industrial policies should be targeted to where externalities or market failures prevent effective market solutions, while minimizing trade and investment distortions. Exchange rate flexibility should continue to support external stability. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks. Recent progress on trade integration with several major partners and structural reforms and deregulation to lower trade and investment barriers is welcome. Building on this progress through decisive, comprehensive, broad, and sound implementation could strengthen trade, investment, and growth.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. Indonesia’s NIIP fell from −17.6 percent of GDP at end-2024 to −18.9 percent of GDP at the end-2025. The deterioration reflects a 1.2 percent of GDP improvement in gross external assets that was more than offset by a 2.5 percent of GDP increase in gross external liabilities. Indonesia’s gross external debt remained moderate at 30.0 percent of GDP at end-2025, declining marginally from 30.4 percent of GDP in 2024. External rollover risks in the short-term are contained as reflected in the large share of long-term debt. The NIIP as a share of GDP is projected to stabilize at current levels in the medium term, as robust nominal GDP growth would offset the projected small CA deficits.

Assessment. The level and composition of the NIIP and gross external debt indicate that Indonesia’s external position is sustainable and subject to limited rollover risk. However, the relatively high dependence on foreign portfolio investment (20.3 percent of GDP in 2025) makes Indonesia vulnerable to swings in global financial market sentiment.</td></tr>
<tr><td>2025 (% GDP)</td><td>NIIP: −18.9</td><td>Gross Assets: 38.7</td><td>Res. Assets: 10.8</td><td colspan="2">Gross Liab.: 57.6</td><td>Debt Liab.: 30.0</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA deficit narrowed slightly to 0.1 percent of GDP in 2025 from a 0.6 percent of GDP deficit in 2024. The narrowing deficit in 2025 reflected resilient demand for exports in major markets. On the savings-investment side, a 0.3 percent of GDP decrease in savings (income pressures on households, more supportive fiscal policy) was more than offset by a 0.8 percent decrease in investment (higher uncertainty). The CA deficit is projected to widen in 2026; notable factors include the impact of the war in the Middle East, and a smaller contribution from initial investment announcements by the new sovereign wealth fund (Danantara). The CA deficit is expected to remain close to the norm throughout the projection horizon, amid stable savings and investment outlooks.

Assessment. Staff estimates a CA gap of 0.2 percent of GDP for 2025, consistent with an estimated cyclically adjusted CA deficit of −0.2 percent of GDP and a norm of −0.4 percent of GDP. Considering the uncertainty in the estimation of the norm, the CA gap for 2025 is in the range of −0.3 to 0.7 percent of GDP. EBA-identified policy gaps are estimated at 0.6 percent of GDP, with a tighter fiscal stance than in other countries (0.7) and underspending on health care (0.5) contributing to the positive gap, partly offset by the credit gap (−0.5) and reserve accumulation policy gap (−0.2).</td></tr>
<tr><td>2025 (% GDP)</td><td>CA: -0.1</td><td>Cycl. Adj. CA: -0.2</td><td>EBA Norm: -0.4</td><td>EBA Gap: 0.2</td><td>Staff Adj.: 0.0</td><td>Staff Gap: 0.2</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. The average REER and NEER both depreciated by about 4.9 and 4.8 percent respectively in 2025 compared to the corresponding averages in 2024. The depreciation reflects a period of heightened external and domestic policy uncertainty affecting capital outflows and easing domestic monetary policy tightening yield differentials. As of March 2026, the REER was 2.6 percent below its 2025 average.

Assessment. The staff CA gap estimate of 0.2 percent of GDP implies a REER gap of −1.1 percent (applying an estimated elasticity of 0.16). Consistent with the staff CA gap, staff assess the REER gap in the range of −4.4 to 2.2 percent, with a midpoint of −1.1 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. Net capital and financial flows worsened in 2025 (−0.3 percent of GDP) from 1.0 percent of GDP in 2024. Portfolio investment flows turned negative, reflecting net outflows from equities and private bonds, alongside a retrenchment of non-resident holdings of BI’s local currency instrument (SRBI). Net FDI inflows declined somewhat to 1.0 percent of GDP in 2025 (1.1 percent in 2024, 1.4 percent in 2022). The share of nonresident holdings of rupiah-denominated government bonds, at 13.4 percent at end-2025, remains below the 39 percent share in 2019. Portfolio equity outflow pressures rose in early 2026, including amid calls to enhance market operations and transparency. Amid external shocks, financial flows are expected to be somewhat subdued into the medium term, though capital and financial account vulnerabilities are expected to remain contained. Given the still deepening domestic markets, the reliance on foreign portfolio investment exposes the economy to sharp swings in market sentiment and risk premiums, and to fluctuations in global financial conditions.

Assessment. Continued strong policies, focused on safeguarding the fiscal position and long-standing policy frameworks, advancing financial deepening, and implementing structural reforms that provide credibility and certainty, and enable the business, trade, and investment environment, should help sustain capital inflows in the medium term, particularly in a likely period of prolonged global policy uncertainty and external headwinds to growth.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Background. Since mid-2013, Indonesia has had a more flexible exchange rate policy framework. Official foreign reserves slightly increased to US$156.5 billion in 2025 (10.8 percent of GDP) from US$155.7 billion in 2024 (11.2 percent of GDP), with declines due to FX interventions during stress periods offset by efforts to rebuild buffers at other times.

Assessment. The end-2025 level of reserves (119.8 percent of the IMF’s reserve adequacy metric and 5.7 months of prospective imports) should provide a sufficient buffer against external shocks. Predetermined short-term foreign currency drains have been stable through 2025. In line with the IPF, the use of FXI is appropriate under certain shocks and circumstances, particularly when shocks trigger spikes in market premiums given shallow FX markets. Their usage should be judicious to preserve buffers in a shock-prone environment.</td></tr>
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Table 2.13. Italy: Economy Assessment

Overall Assessment: *The external position in 2025 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* The CA balance was broadly unchanged, recording a surplus of 1.1 percent of GDP, with a return-to-surplus on the primary income offsetting a narrowing of the trade surplus. Italy is reliant on imported energy. Hence, the surge in global energy prices following the onset of the war in the Middle East is likely to weigh on the CA, before gradually increasing over the medium term. The CA is projected to remain below the CA norm, reinforcing the need for additional fiscal consolidation and productivity-enhancing structural reforms.

Potential Policy Responses: Additional comprehensive reforms would boost productivity, competitiveness, and potential growth. In addition, EU single market deepening would raise productivity and resilience through greater scale, internal diversification, and improved risk sharing, thereby strengthening economic stability and reducing the risk of negative spillovers to the rest of the world. Reforms that boost the labor force participation of women and youth would 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. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP continued to steadily increase, ending 2025 at 15.4 percent of GDP (from 14.9 in 2024). Sizable gross external positions, with gross foreign assets amounting to 193.5 percent of GDP and liabilities at 178.0 percent of GDP in 2025, render the NIIP sensitive to valuation effects. Bank of Italy's TARGET2 liabilities to other Eurosystem central banks, which are short term and remunerated at the European Central Bank policy rate, declined notably from their peak of 34 percent of GDP in 2022 to 16 percent of GDP at the end of 2025. Public sector (general government and Bank of Italy) external liabilities make up around 50 percent of total external liabilities, corresponding to 66 percent of GDP. Seventy percent of public sector external liabilities are long term. **Assessment.** Further strengthening public sector balance sheets and undertaking structural reforms would lessen vulnerabilities associated with the high public debt, reinvigorate productivity and economic growth, and reduce the potential for negative feedback loops between the debt stock and debt-servicing costs.

2025 (% GDP)	NIIP: 15.4	Gross Assets: 193.5	Debt Assets: 77.3	Gross Liab.: 178.0	Debt Liab.: 124.8

Current Account	**Background.** The CA balance averaged a surplus of 1.4 percent of GDP between 2019 and 2024, with surpluses in all years, except in 2022 due to the adverse energy price shock. The CA surplus in 2025 was broadly unchanged from the previous year, recording a surplus of 1.1 percent of GDP (1.1 in 2024). From a saving-investment perspective, the external position reflected broadly unchanged savings and investment as a share of GDP. Looking ahead, fiscal consolidation is expected to support the CA surplus. **Assessment.** The cyclically adjusted CA is estimated at 1.2 percent of GDP for 2025, 1.2 percentage points of GDP below the EBA estimated CA norm of 2.4 percent of GDP. Considering uncertainty around the estimate, staff assess the CA gap to be in the range of −1.7 to −0.7 percent of GDP, with a midpoint of −1.2 percent of GDP. The total estimated policy gap is +1.0 percent of GDP, partly reflecting: (1) a +0.4 percent of GDP positive contribution from a fiscal policy gap, reflecting a larger needed fiscal consolidation in the rest of the world relative to Italy, despite a domestic policy gap of −0.5 percent; and (2) a +0.5 percent of GDP positive contribution from the credit gap, reflecting the still-subdued credit extension. Demographics remains a key driver to the norm amid Italy's aging population. A sizable unexplained residual of −2.3 percent of GDP suggests that the model may not fully capture all relevant Italy-specific characteristics and structural impediments, including factors such as labor market rigidities and relatively low labor market participation among some segments of the population.

2025 (% GDP)	CA: 1.1	Cycl. Adj. CA: 1.2	EBA Norm: 2.4	EBA Gap: −1.2	Staff Adj.: 0.0	Staff Gap: −1.2

Real Exchange Rate	**Background.** During 2019–25, the CPI-based REER appreciated by 1.1 percent, while the ULC-based REER appreciated by 0.5 percent. During 2025, the CPI-based REER appreciated by 0.6 percent due to the strengthening of the euro. As of March 2026, the CPI-based REER was 0.2 percent above the 2025 average. **Assessment.** The model-based CA gap implies a REER gap of 4.8 percent in 2025 (with an estimated elasticity of 0.25 applied). The level and index CPI-based REER models suggest an overvaluation in 2025 of 2.6 percent and 3.3 percent, respectively. Based on the staff CA gap, the REER gap is in the range of 2.6 to 6.8 percent, with a midpoint of 4.7 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The capital account was broadly unchanged at around 0.2 in 2025 (0.0 in 2024). The financial account posted net outflows of 1.2 percent of GDP in 2025 (from net outflows of 2.3 percent of GDP in 2024), with a reduction in TARGET2 liabilities and an increase in other financial investment inflows. **Assessment.** Large refinancing needs of the sovereign and the banking sector suggest Italy remains vulnerable to market volatility. The private sector, which is a net creditor, is mainly exposed to equity risk-rewards.
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. Italy's reserves increased by 31 percent in 2025, in part owing to valuation effects. **Assessment.** Reserves held by the euro area are typically low relative to standard metrics. The currency is freely floating.

Table 2.14. Japan: Economy Assessment

Overall Assessment: *The external position in 2025 was moderately stronger than the level implied by medium-term fundamentals and desirable policies*. The CA surplus increased to 4.9 percent of GDP in 2025 from 4.6 percent in 2024, reflecting a largely unchanged and historically strong primary income balance and a shrinking trade deficit. The primary income surplus arises from a large positive NIIP and a high rate of return on net foreign assets. Japan's CA surplus is expected to fall by 1.1 percent of GDP in 2026 due to the rising energy import bill triggered by the war in the Middle East and will stabilize in the medium term as its primary income surplus normalizes to historical rates of return.

Potential Policy Responses: Structural reforms to reduce labor market duality, improve labor mobility, boost labor force participation, and improve firm dynamism are needed to boost private-sector-led potential growth over the medium term, while fiscal adjustment will be needed to preserve debt sustainability. Specifically, a medium-term fiscal plan is needed to offset spending pressures from rising interest payments and health and long-term care as the population ages further. While fiscal adjustment will tend to push the CA surplus higher, this would be offset by higher investment and a decrease in private savings. Industrial policies should be narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions and aim to minimize trade and investment distortions. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks. Japan's global leadership role in fostering regional/multilateral trade agreements should be prioritized.

Foreign Asset and Liability Position and Trajectory

Background. Japan's NIIP stood at 86 percent of GDP in 2025:Q4, sharply higher than the pre-pandemic (2016–19) average of 59 percent. This was mainly driven by an increase in net FDI outflows and the positive valuation effects from yen depreciation. Portfolio flows have exhibited swings in the post-pandemic period, with inflows in 2022 followed by outflows, before reverting to net inflows again in 2025, thereby resulting in a limited net impact on NIIP. Japan holds one of the world's largest stocks of net foreign assets, valued at $3.7 trillion in 2025:Q4. Major global shocks that lead to sustained movements in the yen would affect the income earned from Japan's large net foreign asset position, posing two-sided risks to corporate profitability and upcoming wage negotiations.

Assessment. Japan's foreign asset holdings are well diversified, both by geography and risk classes. As of 2025:Q4, gross foreign assets largely comprised portfolio investment accounting for about 43 percent of the total, followed by FDI with 22 percent. Of that portfolio investment, about 18 percent was yen denominated and 60 percent was dollar denominated. A large yen appreciation against the dollar poses the risk of negative valuation effects. Vulnerabilities associated with liabilities are contained, given that equity and direct investment account for about 38 percent of gross foreign liabilities. The NIIP is estimated to have generated a net annual investment income return of about 7.6 percent in 2025, well above the pre-pandemic historical (2016–19) average of 6.2 percent. The improved return is partly driven by the increasing share of FDI in external assets, which has a higher average return than other components. Japan's large positive NIIP is partly related to the asset accumulation for old-age consumption; a gradual decumulation of such assets is expected over the long term.

2025 (% GDP)	NIIP: 86	Gross Assets: 272	Debt Assets: 90	Gross Liab.: 187	Debt Liab.: 108

Current Account

Background. Japan's CA surplus mainly reflects a large income balance owing to its large net foreign asset position. The CA surplus increased to 4.9 percent of GDP in 2025 from 4.6 percent in 2024. The income balance was marginally lower in 2025 at 6.3 percent of GDP from 6.4 in 2024. The goods trade deficit shrank to −0.1 percent of GDP in 2025 as exports and imports were front-loaded in the first half of the year following trade policy changes announced by the United States. A moderation in the post-COVID surge in imported fuel cost helped improve the trade balance. The services balance remained broadly unchanged in 2025. In the medium term, the CA balance is projected to be 4.1 percent of GDP, below current levels, partly reflecting a moderation in the high return on net foreign assets seen in recent years. From a savings-investment balance perspective, the change between 2025 and 2024 is attributable to an increase in public savings. The projected medium-term decline of the CA surplus is largely reflective of the expected decline in public savings.

Assessment. 2025 cyclically adjusted CA is 4.9 percent of GDP, and the model-implied cyclically adjusted CA norm is 3.6 percent of GDP (with a range between 2.6 and 4.6 percent of GDP). The CA gap midpoint is assessed at 1.3 percent of GDP, with a range between 0.3 and 1.3 percent. The EBA-identified policy gaps contribute only 0.2 percent to the CA gap.[1] The unexplained residual of the assessment is mainly attributable to a cyclical windfall from the high rate of return on NFA, which is expected to be temporary and moderate to normal levels in the medium term, besides potentially reflecting structural impediments and country-specific factors not included in the model.

2025 (% GDP)	CA: 4.9	Cycl. Adj. CA: 4.9	EBA Norm: 3.6	EBA Gap: 1.3	Staff Adj.: 0.0	Staff Gap: 1.3

Real Exchange Rate

Background. The REER appreciation that started in the second half of 2024 continued into the first half of 2025, reflecting in part the broad dollar depreciation against major currencies during the first half of 2025. However, this was more than offset by the depreciation that followed in the second half of 2025. This pattern largely reflects the changes in the yen's nominal value against major currencies, diverging from the trend of narrowing interest rate differentials in the second half of 2025.

Assessment. The staff CA gap implies a REER gap of −7.2 percent in 2025 (with an estimated elasticity of 0.18 applied). The EBA REER index and level models deliver gaps of −37.3 and −38.7 percent, respectively. Consistent with the staff CA gap, the REER gap is assessed to be in the range of −12.6 to −1.8 percent, with a midpoint of −7.2 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account recorded net outflows in 2025, mirroring the CA surplus, and increased to 4.5 percent of GDP in 2025 from 4.0 percent in 2024. Net FDI outflows of 3.9 percent of GDP are primarily driven by outward FDI flows to Asia, Europe, and North America. Portfolio investment recorded net inflows of 2.4 percent of GDP, as opposed to net outflows of 2.2 percent in 2024. This reflects substantial net inflow into domestic securities, with large debt inflows following the US tariff announcement in April and large equity inflows after the LDP presidential election in October.

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

FX Intervention and Reserves Level

Background. Reflecting legacy accumulation, reserves stood at $1.4 trillion, or about 32 percent of GDP, in Q4–2025. This amount was little changed since end-2024.

Assessment. The exchange rate is free floating and FX interventions did not occur in 2025. FX interventions should be isolated and limited to addressing disorderly market conditions.

Table 2.15. Korea: Economy Assessment

Overall Assessment: *The external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policies.* This position was largely driven by record-high external demand for semiconductors, in support of the global artificial intelligence (AI) transformation, which contributed about 90 percent of the increase in the current account (CA) surplus to 6.6 percent of GDP in 2025 (from 5.3 percent in 2024). While semiconductor exports are expected to contribute to large CA surpluses in the short term, the surplus is projected to moderate in the medium term, as these temporary corporate savings from the AI upcycle wind down, owing to the gradual normalization of global semiconductor demand and an increase in private investment, together with a pickup in private consumption. In the medium term, the surplus is expected to be around 5.5 percent of GDP by 2031.

Potential Policy Responses: 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. Exchange rate flexibility remains the first line of defense against external shocks, with foreign exchange intervention limited to preventing disorderly market conditions; 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. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks. Industrial policies should remain narrowly targeted to specific objectives and aim to minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP has been positive since 2014 and has significantly increased in the past decade. In 2025, both the nominal value of NIIP ($886 billion) and the NIIP-to-GDP ratio (47.3 percent) decreased sharply relative to 2024, reflecting negative valuation effects from higher domestic equity prices only partially offset by higher net outbound portfolio investment. The NIIP is projected to rise further over the medium term, to about 70 percent of GDP in 2031, on the back of continued CA surpluses.

Assessment. The large and positive NIIP is a key factor supporting external resilience. Foreign asset holdings are diversified, with 40 percent in equity or debt securities. About 62 percent of foreign assets are denominated in dollars, implying that depreciation of the won against the dollar can have large positive valuation effects in aggregate. The structure of liabilities further limits vulnerabilities, with direct investment and long-term loans together accounting for 46 percent of liabilities and 61.6 percent of liabilities denominated in Korean won.

2025 (% GDP)	NIIP: 47.3	Gross Assets: 153.2	Debt Assets: 61.1	Gross Liab.: 105.9	Debt Liab.: 41.1

Current Account

Background. The CA surplus increased from 5.3 percent of GDP in 2024 to 6.6 percent of GDP in 2025, most of which can be explained by record-high semiconductor net exports (1.2 percent of GDP relative to 2024). The significant expansion in semiconductor exports in 2025, up by 22 percent (y/y), was fueled by the global AI transformation. From a saving-investment perspective, the higher CA surplus was driven by a significant drop in domestic investment, largely caused by a downturn in the construction sector only partially offset by higher facilities investment, while the domestic saving rate increased moderately. In the medium term, the CA is projected to be around 5.5 percent of GDP by 2031, in part reflecting the need for precautionary savings in the face of rapid population aging.

Assessment. The EBA CA model estimates the cyclically adjusted CA at 6.4 percent of GDP against a CA norm of 3.3 percent of GDP, with a standard error of 0.6 percent of GDP. An adjustor of 0.6 percentage point of GDP[1] is applied to account for Korea's accelerating population aging relative to other economies, bringing the staff-adjusted CA norm to 3.9 percent of GDP. Staff estimates the 2025 CA gap midpoint at 2.5 percent of GDP, with a range of 1.9 to 3.1 percent of GDP. The net contribution of the relative policy gap is 1.3 percent of GDP, mostly from lower health spending (a proxy for spending on social safety nets) and a less negative fiscal balance than the rest of the world.[2] The unexplained residual could partly reflect high household saving due to the lower coverage and amounts of social protection relative to peers and to rapid aging, and the cyclical contribution of semiconductor prices to higher terms of trade.

2025 (% GDP)	CA: 6.6	Cycl. Adj. CA: 6.4	EBA Norm: 3.3	EBA Gap: 3.1	Staff Adj.: –0.6	Staff Gap: 2.5

Real Exchange Rate

Background. The REER depreciated by 4.6 percent in 2025 on average relative to 2024, extending the weakening trend from 2024. This was mainly driven by the depreciation of the Korean won against currencies of major trading partners, especially the United States, and fueled by a sharp increase in net portfolio outflows, especially from higher investment in foreign equity by domestic investors. As of March 2026, the REER had depreciated by about 5.7 percent (y/y) relative to the 2025 average.

Assessment. The EBA CA gap implies a REER undervaluation of 7.5 percent (with an estimated elasticity of 0.33 applied). The EBA REER index model estimates an undervaluation of 5.8 percent, while the EBA REER level model estimates a 9.8 percent undervaluation. Consistent with the CA gap, staff assess the REER gap to be in the range of –9.2 to –5.8 percent, with a midpoint of about –7.5 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net capital outflows increased to 6.4 percent of GDP in 2025 from 5.2 percent of GDP in 2024, dominated by a rise in outbound equity investment. While net FDI outflows declined by 0.6 percent of GDP, net portfolio outflows picked up by 2.3 percent of GDP, mostly reflecting a sharp increase in residents' outbound investment, particularly in equity (3.9 percent of GDP), that outpaced the rise in foreigners' inbound investment, mostly debt (2.1 percent of GDP).

Assessment. Amid multiple global shocks in recent years, Korea has demonstrated remarkable resilience in weathering short-term capital flow volatility. Corporate governance reforms adopted in 2025 should continue to make the domestic equity market more attractive for both domestic and foreign investors, contributing to higher net capital inflows. The recent inclusion of Korea's government bonds in the World Government Bond Index is also expected to lead to higher capital inflows in 2026 from a diversified investor base. The present configuration of capital flows appears sustainable over the medium term, mirroring the projected increase in the NIIP from sustained CA surpluses.

FX Intervention and Reserves Level

Background. Korea has a floating exchange rate. Based on IMF staff estimates and published data, FX intervention since 2015 has been two-sided. In 2025, FX intervention increased from net sales of US$11.2 billion (0.4 percent of GDP) in 2024 to US$28 billion (1.5 percent of GDP), mostly conducted in Q4 during periods of heightened exchange rate volatility, induced by rapid shifts in depreciation expectations from prospects of large Korean FDI and growing attraction of domestic investors for overseas equity. As of end-2025, reserves stood at US$428 billion, higher than US$416 billion as of end-2024.

Assessment. Exchange rate volatility generally does not pose significant economic challenges for Korea, given limited currency mismatches and manageable pass-through to consumer prices. FX market depth, while ranking higher than in most emerging markets, still lags advanced economy peers. In periods of high global financial market uncertainty and rapid shifts in expectations, there could be herding behavior amid temporarily shallow markets, leading to sharp FX movements and impaired market functioning. Intervention should thus remain limited to preventing disorderly market conditions. The ongoing FX market reforms have started to deepen FX markets, thus improving the efficiency and resilience of the currency market. As of end-2025, FX reserves were about 23 percent of GDP, 2.4 times short-term debt, 6.1 months of imports, or 15 percent of M2. Systemwide stress tests also show that reserves provide sufficient FX liquidity buffers under a wide range of plausible shocks.

Table 2.16. Malaysia: Economy Assessment

Overall Assessment: *Malaysia's external position in 2025 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.* After increasing in 2024 amid an improved external environment, the current account surplus slightly increased further in 2025 as an improvement in the services balance, driven by ICT-related services and higher travel receipts, outweighed a decrease in the goods balance. Over the medium term, the merchandise goods balance is projected to continue its decline, driven by strong growth in private consumption and investment. The services balance is projected to benefit from higher tourism over the near term and from data center exports over the medium term, while the income balance is projected to remain broadly flat, leaving the overall current account surplus stable over the medium term.

Potential Policy Responses: In the near-term, exchange rate flexibility should be preserved to facilitate external adjustments that are driven by fundamentals. Over the medium term, policies should be implemented to strengthen social safety nets and public health care, including through a reorientation of fiscal spending. Strengthening social safety nets and swiftly implementing structural reforms under the 13th Malaysia Plan would help reduce external imbalances through lower private sector net savings and stronger domestically driven growth. Structural policies should be implemented to encourage private investment and improve productivity growth. Industrial policy should remain narrowly targeted to specific objectives where market solutions cannot deliver due to the presence of externalities or other market imperfections and should avoid discriminatory measures that distort trade and investment flows. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks.

Foreign Asset and Liability Position and Trajectory

Background. Malaysia's NIIP fluctuated around an average of 1.5 percent of GDP over the past decade. The NIIP decreased in 2025 (2024: −0.6 percent of GDP) as increasing FDI liabilities outweighed higher portfolio assets. Total external debt decreased to 68.9 percent of GDP at end-2025, compared to 70.1 percent at end-2024, and remains manageable. One-third of external debt is ringgit-denominated, hence, not exposed to valuation risks. Short-term external debt, which accounts for 42.7 percent of external debt, is also manageable, as most of it is either in the form of intragroup borrowing (among banks and corporations, and largely stable) or trade credits (backed by export earnings).

Assessment. Malaysia's NIIP is expected to remain steady over the medium term. Malaysia's balance sheet strength, along with exchange rate flexibility and increased domestic investor participation, would help support resilience to a variety of shocks, including outflows associated with external liabilities.

2025 (% GDP)	NIIP: −1.3	Gross Assets: 126.7	Debt Assets: 24.4	Gross Liab.: 128.0	Debt Liab.: 40.4

Current Account

Background. Malaysia's CA surplus has been on a long-term declining trend as the economy transitions to a more domestically driven economy. The declining trend primarily reflects a narrowing private savings-investment gap, driven by an increase in private consumption and investment in percent of GDP terms. The CA surplus increased slightly in 2025 (2024: 1.4 percent of GDP). The CA surplus is projected to remain stable over the medium term, as an improving services balance is offset by further declines in the merchandise trade balance.

Assessment. The EBA CA model estimates a cyclically adjusted CA balance of 1.8 percent of GDP and a norm of 0.3 percent, implying a model-assessed CA gap of 1.5 percent. Staff assess a CA gap in the range of 1–2 percent, with a midpoint estimate of 1.5 percent. Policy gaps explain most of the CA gap, with weaker social safety nets, proxied by health care expenditure, changes in FX reserves, and looser fiscal policies adopted by the rest of the world relative to Malaysia contributing positively (0.8, 0.7, and 0.5 percent, respectively) to the excess surplus, and stronger credit growth contributing negatively (−0.5 percent).

2025 (% GDP)	CA: 1.6	Cycl. Adj. CA: 1.8	EBA Norm: 0.3	EBA Gap: 1.5	Staff Adj.: 0.0	Staff Gap: 1.5

Real Exchange Rate

Background. The ringgit continued its appreciation against the US dollar in 2025, gaining about 9 percent after gaining 2.6 percent in 2024. Movements in the nominal and real effective exchange rate (NEER and REER) were more muted, however, with the ringgit appreciating by about 5 percent year-on-year in both nominal and real terms in 2025. Both the REER and NEER are above their pre-pandemic (end-2019) level, with the REER about 5 percent below the NEER, reflecting lower inflation in Malaysia compared to its trading partners over that period. As of March 2026, the REER was 6.9 percent above the 2025 average.

Assessment. Using a semi-elasticity of 0.51, the staff CA gap implies a REER undervaluation of 2.9 percent in 2025. This implies that, over the medium term, Malaysia's REER needs to appreciate to narrow the CA gap. Staff assess the REER to be undervalued in the range of 1.9–3.9 percent, with a midpoint estimate of 2.9 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Malaysia has experienced periods of significant capital flow volatility, largely driven by portfolio flows in and out of the local-currency debt and equity market, in response to both the change in global financial conditions and domestic factors.

Assessment. Exchange rate flexibility and macroeconomic policy adjustments should continue to play the central role in response to capital flow volatility. CFM measures should be gradually phased out, with due regard for market conditions.

FX Intervention and Reserves Level

Background. Gross international reserves increased to US$125.5 billion at end-2025 from US$116.2 billion at end-2024, in line with staff's recommendation to pursue opportunistic reserve accumulation during risk-on episodes.

Assessment. Based on the IMF's composite reserve adequacy metric (ARA), reserves at end-2025 were 102.9 percent of the ARA metric, lower than the 106.2 percent at end-2024 but above the adequacy threshold of 100 percent. This decline was driven by higher increases in export revenues, broad money, and short-term external debt relative to the increase in gross international reserves. The reserve coverage is projected to equal about 4.5 months of prospective imports, or about 64 percent of short-term debt. There is a role for FXI interventions to address disorderly market conditions (DMC). Integrated Policy Framework analysis suggests that, in the context of Malaysia's shallow FX market, the use of FX interventions may be warranted to smooth large changes in hedging and financing premiums if they generate risks to macroeconomic and financial stability. FXI is not a substitute for needed policy adjustment, however, and should not be used to lean against exchange rate pressures that are driven by fundamentals.

Table 2.17. Mexico: Economy Assessment

Overall Assessment: *The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* Mexico's current account (CA) deficit narrowed to 0.4 percent of GDP, reflecting an improvement in the trade balance. The CA balance is expected to remain broadly at this level in 2026, with a widening trade deficit–reflecting a weaker oil balance and softer foreign demand–and lower remittances expected to be largely offset by an improvement in the primary income balance. Over the medium term, the CA balance is projected to stabilize at around −0.7 percent of GDP.

Potential Policy Responses: 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. Support to strategic sectors, including under Plan Mexico, should be narrowly targeted, focused on addressing market failures, time-bound, and should avoid introducing barriers to trade and investment that are likely to be detrimental to the domestic economy. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks. The floating exchange rate should continue to serve as a shock absorber, with FX interventions employed only in exceptional circumstances to counter disorderly market conditions. The IMF's Flexible Credit Line with Mexico continues to provide an added buffer against global tail risks. Ensuring fiscal sustainability is also essential to support external stability.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP stood at −34.8 percent of GDP at end-2025, compared to −31 percent at end-2024 and −45 percent average during 2019–23. Net flows have increased slightly, but the main driver of change was valuation adjustments stemming from the appreciation of the peso (which led to an increase in the US dollar value of Mexico's external liabilities). In 2025, foreign assets were mostly direct investment (19½ percent of GDP) and international reserves (14 percent of GDP). Foreign liabilities primarily consist of direct investment (48 percent of GDP) and portfolio investment (30¼ percent). Despite the current account remaining in deficit, staff projects the NIIP to gradually improve over the medium term to about −24 percent of GDP due to growth and valuation gains. The latter reflects a positive inflation differential with the US and an external balance sheet with most foreign assets denominated in foreign currency and a sizeable share of foreign liabilities denominated in local currency.

Assessment. The NIIP remains sustainable, with the relatively high share of local-currency denomination in its foreign public liabilities limiting FX risks. Gross foreign portfolio liabilities could be a source of vulnerabilities at times of global financial distress, although the share of foreign holdings in local debt markets has fallen considerably in recent years. Vulnerabilities from exchange rate volatility are moderate, as most Mexican firms with FX debt have natural hedges and actively manage their FX exposures.

2025 (% GDP)	NIIP: −34.8	Gross Assets: 52	Debt Assets: 13	Gross Liab.: 87	Debt Liab.: 35

Current Account

Background. The CA deficit narrowed to about 0.4 percent of GDP in 2025, compared to 0.9 percent of GDP in 2024, primarily reflecting an improvement in the trade balance amid strong manufacturing exports and a weak domestic cyclical position. From a saving–investment perspective, the change was driven by weak domestic investment amid cyclical softness and heightened uncertainty, alongside stable national saving. The stronger trade balance was partly offset by slightly lower secondary income, driven by weaker remittances, and a larger primary income deficit, reflecting higher foreign firms' retained earnings. The CA balance is projected to remain broadly at this level in 2026 and to stabilize at around −0.7 percent of GDP over the medium term.

Assessment. The EBA model estimates a cyclically adjusted CA balance of −0.6 percent of GDP and a CA norm of −0.7 percent of GDP. Based on the CA model, staff estimates the 2025 CA gap at a midpoint of 0.1 percent of GDP, with a range of −0.3 to 0.5 percent of GDP. The overall contribution from identified policy gaps is assessed to be zero, as the negative contribution from the credit gap (reflecting that Mexico's negative credit gap is narrower than those abroad) is offset by positive contributions from other policy gaps, including fiscal policy. While the contribution of Mexico's domestic fiscal policy gap to the CA gap is negative (−0.6 percent of GDP), its overall contribution is positive as Mexico's fiscal policy gap is narrower than the rest of the world.

2025 (% GDP)	CA: −0.4	Cycl. Adj. CA: −0.6	EBA Norm: −0.7	EBA Gap: 0.1	Staff Adj.: 0	Staff Gap: 0.1

Real Exchange Rate

Background. The peso displayed a modest average depreciation of 5 percent vis-à-vis the US dollar in 2025 compared to 2024, although the end-of-period change exhibited an appreciation of 11 percent. Early-in-the-year depreciation reflected trade-related uncertainty, while the appreciation in the second half of the year coincided with a broad-based softening of the US dollar and improving trade prospects for Mexico vis-à-vis competitor countries. The REER depreciated by 4.1 percent on average in 2025, broadly mirroring nominal exchange rate movements. As of March 2026, the REER was about 9.1 percent higher than its 2025 level.

Assessment. Consistent with the staff CA gap, staff assess the REER gap in 2025 to be in the range of −0.9 to 1.7 percent, with a midpoint of 0.4 percent (applying an estimated semi-elasticity of 0.31).

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2025, Mexico recorded net financial account inflows of 0.3 percent of GDP, lower than the level observed in 2024 (0.7 percent of GDP). Net FDI inflows remained stable at about 1.7 percent of GDP, but were partly offset by net portfolio investment outflows (0.8 percent of GDP) and net financial derivatives outflows (0.2 percent of GDP), as well as by reserve accumulation. Other investments registered net inflows of 0.2 percent of GDP.

Assessment. The long maturity of sovereign debt and the relatively high share of local-currency-denominated debt reduce the exposure of government finances to FX depreciation and refinancing risks. The banking sector is resilient, and FX risks of non-financial corporate debt are generally covered by natural and financial hedges.

FX Intervention and Reserves Level

Background. The authorities remain committed to a free-floating exchange rate regime, with the use of FX intervention only in limited occasions of extreme volatility, in line with their policy framework. At the end of 2025, gross international reserves were $256 billion (14 percent of GDP), up from $232 billion at the end of 2024, mainly reflecting the returns on reserves holdings and valuation changes. In 2025, no FX intervention was conducted.

Assessment. Mexico's foreign currency reserves–at 130.5 percent of the ARA metric and 303.5 percent of short-term debt (at remaining maturity)–remain adequate at the end of 2025. The Flexible Credit Line arrangement continues to provide an additional buffer.

Table 2.18. The Netherlands: Economy Assessment

Overall Assessment: *The external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policies.* The Netherlands' role as a global trading hub, financial center, and host country for multinational corporations (MNCs) complicates the external assessment, largely due to associated sizable and volatile primary income flows and a measurement bias of portfolio equity retained earnings. In 2025, the external current account (CA) surplus fell to 7.9 percent of GDP, from 9.1 percent in 2024, due to lower investment income and current official transfers. In the medium term, the surplus is expected to continue to narrow, reflecting higher investment. However, the surplus is expected to remain elevated, on account of still-lower-than-desirable investment and structurally high private saving.

Potential Policy Responses: Bringing the external position more in line with medium-term fundamentals and desirable policies hinges on sustained efforts to raise public investment and foster private investment, 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. Industrial policies should be deployed cautiously and be targeted to where externalities or market failures prevent effective market solutions, while minimizing trade and investment distortions. Additionally, the Netherlands should work with EU partners to deepen the single market and further the savings and investments union to increase growth and resilience and support more robust investment.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP fell to 45.5 percent of GDP in 2025, from 62.1 percent in 2024, mainly reflecting a 16 percentage points (pp) of GDP decline in the net stock of portfolio investment. The decline was primarily driven by large negative exchange rate and price effects only marginally offset by small positive contributions from net transactions and volume changes. FDI remains the largest component of the IIP, accounting for more than half of external assets and liabilities, reflecting the country's role as a global financial center and host country for MNCs. The FDI stock remained stable at 72 percent of GDP in 2025 as in 2024. The net derivatives position deteriorated (by nearly 4 pp). Meanwhile, the net other investment and reserve assets stocks rose modestly (by 1.6 and 1.8 pp, respectively).

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

2025 (% GDP)	NIIP: 45.5	Gross Assets: 878.1	Debt Assets: 221.2	Gross Liab.: 832.6	Debt Liab.: 242.3

Current Account

Background. In 2025, the CA surplus narrowed to 7.9 percent of GDP (8.0 percent of GDP cyclically adjusted), from 9.1 percent in 2024. A modest widening in the goods and services balance by 0.2 pp, to 7.4 percent of GDP, was more than offset by declines in primary and secondary income balance of 1.2 and 0.3 pp, respectively, due to lower investment income and official current transfers. Public net saving declined by 1.0 pp, reflecting the expansionary fiscal stance. Private net saving remained robust as higher household saving largely compensated for a decline in financial corporate saving. Beyond cyclical factors, the Netherlands' role as a trading hub and financial center contributes to a structurally strong headline external position. MNCs based in the Netherlands record profits at their Dutch HQs while channeling a large part of their investment abroad in the form of FDI, keeping nonfinancial corporate saving high. Relatedly, measurement biases of portfolio equity retained earnings overstate the net accumulation of wealth attributed to Dutch residents, an important issue given that foreign ownership of publicly listed firms has exceeded 80 percent in recent years. The CA surplus is projected to remain large at 7.4 percent of GDP in 2026.

Assessment. The EBA CA model estimates a CA norm of 2.9 percent of GDP, against a cyclically adjusted CA surplus of 8.0 percent of GDP in 2025, implying an EBA CA gap of 5.2 percent of GDP. 3.2 pp of the CA gap are attributable to policy gaps, primarily reflecting a relatively tighter fiscal stance and a negative credit gap that remains wider than those abroad. The portfolio retained earnings bias for 2025 is estimated at −1.6 percent of GDP, drawing on granular DNB data that allow for corporate net saving to be attributed across different firm segments, and, in turn, allocated between resident and non-resident owners. Overall, staff assess the CA gap to be in the range of 3.1 to 4.1 percent of GDP, with a midpoint of 3.6 percent of GDP. Up to about 2 pp of this gap reflect strong saving from the second-pillar occupational pension retirement scheme with large coverage, robust replacement ratios, and strict pre-funding requirements. Closing the remaining gap requires recalibrating domestic policy while foreign policy gaps (notably from too-loose fiscal policies in the rest of the world) are addressed.

2025 (% GDP)	CA: 7.9	Cycl. Adj. CA: 8.0	EBA Norm: 2.9	EBA Gap: 5.2	Staff Adj.: −1.6	Staff Gap: 3.6

Real Exchange Rate

Background. The average CPI- and ULC-based REERs appreciated in 2025, by 2.2 and 1.2 percent, respectively, driven by higher inflation and wage increases than trading partners, and currency appreciation. As of March 2026 (February 2026), the CPI-based REER (ULC-based REER) was 0.5 percent (0.6 percent) above its 2025 average.

Assessment. Assuming a semi-elasticity of the CA balance to the REER of 0.64, the staff CA gap of 3.6 percent of GDP implies a REER undervaluation in the range of 4.8 to 6.4 percent, with a midpoint of 5.6 percent. EBA REER model estimates for 2025 indicate an overvaluation in a range from 5.9 percent (level model) to 21.5 percent (index model), largely reflecting unexplained residuals. Consistent with the staff CA gap, staff assess the REER as undervalued by about 4.8 to 6.4 percent, with a midpoint of 5.6 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2025, 22 and 23 percent of gross foreign assets and liabilities respectively were attributable to special-purpose entities, financial vehicles with marginal operational footprints in the Netherlands that contribute to substantial yet volatile and hard-to-interpret capital flows. Separately, a notable part of capital outflows represents the channeling of corporate profits by MNCs abroad as FDI.

Assessment. The strong external position limits vulnerabilities to capital outflows. The financial account deficit is likely to remain as it is primarily the flip side of a CA recording sustained–and structural–surpluses.

FX Intervention and Reserves Level

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

Assessment. Reserves held by the euro area are typically low relative to standard metrics, but the currency floats freely.

Table 2.19. Poland: Economy Assessment

Overall Assessment: *The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The current account (CA) declined to −0.9 percent of GDP in 2025 from 0.3 percent in 2024, driven by robust domestic demand for imports. The CA is projected to further decline slightly to −1.1 percent of GDP in 2026 as EU fund-supported investment ramps up imports. Over the medium term, the CA is projected to remain broadly stable at about −1 percent of GDP.

Potential Policy Responses: Staff recommend significantly increasing public savings and private investment, which would leave the overall savings-investment balance broadly balanced. To increase public savings and safeguard debt sustainability, staff recommend 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. This would help catalyze investment and financing, additional to the Next Generation EU grants, to address infrastructure gaps and support the climate transition. Industrial policies should be deployed cautiously and coordinated at the EU level, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, and minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory

Background. The net international investment position (NIIP) has increased markedly over the last decade from about −60 percent of GDP in 2015 to about −30 percent of GDP in 2025. Liabilities have transitioned from volatile sources of financing such as portfolio flows and short-term financing toward more stable FDI. The NIIP declined to −31.0 percent of GDP in 2025 from −27.5 in 2024. Gross external debt increased to 52.6 percent of GDP in 2025 from 50.3 percent in 2024, mainly due to higher government external borrowing. The NIIP is projected to converge to −23 percent of GDP in the medium term.

Assessment. At its current level and composition, the NIIP remains sustainable. Despite a slight increase in 2025, the level of external debt has declined substantially over the last decade, with rollover risk mitigated by the large share of long-term debt (about 70 percent of total debt) and intercompany lending (about 30 percent of total debt). The level of gross reserves (171 percent of short-term debt) is adequate and further reduces residual rollover risk.

2025 (% GDP)	NIIP: −31.0	Gross Assets: 64.3	Reserve Assets: 26.2	Gross Liab.: 95.3	Debt Liab.: 52.6

Current Account

Background. The CA averaged −0.5 percent of GDP over the last 5 years, driven by volatile domestic and external demand and terms-of-trade changes amid multiple shocks, and persistent increases in service exports. In 2025, the CA declined to −0.9 percent of GDP from 0.3 percent of GDP in 2024. The decline is underpinned by the resilience of domestic consumption and strong investment growth. The CA is expected to further decline slightly to −1.1 percent of GDP in 2026 as the release of EU funds boosts investment. Over the medium term, the CA is projected to remain broadly stable at −1 percent of GDP, with robust private consumption and the impact of the recent significant REER appreciation offsetting structurally low private investment.

Assessment. The EBA CA model estimates a CA norm of −0.4 percent of GDP compared with a cyclically adjusted CA balance of −0.8 percent of GDP in 2025. This implies an EBA model CA gap between −0.8 and 0 percent of GDP, with a midpoint of −0.4 percent of GDP, comprising identified policy gaps of −0.2 percent of GDP and an unexplained residual of −0.2 percent of GDP. Among the policy variables, the negative contribution from the fiscal balance (−0.5 percent) more than offsets the positive contributions from reserves interacted with capital controls (0.2 percent) and the credit gap (0.1 percent).

2025 (% GDP)	CA: -0.9	Cycl. Adj. CA: -0.8	EBA Norm: -0.4	EBA Gap: -0.4	Staff Adj.: 0.0	Staff Gap: -0.4

Real Exchange Rate

Background. The REER has appreciated by about 25 percent over the last 5 years. The annual average of the NEER appreciated by 3.0 percent in 2025 compared to its 2024 average, and the CPI-based REER appreciated by 3.8 percent. As of March 2026, the REER was 0.2 percent below the 2025 average. The zloty remained broadly stable against the euro in 2025 but strengthened further against the USD.

Assessment. Consistent with the staff CA gap, staff assess the REER gap to be in the range of 0.2 to 2.0 percent, with a midpoint of 1.1 percent, using an elasticity of 0.38.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital account balance increased to 0.8 percent of GDP in 2025 from 0.3 percent in 2024, supported by inflows of EU funds. It is projected to further increase to 1.6 percent of GDP in 2026 as the release of EU funds accelerates. The financial account registered a lower net inflow of 1.7 percent of GDP in 2025 from 4.0 percent of GDP in 2024, due to a reduction of other investment liabilities. Inward FDI remained broadly unchanged and outward FDI declined slightly in 2025, resulting in a net inflow of 1.2 percent of GDP from 1.1 percent in 2024.

Assessment. The capital account is projected to remain a significant source of funding for investment, supported by the EU cooperation frameworks. Vulnerability to capital outflows is contained as foreign holdings of domestic government securities have declined significantly since 2016, and the foreign investor base remains diversified. The central bank has adequate tools to manage bouts of capital flow volatility.

FX Intervention and Reserves Level

Background. FX reserves increased to US$272 billion (26 percent of GDP) in 2025 from US$223 billion (24 percent of GDP) in 2024, partly driven by valuation effects. Net reserves, which net out the central bank's repo operations and government FX deposits, rose to US$257 billion (25 percent of GDP) in 2025 from US$197 billion (21 percent of GDP) in 2024. While the central bank briefly intervened in foreign exchange markets in March 2022 amid disorderly market conditions at the beginning of the war in Ukraine, no FX intervention has been conducted since 2023. The zloty is considered free floating.

Assessment. At about 161.3 percent of the IMF's reserve adequacy metric, Poland's level of gross reserves is adequate to guard against external shocks and disorderly market conditions.

Table 2.20. Russia: Economy Assessment

Overall Assessment: *Russia's external position in 2025 appears to have been moderately weaker than the level implied by medium-term fundamentals and desirable policies based on the EBA current account model and available data.* As has been the case in recent years, the models do not fully account for Russia's idiosyncratic situation and data uncertainties. Further, the range of uncertainty surrounding the projections remains exceptionally high in the context of the conflict in Ukraine and sanctions and the ongoing war in the Middle East.

Foreign Asset and Liability Position and Trajectory

Background. Russia's NIIP remained broadly stable at 43.3 percent of GDP in 2025. Gross assets declined by 1.0 percentage point of GDP to 69.8 percent of GDP, continuing the move away from the peak of 105 percent of GDP in 2020, reflecting a decline in FDI and portfolio investment. Gross liabilities fell to 26.5 percent of GDP, compared to 27.3 percent in 2024. The share of total external debt held in domestic currency rose to 43.4 percent in 2025, up from 36.6 percent in 2024, and there were no obvious maturity mismatches between gross asset and liability positions. The share of non-resident holdings of domestic government debt declined to 3 percent by end-2025. The NIIP is 8.5 percentage points higher than in 2020, reflecting sustained current account surpluses that offset negative valuation effects.

Assessment. Positive but declining current account surpluses were insufficient to continue bolstering Russia's NIIP or its external buffers. Despite low external vulnerabilities, a share of international reserves remains immobilized due to sanctions, and reserves management in traditional reserve currencies is hampered.

2025 (% GDP)	NIIP: 43.3	Gross Assets: 69.8	Reserve Assets: 29.3	Gross Liab.: 26.5	Debt Liab.: 13.0

Current Account

Background. Russia's CA surplus declined by almost one-third in 2025, to 1.7 percent of GDP, as lower oil and gas export revenues, in a context of ongoing sanctions and abundant global oil supply, contributed to a narrowing of the trade surplus and a widening of the fiscal deficit to 2.6 percent of GDP. Export controls and secondary sanctions, coupled with declining investment, fueled the compression of imports of investment goods. Increased foreign travel by Russian nationals contributed to a widening services deficit. The CA is projected to rebound to 2.9 percent of GDP in 2026, bolstered by higher oil prices due to the war in the Middle East coupled with sanctions waivers, although the projection is subject to high geopolitical and data uncertainty.

Assessment. The EBA CA model estimates a cyclically adjusted CA surplus of 2.3 percent of GDP for 2025 and a CA norm of 3.4 percent of GDP, placing the CA gap midpoint at −1.1 percent of GDP. Identified policy gaps account for 0.0 percentage points–with contributions of private credit offsetting those of the fiscal balance and change in reserves–leaving the unexplained residual at −1.1 percentage points. Importantly, the range of uncertainty surrounding the CA gap estimates remains large due to the difficulty of estimating the cyclically adjusted current account and the current account norm in the context of significant structural changes and evolving sanctions that have a direct impact on external balances.

2025 (% GDP)	CA: 1.7	Cycl. Adj. CA: 2.3	EBA Norm: 3.4	EBA Gap: −1.1	Other Adj.: 0	Staff Gap: −1.1

Real Exchange Rate

Background. The ruble strengthened by 16.7 percent in 2025 in nominal effective terms, in part due to sanctions-induced import compression and tight monetary conditions in the first half of the year. Despite a sizable cumulative reduction of the Bank of Russia (BoR) policy rate since mid-2025, the rate remained high at 16 percent as of end-2025. Additionally, the authorities eliminated repatriation and surrender requirements for the largest exporters and eased restrictions on some cross-border transfers. The REER appreciated by 14.5 percent in 2025 amid considerable volatility. As March February 2026, the REER is 1.7 percent above the 2025 average.

Assessment. The EBA REER index models suggest a REER undervaluation of 2.4 percent, while the EBA REER level model points to a REER undervaluation of 29.8 percent, both for 2025. Consistent with the CA gap, staff assess the REER gap to be in the range of 2.2 percent and 11.8 percent, with a midpoint of 7.0 percent (overvalued), assuming an estimated elasticity of 0.15. However, these models do not fully account for Russia's idiosyncratic situation, as illustrated by the large residual.

Capital and Financial Accounts: Flows and Policy Measures

Background. Capital control measures introduced in 2022 have been subsequently relaxed, with restrictions on FX repatriation and surrender requirements eliminated in 2025 and limits on cross border transfers lifted for Russian nationals and friendly-country residents. Despite the loosening of restrictions, net private capital outflows declined from 2.3 percent of GDP in 2024 to 1.8 percent in 2025.

Assessment: Russia's large FX reserves and floating exchange rate regime continue to help absorb shocks. The remaining restrictions on cross-border transfers curtailed capital outflows and helped preserve buffers.

FX Intervention and Reserves Level

Background. Official reserves reported by the authorities increased by $145.7 billion to $754.8 billion in 2025 (of which about $300 billion remain immobilized) due mainly to revaluation effects. Sanctions continue to constrain reserves accumulation. The BoR continues to stress that it conducts FX operations to safeguard financial stability. All FX operations in 2025 were framed as fiscal-rule (National Wealth Fund) mirroring and not discretionary intervention. As previously announced, from January 2025 onward the BoR resumed regular FX sales and purchases linked to the budget rule. By December 2025, the BoR lifted measures on FX transfers abroad for residents and non-residents from friendly jurisdictions, reflecting stability in the foreign exchange market.

Assessment. As of end-2025, international reserves stood at 379 percent of the IMF's reserve adequacy metric and 229 percent of the ARA metric excluding immobilized reserves.

Table 2.21. Saudi Arabia: Economy Assessment[1]

Overall Assessment: *The external position in 2025 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* The external balance sheet remains strong despite a current account that shifted to a larger deficit of 2.6 percent of GDP. Reserves remain adequate according to standard IMF metrics, although public saving is not sufficient from an intergenerational equity perspective. Strong domestic absorption, including investment-driven imports associated with the transformation agenda, is expected to keep the current account in deficit over the medium term. The central government's non-oil primary balance to non-oil GDP ratio is expected to be on a continuously improving trend, from −23.3 percent in 2025 to −17.2 percent in 2031. Given the economy's structure, external adjustment will be driven primarily by fiscal policy. The pegged exchange rate continues to provide a credible policy anchor.

Potential Policy Responses: Over the medium term, continued fiscal consolidation by the public sector, including through enhanced revenue mobilization and energy price reforms, would help raise public saving. This, together with sustained implementation of an ambitious structural reform agenda to diversify the economy and boost nonoil exports, would help bring the current account closer to the norm. Industrial policies should remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, while avoiding policies that could create distortions in the allocation of resources and in trade and investment decisions. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks.

Foreign Asset and Liability Position and Trajectory

Background. Saudi Arabia's net international investment position (NIIP) decreased to 56.6 percent of GDP at the end of 2025, down from 62.3 percent of GDP in 2024, mainly driven by increased external inflows to finance a widening current account deficit. External debt increased to 37.6 percent of GDP in 2025, up from 29.5 percent in 2024, with its share in gross liabilities rising to 54 percent, from 50 percent in 2024. Based on the composition of external assets, portfolio and other investments, reserves, and FDI currently account for around 55.2 percent, 28.6 percent, and 16.1 percent of total external assets, respectively. In the medium term, the NIIP is expected to continue to decline, to about 38 percent of GDP by 2031, in line with sustained external funding needs to support the economic transformation under Vision 2030.

Assessment. Despite the projected decline in the NIIP, the external balance sheet remains strong. Substantial accumulated assets represent both protection against vulnerabilities from oil price volatility and a store of exhaustible resource revenues for future generations.

2025 (% GDP)	NIIP: 56.6	Gross Assets: 126.2	Res. Assets: 36.1	Gross Liab.: 69.6	Debt Liab.: 19.2

Current Account

Background. The current account deficit rose to 2.6 percent of GDP in 2025, up from 1.3 percent in 2024.[1] This increase was mainly driven by lower oil export revenue, as the average oil export price declined to $70.4/bbl, and by higher goods imports buoyed by continued investment and consumption growth, partly offset by a 17 percent surge in non-oil exports. Crude oil production averaged 9.5 million barrels per day in 2025, with lower oil prices weighing on oil exports, which declined to USD 213.7 billion. The current account deficit is projected to narrow to –0.3 percent of GDP in 2026 as higher oil prices more than offset the impact of lower export volumes on oil export receipts, before widening to around 3 percent of GDP by 2031, reflecting the medium-term oil price outlook and sustained investment-driven imports. Going forward, private investment is expected to grow thanks to domestic reforms, while private saving moderates as consumption picks up.

Assessment. Staff estimate a current account gap of −1.11 percent of GDP using the EBA-Lite CA model.[2] The cyclically adjusted current account is estimated at −1.91 percent of GDP, and the current account norm at −0.80 percent of GDP. The overall assessment is subject to significant model uncertainty due to the idiosyncratic characteristics of Saudi Arabia's economy. Given Saudi Arabia's reliance on oil, the EBA-lite commodity module is also applied, with the Consumption Allocation Rules suggesting a current account gap of −3.9 percent of GDP under the constant real annuity rule and −6.5 percent of GDP under the constant real per capita annuity allocation rule. The Investment Needs Model suggests a current account gap of −3.65 percent of GDP. The estimated current account gap of −1.11 percent of GDP has an estimated range from −3.11 to 0.89 percent of GDP. The range for the gap is calculated using the standard error of Norway (2 percent), a comparable oil-rich economy in the EBA sample.[3]

2025 (% GDP)	CA: −2.6	Cycl. Adj. CA: −1.91	EBA Norm: –	EBA Gap: –	Staff Adj.: –	Staff Gap: −1.11

Real Exchange Rate

Background. The riyal has been pegged to the US dollar at a rate of 3.75 since 1986. While the nominal effective exchange rate remained relatively stable, the real effective exchange rate depreciated by about 0.7 percent in 2025, primarily driven by inflation differentials with trading partners. As of March 2026, the real effective exchange rate remained close to its 2025 year-end level.

Assessment. Based on the EBA-lite CA model, staff assess the REER gap as implying an overvaluation of 6.7 percent, while the EBA-lite REER model suggests an overvaluation of 18.3 percent. Exchange rate movements have a limited impact on Saudi Arabia's competitiveness in the short term, as most of its exports are oil or oil-related products that are denominated in dollars. There is limited substitutability between imports and domestically produced products, which in turn have significant imported labor and intermediate-input content.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account recorded net inflows of $71 billion in 2025, following net inflows of $29.3 billion in 2024. This trend is mainly driven by a rise in external financing–with growing portfolio and other investment inflows strengthening and net incurrence of other liabilities–to support domestic investment and consumption. This is complemented by a moderation in the accumulation of foreign assets by the sovereign wealth fund (PIF) and the national oil company (Aramco). Official reserve assets rose by about $23 billion in 2025, reaching $460 billion by year-end.

Assessment. A lack of detailed information on the nature of financial flows in Saudi Arabia complicates the analysis of its financial account. The strong reserve position and the sizable assets of the PIF limit risks and vulnerabilities associated with capital flows.

FX Intervention and Reserves Level

Background. Central bank's official net foreign assets stood at $436.6 billion at end-2025, equivalent to 34.2 percent of GDP, about 13 months of imports, and 176 percent of the ARA metric, compared to $414.5 billion in 2024. In addition to central bank's reserves, which are expected to stabilize at above 13 months of imports over the medium term, the PIF also holds significant foreign assets abroad.

Assessment. Reserves play a dual role: They are saving for both precautionary motives and future generations. Reserves are adequate for precautionary purposes, as measured by the IMF's metrics. Significant buffers are also available through external assets held by the PIF and Aramco. Nevertheless, fiscal consolidation is needed over the medium term to strengthen the current account and increase saving for future generations.

Table 2.22. Singapore: Economy Assessment

Overall Assessment: *The external position in 2025 was substantially stronger than the level implied by medium-term fundamentals and desirable policies.* The assessment is subject to a wide range of uncertainty, reflecting Singapore's very open economy and status as a global trading and financial center. Over the medium and long term, the CA surplus is projected to narrow gradually alongside higher public spending, stronger social safety nets, and an increase in household consumption as the share of the prime working-age population actively saving for retirement declines.

Potential Policy Responses: Over the medium and long term, Singapore's economy is expected to undergo structural transformation in light of a rapidly aging population and a transition to a green and digital economy. Higher public investment to address these issues, including spending on health care, green and other physical infrastructures, and human capital, as well as ongoing reforms to strengthen social safety nets, would help reduce external imbalances over the medium and long term by reducing net saving in both the public and private sectors of the economy. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP stood at 179.1 percent of GDP in 2025, up from 166.0 percent of GDP in 2024 but below the average level of 219.6 percent of GDP in 2019–24. Gross assets and liabilities are high; over half of foreign liabilities are in FDI (54.7 percent) and about a fifth are in the form of currency and deposits. As in the past, the current account (CA) surplus was the main driver of the change in the NIIP in 2025. Valuation effects accounted for the remaining 4.9 percentage points of the change, largely reflecting mechanical differences due to exchange rate adjustments. CA and growth projections imply that the NIIP will rise over the medium and long term. The large positive NIIP in part reflects the private savings accumulated in foreign assets for old-age consumption, which are expected to be gradually unwound over the long term. **Assessment.** Large gross non-FDI liabilities (434.8 percent of GDP in 2025)–predominantly cross-border deposit taking by foreign bank branches–present some liquidity risks, but these are mitigated by large gross asset positions, banks' large short-term external assets, and the authorities' close monitoring of banks' liquidity risk profiles. Further, Singapore has large official reserves and other official liquid assets.

2025 (% GDP)	NIIP: 179.1	Gross Assets: 1138.8	Res. Assets: 67.9	Gross Liab.: 959.6	Debt Liab.: 323.2

Current Account	**Background.** The CA surplus was 16.7 percent of GDP in 2025, down from 17.2 percent in 2024. This mainly reflects a decline in the goods surplus from a larger increase in goods imports compared to the increase in goods exports. The CA balance is below the average of 17.6 percent over the decade from 2015 to 2024 and lower than the post-global-financial-crisis peak of 22.9 percent in 2010. As in the past, Singapore's large CA balance reflects significant private sector saving surpluses, which in 2025 manifested as a strong goods balance and a smaller surplus in the services balance that is partly offset by a deficit in the income account balance.[1] Structural factors and policies that boost saving, such as Singapore's demographics, high real GDP per capita, status as a financial center, and consecutive fiscal surpluses in most years–combined with a mandatory defined-contribution pension program (whose assets were about 83.8 percent of GDP in 2025)–are the main drivers of Singapore's strong external position. The CA surplus is projected to narrow gradually over the medium and long term on the back of increased infrastructure and social spending, amid an upward trend in public investment spending that began in 2020 to address aging infrastructure and public housing, climate transition costs, structural transformation amid technological change, and rising health care costs due to Singapore's rapidly aging population. In 2025, public saving increased due to a higher fiscal surplus and private saving fell, resulting in a small increase in gross national savings of 0.1 percent of GDP. **Assessment.** Nonstandard factors make a quantitative assessment of Singapore's external position difficult and subject to significant uncertainty. Guided by the EBA framework, staff assess the 2025 CA gap to be in the range of 5.6–9.6 percent of GDP, with a midpoint of 7.6 percent.[2] The identified policy gap of 2.0 percent of GDP in 2025 reflects a more contractionary fiscal policy adopted in Singapore compared to the rest of the world. Measurement issues and structural factors help explain Singapore's CA gap residual. In particular, the pensions toolkit suggests that Singapore's pension system accounts for about 1.6 percent of GDP of the residual; inflation bias in NFA measurement could overstate the measured CA balance by about 1.5–5 percent of GDP; and excluding retained earnings on portfolio equity could understate it by about 3 percent of GDP, while acknowledging that the estimates are highly uncertain. Based on staff's analysis of the drivers of private consumption, other factors that explain Singapore's CA gap residual include a compressed labor share associated with its corporate-dominated, multinational-heavy economy, its role as a financial center, and rapid aging.

2025 (% GDP)	CA: 16.7	Cycl. Adj. CA: 17.0	EBA Norm:	EBA Gap:	Staff Adj:	Staff Gap: 7.6

Real Exchange Rate	**Background.** The Singaporean dollar has appreciated notably since 2020. The REER appreciated by 0.6 percent in 2025, reflecting disinflation in Singapore relative to trading partners that offset appreciation of the NEER by 1.3 percent. This followed an appreciation of the REER by 16.8 percent and an appreciation of the NEER by 12.1 percent, both cumulative, between 2020 and 2024. As of March 2026, the REER has appreciated by 1.1 percent relative to its 2025 average. **Assessment.** Consistent with the staff CA gap, staff assess the REER to be undervalued in the range of 11.2–19.2 percent, with a midpoint of 15.2 percent in 2025 (applying an estimated elasticity of 0.5).[3]
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Singapore has an open capital account. As a trade and financial center in Asia, changes in market sentiment can affect Singapore significantly. Increased risk aversion in the region, for instance, may lead to inflows to Singapore given its status as a regional safe haven, whereas global stress may lead to outflows. The financial account balance reflects in part reinvestment abroad of income from official foreign assets, as well as sizable net inward FDI and smaller but more volatile net bank-related flows. In 2025, the capital and financial account featured lower outflows of 12.2 percent of GDP (outflows averaged 15.9 percent over 2021–24). **Assessment.** The financial account is likely to remain in deficit as long as the current account surplus remains large.
FX Intervention and Reserves Level	**Background.** With the NEER as the intermediate monetary policy target, intervention is undertaken to achieve inflation and output objectives. Therefore, net foreign exchange (FX) purchases are endogenous to Singapore's monetary policy framework. Aggregate data on foreign exchange intervention operations has been published since April 2020 (with a 6-month lag). In 2025H1, net FX purchases increased to US$14 billion, down from US$25.1 billion in 2024H1 but higher than the level of interventions in 2024H2 of US$3.7 billion. As a financial center, prudential motives call for a large NIIP buffer. Official reserves held by MAS reached US$409 billion (68 percent of GDP) in 2025. **Assessment.** In addition to FX reserves held by the Monetary Authority of Singapore (MAS), Singapore also has access to other official foreign assets managed by Temasek and GIC.[4] The current level of official external assets appears adequate, even after considering prudential motives, and there is no clear case for further accumulation for precautionary purposes.

Table 2.23. South Africa: Economy Assessment

Overall Assessment: *The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA deficit declined to 0.5 percent of GDP in 2025 from 0.7 percent in 2024. The CA deficit is projected to widen modestly to 0.9 percent of GDP in 2026 and stabilize around 1.8 percent of GDP over the medium term, driven by recovering imports.

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

Foreign Asset and Liability Position and Trajectory	**Background.** South Africa's NIIP reached 28 percent of GDP at end-2025, slightly below the 2024 level (but above the 26.5 percent average during 2020–24). While foreign assets increased (across all asset types) to 145.4 percent of GDP, foreign liabilities rose faster, reaching 117.4 percent of GDP, on account of large inflows of portfolio liabilities and valuation adjustments. As a result, gross external debt rose to 46.9 percent of GDP at end-2025 with short-term external debt reaching 13.6 percent of GDP. The positive NIIP position is expected to moderate over the medium term as the CA deficit gradually widens. **Assessment.** The level and composition of NIIP and gross external debt indicate that South Africa's external position is sustainable. Risks from South Africa's large gross external liabilities are mitigated by limited sectoral foreign exchange mismatches, the large foreign asset position (including gross direct and portfolio investment holdings), and the liability composition (mostly in equities, with about half of external debt being rand denominated).

2025 (% GDP)	NIIP: 28	Gross Assets: 145.4	Debt Assets: 19.3	Gross Liab.: 117.4	Debt Liab.: 46.9

Current Account	**Background.** The CA deficit declined to 0.5 percent of GDP in 2025–reflecting modest improvements in the income and current transfer balances–below the 2024 level of 0.7 and well below the pre-pandemic (2009–19) average of 3.2 percent of GDP. The CA deficit was largely driven by deficits in services, income, and transfers balances, which more than offset the goods trade balance surplus. It reflects public sector dissaving, which more than offsets the positive private saving-investment balance. Over the medium term, the CA deficit is projected to widen gradually to about 1.8 percent of GDP, driven by rising private investment that more than offsets lower public sector dissaving. **Assessment.** Staff estimates a CA gap in the range of 0.4 to −1 percent of GDP in 2025 (−0.3 percent midpoint estimate). The cyclically adjusted CA is estimated at −0.6 percent of GDP in 2025, relative to a model-based EBA CA norm of −0.3 percent. This results in a staff CA gap of −0.3 percent of GDP, which is largely explained by structural factors outside of the model.

2025 (% GDP)	CA: −0.5	Cycl. Adj. CA: −0.6	EBA Norm: −0.3	EBA Gap: −0.3	Staff Adj.: 0	Staff Gap: −0.3

Real Exchange Rate	**Background.** Following a 3.9 percent appreciation of the average CPI-based REER in 2024, the REER appreciated by a further 1.6 percent in 2025, largely reflecting appreciation of the nominal exchange rate (NEER). As of March 2026, the REER further appreciated by 9.3 percent from the 2025 average, reflecting NEER appreciation during this period. However, despite appreciating in recent years, the REER (April 2025–March 2026 average) has depreciated by close to 4 percent since its 2019 average level. **Assessment.** Based on the CA model, and taking model uncertainties into consideration, staff assess a REER gap of −2.2 to 4.6 percent (midpoint of 1.2 percent, applying an estimated elasticity of 0.24). The REER-based regression points to a gap ranging between −8.8 percent (level approach) and −19.0 percent (index approach).
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The balance on the financial account improved marginally from −0.9 percent of GDP in 2024 to −0.8 percent of GDP in 2025. Net FDI inflows nearly halved to 0.4 percent of GDP in 2025 from 0.9 percent in 2024, while net portfolio flows rose to 0.4 percent (inflow) compared to −0.3 percent (outflow) in 2024. Derivative net inflows declined to −0.3 percent of GDP from 0.1 percent in 2024, while other net investment increased to 0.3 percent of GDP in 2025 from 0.2 percent in 2024. Gross external financing needs are estimated at 15.4 percent of GDP in 2025, up from 15.0 percent in 2024, driven by an uptick in public and private sector amortizations. **Assessment.** Risks from South Africa's traditionally large reliance on non-FDI inflows for external financing are mitigated by relatively small currency mismatches in the economy, the large equity liability composition of the NIIP, and its large and liquid domestic investor base. This market depth tends to reduce asset price volatility during periods of market stress.
FX Intervention and Reserves Level	**Background.** South Africa's exchange rate regime is classified as floating. Central bank intervention in the FX market is rare, reflecting reserve management operations, rather than efforts to influence the exchange rate. International reserves were $77.1 billion (18.0 percent of GDP) at end-2025, up from $65.5 billion at end-2024, largely reflecting valuation gains on gold and US dollar assets. **Assessment.** Reserves at end-2025 covered about 6.4 months of imports, represented 133 percent of short-term debt, and comprised about 88 percent of the IMF's composite ARA reserve adequacy metric (97.8 percent when capital controls are taken into account). Swap arrangements with key central banks (US, China, BRICS) and the large net foreign asset position add to South Africa's external buffers. Continuing to rely on the flexible exchange rate and maintaining an adequate level of international reserves within the recommended range (100–150 percent) can further support South Africa's resilience to shocks.

Table 2.24. Spain: Economy Assessment

Overall Assessment: *The external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policies.* After shrinking for over a decade, the large negative NIIP deteriorated moderately in 2025 as negative valuation effects more than offset the CA surplus. Further improving the NIIP will require sustaining CA surpluses in the coming years, warranted by the large negative NIIP. While the CA balance will exceed the norm in the near term, this gap is projected to shrink in the medium term as tourism inflows continue to slow and a reduction in the household saving rate sustains consumption and non-energy imports.

Potential Policy Responses: The projected CA surplus path will keep reducing remaining vulnerabilities associated with the negative NIIP. A similar CA path could be achieved with a better policy mix that keeps the saving-investment balance and thereby the projected CA path broadly unchanged but better supports domestic growth and fiscal sustainability. Specifically, sustained fiscal consolidation efforts would rebuild fiscal space and raise public saving, thus increasing the CA and the NIIP. This could be offset by the negative CA impact of the growth-enhancing structural reforms recommended by staff, which would boost investment. Such reforms 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 progress toward the EU savings and investment union, and support innovation by young firms by redesigning the R&D tax credit and streamlining red tape. Any industrial policy initiative should address market failures that might prevent effective market solutions, be coordinated at the EU level, and minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP decreased in 2025 to −44.8 percent of GDP from −41 percent in 2024. This trajectory reflects a larger increase in gross liabilities compared to that in assets (as a percentage of GDP). Gross liabilities–of which nearly 64 percent correspond to external debt–increased to 254.3 percent of GDP by the end-2025. Most of the negative NIIP is attributed to the general government and the central bank, with TARGET2 liabilities amounting to 24.5 percent of GDP by December 2025.[1] The NIIP is projected to improve in the medium term, supported by sustained CA surpluses and the positive–though temporary–impact of Next Generation EU (NGEU) funds disbursements on the capital account until 2026.

Assessment. Despite its projected improvement, the still large negative NIIP comes with external vulnerabilities, including those from large gross financing needs and risks of adverse valuation effects, which could be affected by the evolution of global financial conditions and policy responses. Mitigating factors include the rather long maturity of outstanding sovereign debt (averaging almost eight years) and the limited share of debt denominated in foreign currency (11.0 percent of total external debt).

2025 (% GDP)	NIIP: −44.8	Gross Assets: 209.5	Debt Assets: 99.7	Gross Liab.: 254.3	Debt Liab.: 64.3

Current Account

Background. The CA surplus declined slightly from 3.2 percent of GDP in 2024 to 2.9 percent of GDP in 2025, as the acceleration of domestic consumption and investment weakened the saving-investment balance. Concomitantly, the trade surplus weakened on slowing exports and stronger imports, reflecting import-intensive domestic demand. In the medium term, the CA surplus is projected to gradually shrink further as tourism inflows continue to slow while the growth of non-energy imports remains strong, supported by the shift in the economy's growth drivers toward domestic demand–particularly consumption, whose dynamism will lower household and aggregate saving.

Assessment. The 2025 cyclically adjusted CA balance is 3.2 percent of GDP. Staff assess the CA norm to be between 0.2 and 1.4 percent of GDP, with a midpoint of 0.8 percent of GDP, in line with the EBA CA model. The difference between the cyclically adjusted CA and the CA norm yields a CA gap in the range of 1.9 to 3.0 percent of GDP, with a midpoint of 2.4 percent of GDP. The overall estimated contribution of identified policy gaps is 0.8 percent of GDP, with a large positive contribution from low credit growth relative to the rest of the world (1.0 percent of GDP). The remaining positive residual may reflect subdued firm investment due to the elevated global and Spain-specific policy uncertainty (see 2025 Selected Issues), as well as a structural shift in global demand toward services that has particularly benefitted Spain's tourism and non-tourism services sectors, temporarily sustaining external surpluses while the real exchange rate adjusts.

2025 (% GDP)	CA: 2.9	Cycl. Adj. CA: 3.2	EBA Norm: 0.8	EBA Gap: 2.4	Staff Adj.: 0.0	Staff Gap: 2.4

Real Exchange Rate

Background. In 2025, Spain's CPI- and ULC-based REER appreciated vis-à-vis their 2024 averages by 1.7 and 3.2 percent, respectively. This followed a period of sustained REER depreciation since 2009, which almost fully reversed the large appreciation during 1999–2008. As of March 2026, the CPI-based REER was 0.9 percent above the 2025 average.

Assessment. The staff CA gap implies a REER gap of −8.7 percent in 2025 (with an estimated elasticity of 0.28 applied). The EBA REER index and level models suggest instead an overvaluation of 4.7 percent and 19.7 percent for 2025, respectively, mostly driven by large unexplained residuals. Consistent with the staff CA gap, staff assess the REER to be moderately undervalued, with a midpoint of 8.7 percent and a range of uncertainty of ±2.1 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital account surplus has remained high due to flows associated with NGEU funds. The financial account surplus declined to 4.0 percent of GDP in 2025 from 5.3 percent of GDP in 2024, largely driven by the Bank of Spain's balance sheet, partly offset by "Other Investment" outflows.

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

FX Intervention and Reserves Level

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

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

Table 2.25. Sweden: Economy Assessment

Overall Assessment: *The external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policies.* The assessment is subject to high uncertainty, given the large errors and omissions in the Balance of Payments statistics. The current account surplus fell to 6.1 percent of GDP in 2025 from 6.9 percent in 2024. The surplus would continue to gradually decrease to about 4¾ percent of GDP over the medium term, as the economic recovery consolidates on stronger domestic demand, while exports slow in line with longer-term trends.

Potential Policy Responses: The policy mix, in particular 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. Deepening the EU single market would contribute to further boosting private investment, raising productivity and resilience by adding scale, diversification, and improved risk sharing, which in turn would support external rebalancing. In line with Sweden's market-based approach, industrial policies, if implemented, should be deployed cautiously and remain targeted to specific objectives where externalities or market failures prevent effective market solutions. These policies should be coordinated at the EU level and minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP fell to 55.4 percent of GDP in 2025 from 68 percent in 2024, reflecting the appreciation of the krona and a smaller current account surplus. Gross liabilities rose to 279.8 percent of GDP in 2025, with more than half being gross external debt (157.5 percent of GDP). Other financial institutions hold the bulk of net foreign assets (91 percent GDP) followed by social security funds (23.5 percent of GDP), households (21.5 percent of GDP), and the Riksbank (7.9 percent of GDP), while non-financial corporations (46.4 percent of GDP), monetary financial institutions (36.3 percent of GDP) and the general government (4.5 percent of GDP) are net external debtors. Sweden is a net creditor in foreign currency and a net debtor in domestic currency.

Assessment. The NIIP is expected to grow in line with nominal GDP. Sweden's foreign currency assets are almost three times as high as its foreign currency liabilities, providing a hedge against currency valuation changes. These estimates are subject to uncertainty as NIIP data typically include errors and omissions averaging about 1.8 percent of GDP in the past decade. Although rollover risks of external debt (which include banks covered bonds) poses some vulnerabilities, these are mitigated by banks' ample liquidity and large capital buffers. The NIIP level and trajectory do not raise sustainability concerns.

2025 (% GDP)	NIIP: 55.4	Gross Assets: 335.2	Debt Assets: 174.6	Gross Liab.: 279.8	Debt Liab.: 144.9

Current Account

Background. The 2024 CA surplus was revised down from 7.4 percent of GDP in last year's *External Sector Report* to 6.9 percent, stemming from revisions related to imports of services (−0.9 percent of GDP) and investment income (0.5 percent of GDP). The 2025 current account is estimated to have fallen to 6.1 percent of GDP, reflecting a smaller trade surplus in goods and a widening trade deficit in services. Primary income contributed positively to the overall surplus, while the secondary income deficit widened. In 2025, gross saving fell by 0.4 percentage points to 31.6 percent of GDP, while gross investment increased by 0.4 percentage points to 25.5 percent of GDP; the fall in gross saving is driven by the private sector. Sweden continues to be a net oil importer with the oil deficit estimated at 0.8 percent of GDP. Over the medium term, the current account surplus is anticipated to decline to 4¾ percent of GDP, as domestic absorption increases.

Assessment. The cyclically adjusted CA is estimated at 5.8 percent of GDP in 2025, 4 percentage points above the estimated EBA CA norm of 1.8 percent of GDP. Staff assess the CA gap at 4 percent of GDP in 2025, with a model-estimated range of 3.6 to 4.4 percent of GDP (using the model's standard error of +/− 0.4 percent of GDP). Identified policy gaps explain 2.2 percentage points of this gap, with fiscal policy, which was less expansionary than in the rest of the world, accounting for 0.6 percentage points, and the negative credit gap contributing another 1.7 percentage points. Staff considers that the rest of the CA gap can be explained by factors not captured by the EBA model, including Sweden's mandatory contributions to fully funded pension schemes and a strong regulatory environment. Complementary EBA tools suggest that each of these factors may contribute about 1 percentage point of GDP to the CA gap.

2025 (% GDP)	CA: 6.1	Cycl. Adj. CA: 5.8	EBA Norm: 1.8	EBA Gap: 4.0	Staff Adj.: –	Staff Gap: 4.0

Real Exchange Rate

Background. In 2025, the krona appreciated by 3.9 percent in real effective terms (OECD-ULC based) relative to 2024. The 2025 CPI-based REER appreciated by 3.0 percent on average. The ULC-based REER index has depreciated by 13 percent since the krona was floated in 1993 and was about 12 percent below its 30-year average in 2025. As of March 2026, the REER was 1.5 percent above its 2025 average.

Assessment. The staff CA gap implies a REER gap of −9.8 percent (applying an estimated elasticity of −0.41), with a range between −10.8 and −8.8. percent (using the model's standard error of ±0.4 percent of GDP). The REER index and level models suggest a gap of −10.7 percent and −15.2 percent, respectively, for 2025. Overall, the staff assess the krona to be undervalued between 6 and 18.7 percent, with a midpoint of 12.4 percent as guided by the ULC-based REER index and its standard deviation.[1]

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2025, Sweden's financial account swung to −1.5 percent of GDP, reflecting a broad-based weakening across categories of flows, and reflecting capital market-driven volatility. Direct investment recorded net lending of −1.7 percent of GDP, as equity capital and intercompany loan flows slowed down despite continued positive reinvested earnings. Net portfolio investment moderated to 3 percent of GDP from a historic high of 10.6 percent of GDP in 2024, while other net investment and financial derivatives posted net outflows of 1.8 and 1.4 percent of GDP, respectively. Overall, the composition shifted toward more volatile portfolio and banking flows, increasing exposure to changes in global financial conditions. However, large errors and omissions (−7.7 percent of GDP) suggest that actual financial inflows were substantially higher than those captured in the preliminary statistics.

Assessment. Large capital flow movements are common in countries with sizable financial sectors such as Sweden, where banking sector assets amount to nearly three times GDP. Associated risks are mitigated by strong financial regulation and supervision and a sound financial system. Consistent with this, the 2023 FSAP assessment and stress tests by the authorities find that the banking system would remain resilient to large liquidity shocks, despite banks' substantial reliance on wholesale funding.

FX Intervention and Reserves Level

Background. The exchange rate is de facto free floating. In 2025, official reserve assets rose by US$11.7 billion to US$74.9 billion. In turn, the value of foreign currency reserves (which excludes gold and SDR holdings and the reserve position in the IMF) increased by US$3.8 billion to US$45.3 billion, equivalent to 15 percent of the short-term external debt of monetary and financial institutions, and about three months' worth of imports. FX hedges, through which the Riksbank commits to deliver FX to market counterparties upon maturity unless rolled over, amount to approximately US$10.3 billion.

Assessment. Despite its free-floating exchange rate regime, Sweden should maintain adequate foreign reserves in view of the high dependence of commercial banks on wholesale funding in foreign currency, and potential for disruptions in such funding during episodes of global financial distress. The Riksbank has a standing swap line with the European Central Bank (€10 billion), and a standing agreement with the National Debt Office, enshrined in the Riksbank Act, allowing it to borrow foreign currency equivalent of up to 5 percent of GDP, with the possibility of additional borrowing if needed.

Table 2.26. Switzerland: Economy Assessment

Overall Assessment: The *external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The current account surplus, standing at 7.1 percent in 2025, is expected to narrow in 2026 to 6.8 percent of GDP as lower global demand and franc strength weaken exports. As in previous years, the assessment is subject to high uncertainty due to complex measurement issues related to large multinational enterprises, including large commodity-related merchanting flows, and data lags.

Potential Policy Responses: Policies should focus on ensuring economic resilience and addressing low inflation. Substantial fiscal policy space should be used to support growth if downside risks materialize. A comprehensive medium-term plan is needed to address increasing structural fiscal needs on aging, climate, and defense. Monetary policy should continue to pursue price stability and avoid the risk of inflation settling at a very low or negative level. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks. These policies are expected to maintain the "broadly in line" external position going forward.

Foreign Asset and Liability Position and Trajectory	**Background.** Switzerland is a major financial center with a large, positive NIIP of 111 percent of GDP and large gross foreign asset and liability positions of 616 and 504 percent of GDP, respectively, in 2025. The NIIP has increased by around 21 percent of 2025 GDP over the past five years, due to financial account surpluses (36 percent of 2025 GDP) and valuation effects (−16 percent of 2025 GDP), the rest reflecting statistical reevaluations (1 percent of 2025 GDP).[1] Compared with 2024, the NIIP decreased in 2025 by 10 percentage points of GDP. Assets essentially stagnated (as valuation losses due to weaker US dollar were offset by higher stocks due to valuation gains on international stock exchanges), while liabilities rose markedly, due to higher stock market prices in Switzerland. Projections of the NIIP in 2026 and beyond are complicated by the large gross positions and compositional differences among assets and liabilities. **Assessment.** Switzerland's large gross liability position and the volatility of financial flows and investment returns present some risk, but this is mitigated by the large gross asset position and the CHF denomination of about two-thirds of external liabilities.

2025 (% GDP)	NIIP: 111	Gross Assets: 616	Reserve Assets: 98	Gross Liab.: 504	Debt Liab.: 32

Current Account	**Background.** Switzerland's CA surpluses averaged 6.4 percent of GDP during 2014–24. BOP methodological improvements significantly affected the CA balance. The revisions are primarily due to the incorporation of the latest information from the surveys on cross-border capital linkages at multinational enterprise groups and affected 2023 and 2024 as well as the first two quarters of 2025, with an upward revision for 2024 from 5.1 to 8.9 percent of GDP. The CA surplus in 2025 was estimated at 7.1 percent of GDP, lower than 2024, which was revised up by 3.8 percentage points from last year's *External Sector Report*.[2] Within the components, the balance of trade in goods decreased year-on-year specifically due to a deficit in non-monetary gold trading caused by higher prices. The deficit in services increased year-on-year, particularly toward the end of the year, while the primary income deficit narrowed, largely driven by a reduction in income payments to foreign entities compared to the high outflows observed in 2024. From the savings-investment perspective, savings increased by 0.9 percent of GDP, driven by a decline in public consumption, while investment increased by 3 percent of GDP. The CA surplus is expected to remain broadly stable over the medium term. **Assessment.** The EBA CA norm of 6.1 percent of GDP is below the previous year's norm. Based on a cyclically adjusted CA surplus of 7.0 percent, the overall EBA-estimated CA gap equaled 1.0 percent of GDP in 2025 (due to rounding effects). The policy gap is entirely due to domestic factors, which include domestic credit (1.2 pp) and fiscal underspending (0.4 pp). Adjustment for a specific factor relevant for Switzerland that is not treated appropriately in the income account–namely, retained earnings on portfolio equity investment (−1.1 pp)–leads to a gap of −0.1 percent of GDP (±0.7 percentage points).[3]

2025 (% GDP)	CA: 7.1	Cycl. Adj. CA: 7.0	EBA Norm: 6.1	EBA Gap: 1.0	Staff Adj.: −1.1	Staff Gap: −0.1

Real Exchange Rate	**Background.** Relative to 2024, the average NEER appreciated by 3.7 percent, while the CPI-based REER appreciated by 1.4 percent in 2025. The NEER has appreciated by 37.6 percent since 2013, while the CPI-based REER has appreciated by 8.4 percent. As of end-March 2026, the NEER has appreciated by 3.8 percent compared to 2025 average and the CPI-based REER by 2.1 percent. **Assessment.** Consistent with the staff CA gap, staff assess the REER to be overvalued with a midpoint of 0.3 percent, ±1.25 percent, using an elasticity of −0.56.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net financial outflows totaled 9.1 percent of GDP in 2025, including private outflows of 9.9 percent of GDP (reflecting large CHF appreciation, aggressive monetary easing by the SNB, and investors seeking higher returns abroad) and a decrease in SNB reserve assets of 0.5 percent of GDP. During 2014–24, net private inflows averaged −1.1 percent of GDP, while the average annual increase in SNB reserves was 4.5 percent of GDP. **Assessment.** Financial flows are large and volatile, reflecting Switzerland's financial center and safe-haven status. This results in sizable net private financial flows during periods of uncertainty, adding to appreciation pressures.
FX Intervention and Reserves Level	**Background.** Official reserve assets (including gold) amounted to CHF 853 billion (US$1,070 billion, 98 percent of GDP) in 2025, up CHF 30 billion (US$38 billion) from 2024. The SNB purchased CHF 5.176 billion (0.6 percent of GDP) of FX (net) through FXIs in 2025, compared to large FXIs selling that occurred in 2022–23, to dampen appreciation pressures on the Swiss franc related to safe-haven flows, thereby contributing to ensuring monetary conditions and turning inflation within the price stability range. **Assessment.** Reserves are large relative to GDP, but more moderate in comparison with short-term foreign liabilities. Considering the reserve currency status of the franc, the adequacy of FX reserves is not a pressing concern for Switzerland. Despite the significant USD/CHF depreciation in 2025, the SNB made a profit in 2025 of CHF 26 billion (under the CHF 80.7 billion recorded for 2024) thanks to higher gold prices. Still, the financial losses incurred by the SNB in 2022 and 2023 indicate some volatility in its income and the presence of risks associated with its large balance sheet. IPF-compliant foreign exchange interventions (FXIs) can be considered in cases of disorderly market conditions or frictions identified in the IPF use cases to address risks of inflation expectations becoming de-anchored that could result from large and persistent exchange rate movements.

Table 2.27. Thailand: Economy Assessment

Overall Assessment: *The external position in 2025 was stronger than the level implied by fundamentals and desirable policies, with the CA and REER gaps modestly widening.* The CA surplus increased to 2.8 percent of GDP in 2025 from 2.2 percent in 2024, driven by stronger primary income and services balances, partly offset by weaker secondary income. Over the medium term, the CA surplus is projected to moderate to around 2.7 percent of GDP.

Potential Policy Responses: Policies that promote productive investment, further liberalize the services sector, and reduce tax incentives and subsidies that distort competition would support more durable growth, reduce internal imbalances, and facilitate external rebalancing. Against a challenging external backdrop of higher commodity prices and increased trade restrictions, boosting productivity remains critical. With uncertainty high and external shocks potentially protracted, policies should continue to preserve monetary and fiscal space and smooth adjustment. Fiscal policy should remain prudent given elevated public debt, with spending focused on targeted social transfers and growth-enhancing investment, alongside continued efforts to strengthen social safety nets and address informality. A gradual expansion in private consumption, together with stronger private investment, would support external adjustment, while revenue-driven medium-term fiscal consolidation would help rebuild fiscal buffers. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, and minimize trade and investment distortions. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks.

Foreign Asset and Liability Position and Trajectory

Background. Thailand's NIIP improved to 15.9 percent of GDP in 2025, from 8.5 percent in 2024. Gross assets increased to 131.0 percent of GDP (from 122.2 percent) and gross liabilities increased to 115.1 percent (from 113.7 percent). Gross assets primarily consist of gross reserve assets (48.9 percent of GDP) and direct investment (39.4 percent of GDP). Gross liabilities mainly comprise direct (68.5 percent of GDP), portfolio (23.6 percent of GDP) and other investments (22.1 percent of GDP), with their respective shares of the total changing little in 2025.

Assessment. The NIIP is projected to remain in a small creditor position over the medium term given CA surpluses. External debt is expected to decline to 36.2 percent of GDP in 2025 from 36.9 percent in 2024, with short-term debt at about 15.3 percent of GDP. Risks to external debt stability and liquidity are limited.

2025 (% GDP)	NIIP: 15.9	Gross Assets: 131.0	Debt Assets: 40.5	Gross Liab.: 115.1	Debt Liab.: 36.2

Current Account

Background. The CA surplus rose to 2.8 percent of GDP in 2025, reflecting a narrower primary income deficit and continued recovery in services that more than offset the weaker secondary income balance, while the trade surplus remained broadly stable. The post-pandemic recovery in tourism and transport improved the services balance by 0.2 percentage points of GDP. The trade surplus held at 4.0 percent of GDP, even as both imports and exports expanded by about 13 percent. From a saving–investment perspective, the higher CA surplus reflects a rise in private saving that more than offsets increased public and private investment as well as lower public saving. The CA balance is expected to stabilize at about 2.7 percent of GDP.

Assessment. The EBA CA model estimates a cyclically adjusted CA balance of 2.7 percent of GDP and a CA norm of 0.6 percent of GDP for 2025. Staff assess the CA gap to be in the range of 1.4 to 2.6 percent of GDP, with a midpoint of 2.0 percent of GDP for 2025. The CA gap of 2.0 percent of GDP consists of a 1.6 percent policy gap and an unexplained residual of 0.4 percent. The positive policy gap primarily reflects the contribution from the change in reserves (0.8 percentage points) and the fiscal balance (0.8 percentage points). The former is largely driven by reserve accumulation in Thailand relative to the rest of the world associated with its current account surplus, while the latter mainly reflects looser fiscal policies in the rest of the world relative to Thailand. Tighter credit policies abroad offset the positive domestic credit gap. The domestic health expenditure gap (0.1 percent of GDP) suggests scope to strengthen social safety nets. Preliminary staff estimates suggest that unrecorded retained earnings on portfolio equity imply a positive measurement bias of the headline current account that could account for most of the unexplained residual.

2025 (% GDP)	CA: 2.8	Cycl. Adj. CA: 2.7	EBA Norm: 0.6	EBA Gap: 2.0	Staff Adj.: 0.0	Staff Gap: 2.0

Real Exchange Rate

Background. The baht has followed a gradual real appreciation trend since the mid-2000s, despite occasional bouts of volatility. In 2025, the REER appreciated by 4.4 percent relative to 2024, following the strengthening of the current account balance. As of March 2026, the REER was 0.2 percent below its 2025 average.

Assessment. Based on an elasticity of 0.5 and the staff CA gap, staff assess the 2025 REER to be undervalued in the range of 2.8–5.2 percent, with a midpoint of 4.0 percent. The EBA index REER gap in 2025 is estimated at 11.5 percent, and the EBA level REER gap is estimated at −3.5 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital and financial account balance (excluding change in reserves) declined to −2.0 percent of GDP in 2025, from −1.2 percent in 2024. The balance decline reflects the net effect from higher portfolio outflows (by 2.5 percentage points of GDP), stronger other investment inflows (by 1.4 percentage points), and higher net FDI inflows (by 0.3 percentage points), as well as a decrease in financial derivatives (by 0.1 percentage points).

Assessment. Strong external buffers and fundamentals have helped Thailand weather episodes of volatility related to external financial conditions, political uncertainty, COVID-19, and spillovers from the war in Ukraine. Staff welcomes the authorities' efforts to further liberalize the financial account, including expanding the scope of the Non-Resident Qualified Company program, which allows qualified investors better access to Thai baht liquidity without restrictions on Thai baht accounts. Staff also notes the recent measures to facilitate FX outflows–such as permitting additional purposes without prior approval and raising transfer limits–and the removal of documentation requirements for non-resident transactions. As part of the ongoing liberalization efforts, staff recommends reversing the 2021 reduction in the limit on Thai baht lending from domestic financial institutions to non-residents without underlying document submission, as the surge in portfolio inflows observed in 2021 has abated. In line with past advice, the IMF team recommends phasing out CFM measures on nonresident baht accounts.

FX Intervention and Reserves Level

Background. The exchange rate regime is classified as (de jure and de facto) floating. Gross international reserves increased to 48.9 percent of GDP in 2025 from 44.8 percent of GDP in 2024, which is about 2.6 times the short-term debt, 10 months of imports, and 231.3 percent of the IMF's standard ARA metric. The exchange rate has been allowed to adjust, with some two-sided FX interventions in periods of large volatility.

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

Table 2.28. Türkiye: Economy Assessment

Overall Assessment: *The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies.* The assessment is driven by the negative CA gap. The 2025 CA deficit widened to 1.9 percent of GDP–after narrowing substantially to 1 percent of GDP in 2024–as lower energy prices could not make up for a deterioration in the non-oil trade balance in turn driven by strong imports, and a methodological change to the primary income account. External financing needs fell somewhat (as percent of GDP) but are still sizeable, while the NIIP became less negative. However, macro policies remain insufficiently tight to bring down inflation sustainably to the central bank's inflation target and anchor inflation expectations, even in the medium term. External vulnerabilities thus remain present and have recently increased following the war in the Middle East.

Potential Policy Responses: Strengthening the policy framework would help underpin Türkiye's external sustainability going forward. Tightening of the monetary and fiscal policy stance would contain demand, raise savings and, all else equal, help strengthen the current account balance. It would also help 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. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, and minimize trade and investment distortions. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks.

Foreign Asset and Liability Position and Trajectory

Background. Türkiye's NIIP averaged −34.8 percent of GDP over 2020–24. The NIIP improved from −25.6 percent of GDP at the end of 2024 to −20.3 percent of GDP at the end of 2025, mainly driven by valuation effects, including the appreciation of the euro vis-à-vis the USD and gold price increases. External debt declined slightly from 33.9 percent of GDP at end-2024 to 32.6 percent of GDP at end-2025. The public sector (including the CBRT) holds 42.6 percent of Türkiye's external debt. At end-2025, 32.2 percent of external debt was short term.

Assessment. Given the size and composition of gross external liabilities, Türkiye is vulnerable to liquidity shocks, sudden shifts in investor sentiment, and global upswings in interest rates. Even though reserves improved substantially during 2025, the impact of the war in the Middle East and gold price swings have significantly increased volatility. The net FX position of Türkiye's nonfinancial corporations deteriorated substantially from US$ -148 billion at end-2024 to US$ -188 billion at end-2025 with the short-term net FX position also deteriorating (from US$13.5 billion to US$11.7 billion), but still in positive territory, providing some liquidity buffer. The NIIP is expected to decline over the next three years, due to larger current account deficits driven by higher oil prices, but then stabilize around −26 percent of GDP as the CA deficit stabilizes below 2 percent of GDP. Further reversal of 2025 valuation effects (for example, in the gold market) could negatively affect the NIIP trajectory. External debt is sustainable over the medium term but is subject to risks, particularly from a large depreciation in the REER and rollover risk from the high share of short-term debt in total external debt.

2025 (% GDP)	NIIP: −20.3	Gross Assets: 25.9	Debt Assets: 9.8	Gross Liab.: 46.2	Ext. Debt.: 32.6

Current Account

Background. The CA deficit averaged 2.9 percent of GDP over 2020–24. The CA deficit in 2025 reached 1.9 percent of GDP, almost double the 2024 level, as lower oil prices could not make up for a deterioration in the non-oil trade balance, in turn driven by strong imports, and a methodological change to the primary income account. The deterioration in the current account in 2025 reflects mainly a widening of the private sector S-I balance, only partly offset by public sector savings as fiscal policy was tightened. Over the medium term, the current account is expected to improve to around 1.5 percent of GDP on the back of subdued energy imports and robust exports.

Assessment. The EBA CA model estimates a cyclically adjusted CA balance of −1.6 percent of GDP and a CA norm of 1.3 percent of GDP in 2025. Overall, the CA gap is assessed in the range of −3.4 to −2.4 percent of GDP, with a midpoint of −2.9 percent of GDP. The CA gap can be decomposed into a policy gap and a residual. The contribution of identified policy gaps is 0.5 percent of GDP, while Türkiye's CA residual is −3.4 percent of GDP. The latter could reflect the impact of persistently elevated inflation and inflation expectations on private saving, combined with the positive wealth effect from higher gold prices. A disinflation program, anchored by a credible monetary policy framework and tight fiscal policy can help redress this situation.

2025 (% GDP)	CA: −1.9	Cycl. Adj. CA: −1.6	EBA Norm: 1.3	EBA Gap: −2.9	Staff Adj.: 0.0	Staff Gap: −2.9

Real Exchange Rate

Background. The CPI-based REER depreciated by an annual average of 6.3 percent over 2020–23. In 2024, it appreciated by 11.9 percent compared to 2023 as domestic inflation slowed and capital inflows were not fully sterilized. In 2025, the CPI-based REER appreciated by a further 7.5 percent relative to the 2024 average but depreciated by 1.8 percent between end-December 2024 and end-December 2025. Reflecting lower PPI inflation, the average PPI-based REER appreciated by 1.2 percent in 2025. As of March 2026, the CPI-based REER had appreciated by 4.7 percent relative to the 2025 average.

Assessment. Consistent with the staff CA gap, staff assess the REER to be overvalued by 12.1 percent. The range goes from 9.8 percent to 14.4 percent overvaluation (applying an estimated REER elasticity of 0.24).

Capital and Financial Accounts: Flows and Policy Measures

Background. Net capital inflows (excluding reserves) were 1.3 percent of GDP in 2025, slightly lower compared to 2024, as inflows from FDI and other investments outweighed limited net portfolio outflows.

Assessment. Even though projections of annual gross external financing needs as a percentage of GDP have decreased, they are still relatively high–at about 18 percent of GDP on average over 2026–31. Hence, Türkiye remains vulnerable to adverse shifts in global investor sentiment. The authorities' policy normalization efforts since May 2023 have contributed to a rebound in capital flows. However, as the March 2025 capital outflow episode and the war in the Middle East have shown, to sustain capital inflows, including into lira-denominated assets, a further strengthening of policy credibility and carefully reducing market distortions are needed. As conditions improve, CFMs on capital outflows will need to be phased out as CFMs do not substitute for warranted macroeconomic adjustment.[1]

FX Intervention and Reserves Level

Background. The de jure exchange rate is free floating, while the de facto classification, as of the 2025 Article IV consultation, is assessed as a crawl-like arrangement. Gross international reserves reached US$186 billion at end-2025, up from $156 billion at end-2024, with the bulk of the increase coming from higher gold prices.

Assessment. Gross international reserves were at 73 percent of the IMF's ARA metric at the end of December 2024 (for a de facto crawl-like exchange rate arrangement),[2] and rose to 78.7 percent by end-2025–still below the recommended 100 to 150 percent range. International reserves net of off-balance-sheet swaps and other short-term liabilities were negatively impacted by the March 2025 outflow episode and again by the war in the Middle East. This shows that quality of reserves remains an issue, as does the fact that non–SDR basket currencies account for a large share (about 16 percent by the end of 2025) of FX reserves. Given the shallow FX market, interventions may be needed to avoid excessive exchange rate volatility, while not preventing warranted macroeconomic adjustments. Going forward, significant reserves buildup is needed, but the accumulation of reserves should be opportunistic given the uncertain market environment.

Table 2.29. United Kingdom: Economy Assessment

Overall Assessment: *The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies.* However, the CA deficit ratio has trended down from the elevated levels of the mid-2010s. In 2025, the deficit improved for the second year in a row after the temporary pandemic-related deterioration. The improvement was primarily driven by higher private and public savings, reflected in higher net primary income and services trade surpluses, which offset the drag from goods trade deficits. The CA deficit is expected to increase in the short term due to the energy price shock and to narrow moderately in the medium term, driven by fiscal consolidation and improvements in the terms of trade following the resolution of the energy crisis. The REER remains elevated due to successive shocks. The net international investment position (NIIP) is projected to deteriorate in the medium term, although its evolution is uncertain given difficult-to-predict valuation effects and the UK's status as a global financial center.

Potential Policy Responses: The authorities' 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. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks. Industrial policies should continue to be deployed cautiously, remain targeted to specific objectives where externalities and other market failures prevent effective market solutions, and minimize trade and investment distortions.

Foreign Asset and Liability Position and Trajectory

Background. The NIIP has been stable, at −6.6 percent of GDP in 2025, and close to the past decade's average of −6.2 percent of GDP.[1] Valuation effects have largely offset CA deficits in 2025, as in recent years. These valuation effects have been primarily related to strong global equity price growth and slight sterling depreciation, which positively affected foreign asset holdings. The NIIP is projected to deteriorate in line with projected current account deficits over the medium term, although volatile valuation effects make these estimates uncertain.

Assessment. The NIIP remains vulnerable to changes in market sentiment, including due to the large fraction of short-term liabilities that create rollover risks. Nonetheless, there are two mitigating factors. First, the UK has a large currency mismatch between sterling-denominated liabilities and foreign-currency-denominated assets, which, paired with exchange rate flexibility, mitigates external shocks. Second, intragroup bank holdings constitute a large share of external liabilities and are less reactive to changes in market sentiment.

2025 (% GDP)	NIIP: −6.6	Gross Assets: 486	Debt Assets: 249	Gross Liab.: 493	Debt Liab.: 270

Current Account

Background. The CA deficit improved for the second year in a row from −3.6 percent of GDP in 2023 to −2.4 percent of GDP in 2025, driven by an increase in both public and private savings while investment remained stable. This improvement was primarily reflected in higher net primary income and an increase in the services trade surplus. Goods trade deficits excluding volatile precious metals improved mildly by 0.3 percent of GDP despite rising trade frictions. Following a projected CA deterioration in 2026 due to the energy price shock, the fiscal consolidation path and a projected recovery in the terms of trade and external demand are expected to moderate the CA deficit to −2 percent of GDP over the medium term, below pre-COVID-19 averages.

Assessment. The EBA CA model estimates a CA norm of −0.1 percent of GDP, implying an unadjusted CA gap of −2.3 percent of GDP in 2025. Measurement adjustments of 0.1 percent of GDP account for differences between the statistical definition of income and the relevant economic concept.[2] After this adjustment, staff assess the CA gap at −2.2 percent of GDP, within a range of −1.9 to −2.5 percent of GDP. About a third of the gap reflects higher health expenditure, proxying for more spending on social safety nets, than in the rest of the world, which reduces precautionary savings. Part of the remaining gap could be due to the pound's status as a global reserve currency–which also reduces incentives for precautionary savings–and deep financial markets that together attract strong capital inflows, as well as inflation differentials between the United Kingdom and the rest of the world.[3]

2025 (% GDP)	CA: −2.4	Cycl. Adj. CA: −2.4	EBA Norm: −0.1	EBA Gap: −2.3	Staff Adj.: 0.1	Staff Gap: −2.2

Real Exchange Rate

Background. The REER appreciated by 2.2 percent in 2025 compared to the average in 2024, leaving it 10 percent stronger than before the pandemic. The NEER appreciated 0.97 percent compared to the 2024 average as interest rates remain higher in the UK than in other advanced economies. The real appreciation in previous years was driven by higher inflation in the UK than in other advanced economies. As of March 2026, the REER was 0.2 percent below its 2025 average.

Assessment. The EBA REER level and index models suggest an overvaluation of 13.3 and 4.4 percent, respectively. Consistent with the staff CA gap, staff assess the 2025 REER gap at 8.2 percent (using an estimated elasticity of 0.26), within a range of 7.2 to 9.2 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The United Kingdom has maintained a very open financial account. As a global financial hub, portfolio investment flows and other investments constitute a large share of financial flows, often driven by intragroup bank transactions. Portfolio investment net inflows were the most important source of financing for the CA deficit in 2025.

Assessment. Large fluctuations in capital flows are inherent in countries with large financial sectors. This volatility is a potential source of vulnerability, although it is mitigated by a robust financial stability framework overseen by the Financial Policy Committee (FPC) of the Bank of England, including a broad set of macroprudential tools.

FX Intervention and Reserves Level

Background. The pound has the status of a global reserve currency. The share of global reserves held in sterling increased slightly over the past several years, from an average of 4.5 percent pre-pandemic (2016–19) to close to 5.0 percent in 2025.

Assessment. Reserves held by the UK are typically low relative to standard metrics, and the currency is free-floating. Reserve levels remained stable, with a modest accumulation in 2025.

Table 2.30. United States: Economy Assessment

Overall Assessment: *The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies.* The trade deficit in 2025 was broadly unchanged from the previous year despite large within-year upswings related to frontloading amid tariff hikes, while the modest improvement in the primary income balance led to a CA deficit of 3.6 percent of GDP (versus 4.0 percent of GDP in 2024). The CA deficit is projected to stabilize at about 3½ percent of GDP over the medium term, reflecting a gradual rise of private savings that is expected to modestly offset the expected increases in fiscal dissaving and private investment.

Potential Policy Responses: Over the medium term, fiscal consolidation aimed at achieving a general government primary surplus of about 1 percent of GDP should put the debt-to-GDP ratio on a downward path and adjust the external position to the level implied by medium-term fundamentals and desirable policies. Industrial policies should remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, while minimizing trade and investment distortions. Policies should promote transparent, predictable, and mutually beneficial trade policy frameworks.

Foreign Asset and Liability Position and Trajectory[1]

Background. The NIIP stood at −87.6 percent of GDP at end-2025, broadly unchanged from −89.0 percent at the end of 2024 but significantly weakened from the pre-pandemic (2016–19) average of about −46½ percent. The valuation adjustments stemming from a significant rise in US stock prices (which led to a larger increase in the market value of US liabilities than US assets) were largely offset by a substantial depreciation of the US dollar since end-2024 that raised the US dollar value of foreign-currency-denominated assets over the course of 2025.

Assessment. Despite the declining NIIP, the US gross external debt has stabilized at 87.9 percent of GDP, well below the 2016–19 average of about 95 percent of GDP (down from its 2020 peak of nearly 100 percent), driven by the post-pandemic rebound in output and a strengthening of the dollar. About 60 percent of US assets are in the form of FDI and portfolio equity claims. The investment income balance returned to positive after turning negative in 2024 (as the 2024 surge in dividend and interest payments amid strong domestic stock market performance and an increase in US yields has moderated in 2025). Importantly, the substantial share of external assets denominated in foreign currencies (which was about 70 percent in 2024)–combined with an even larger share of US-dollar-denominated external liabilities–remains a relevant channel for exchange rates to affect NIIP through valuation changes.

2025 (% GDP)	NIIP: −87.6	Gross Assets: 136.6	Debt Assets: 37.8	Gross Liab.: 224.2	Debt Liab.: 87.9

Current Account

Background. The CA deficit was 3.6 percent of GDP in 2025, down from 4.0 percent in 2024 (the 2016–19 average deficit was about 2 percent). In 2025, the trade deficit was 3.0 percent of GDP, a similar level to 3.1 percent of GDP in 2024, despite large within-year upswings amid tariff hikes. In the first quarter of 2025, the CA deficit surged to 5.8 percent of GDP, mainly driven by the import frontloading ahead of the announced tariff hikes, but subsequently normalized to 2.9 percent of GDP through the rest of the year. The income balance improved by 0.3 percent of GDP. From a saving-investment viewpoint, increased public savings contributed to narrowing the saving-investment gap, while private savings remained broadly unchanged despite a significant decline in household savings that sustained strong domestic consumption.

Assessment. The EBA model estimates a cyclically adjusted CA balance of −3.5 percent of GDP against a CA norm of −1.3 percent, with a standard error of 0.7 percent. This implies a model-based CA gap of −2.2 percent of GDP for 2025, with an estimated contribution of identified policy gaps of −0.6 percent. The identified policy gaps primarily reflect the more expansionary fiscal policy in the US relative to the rest of the world. Closing the domestic fiscal gap would address almost half of the US CA gap, while the contribution of the total fiscal gap is more moderate, given offsetting fiscal consolidations in other countries. The unexplained residuals partly reflect US-specific factors not fully accounted for in the model estimation, such as its reserve currency status, deep financial markets, and frontier position in technological innovation, which combine to attract strong capital inflows. Staff assess a CA gap in a range of −2.9 to −1.5 percent of GDP, with a midpoint of −2.2 percent.

2025 (% GDP)	CA: −3.6	Cycl. Adj. CA: −3.5	EBA Norm: −1.3	EBA Gap: −2.2	Staff Adj.: 0	Staff Gap: −2.2

Real Exchange Rate

Background. The annual average REER appreciated by 0.3 percent in 2025, although it depreciated by 4.3 percent at end-2025 relative to end-2024. Over the past five years, the REER has appreciated by over 10 percent. Meanwhile, as of March 2026 the REER was 1.9 percent below its 2025 average.

Assessment. The staff CA gap implies a REER that is overvalued by 19.9 percent in 2025 (with an estimated elasticity of 0.11 applied). The EBA exchange rate index model suggests an overvaluation of 9.5 percent, and the level model suggests an overvaluation of 21.3 percent. Considering all the estimates and their uncertainties, consistent with the CA gap, staff assess the 2025 midpoint REER overvaluation to be 19.9 percent, with a range of 13.6 to 26.2 percent (the range is obtained from the CA standard error using the estimated CA elasticity of 0.11).

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2025, the financial account balance was unchanged at −3.9 percent of GDP from 2024, as higher inflows of net portfolio investment were mostly offset by lower net other investment inflows.

Assessment. The United States has an open capital account. External vulnerabilities could arise from an unexpected decline in foreign demand for US fixed-income securities. However, such vulnerabilities are limited by the US dollar's status as a reserve currency, strong institutions, deep and liquid asset markets, and diverse investment instruments.

FX Intervention and Reserves Level

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

Technical Endnotes by Economy

Argentina

[1] Results from the EBA REER index model suggest an average REER gap of about 14.5 percent, while the EBA REER level model estimates a gap of around 18.6 percent.
[2] Gross reserve assets exclude the inactivated portion of the US$13 billion bilateral swap with the PBoC.

China

[1] In March 2026, the authorities released data on investment income for FDI and non-FDI investments for 2025, which is welcome. However, the lack of historical time series hampers the analysis of trends.
[2] The QDII quota refers to the Qualified Domestic Institutional Investor quota. As of end-March 2026, the total QDII quota stood at $176.1 billion. See the 2023 IMF CFM Taxonomy for a list of China's existing CFMs and related policy advice. In April 2026, China allowed qualified foreign investors to trade government bond futures.

Germany

[1] NIIP in percent of GDP for the External Sector Assessment is reported using US dollar figures, with the NIIP reported using the end-of-period exchange rate and GDP using the period-average exchange rate.

Hong Kong SAR

[1] Includes debt securities, loans, trade credits, and other advances.
[2] The assessment incorporates the cyclical adjustment generated by the EBA model (0.4 pp of GDP).
[3] Hong Kong SAR is not included in the EBA sample, as it is an outlier along several dimensions of the EBA analysis. While EBA-estimated coefficients can be mechanically applied to Hong Kong SAR without adjustments, this approach has obvious limitations. Under such an application without adjustment, the 2025 CA norm is estimated at about 20.9 percent of GDP, implying a CA gap of –9.1 percent. The EBA CA gap is overstated, as it does not properly reflect Hong Kong SAR-specific measurement issues. Accordingly, two adjustments are applied, reducing the CA norm by 9 percentage points of GDP. First, a downward adjustment of 5.1 pp of GDP (midpoint of an estimated 4.4–5.8 pp range) is made to the EBA model's implied contribution of the NIIP position. This reflects the fact that, for Hong Kong SAR, the income balance relative to the NIIP is systematically lower than in peer economies due to a persistently higher share of debt instruments on the asset side than on the liability side. Second, a downward adjustment of 3.8 pp of GDP is made to account for a decline in the gold trade balance, which does not reflect changes in wealth but rather the increased physical settlement of gold futures contracts following the opening of a Precious Metals Depository. These adjustments were used in previous editions of the *External Sector Report*, including in 2025. See "People's Republic of China—Hong Kong Special Administrative Region: Selected Issues" (Country Report No. 17/12) for more details.
[4] Based on the average for all countries in the EBA sample in March 2026.
[5] The financial linkages with the Chinese mainland are deepening with the increase in cross-border bank lending, capital market financing, and the internationalization of the RMB.

Japan

[1] A positive fiscal gap reflects the need for Japan's overall expenditure to cover a rising interest bill over the medium term, even as primary expenditure should be constrained, as well as a large need for fiscal consolidation in other countries. Consistent with the continued gradual withdrawal of monetary accommodation, staff recommends allowing the credit-to-GDP gap to decline gradually over the medium term from its currently estimated level of 2.6 percent with a corresponding policy setting (P*) for the credit-to-GDP gap of 0 percent.

Korea

[1] Korea stands as an outlier among EBA countries in terms of the speed of population aging. The share of the elderly (above 65) in the Korean population is currently rising at least twice as fast as in other advanced economies, calling for additional life-cycle saving in the short run. To capture the impact of these dynamics on Korea's current account, the EBA model is re-estimated using an adjusted interaction term (life expectancy at ages 45–50 interacted with the share of 65+ projected in ten years, instead of the contemporaneous share of 65+). With this adjustment, Korea's demographic component of the EBA CA norm is the largest in the sample. The adjustor is expected to gradually disappear as Korea's speed of aging gets closer to global average.
[2] Most of the relative policy gap is explained by Korea's need to enhance the social safety net in the medium term (proxied by health expenditure) in the face of rapid population aging (0.9 percent of GDP). The desired health spending to GDP ratio was revised to 7.5 percent of GDP (from 8.5 percent of GDP in the previous ESR), based on the latest fund estimates of medium-term public health expenditure to cover aging-related needs.

Saudi Arabia

[1] The current account deficit for 2024 stands at 1.3 percent of GDP, revised up from 0.5 percent of GDP reported in last year's *External Sector Report*. This historical revision mainly reflects updated trade and services data released by the authorities in November 2025, following enhancement in underlying survey data.

[2] The EBA models do not include Saudi Arabia. IMF staff considered two approaches under the EBA-Lite methodology: the EBA-Lite CA model and the EBA-Lite commodity module. The latter incorporates the intertemporal considerations that are especially important in economies where exports of nonrenewable resources account for a very large share of output and exports.

[3] The commodity-module estimates are directionally consistent with the EBA-Lite CA model: Both point to a negative CA gap and an implied REER overvaluation, indicating an external position on the weaker side. The sizable change in the CA norm relative to earlier vintages is driven primarily by updates to EBA-Lite desirable policy settings, in particular the desirable fiscal balance reflecting revisions in oil price forecasts, rather than by significant changes in slow-moving fundamentals.

Singapore

[1] Singapore has a negative income balance despite its large positive NIIP position, reflecting lower rates of return on its foreign assets relative to returns on its foreign liabilities, possibly due to the fact that the composition of Singapore's assets is tilted toward safer assets with lower returns. The income outflows are also associated with the presence of foreign-owned multinationals that accounted for 31 percent of GDP in 2020.

[2] Singapore is not included in the EBA sample because it is an outlier along several dimensions. One possibility, though with drawbacks, is to use EBA estimated coefficients and apply them to Singapore. Following that approach, the CA norm is estimated to be about 14.1 percent of GDP in 2025 (including the multilateral consistency adjustor). However, using this approach understates the CA gap. In order to account for Singapore's specificities, two adjustments are needed. First, a downward adjustment of 1.4 percentage point is made to EBA's implied contribution of public health expenditures to the norm to account for the fact that Singapore's health expenditure is appropriate given its high efficiency, even though its desirable, as well as current, public health expenditure is significantly lower than in other EBA countries. Second, a downward adjustment of 3.2 percentage points to the norm is made to better account for the effect of NFA composition and component-specific return differentials on the CA. Adjusting for these factors, the staff-estimated CA gap is about 7.6 percent of GDP, to which the fiscal gap contributes about 1.4 percent of GDP, public health spending about 0.3 percent of GDP, and credit gap about 0.2 percent of GDP.

[3] We apply the maximum range of ±2.0 percent in the EBA sample for the CA gap reflecting the uncertainty around Singapore's assessment.

[4] The reserves-to-GDP ratio is also larger than in most other financial centers, but this may reflect in part that most other financial centers are in reserve-currency countries or currency unions. For example, external assets managed by the government's wealth fund, Temasek, amounted to 53.7 percent of GDP in 2025.

Spain

[1] TARGET2 (T2) is the settlement system run by the Eurosystem. It settles payments related to the Eurosystem's monetary policy operations, as well as bank-to-bank and commercial transactions. When banks in Spain send more euros through T2 than they receive overall, the Bank of Spain incurs a T2 liability. The Bank of Spain's T2 liabilities had increased until 2022 mostly as a result of the asset purchase program introduced by the European Central Bank in 2015, which technically led the Bank of Spain to purchase assets held by investors with bank accounts abroad.

Sweden

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

Switzerland

[1] Valuation changes reflect fluctuations of exchange rates (ERs) and prices of securities and precious metals that interact with differences among assets and liabilities in terms of currencies and instruments. As a result, an appreciation (depreciation) of the Swiss franc has a negative (positive) effect on the NIIP. Other stock-flow adjustments include changes in statistical sources, such as changes in the number of entities surveyed and items covered.

[2] Due to large revisions to historical BOP and NIIP data, particular caution is needed when comparing the external sector assessment results for different periods.

[3] The underlying CA is adjusted for a Switzerland-specific factor in the income account: retained earnings on portfolio equity investment that are not recorded in the income balance of the CA (or the PE RE bias) under the sixth edition of the IMF *Balance of Payments and International Investment Position Manual (BPM6)*. The PE RE bias was estimated using the "stock method" and "flow method" as explained in "*The Measurement of External Accounts*" (IMF Working Paper 19/132), and it is similar in size to estimates based on the SNB's pilot *BPM7* data.

Türkiye

[1] Remaining capital flow measures (CFMs)—as discussed in Türkiye's most recent IMF Article IV Staff Report (IMF Country Report 26/043)—include export surrender requirements and limits on swap transactions.

[2] The calculation of the IMF's ARA metrics differs depending on the de facto classification of the exchange rate arrangement.

Türkiye has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement.

United Kingdom

[1] The BoE's December 2022 *Financial Stability Report* estimates that official statistics may understate the UK's NIIP position, as FDI stocks are measured at "own funds at book value," rather than market value. Indicative estimates from ONS for 2023 suggest that net FDI could be approximately 14 percent GDP higher.
[2] This is the effect of retained earnings on portfolio equity that are not recorded in the income account.
[3] The inflation differential between the UK and the rest of the world can generate depreciation pressures of the pound, and valuation effects that allow for smaller CA than other economies with different asset and liabilities structures.

United States

[1] The 2025 figure is based on data through 2025:Q4 and the quarterly annualized GDP measure is used for the ratio.

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