

INTERNATIONAL MONETARY FUND

EXTERNAL SECTOR REPORT

Amid Rising Imbalances,
the Case for Rebalancing

2026



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CONTENTS

Further Information	vi
Preface	vii
Executive Summary	viii
IMF Executive Board Discussion Summary	ix
Chapter 1. External Positions and Policies	1
External Sector Developments in 2025	1
Currencies, Financial Flows, and Balance Sheets	7
Developments in Early 2026	12
Assessment of External Positions in 2025	13
Outlook and Risks	20
Benefits of Collective Actions	23
Policy Priorities for Promoting External Rebalancing	26
Box 1.1. Trade Barriers and the Current Account	32
Box 1.2. Trade Patterns and Trade Balances in 2025	35
Box 1.3. Energy Price Shock and External Balances	39
Box 1.4. An Excess-Adjusted NFA in EBA	42
Box 1.5. Scenario Assumptions	44
References	53
Chapter 2. 2025 Individual Economy Assessments	55
Methodology and Process	55
Selection of Economies	55
Abbreviations and Acronyms	57
Technical Endnotes by Economy	88
Box 2.1. Assessing Imbalances: The Role of Policies—An Example	56
References	90
Figures	
Figure 1.1. Global Current Account Balances	2
Figure 1.2. Global Current Account Surpluses and Deficits	2
Figure 1.3. Ten Largest Single-Country Contributions to Widening Global Current Account Balances during 2000–25	2
Figure 1.4. Current Account Balance in 2025 Relative to 2023 Levels	2
Figure 1.5. Decomposition of Changes in Current Account into Contributions from Saving and Investment, 2023–25	3
Figure 1.6. Contributions to Growth of Total Fixed Assets Investments in China	3
Figure 1.7. Saving and Investment Dynamics during Real Estate Corrections and in China in the Early 2000s	4
Figure 1.8. United States: Current Account Level and Its Components	4
Figure 1.9. Trade and Financial Globalization and Specialization	5
Figure 1.10. US Effective Tariff Rates on All Imports	5
Figure 1.11. Surging Policy Uncertainty	6

Figure 1.12. Tariffs and Current Account: 2024 vs 2025	6
Figure 1.13. Decomposition of Changes in Current Account by External Flow Components, 2024–25	7
Figure 1.14. Real Interest Rates	7
Figure 1.15. Global Financial Conditions and Risk Appetite	7
Figure 1.16. US Dollar during 2023–26	8
Figure 1.17. Exchange Rate vs Rate Differentials: Pre & Post Liberation Day	8
Figure 1.18. Dollar Exchange Rate and Current Account Balance	8
Figure 1.19. Exchange Market Pressure and Its Components	9
Figure 1.20. Aggregate Net and Gross Capital Inflows to Emerging Markets, 2014–25	10
Figure 1.21. Gross Capital Flows to Emerging Markets by Component, 2014–25	10
Figure 1.22. Gross Capital Flows to Advanced Economies by Component, 2014–25	11
Figure 1.23. Gross Portfolio Flows in the United States	11
Figure 1.24. Net International Investment Positions, 2000–25	11
Figure 1.25. US Net Valuation Changes on External Position	12
Figure 1.26. United States: Net International Investment Position	12
Figure 1.27. The United States' Excess Returns on Gross External Assets and Gross Liabilities	12
Figure 1.28. Emerging Markets: Exchange Rate Valuation, 2025	12
Figure 1.29. High-Frequency Global Balances Indicator Based on Trade Balances	13
Figure 1.30. High-Frequency Gross Portfolio Inflows to Emerging Markets, January 2024–March 2026	13
Figure 1.31. Evolution of External Sector Assessments, 2012–25	15
Figure 1.32. External Balance Assessment Current Account Gaps, 2025	16
Figure 1.33. Sources of Changes in Current Account Gaps, 2024–25	17
Figure 1.34. External Balance Assessment Current Account Norms, 2025	18
Figure 1.35. Sources of Changes in External Balance Assessment Current Account Norms, 2024–25	18
Figure 1.36. Decomposing the Change in the 2025 Current Account Norm	19
Figure 1.37. IMF Staff and External Balance Assessment Current Account Gaps	19
Figure 1.38. Changes in the External Balance Assessment Current Account Gaps, 2024–25	19
Figure 1.39. Fiscal Balance Adjustment, 2025–30	20
Figure 1.40. Output Gap Development, 2025–30	20
Figure 1.41. Medium-Term Impact of Continuation of Current Trends	22
Figure 1.42. Medium-Term Impact of Simultaneous Adjustment	24
Figure 1.43. Medium-Term Impact of China Adjustment	25
Figure 1.44. Medium-Term Impact of US Adjustment	27
Figure 1.45. Effect of Financial Channel: Long-term Impact of Scenarios on World Real Interest Rate	28
Figure 1.46. Medium-Term Impact of Scenarios on World Output and Global Current Account Balance	29
Figure 1.1.1. External Balance Assessment Predicted Current Account and Trade Barriers	33
Figure 1.1.2. Import Barrier Persistence	34
Figure 1.2.1. US Import Tariffs by Source in 2025	35
Figure 1.2.2. US Trade Balance Response to Tariff Shocks	35
Figure 1.2.3. United States Goods Trade in 2025	36
Figure 1.2.4. Impact of AI on the United States Economy	37
Figure 1.2.5. Tariffs and Exchange Rate: 2024 vs 2025	38
Figure 1.2.6. Bilateral Goods Trade Balance with the United States: 2024 vs 2025	38
Figure 1.3.1. Brent Crude Oil Price Forecasts	39
Figure 1.3.2. Impact of Energy Shock Scenario	40
Figure 1.3.3. Impact of Energy Shock Scenario on World Output and Global Current Account Balance	41
Figure 1.4.1. Headline vs Excess-Adjusted Net Foreign Assets	43
Figure 1.4.2. Current Account Gaps with Headline vs Excess-Adjusted Net Foreign Assets	43

TABLES

Table 1.1. Selected Economies: Current Account Balance, 2023–26	30
Table 1.2. Selected Economies: Net International Investment Position, 2022–25	31
Table 1.1.1. Trade Barriers in EBA	33
Table 1.1.2. Trade Barriers and Saving and Investment	33
Annex Table 1.1.1. Selected Economies: Foreign Reserves, 2022–25	46
Annex Table 1.1.2. External Sector Report Economies: Summary of External Assessment Indicators, 2025	47
Annex Table 1.1.3. External Sector Report Economies: Summary of IMF Staff–Assessed Current Account Gaps and IMF Staff Adjustments, 2025	48
Annex Table 1.1.4. External Sector Report Economies: Summary of IMF Staff–Assessed Real Effective Exchange Rate and External Balance Assessment Model Gaps, 2025	49
Annex Table 1.1.5. Selected External Sector Report Economies: External Balance Assessment Current Account Regression Policy Gap Contributions, 2025	50
Annex Table 1.1.6. 2025 Individual Economy Assessments: Summary of Policy Recommendations	51
Table 2.A. Description in <i>External Sector Report</i> Overall Assessment	56
Table 2.B. Economies Covered in the <i>External Sector Report</i>	56
Table 2.1. Argentina: Economy Assessment	58
Table 2.2. Australia: Economy Assessment	59
Table 2.3. Belgium: Economy Assessment	60
Table 2.4. Brazil: Economy Assessment	61
Table 2.5. Canada: Economy Assessment	62
Table 2.6. China: Economy Assessment	63
Table 2.7. Euro Area: Economy Assessment	64
Table 2.8. France: Economy Assessment	65
Table 2.9. Germany: Economy Assessment	66
Table 2.10. Hong Kong Special Administrative Region: Economy Assessment	67
Table 2.11. India: Economy Assessment	68
Table 2.12. Indonesia: Economy Assessment	69
Table 2.13. Italy: Economy Assessment	70
Table 2.14. Japan: Economy Assessment	71
Table 2.15. Korea: Economy Assessment	72
Table 2.16. Malaysia: Economy Assessment	73
Table 2.17. Mexico: Economy Assessment	74
Table 2.18. The Netherlands: Economy Assessment	75
Table 2.19. Poland: Economy Assessment	76
Table 2.20. Russia: Economy Assessment	77
Table 2.21. Saudi Arabia: Economy Assessment	78
Table 2.22. Singapore: Economy Assessment	79
Table 2.23. South Africa: Economy Assessment	80
Table 2.24. Spain: Economy Assessment	81
Table 2.25. Sweden: Economy Assessment	82
Table 2.26. Switzerland: Economy Assessment	83
Table 2.27. Thailand: Economy Assessment	84
Table 2.28. Türkiye: Economy Assessment	85
Table 2.29. United Kingdom: Economy Assessment	86
Table 2.30. United States: Economy Assessment	87

FURTHER INFORMATION

Corrections and Revisions

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

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PREFACE

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

Chapter 1, “External Positions and Policies,” discusses the evolution of global external positions in 2025, key risks to external sector stability, and policy priorities for reducing excess imbalances over the medium term. Chapter 2, “2025 Individual Economy Assessments,” provides details on the overall external assessments for 30 economies and associated policy recommendations. This year’s external assessments are based on the latest version of the IMF’s External Balance Assessment methodology, external sector data as of May 18, 2026, and IMF staff projections in the April 2026 *World Economic Outlook*.

This report was prepared under the overall guidance of Pierre-Olivier Gourinchas, IMF Economic Counsellor and Director of Research, and under the direction of the External Sector Coordinating Group, comprising staff from the IMF’s area departments (African, Asia and Pacific, European, Middle East and Central Asia, and Western Hemisphere) and several functional departments (Fiscal Affairs; Statistics; Strategy, Policy, and Review; Monetary and Capital Markets; and Research): Rudolfs Bems (Chair), Helge Berger, Pelin Berkmen, Yan Carriere-Swallow, Diego Cerdeiro, Nigel Chalk, Jiaqian Chen, Nada Choueiri, Mariana Colacelli, Borys Cotto, Era Dabla-Norris, Mai Dao, Christopher Erceg, Andres Fernández, Davide Furceri, Jaime Guajardo, Fabien Gonguet, Kristy Howell, Martin Kaufman, Vitaliy Kramarenko, Huidan Lin, Amine Mati, , Erin Nephew, Dragana Ostojic, Nathan Porter, Stephane Roudet, Michele Ruta, Christian Saborowski, Azim Sadikov, Haruko Sakai, Mika Saito, Carlos Sánchez-Muñoz, Martin Sommer, Antonio Spilimbergo, Sebastian Weber, and Robert Zymek.

Jiaqian Chen and Robert Zymek led the preparation of the report, which draws on contributions from Jaebin Ahn, Cian Allen, Robert Beyer, Martin Caruso Bloeck, Daniel Garcia-Macia, Ting Lan, Yang Liu, Roman Merga, Racha Moussa, Dirk Muir, Josef Platzer, Rafael Portillo, Cyril Rebillard, and Jeongwon Son. Important input was provided by country teams as well as David Coble, Oliver Exton, Bada Han, David Florián Hoyle, Tobias Krahne, Svitlana Maslova, Murad Omoev, Akshat Singh, Zhibo Tan, and Marco Rodriguez Waldo. Excellent research and editorial assistance were provided by Santiago Gomez, Jane Haizel, Jaewon Lee, David Guio Rodriguez, Jair Rodriguez, and Brian Hyunjo Shin. The 2026 EBA refinement also benefited from early contributions by Pau Rabanal and Jaewoo Lee.

Cheryl Toksoz from the Communications Department led the editorial team for the report, with production support from MPS and the Grauel Group.

The analysis benefited from comments and suggestions by staff members from other IMF departments, as well as by the IMF’s Executive Directors following their discussion of the report on July 22, 2026. However, both projections and policy considerations are those of the IMF staff and should not be attributed to Executive Directors or to their national authorities.

EXECUTIVE SUMMARY

Global current account balances widened further in 2025, reversing the post-global financial crisis narrowing trend. This increase was driven primarily by China, where the current account surplus recorded the largest widening over two and a half decades, offset by some narrowing in the United States and the euro area. Nonetheless, in level terms, the US deficit remains by far the largest, exceeding the combined surpluses of China and the euro area. Persistent elevated current account positions reflect primarily underlying domestic macroeconomic imbalances, and are also affected by spillovers from other countries via the international environment. In China, structurally high private saving, driven by precautionary saving motives due to weak social safety nets, remains prevalent, while the recent widening of the surplus has been driven by weakening investment. In the United States, large current account deficits reflect sustained low saving, with fiscal balances remaining deeply negative. In the euro area, the surplus continues to be associated with subdued investment and weak productivity growth.

In contrast to the early 2000s, this recent rise in global current account balances has occurred amid rising trade tensions and a significant shift in US trade policy. Historically, trade barriers in effect in the past have not been associated with clear effects on aggregate current accounts. The impact on current account balances from the recent increase is complicated by other factors; but these trade barriers have led to a marked reconfiguration of trade patterns both across time and trading partners. Concurrently, global real interest rates have risen steadily since 2023, as demand for funds from deficit countries outweighs the supply from surplus ones. Nonetheless, global financial conditions eased in 2025, partly reflecting buoyant US equity markets. The dollar remains close to post-2000 highs.

Excess global current account balances, measured as the sum of the absolute value of IMF staff-assessed current account gaps, continued to widen in 2025.

The widening was driven predominantly by a convergence of desirable current account balances (i.e., current account norms and the applied staff adjustments) across countries, as well as a widening of headline current account balances. While the contributions were broad-based, the largest increases originated from China and the United States. If the current trend continues, excess global current account balances are expected to increase further. Although growth would be temporarily higher, it comes with a buildup of financial vulnerabilities, increasing the risk of a disorderly adjustment down the road. More broadly, large and persistent excess current account balances can signal uneven growth patterns, heighten macrofinancial vulnerabilities, generate adverse cross-border spillovers, and increase trade tensions and economic fragmentation.

Simultaneous policy actions to address domestic imbalances yield the most favorable outcome for the global economy. In this scenario, excess global current account balances narrow over the medium term while mutually reinforcing policies support stronger global growth. In the absence of simultaneous actions, rebalancing effort by one country can still meaningfully reduce excess global balances, and its policy action would worsen domestic imbalances elsewhere, heightening the case for other countries to take appropriate actions. At the same time, unilateral adjustments could pose risks for the financial markets with negative impacts on growth and inflation.

Sustained external rebalancing requires policy action in both surplus and deficit countries. In surplus countries, durable market-oriented structural reforms can boost insufficient domestic demand and lift medium-term growth prospects, promoting investment. In deficit countries, appropriate fiscal consolidation can help rebuild fiscal buffers and increase saving. Pragmatic international cooperation remains vital in sustaining global growth and mitigating cross-country spillovers.

IMF EXECUTIVE BOARD DISCUSSION SUMMARY

The following remarks were made by the Acting Chair at the conclusion of the Executive Board's discussion of the External Sector Report on July 22, 2026.

Executive Directors broadly agreed with the findings and policy recommendations of the 2026 *External Sector Report* (ESR). They generally observed that global current account balances widened further in 2025, mainly reflecting a larger surplus in China, while balances narrowed in the euro area and the United States; although the US current account deficit remained the largest in level terms. Directors also noted that excess global current account balances continued to widen, reflecting primarily developments in major economies, with methodological changes to the External Balance Assessment (EBA) contributing to a lesser extent.

Directors observed that persistent and elevated current account positions reflect primarily domestic macroeconomic imbalances and are also affected by spillovers from other countries. They broadly agreed that, in the United States, these positions reflect persistently low saving; in China, they are associated with structurally high private saving and, more recently, weaker investment; while, in the euro area, they relate to subdued investment amid weak productivity growth. Directors generally concurred that, historically, trade barriers have not been associated with clear effects on current accounts. At the same time, they considered that increasing trade barriers, such as industrial policies and tariffs, are reconfiguring trade and investment patterns. Additionally, they noted that the impact of non market policies and practices on external balances is hard to quantify, in part due to lack of comprehensive data, and called for further work to better capture the impact of these distortions.

Directors welcomed staff's efforts to refine the EBA methodology, aimed at better reflecting the role of fundamentals in explaining current account dynamics. They noted, however, the continued large residuals from the models and pointed to the changes in current account norms following recent refinements. In this context, Directors stressed the importance of even-handedness, transparency, judgment, and caution when

interpreting and communicating individual country assessments, given the remaining methodological limitations and significant uncertainty around the estimates. They encouraged further efforts to improve the methodology on an ongoing basis. Directors continued to express differing views on the proposed adjustments to the net foreign assets methodology, noting that results remain sensitive to implementation choices. They generally stressed that continued Board engagement will be essential before methodological changes are finalized.

Directors generally agreed that global current account balances are likely to narrow over the medium term, contributing, albeit only modestly, to the reduction of excess global balances. They cautioned that this projection is subject to unusually high uncertainty.

Directors reiterated that persistent excess global current account balances could exacerbate risks of disorderly adjustment and economic fragmentation. Accordingly, they encouraged both excess surplus and deficit economies to pursue policies to address domestic imbalances. While a few Directors called for greater attention to spillovers from persistently large and rising surpluses, a few other Directors maintained that the analysis continues to place undue emphasis on surplus economies. A number of Directors reiterated that the focus should be on excessive and persistently large imbalances. Many Directors stressed that a disorderly rebalancing could have substantial spillover effects, amplify external vulnerabilities, and further limit policy space in many emerging market and developing economies, low income countries, and small states, highlighting the need for a clear understanding of transmission channels and available policy responses. Some Directors called for deeper analysis of stock positions and associated risks.

Directors welcomed the forward looking scenario analysis and concurred that global balances would widen further if current policy settings were maintained. They emphasized the benefits of undertaking

simultaneous adjustments to address domestic imbalances in reducing global external imbalances. Directors agreed that unilateral adjustments can also be effective in reducing global imbalances, but they may pose risks and spillovers to the global economy. In this context, a number of Directors saw merit in analyzing a more severe adverse scenario.

Directors underscored that policies to promote external rebalancing should be tailored to country circumstances. In economies with excess current account deficits, they emphasized the importance of credible fiscal consolidation, particularly where public debt remains high. In economies with persistent excess surpluses, Directors supported measures to promote investment and reduce excess saving. They noted the importance of strengthening the links between the ESR assessments and Article IV consultations.

Directors emphasized that the Fund has an important role to play in enhancing international policy dialogue and coordination. They underscored that pragmatic international cooperation remains essential to sustaining global growth, preserving the benefits of an open, rules based multilateral trading system, and mitigating cross border spillovers. Directors underscored that trade measures that are implemented to address cross border spillovers should be carefully targeted. They stressed the importance of a well functioning international monetary system, supported by a strong global financial safety net with the IMF at its center. In this regard, Directors encouraged members to consent to their quota increases under the Sixteenth General Review of Quotas to ensure that the Fund remains adequately resourced.

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

External Sector Developments in 2025

Current Accounts

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

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

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

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

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

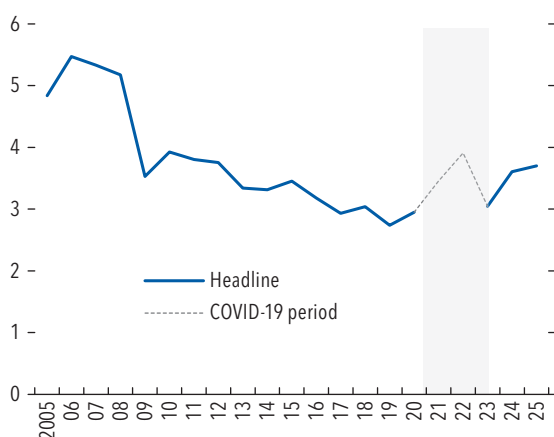
- China's current account surplus continues to be driven by structurally high private saving and, more recently, weakening investment. Private sector saving fluctuated around 39 percent of GDP between 2015 and 2019, roughly double the levels in advanced and emerging market economies, stemming mainly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

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

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

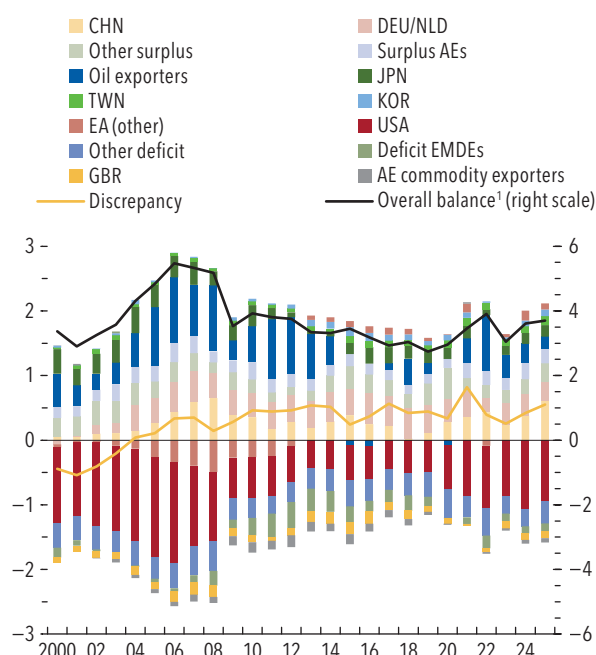
²Global current account balances temporarily increased and declined over 2020–23; however, this swing was driven by one-off COVID-19-related factors. Global current account balances remained broadly unchanged after stripping out these idiosyncratic factors (2025 *External Sector Report*).

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



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

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

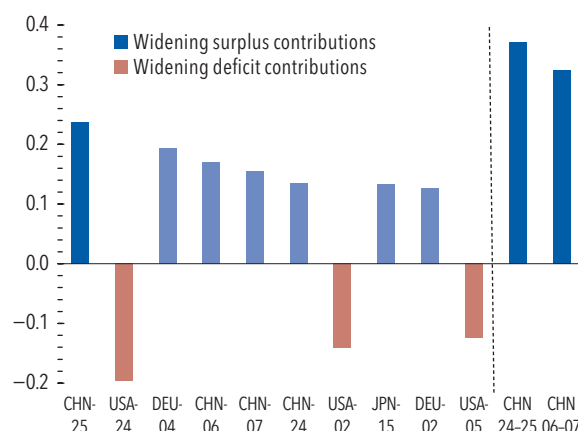


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

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

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

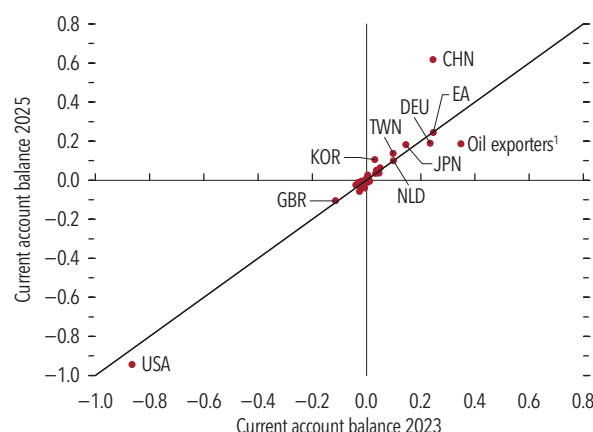
Figure 1.3. Ten Largest Single-Country Contributions to Widening Global Current Account Balances during 2000-25
(Percent of world GDP)



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

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

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

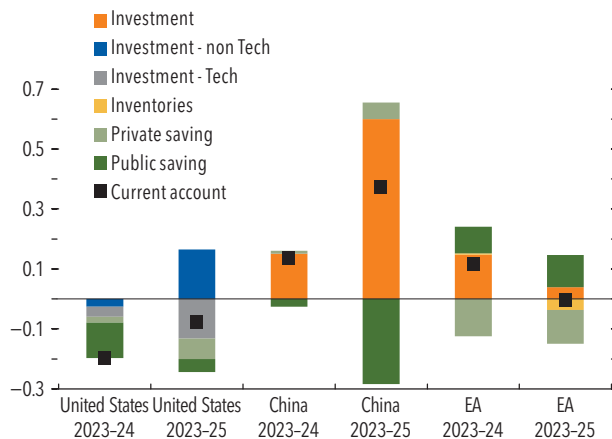


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

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

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

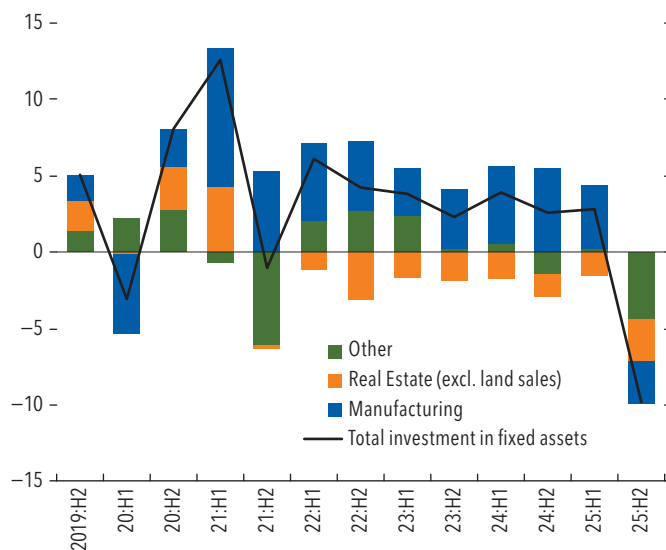
Figure 1.5. Decomposition of Changes in Current Account into Contributions from Saving and Investment, 2023-25
(Percent of world GDP)



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

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

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



Sources: Haver Analytics and IMF staff calculations.

ment decline is consistent with persistently low

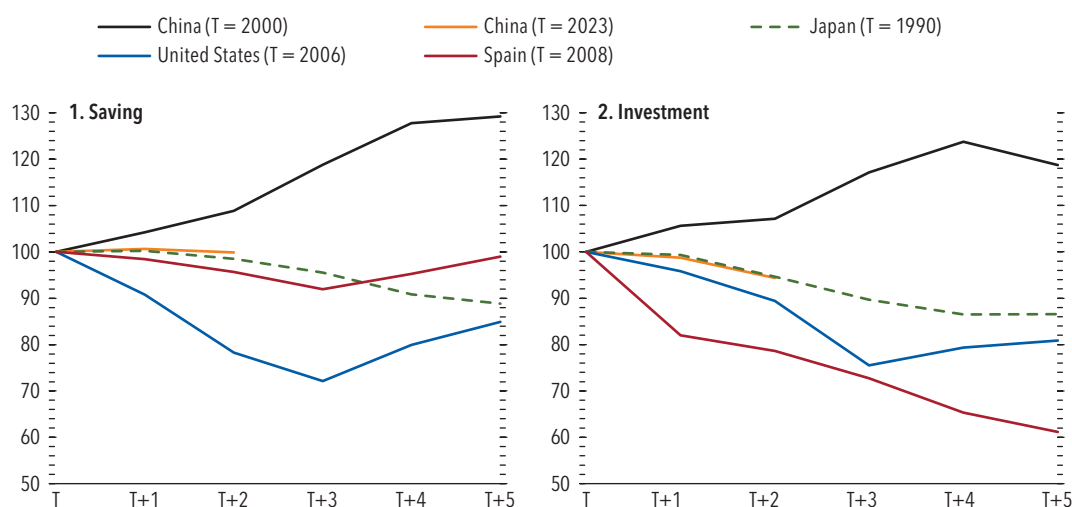
returns on capital (IMF 2026a) and potentially driven by policy measures aimed at reducing excess capacity and curbing involution (IMF 2026b).³ Household saving has also ticked up amid weak consumer confidence, including regarding future income and employment prospects, though this has been partly offset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

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

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

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

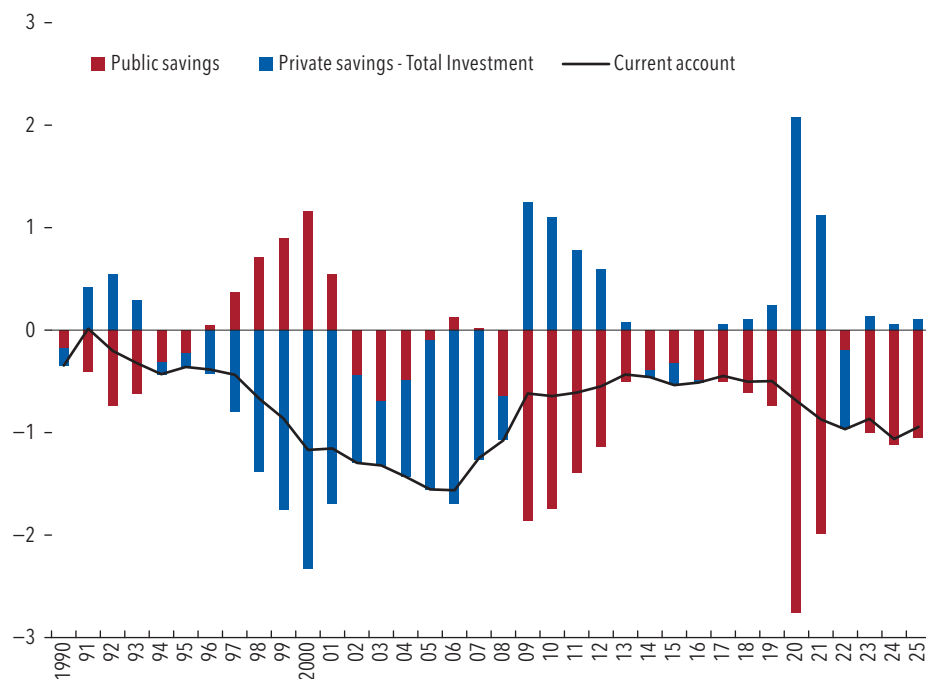
Figure 1.7. Saving and Investment Dynamics during Real Estate Corrections and in China in the Early 2000s
(Index $T = 100$)



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

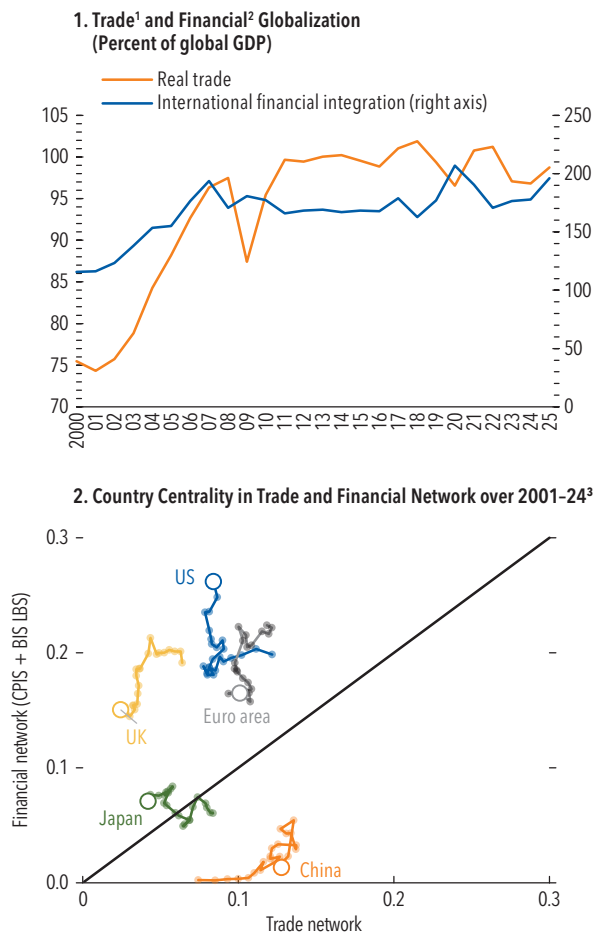
Note: The figure shows investment and saving (as shares of GDP), indexed to 100 in time T, defined as the year preceding the decline in investment share associated with the housing market correction. While the recent downturn in China's housing market began prior to 2023, T is set to 2023 to limit the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

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



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

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

Figure 1.9. Trade and Financial Globalization and Specialization

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

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

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

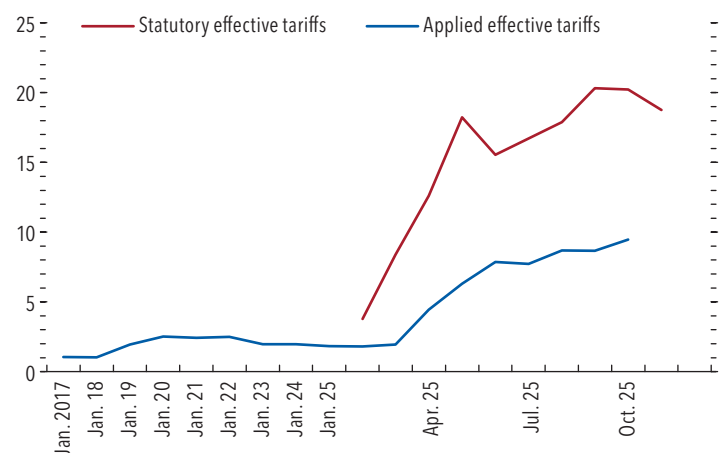
²Financial integration is defined as assets plus liabilities and include the weighted sum of three groups (advanced economies, emerging and developing economies, and financial centers).

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

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

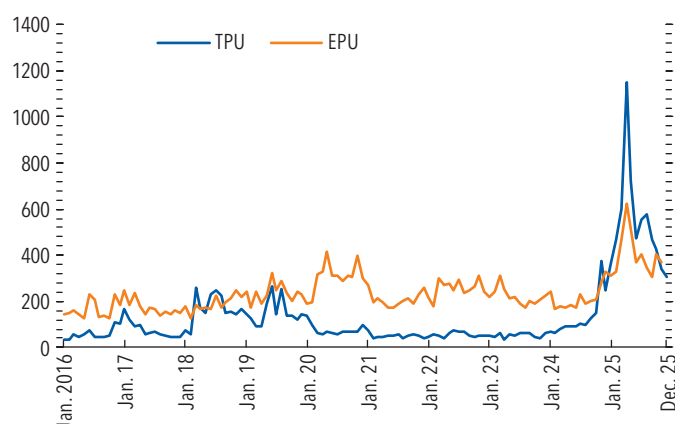
spending, and inventory accumulation (Figure 1.5). The current account decline in 2025 was particularly pronounced in Germany, France, and Ireland, with Ireland exhibiting particularly volatile current account balances due to distortions associated with its large multinational enterprises. More generally,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

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

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

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

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

Figure 1.11. Surging Policy Uncertainty

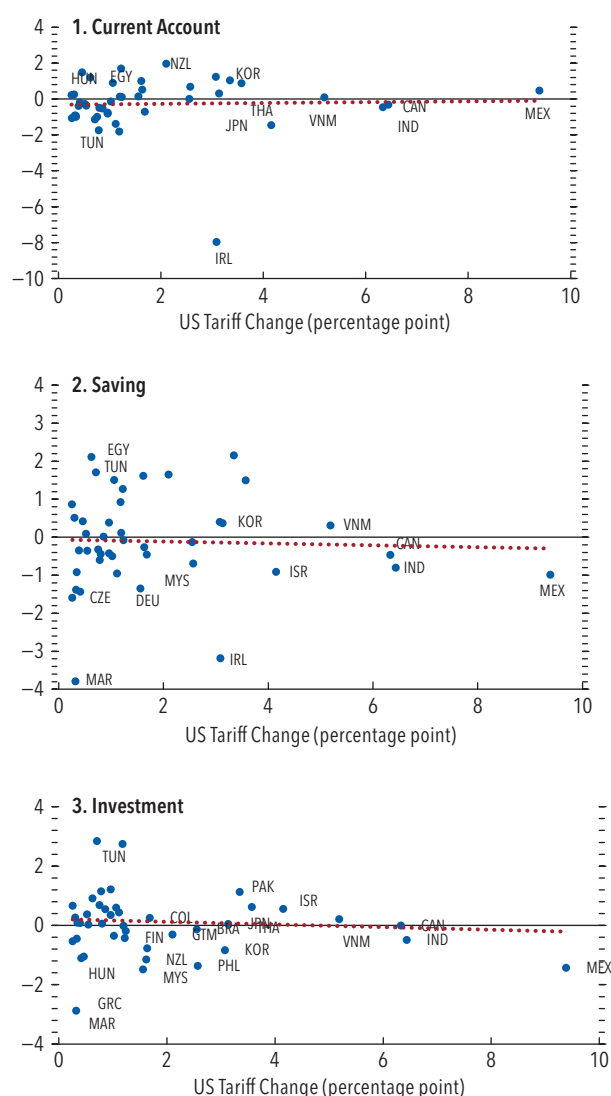
Sources: Baker, Bloom and Davis (2016); Davis (2016); Zalla (2017), Hardouvelis and others (2018); Arbatli and others (2022); Davis, Liu, and Sheng (2019); Ghirelli, Pérez, and Urtasun (2019); and IMF staff calculations.

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

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

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

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

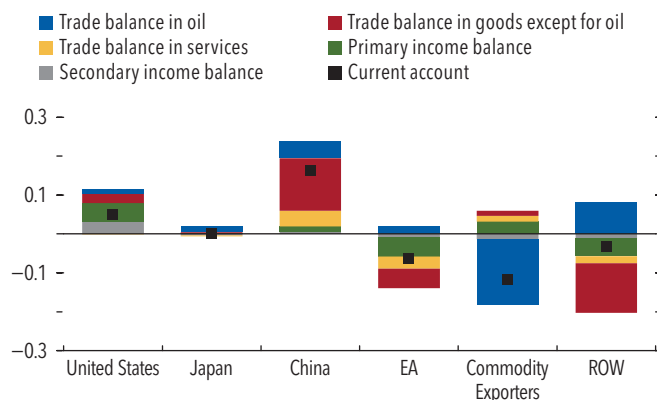
Figure 1.12. Tariffs and Current Account: 2024 vs 2025
(Change in percent of GDP between 2024 and 2025)

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

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

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

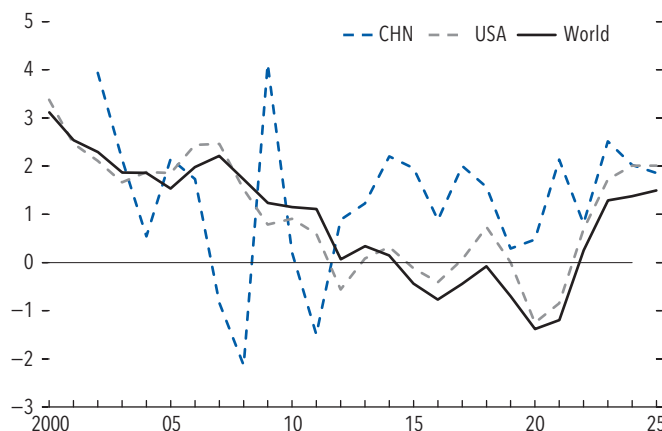
Figure 1.13. Decomposition of Changes in Current Account by External Flow Components, 2024-25
(Percent of world GDP)



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

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

Figure 1.14. Real Interest Rates
(Percent per year)

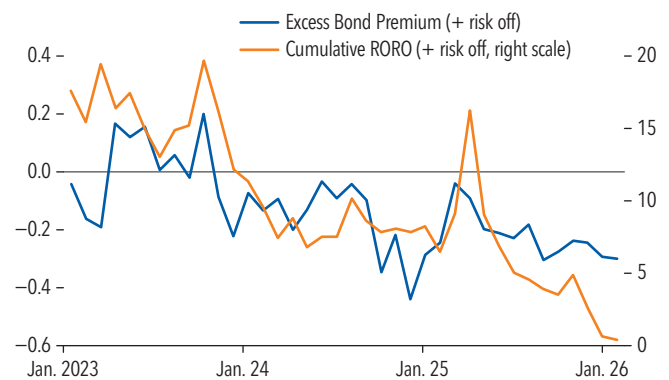


Sources: *Consensus Economics*; Organisation for Economic Co-operation and Development; IMF, *World Economic Outlook* database; and IMF staff calculations.

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

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

Figure 1.15. Global Financial Conditions and Risk Appetite



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

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

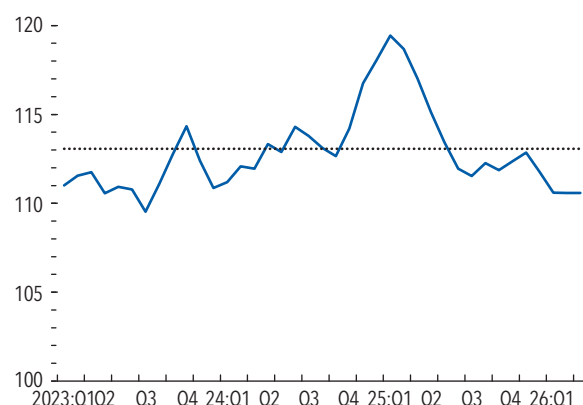
Despite higher global interest rates, global financial conditions eased in 2025, partly reflecting stronger US equity markets (Figure 1.15). This easing relaxed leverage constraints on global financial intermediaries, enabling greater intermediation of cross-border funding toward higher-return projects.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

Currencies, Financial Flows, and Balance Sheets

Exchange Rates

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

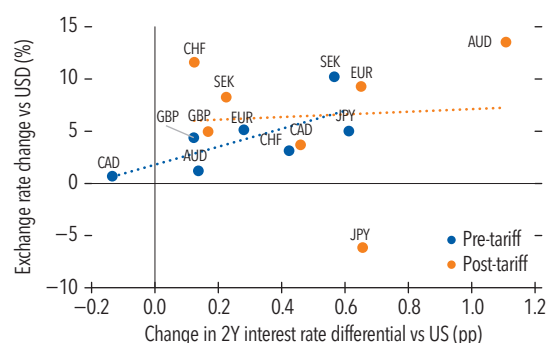
Figure 1.16. US Dollar during 2023–26
(US REER, 2000–25 average = 100; increase = appreciation)



Source: Haver Analytics.

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

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



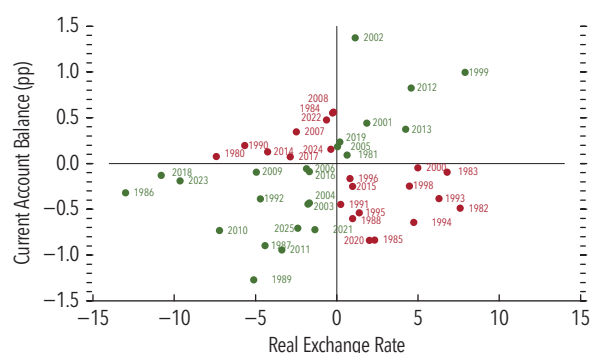
Sources: Bloomberg L.P.; and IMF staff calculations.

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

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

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

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



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

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

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

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

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

Other Currencies

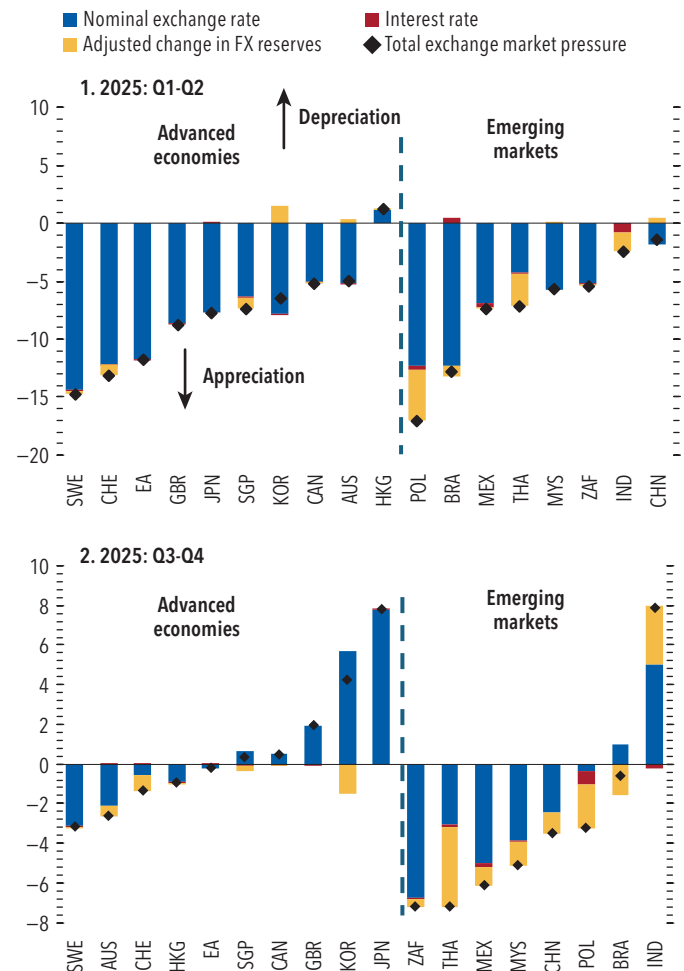
Across broader currency groups, both advanced and emerging market economies faced uniform appreciation pressure in the first half of 2025 (Figure 1.19, panel 1). Exchange rate changes were the main outlet for addressing exchange rate pressures. Adjusted changes in FX reserves also contributed to absorbing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

Global Financial Flows

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

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

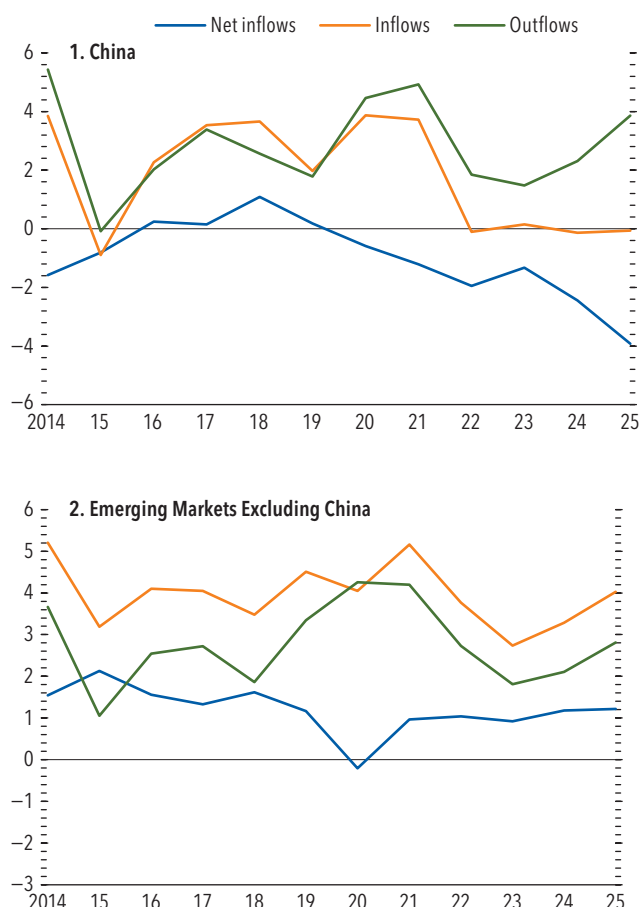
Figure 1.19. Exchange Market Pressure and Its Components
(Percent change, + = depreciation pressure)



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

Note: The Exchange Market Pressure Index is based on Goldberg and Krogstrup (2023, updated). It combines pressures observed in exchange rate adjustments with model-based estimates of incipient pressures that are masked by changes in FX reserves and policy rate adjustments. Goldberg and Krogstrup (2023) weights are available through December 2024. Latest available observation is held constant for the 2025 series. Positive values correspond to exchange market pressure that would depreciate the nominal exchange rate. Values of adjusted changes in FX reserves and interest rate changes are expressed in terms of counterfactual exchange rate adjustments that would have occurred if no changes in FX reserves or policy rates had occurred. Changes in FX reserves are adjusted for valuation changes, income flows, and changes in other foreign currency balance sheet positions by Adler and others (2024, updated). This measure often reflects FX intervention, but it can sometimes be dominated by other changes in the central bank's foreign currency position. Central banks can also intervene through derivatives, which have been increasingly used in some economies. Country sample includes ESR economies covered by Goldberg and Krogstrup (2023). Missing ESR economies are Argentina, Indonesia, Saudi Arabia, and Türkiye; Russia is excluded as an outlier. The United States is not reported as the reference currency is the US dollar. Data labels in the figure use International Organization for Standardization (ISO) country codes. EA = euro area; ESR = External Sector Report; FX = foreign exchange.

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



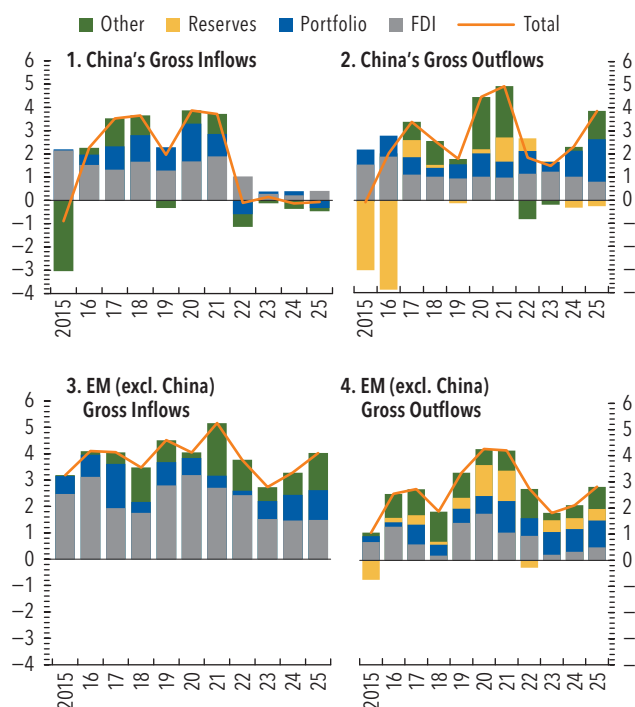
Sources: IMF, Balance of Payments database; and IMF staff calculations.

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

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

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

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



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

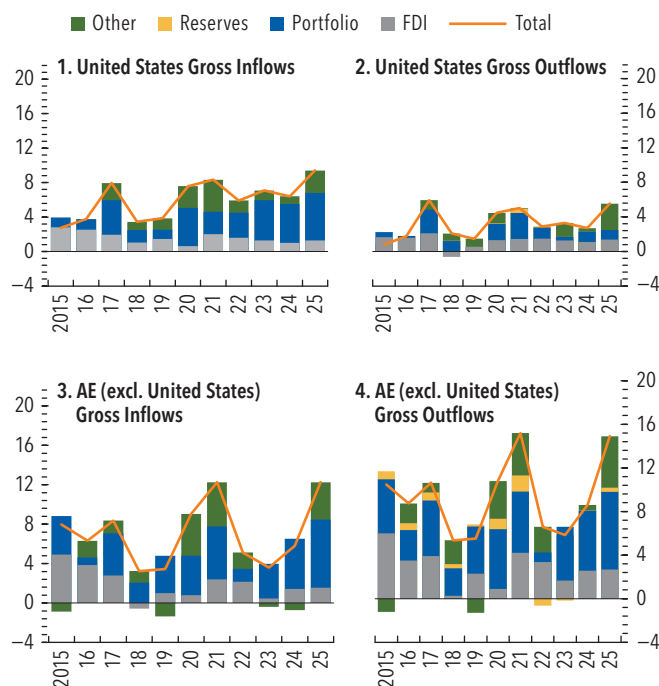
Note: Sample includes emerging market economies, subject to data availability. Derivatives are excluded. EM = emerging market; FDI = foreign direct investment.

Global Balance Sheets

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

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

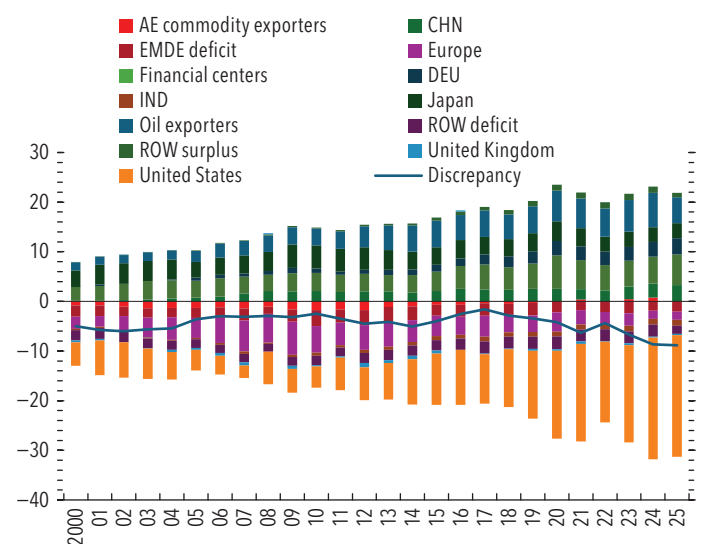
Figure 1.22. Gross Capital Flows to Advanced Economies by Component, 2014-25
(percent of GDP)



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

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

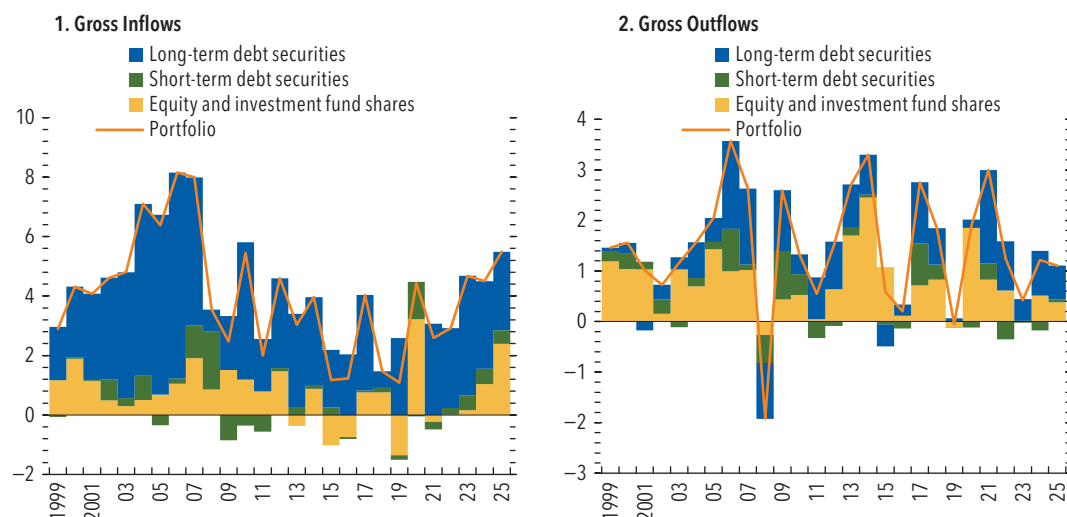
Figure 1.24. Net International Investment Positions, 2000-25
(Percent of world GDP)



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

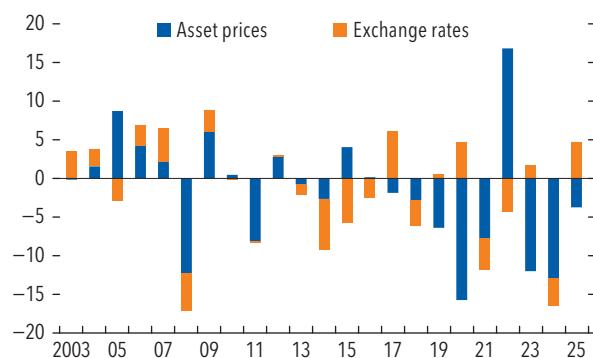
Note: Liabilities are shown on a reverse scale. Data labels in the figure use International Organization for Standardization (ISO) country codes. AE commodity exporters include Australia, Canada, and New Zealand. EMDE debtors include Brazil, Chile, Indonesia, Mexico, Peru, South Africa, and Türkiye.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

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



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

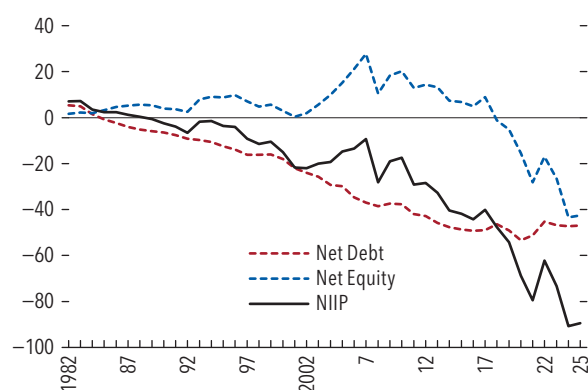
Figure 1.25. US Net Valuation Changes on External Position
(Percent of GDP)



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

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

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



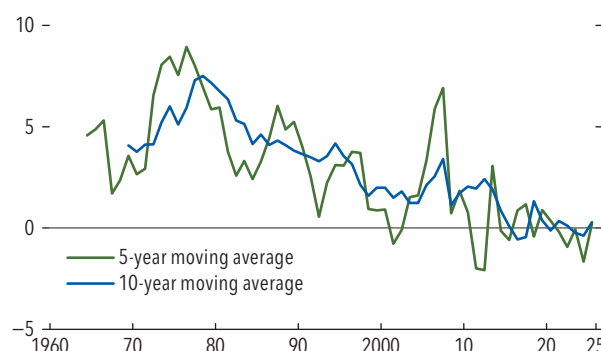
Sources: Bureau of Economic Analysis Table 1.2; IMF staff calculations.

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

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

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

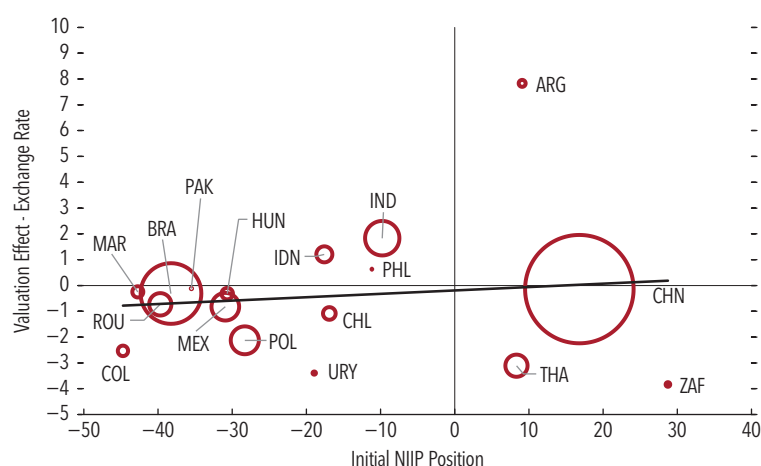
Figure 1.27. The United States’ Excess Returns on Gross External Assets and Gross Liabilities
(Percent)



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

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

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



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

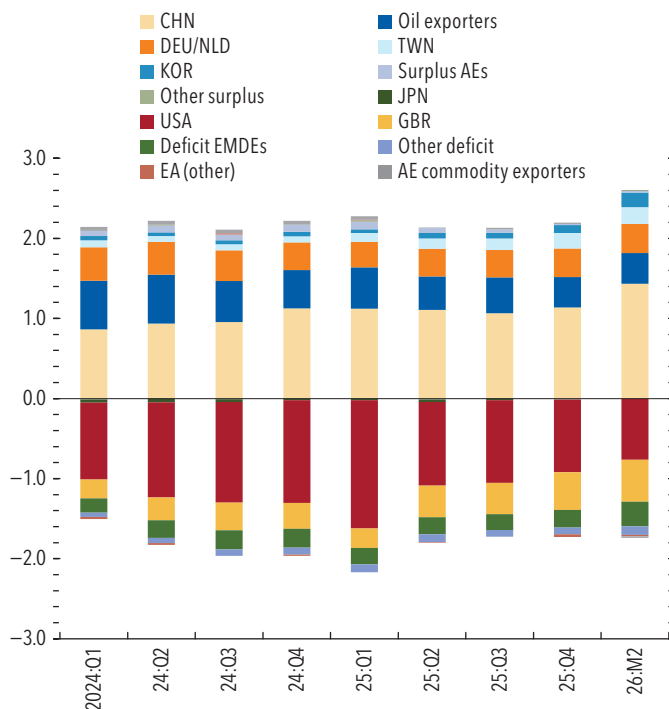
Note: Data labels in the figure use International Organization for Standardization country codes. NIIP = Net International Investment Position.

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

Developments in Early 2026

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

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



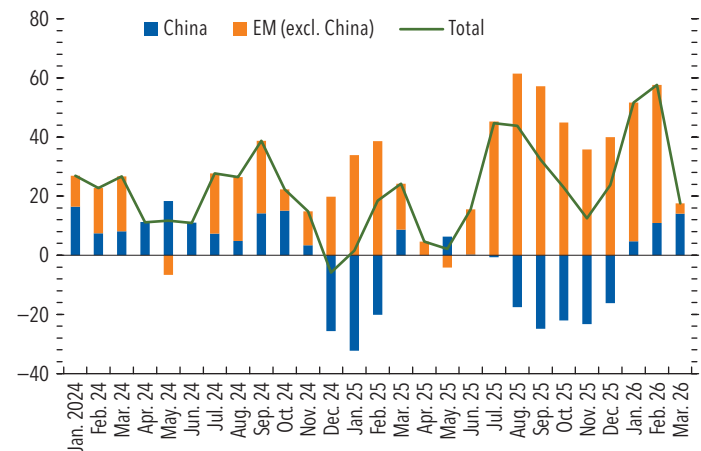
Sources: IMF, World Economic Outlook database; national statistical offices; and IMF staff calculations.

Note: Data labels in the figure use International Organization for Standardization country codes. AE = advanced economy; EA = euro area; EMDE = emerging market and developing economy. Oil exporters' data is kept constant from the fourth quarter of 2025.

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

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

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



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

Note: EM = emerging market.

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

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

Assessment of External Positions in 2025

This report represents multilaterally consistent individual assessments of external positions for 30 of the world's largest economies, representing about 90 percent of world GDP. Annex Tables 1.1.2, 1.1.3, 1.1.4, and 1.1.5 summarize the IMF staff-assessed current account and real effective exchange rate (REER) gaps and external sector assessments for these economies.

Methodology

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

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

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

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

Assessment Results for 2025

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

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

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

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

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

⁷The EBA current account norms reflect fundamental features affecting the saving and investment decisions of economies. Economies with higher incomes, older populations, and lower growth prospects tend to have positive norms, while economies that have younger populations and are expected to import capital to invest and exploit their higher growth potential, have negative norms. Norms also depend on desirable medium-term policies—that is, policies deemed appropriate by IMF staff once cyclical factors are accounted for. For example, economies for which IMF staff recommend a fiscal policy that is loose relative to the average for the ESR sample will have lower norms than those evaluated as needing a relatively tighter fiscal policy.

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

Figure 1.31 Evolution of External Sector Assessments, 2012-25

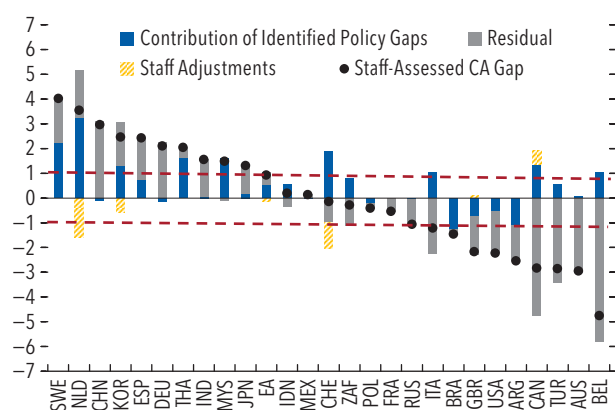
Source: IMF staff assessments.

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

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

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

Figure 1.32. External Balance Assessment Current Account Gaps, 2025
(Percent of GDP)



Source: IMF, External Balance Assessment estimates.

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

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

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

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

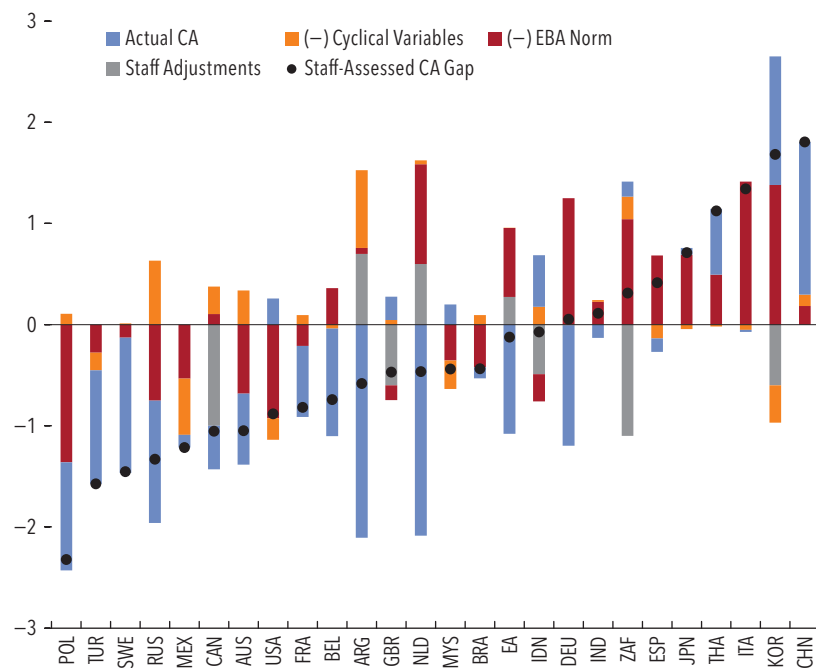
Both policy gaps and residuals capture spillovers from policy stance and distortions in other economies. EBA variables are defined relative to a GDP-weighted sample average; thus, changes in policies in large economies—or in economies with sizable policy gaps—can induce material cross-border spillovers.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

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

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

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

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



Source: IMF staff calculations.

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

Current Account Norms in 2025

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

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

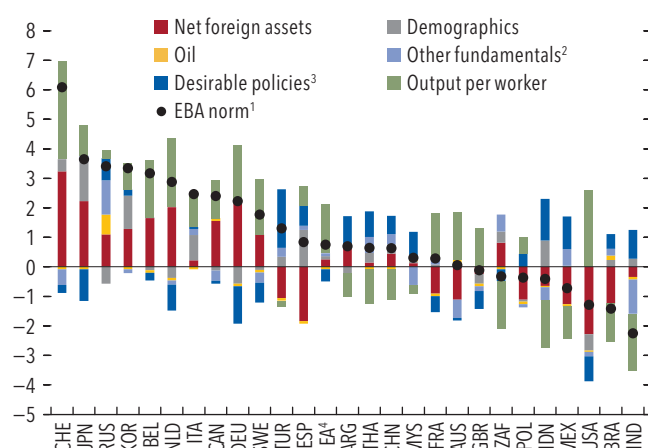
model specification. Data update and extension account for the majority of the changes in CA norms, although in some cases, the changes were largely driven by the refined model specification. (Figure 1.35).

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

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

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

Figure 1.34 External Balance Assessment Current Account Norms, 2025
(Percent of GDP)



Source: IMF, External Balance Assessment estimates.

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

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

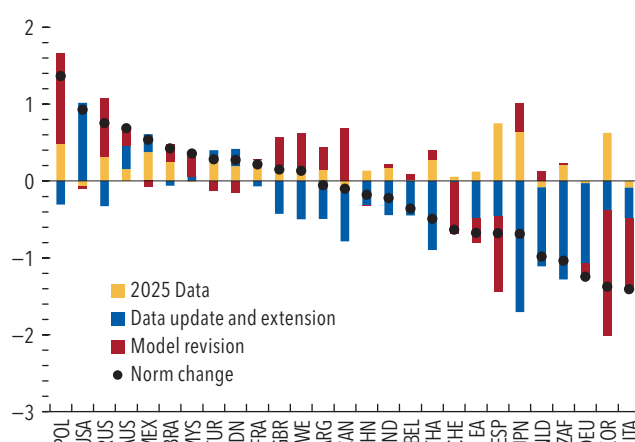
²Other fundamentals include expected GDP growth and International Country Risk Guide.

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

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

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

Figure 1.35. Sources of Changes in External Balance Assessment Current Account Norms 2024-25
(Percent of GDP)



Source: IMF, External Balance Assessment estimates.

Note: Figure excludes Hong Kong SAR, Saudi Arabia, and Singapore, because they are not included in the EBA regression model. Data labels use International Organization for Standardization country codes. The changes to the norm are decomposed to (1) 2025 Data: Change in data from 2024 to 2025, including updates to desirable policies (P*), using the 2022 EBA model, (2) Data update and extension: full EBA sample data update, including the 2024 revision of the UN World Population Prospects, and re-estimation of the model with extended sample to 2023, and (3) Model revision: revision to the demographic specification. EA = euro area; EBA = External Balance Assessment.

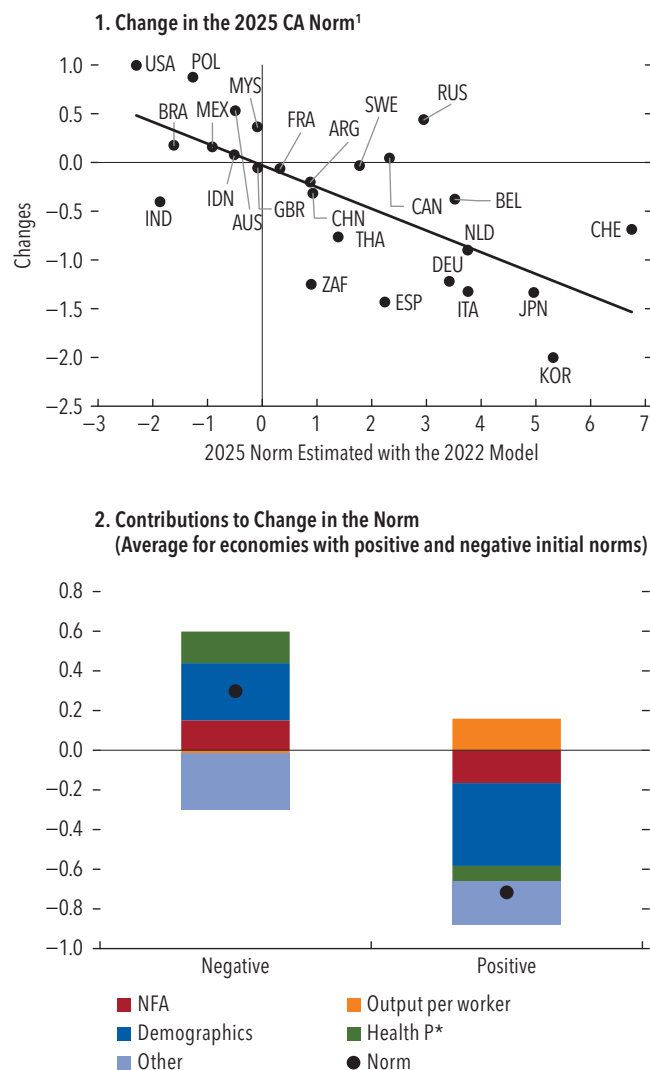
flows from capital-abundant (high capital-labor ratio) advanced economies to emerging market economies, potentially supported by improved policy and regulatory frameworks in EMEs (see further evidence in Online Annex section 1.4).

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

Global Excess Current Account Balances

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

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



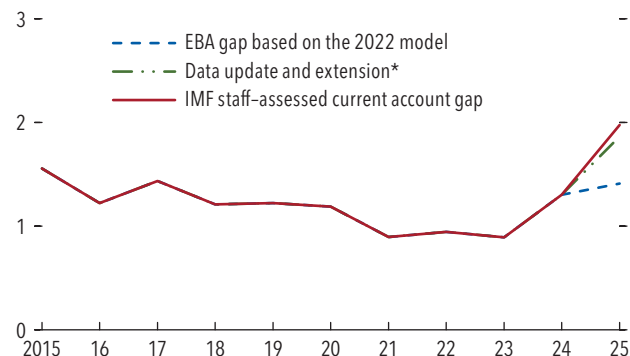
Sources: Source: IMF staff estimates.

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

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

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

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

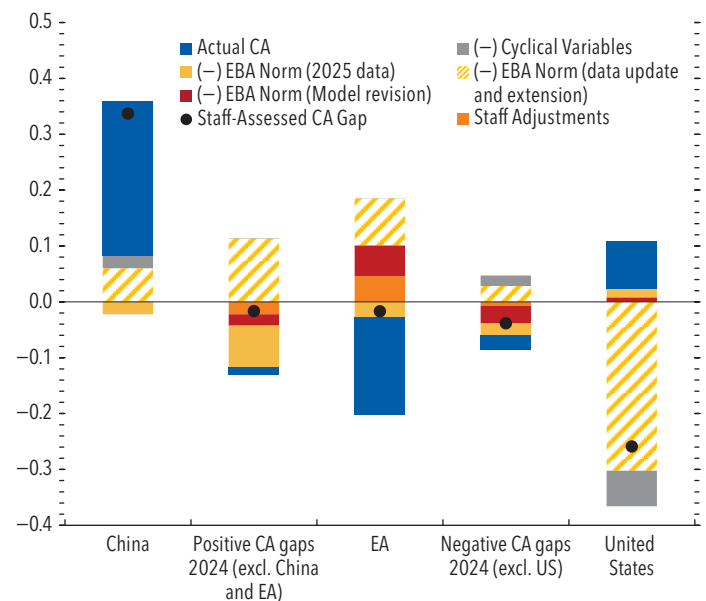


Source: IMF staff calculations.

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

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

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



Source: IMF staff calculations.

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

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

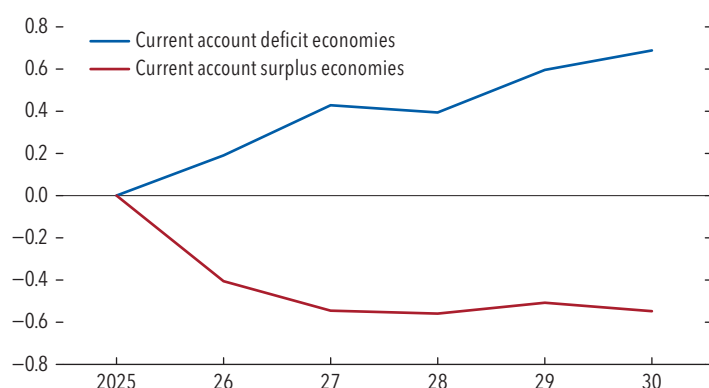
Outlook and Risks

Outlook: April 2026 World Economic Outlook Reference Forecast

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

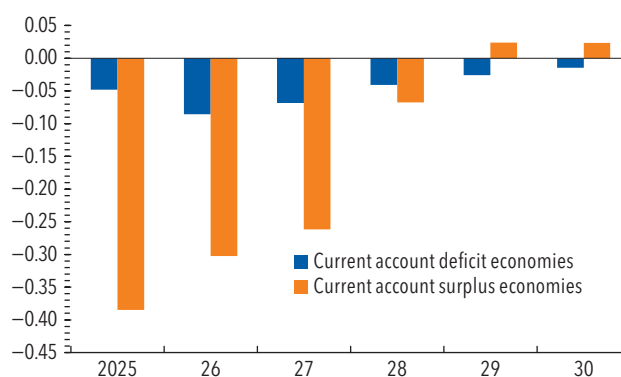
Fiscal policy and cyclical developments contribute to the projected narrowing of global balances. Among the contributing factors is the projected medium-term fiscal consolidation in current account deficit economies

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



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

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



Sources: IMF staff calculations.

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

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

Risks of Large and Persistent Global Imbalances

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

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

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

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

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

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

A rapid increase in current account surpluses can have disproportionate negative effects on specific bilateral trade partners or in specific sectors, as the speed of adjustment interacts with existing frictions. Although current account shifts may be warranted from a long-term perspective, the existing evidence suggests that swift adjustments are frequently associated with substantial short-term dislocations. For example, the surge in Chinese exports following WTO accession led to sizable employment and income losses in more exposed industries and regions across advanced economies (Autor, Dorn, and Hanson, 2013; Foliano and Riley, 2017; Donoso, Martín, and Minondo,

2015). When an economy faces large shocks and the adjustment becomes increasingly difficult, a gradual adjustment could be socially more efficient than a fast one. Lehr and Restrepo (2022) illustrate that the speed of adjustment is critical, with gradual adjustments generating less adverse distributional effects in the short term (2025 *External Sector Report* Box 1.2).

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

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

Scenario: Continuation of Current Trends

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

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

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

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

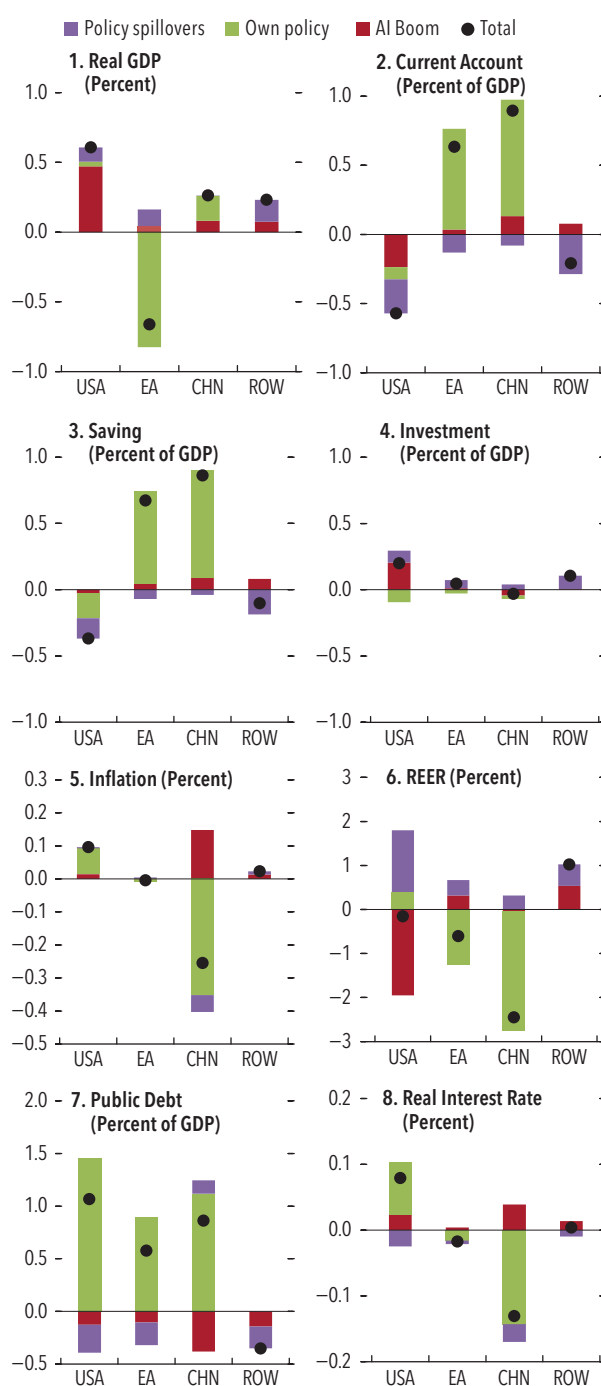
This set of policies generates larger current account surpluses in China and the euro area and deeper deficit in the United States, implying a further widening of global balances (Figure 1.41).

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

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

¹⁹See Box 1.5 for details of the assumptions.

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



Source: IMF staff calculations.

Note: The figure shows medium-term responses for selected macro variables, captured in the model as the average of the three- to five-year horizon. Short-term, not depicted in the figure, but referenced in the text, refers to responses at the one- to two-year horizon. All responses are reported as deviations from baseline. For each country/region, "Own policy" reports the response to domestic policy shock: fiscal expansion for the United States, weak demand for China, weak productivity for euro area. "AI boom" reports response to US-led AI boom. "Policy spillovers" shows total domestic impact from foreign policy shocks. Reported model responses are for four countries/regions: (1) China, (2) the euro area, (3) the United States, and (4) the rest of the world. Data labels in the figure use International Organization for Standardization country codes. AI = artificial intelligence; Investment = sum of private and public investment, but their components not reported separately; REER = real effective exchange rate, with a decrease representing a depreciation; Real interest rate = short-term real interest rate; Saving = sum of private and public saving.

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

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

Benefits of Collective Actions

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

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

Simultaneous Adjustment Scenario

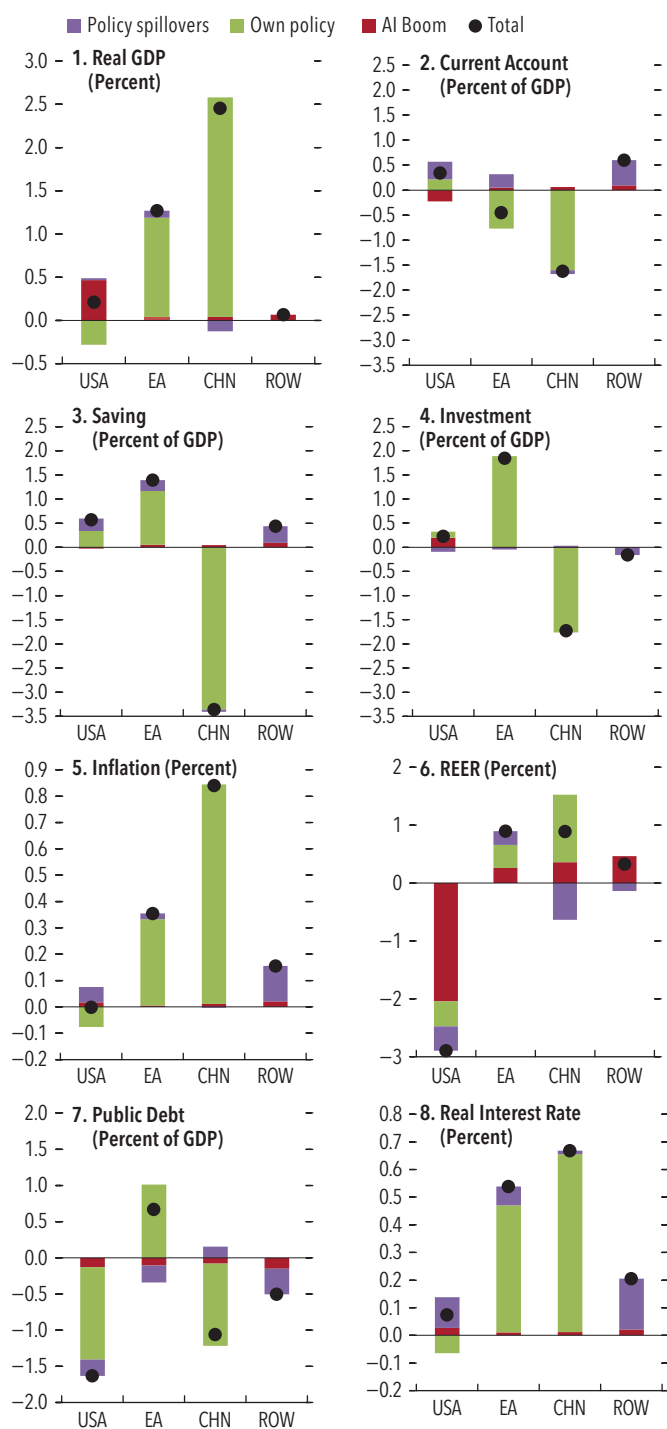
A simultaneous adjustment scenario entails major economies taking actions to address domestic imbalance.²⁰ The scenario assumes an expenditure-driven fiscal consolidation in the United States, while the AI-driven boom continues to intensify. China rebalances by increasing social spending and supporting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

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

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

²⁰See Box 1.5 for details of the assumptions.

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



Source: IMF staff calculations.

Note: The figure shows medium-term responses for selected macro variables, captured in the model as the average of the three- to five-year horizon. Short-term, not depicted in the figure, but referenced in the text, refers to responses at the one- to two-year horizon. All responses are reported as deviations from baseline. For each country/region, "Own policy" reports the response to domestic policy shock: fiscal reform for the United States, broad reform for China, productivity reform for euro area. "AI boom" reports response to US-led AI boom. "Policy spillovers" shows total domestic impact from foreign policy shocks. Reported model responses are for four countries/regions: (1) China, (2) the euro area, (3) the United States, and (4) the rest of the world. Data labels in the figure use International Organization for Standardization country codes. AI = artificial intelligence; Investment = sum of private and public investment, but their components not reported separately; REER = real effective exchange rate, with a decrease representing a depreciation; Real interest rate = short-term real interest rate; Saving = sum of private and public saving.

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

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

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

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

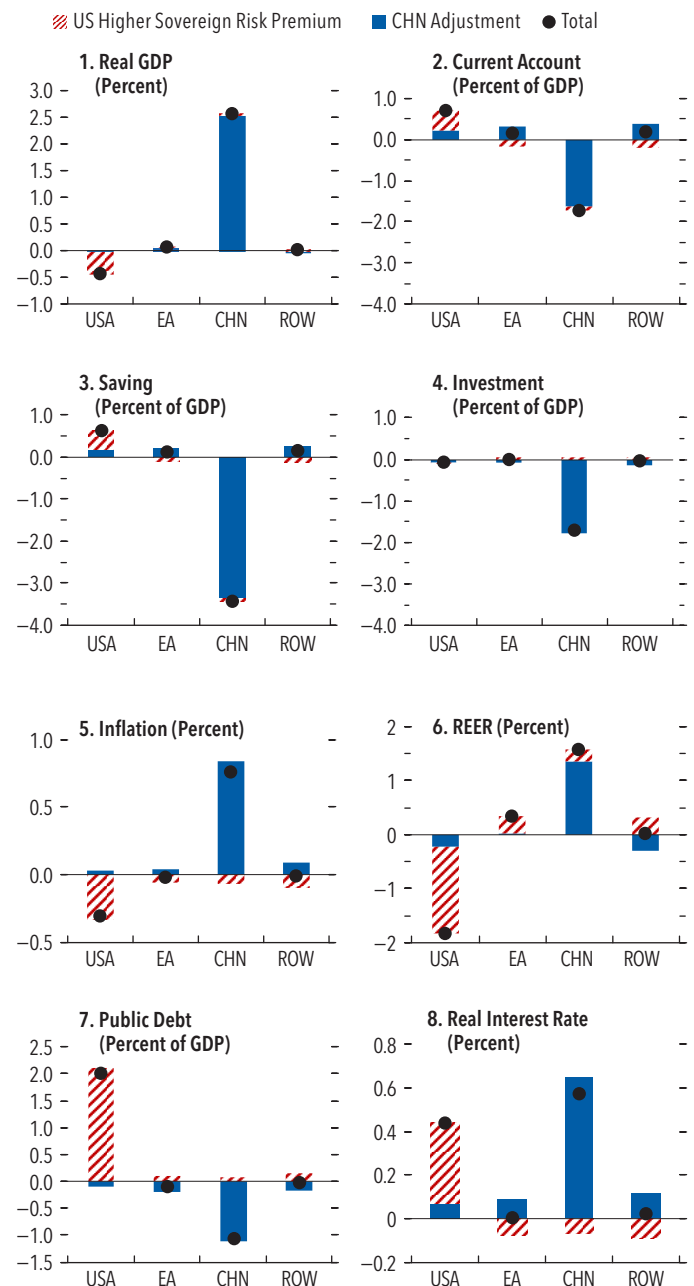
Analysis of Unilateral Adjustments

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

China Adjustment Case

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

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



Source: IMF staff calculations.

Note: The figure shows medium-term responses for selected macro variables, captured in the model as the average of the three- to five-year horizon. Short-term, not depicted in the figure, but referenced in the text, refers to responses at the one- to two-year horizon. All responses are reported as deviations from baseline. Reported model responses are for four countries/regions: (1) China, (2) the euro area, (3) the United States, and (4) the rest of the world. Data labels in the figure use International Organization for Standardization country codes. Investment = sum of private and public investment, but their components not reported separately. Real Interest rate = short-term real interest rate. REER = real effective exchange rate, with a decrease representing a depreciation. Saving = sum of private and public saving.

²²See Box 1.5 for details of the assumptions.

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

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

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

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

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

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

US Adjustment Case

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

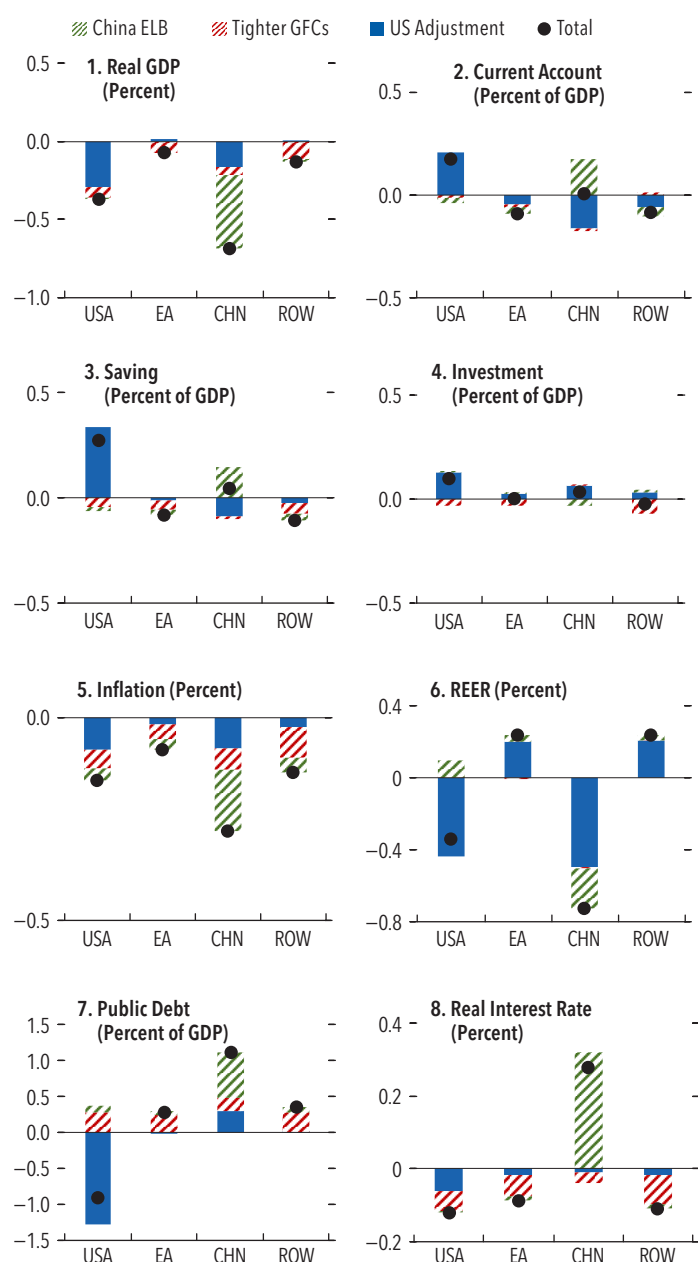
Fiscal consolidation in the US carries the risk of tightening global financial conditions in the near term, as growth weakens globally (Figure 1.44, red bars). The financial channel—captured by higher corporate risk premium—further reduces output and inflation across regions, with disproportionate effects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

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

Policy Priorities for Promoting External Rebalancing

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

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



Source: IMF staff calculations.

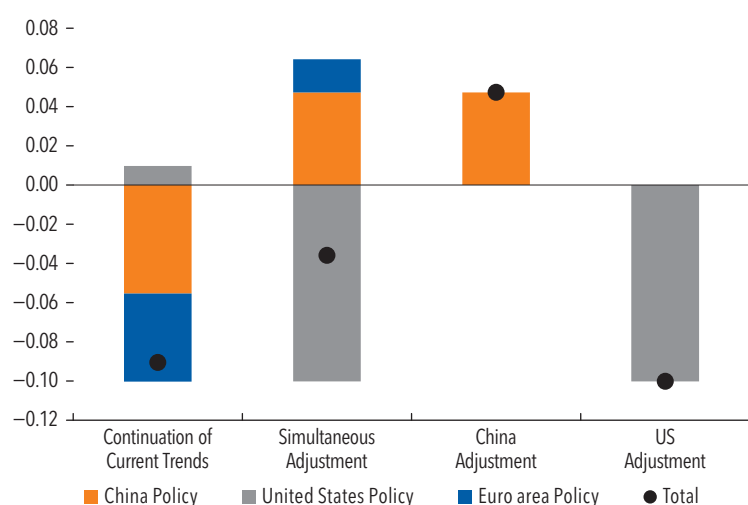
Note: The figure shows medium-term responses for selected macro variables, captured in the model as the average of the three- to five-year horizon. Short-term, not depicted in the figure, but referenced in the text, refers to responses at the one- to two-year horizon. All responses are reported as deviations from baseline. Reported model responses are for four countries/regions: (1) China, (2) the euro area, (3) the United States, and (4) the rest of the world. Data labels in the figure use International Organization for Standardization country codes. ELB = effective lower bound. GFCs = Global Financial Conditions. Investment = sum of private and public investment, but their components not reported separately. Real interest rate = short-term real interest rate. REER = real effective exchange rate, with a decrease representing a depreciation. Saving = sum of private and public saving.

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

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

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

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



Source: IMF staff calculations.

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

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

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

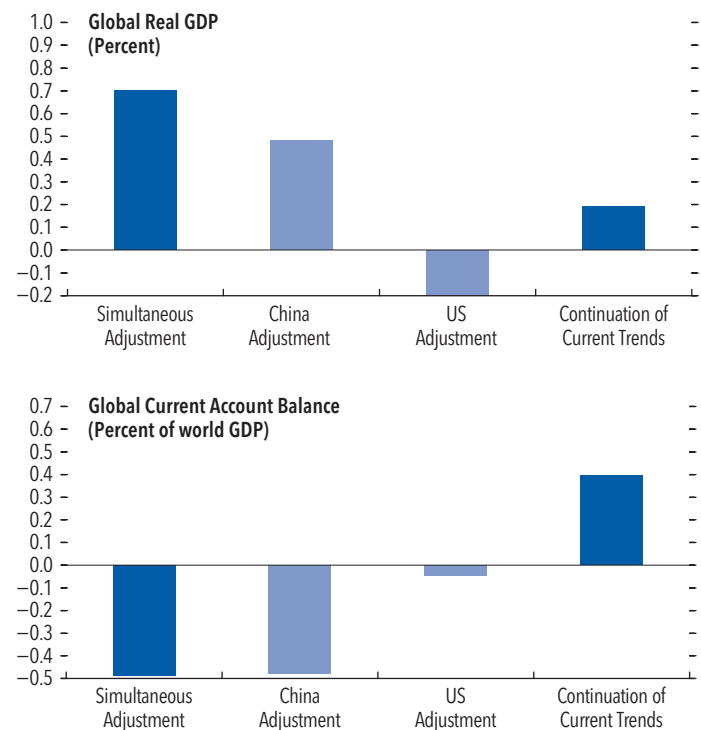
Policies to promote external rebalancing are tailored for the external position and needs of individual economies. These policies are discussed in detail in the individual economy assessments in Chapter 2 (and summarized in Annex Table 1.1.6).

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

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

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

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



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

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

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

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

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

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

¹ For India, data are presented on a fiscal year basis.² The global current account balance is the sum of absolute deficits and surpluses. Overall surpluses and deficits (and the "of which" advanced economies) include non-*External Sector Report* economies.

Table 1.2. Selected Economies: Net International Investment Position, 2022-25

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

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

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

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

Box 1.1. Trade Barriers and the Current Account

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

Potential Channels of Impact

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

$$CA = S - I$$

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

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

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

A Catch-All Measure of Trade Barriers

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

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

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

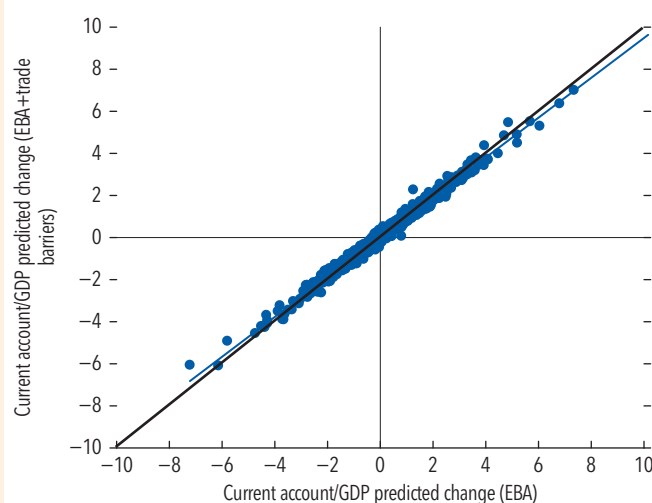
³The findings reported in this box are robust to computing trade barriers using only goods trade data.

⁴Headline results are robust to either assumption.

This box was prepared by Roman Merga and Robert Zymek.

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

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

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

Source: IMF staff calculations.

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

Table 1.1.1. Trade Barriers in EBA

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

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

Do Trade Barriers Improve the EBA Model?

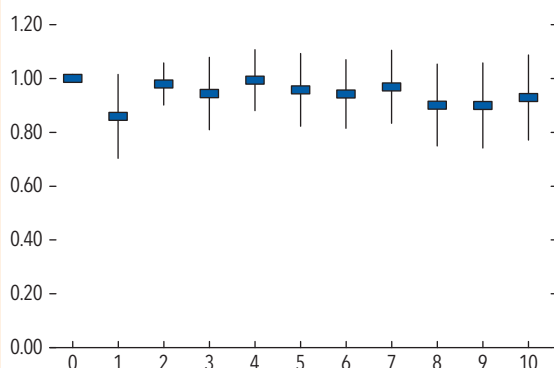
When overall import and export barriers computed from the gravity approach are incorporated into the 2019 EBA current account regression, they have a statistically significant but economically modest effect.

Table 1.1.2. Trade Barriers and Saving and Investment

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

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

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

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

Sources: IMF staff calculations.

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

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

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

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

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

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

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

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

Box 1.2. Trade Patterns and Trade Balances in 2025

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

A historic turning point for trade policy

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

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

Substitution of imports across time and space

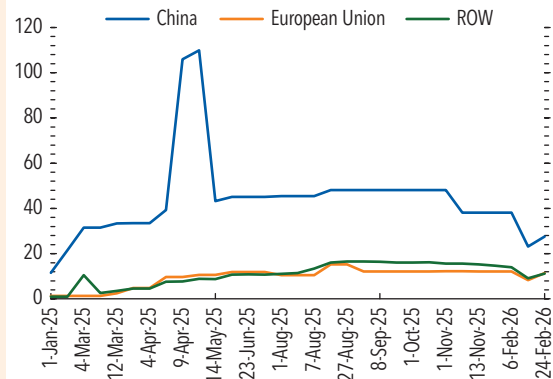
Over the course of 2025, the US trade deficit initially widened relative to trend in the first quarter, only to reverse in the second half of the year. This contrasts with other major post-War US tariff shocks, which barely moved the trade balance (Figure 1.2.2).

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

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

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

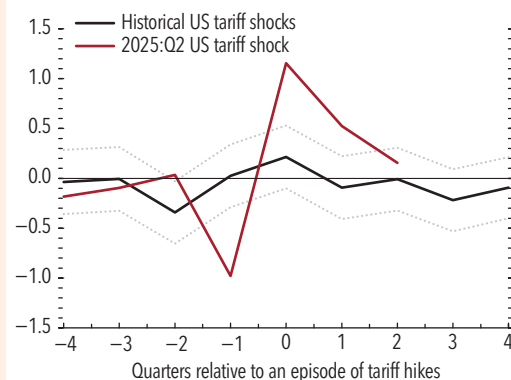
Figure 1.2.1. US Import Tariffs by Source in 2025
(Percent)



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

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

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

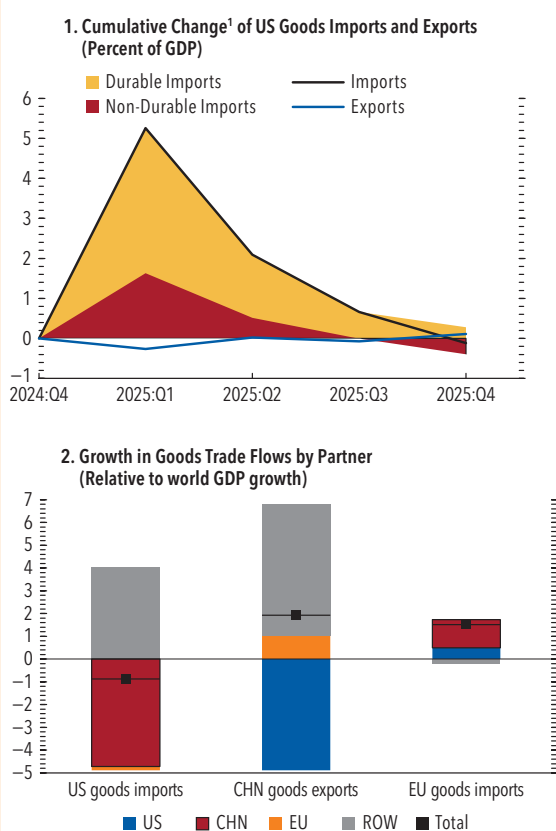


Sources: Federal Reserve Economic Data, Schmitt-Grohé and Uribe (2025); and IMF staff calculations.

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

Box 1.2 (continued)

Figure 1.2.3. United States Goods Trade in 2025



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

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

¹Change relative to the same quarter in 2024.

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

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

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

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

Box 1.2 (continued)

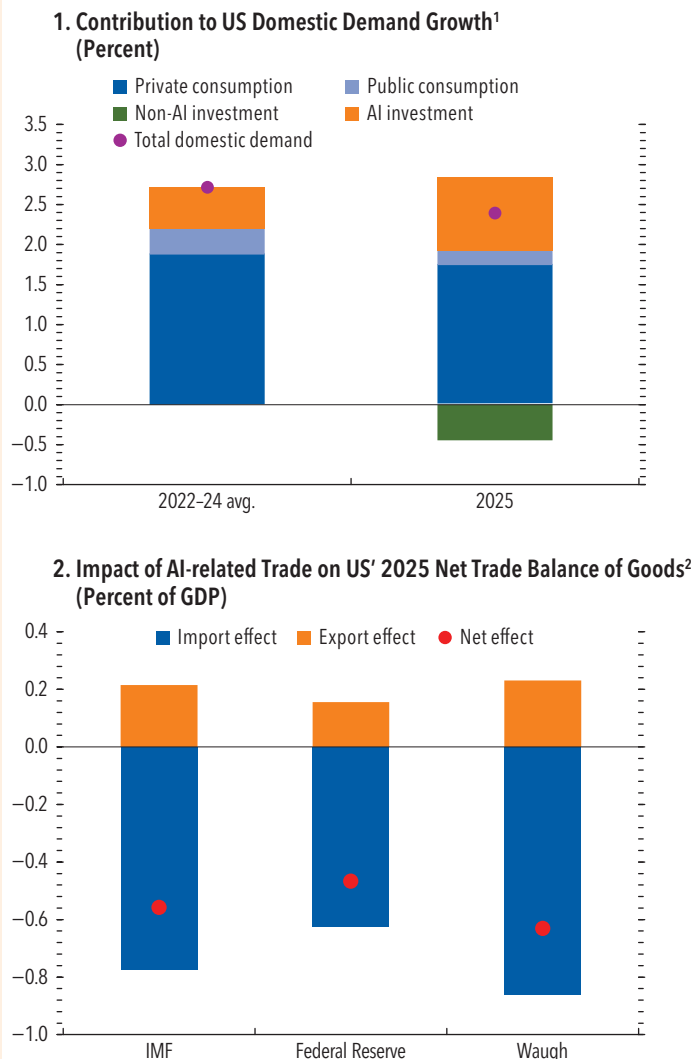
According to textbook macroeconomic models, the negative effect on imports from the imposition of tariffs should be offset by an appreciation of the exchange rate, which may leave the overall trade balance largely unaffected. However, the behavior of the US dollar did not conform to this prediction.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

AI-driven trade

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

Trade-partner spillovers

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

Figure 1.2.4. Impact of AI on the United States Economy

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

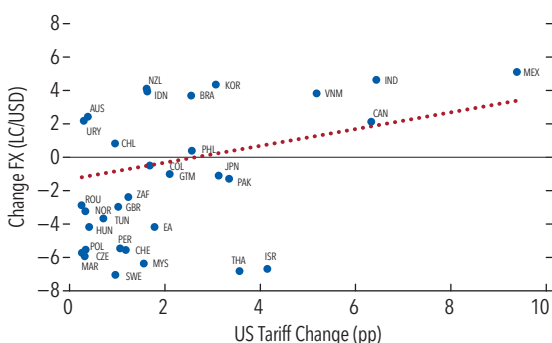
Note: AI = artificial intelligence; HS = harmonized system; LLM = large language model.

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

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

Box 1.2 (continued)

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



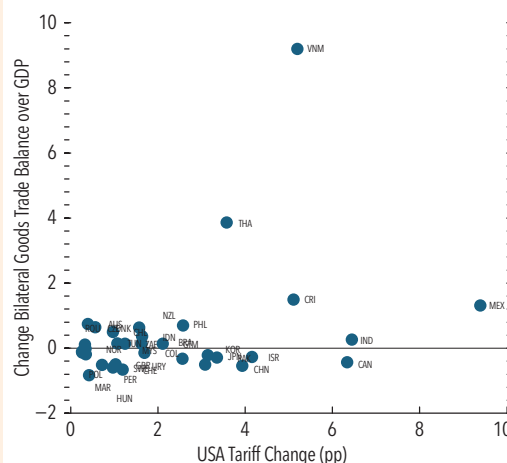
Sources: IMF, World Economic Outlook database; IMF-WTO Tariff Tracker; and IMF staff calculations.

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

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

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

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



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

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

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

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

Box 1.3. Energy Price Shock and External Balances

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

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

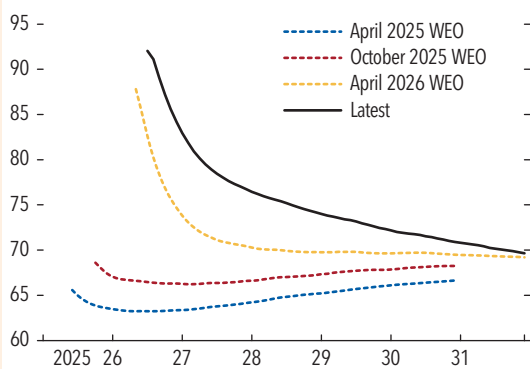
by as much as 130 basis points in emerging markets excluding China, also by 2027. Finally, a significant risk-off episode pushes up corporate premiums in advanced economies and in China, while emerging markets excluding China experience a widening in sovereign spreads and an even larger increase in corporate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

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

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

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

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



Sources: Bloomberg Finance, L.P.

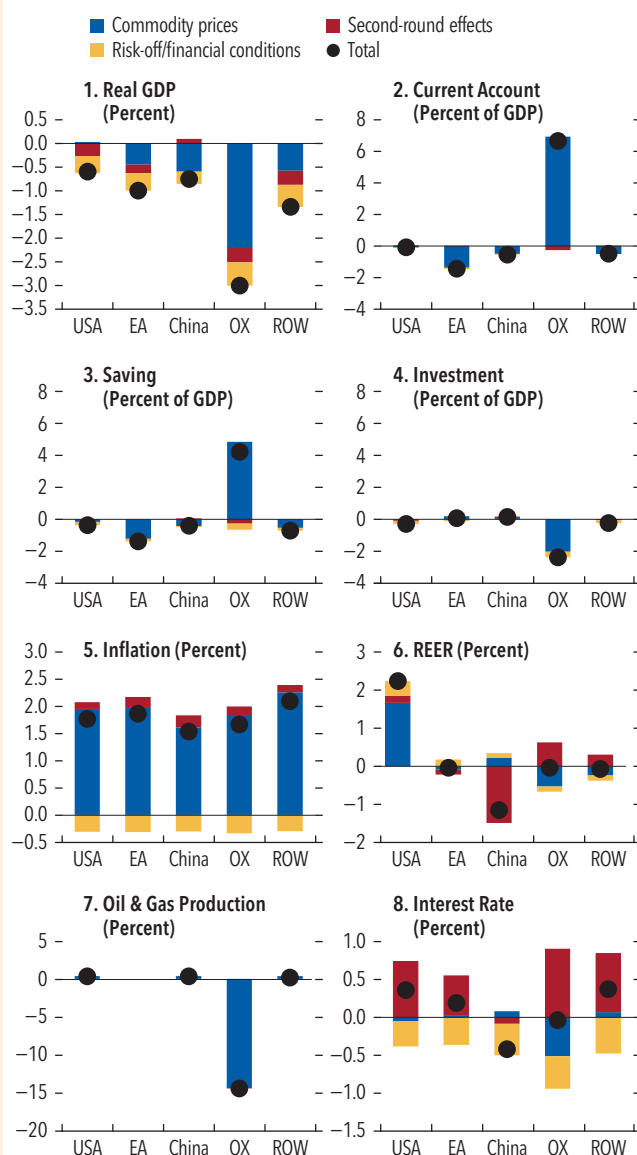
Note: Expiration dates are on the x-axis. "Latest" refers to data as of June 4, 2026. WEO = *World Economic Outlook*.

This box was prepared by Josef Platzer.

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

Box 1.3 (continued)

Figure 1.3.2. Impact of Energy Shock Scenario
(Deviations from baseline)



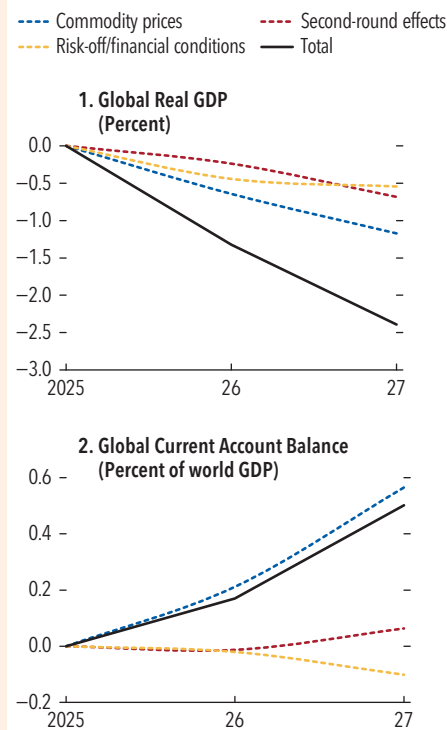
Source: IMF staff calculations.

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

Box 1.3 (continued)

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

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



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

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

Box 1.4. An Excess-Adjusted NFA in EBA

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

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

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

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

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

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

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

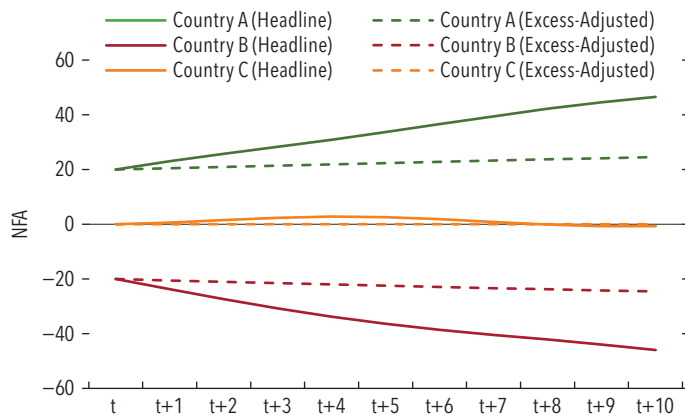
Impact on EBA results. A stylized three-country example is used to illustrate the methodology's effects on external sector assessments, where two countries run correspondingly persistent excess CA surplus (Country A) or deficit (Country B), while Country C exhibits transitory excess CA.¹ The case of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

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

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

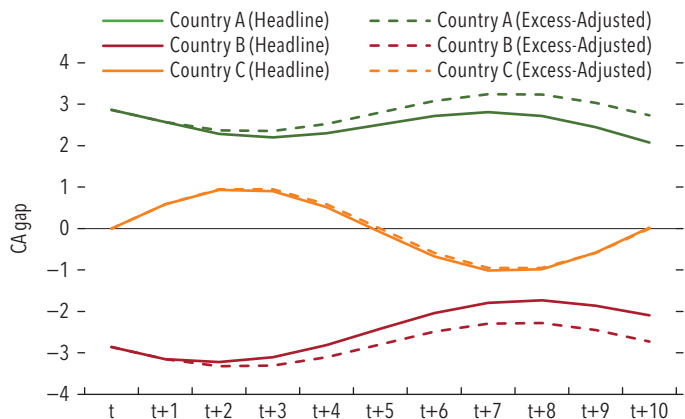
This box was prepared by Cian Allen.

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

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

Sources: IMF staff calculations.

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

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

Sources: IMF staff calculations.

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

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

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

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

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

Box 1.5. Scenario Assumptions

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

Scenario 1: Continuation of Current Trends¹

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

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

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

Scenario 2: Simultaneous Adjustment²

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

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

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

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

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

US Adjustment Case

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

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

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

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

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

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

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

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

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

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

Annex Table 1.1.2. External Sector Report Economies: Summary of External Assessment Indicators, 2025

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

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

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

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

Annex Table 1.1.3. External Sector Report Economies: Summary of IMF Staff-Assessed Current Account Gaps and IMF Staff Adjustments, 2025
(Percent of GDP)

Economy	Actual CA Balance [A]	Cycl. Adj. CA Balance [B]	EBA CA Norm [C]	EBA CA Gap ¹ [D = B – C]	IMF Staff-Assessed CA Gap ² [E = D + F]	IMF Staff Adjustments ³			Comments on adjustments
						Total [F = G – H]	CA [G]	Norm [H]	
Argentina	-1.1	-1.9	0.7	-2.5	-2.5	0.0	0.0	0.0	
Australia	-2.6	-2.9	0.0	-3.0	-3.0	0.0	0.0	0.0	
Belgium	-1.9	-1.6	3.2	-4.7	-4.7	0.0	0.0	0.0	
Brazil	-2.9	-2.9	-1.4	-1.5	-1.5	0.0	0.0	0.0	
Canada	-0.9	-1.1	2.4	-3.4	-2.8	0.6	0.6	0.0	Portfolio Equity Retained Earnings Bias
China	3.8	3.6	0.6	3.0	3.0	0.0	0.0	0.0	
Euro Area ⁴	1.7	1.8	0.7	1.0	0.9	-0.1	-0.1	0.0	Portfolio Equity Retained Earnings Bias
France	-0.3	-0.3	0.3	-0.5	-0.5	0.0	0.0	0.0	
Germany	4.5	4.3	2.2	2.1	2.1	0.0	0.0	0.0	
India	-0.9	-0.7	-2.3	1.6	1.6	0.0	0.0	0.0	
Indonesia	-0.1	-0.2	-0.4	0.2	0.2	0.0	0.0	0.0	
Italy	1.1	1.2	2.4	-1.2	-1.2	0.0	0.0	0.0	
Japan	4.9	4.9	3.6	1.3	1.3	0.0	0.0	0.0	
Korea	6.6	6.4	3.3	3.1	2.5	-0.6	0.0	0.6	Demographics (population aging)
Malaysia	1.6	1.8	0.3	1.5	1.5	0.0	0.0	0.0	
Mexico	-0.4	-0.6	-0.7	0.1	0.1	0.0	0.0	0.0	
The Netherlands	7.9	8.0	2.9	5.2	3.6	-1.6	-1.6	0.0	Portfolio Equity Retained Earnings Bias
Poland	-0.9	-0.8	-0.4	-0.4	-0.4	0.0	0.0	0.0	
Russian Federation	1.7	2.3	3.4	-1.1	-1.1	0.0	0.0	0.0	
South Africa	-0.5	-0.6	-0.3	-0.3	-0.3	0.0	0.0	0.0	
Spain	2.9	3.2	0.8	2.4	2.4	0.0	0.0	0.0	
Sweden	6.1	5.8	1.8	4.0	4.0	0.0	0.0	0.0	
Switzerland	7.1	7.0	6.1	1.0	-0.1	-1.1	-1.1	0.0	Portfolio Equity Retained Earnings Bias
Thailand	2.8	2.7	0.6	2.0	2.0	0.0	0.0	0.0	
Türkiye	-1.9	-1.6	1.3	-2.9	-2.9	0.0	0.0	0.0	
United Kingdom	-2.4	-2.4	-0.1	-2.3	-2.2	0.1	0.0	0.0	
United States	-3.6	-3.5	-1.3	-2.2	-2.2	0.0	0.0	0.0	
Hong Kong SAR	12.3	11.8	...	...	-0.1	9.0	0.0	-9.0	NIIP and gold trade
Singapore	16.7	17.0	...	...	7.6	4.6	0.0	-4.6	NFA composition, health spending
Saudi Arabia	-2.6	-1.9	...	...	-1.1	0.0	0.0	0.0	
Absolute sum of excess surpluses and deficits ⁵	...	...	...	2.0	2.0	...	...	...	
Discrepancy ⁶	...	...	...	...	-0.03	...	...	...	

Source: IMF staff estimates.

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

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

² Refers to the midpoint of the IMF staff-assessed CA gap.

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

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

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

⁶ Sum of GDP-weighted IMF staff-assessed CA gaps for economies included in the ESR exercise.

Annex Table 1.1.4. External Sector Report Economies: Summary of IMF Staff-Assessed Real Effective Exchange Rate and External Balance Assessment Model Gaps, 2025

Economy	IMF Staff-Assessed REER Gap ¹	REER Gap Implied by IMF Staff-Assessed CA Gap ²	EBA REER-Level Gap	EBA REER-Index Gap	CA/REER Elasticity ³	REER (Percent change)	
						Average 2025/ Average 2024	March 2026/ Average 2025
Argentina	15.9	15.9	18.6	14.5	0.16	2.9	0.2
Australia	16.8	16.8	24.4	3.8	0.18	-2.4	9.0
Belgium	7.1	7.1	21.4	9.5	0.67	1.7	0.0
Brazil	11.2	11.2	-21.3	-30.4	0.13	-2.5	5.5
Canada	10.9	10.9	-21.0	1.6	0.26	-2.7	0.7
China	-21.3	-21.3	-2.7	0.5	0.14	-3.5	3.0
Euro Area	-2.6	-2.6	2.7	5.1	0.35	2.2	0.8
France	2.0	2.0	2.9	-10.0	0.27	0.0	-0.3
Germany	-6.6	-6.6	-9.1	8.2	0.32	1.4	0.5
India	-8.4	-8.4	-5.6	0.8	0.18	-4.9	-6.7
Indonesia	-1.2	-1.2	-22.9	-5.8	0.16	-4.9	-2.6
Italy	4.8	4.8	2.6	3.3	0.25	0.6	0.2
Japan	-7.2	-7.2	-38.7	-37.3	0.18	1.9	-8.1
Korea	-7.5	-7.5	-9.8	-5.8	0.33	-4.6	-5.7
Malaysia	-2.9	-2.9	-26.8	-20.4	0.51	5.5	6.9
Mexico	-0.4	-0.4	20.2	4.8	0.31	-4.1	9.1
The Netherlands	-5.6	-5.6	5.9	21.5	0.64	2.2	0.5
Poland	1.1	1.1	-9.7	21.8	0.38	3.8	-0.2
Russian Federation	7.0	7.0	-29.8	-2.4	0.15	14.5	1.7
South Africa	1.2	1.2	-8.8	-19.0	0.24	1.6	9.3
Spain	-8.7	-8.7	19.7	4.7	0.28	1.7	0.9
Sweden	-12.4	-9.8	-15.2	-10.7	0.41	3.0	1.5
Switzerland	0.3	0.3	22.0	15.5	0.56	1.4	2.1
Thailand	-4.0	-4.0	-3.5	11.5	0.50	4.4	-0.2
Türkiye	12.1	12.1	-34.6	-24.6	0.24	7.5	4.7
United Kingdom	8.2	8.2	13.3	4.4	0.26	2.2	-0.2
United States	19.9	19.9	21.3	9.5	0.11	0.3	-1.9
Hong Kong SAR	0.2	0.2	...	...	0.32	-0.3	-2.2
Singapore	-15.2	-15.2	...	...	0.50	0.6	1.1
Saudi Arabia	6.7	6.7	...	...	0.20	-0.7	-1.7
Discrepancy ⁴	2.1	...	...	...	...	...	...

Sources: Bank for International Settlements (BIS); IMF, Information Notice System; national authorities; and IMF staff estimates.

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

¹ Refers to the midpoint of the IMF staff-assessed REER gap. A REER gap does not always suggest a need for nominal exchange rate adjustment. For specific recommendations to address CA and related REER gaps, please see the policy section in the individual economy pages.

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

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

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

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

Economy	EBA Gap			Fiscal Gap			Public Health Expenditure Gap				Private Credit Gap				Foreign Exchange Intervention and Capital Controls Gap											
	Total ¹	Identified	Dom ²	Domestic			Domestic				Domestic				Domestic				Domestic							
				Total ¹	Dom ³	Coeff	P	P*	Total ¹	Dom ³	Coeff	P	P*	Total ¹	Dom ³	Coeff	P	P*	Dom ³	Coeff	FXI	P	FXI P*	KC P	KC P*	
Argentina	-2.5	-1.1	-1.1	-1.4	0.9	0.0	0.3	0.7	0.5	0.0	0.1	-0.4	6.3	6.5	-0.8	0.0	-0.1	0.6	0.0	-1.2	-1.2	0.6	-1.9	1.7	0.7	0.3
Australia	-3.0	0.1	0.1	-3.0	0.3	-0.6	0.3	-3.7	-1.5	-0.2	-0.1	-0.4	7.5	7.2	0.1	0.8	-0.1	-9.2	0.0	0.0	0.0	0.6	0.2	0.0	0.1	0.1
Belgium	-4.7	1.0	1.0	-5.8	-0.3	-1.2	0.3	-5.4	-1.1	-0.2	0.1	-0.4	8.1	7.9	1.6	2.3	-0.1	-27.7	0.0	-0.1	0.0	0.6	-0.2	0.0	0.1	0.1
Brazil	-1.5	-1.2	-1.2	-0.2	-0.5	-1.4	0.3	-8.5	-3.5	0.0	0.1	-0.4	4.1	4.4	-0.8	-0.1	-0.1	0.9	0.0	0.1	0.1	0.6	0.5	0.0	0.4	0.3
Canada	-3.4	1.3	1.3	-4.8	0.8	-0.1	0.3	-1.4	-1.1	-0.3	-0.2	-0.4	7.9	7.5	0.9	1.6	-0.1	-18.8	0.0	0.0	0.0	0.6	0.0	0.0	0.1	0.1
China	3.0	-0.1	-0.1	3.1	-0.4	-1.3	0.3	-7.6	-3.1	0.5	0.6	-0.4	2.9	4.4	-0.3	0.4	-0.1	-5.1	0.0	0.1	0.1	0.6	0.2	0.0	0.7	0.3
Euro Area ⁴	1.0	0.6	0.6	0.5	0.4	-0.5	0.3	-2.9	-1.3	-0.2	-0.1	-0.4	8.4	8.2	0.4	1.1	-0.1	-13.5	-0.4	0.0	0.0	0.6	0.2	0.0	0.1	0.1
France	-0.5	0.0	0.0	-0.5	-0.2	-1.1	0.3	-5.0	-1.1	-0.3	-0.2	-0.4	9.0	8.6	0.5	1.3	-0.1	-14.9	0.0	0.0	0.0	0.6	0.1	0.0	0.1	0.1
Germany	2.1	-0.1	-0.1	2.2	0.9	0.0	0.3	-2.1	-2.3	-0.5	-0.4	-0.4	10.6	9.6	-0.5	0.2	-0.1	-2.6	0.0	0.0	0.0	0.6	0.0	0.0	0.3	0.3
India	1.6	0.0	0.0	1.5	0.1	-0.7	0.3	-8.2	-5.6	0.0	0.1	-0.4	1.5	1.8	-0.6	0.2	-0.1	-1.8	0.0	0.4	0.5	0.6	1.0	0.0	0.8	0.3
Indonesia	0.2	0.6	0.6	-0.4	0.7	-0.2	0.3	-2.9	-2.3	0.5	0.6	-0.4	1.5	3.0	-0.5	0.2	-0.1	-2.5	0.0	-0.2	-0.1	0.6	-0.4	0.0	0.5	0.3
Italy	-1.2	1.0	1.0	-2.3	0.4	-0.5	0.3	-3.1	-1.5	0.1	0.2	-0.4	6.3	6.8	0.5	1.3	-0.1	-14.9	0.0	0.0	0.0	0.6	0.2	0.0	0.0	0.0
Japan	1.3	0.2	0.2	1.2	1.1	0.3	0.3	-1.2	-2.2	-0.1	0.1	-0.4	9.0	9.1	-0.9	-0.2	-0.1	2.6	0.0	0.0	0.1	0.6	0.8	0.0	0.1	0.1
Korea	3.1	1.3	1.3	1.8	0.5	-0.3	0.3	-1.2	0.0	0.9	1.0	-0.4	5.0	7.5	-0.1	0.6	-0.1	-7.2	0.0	-0.1	0.0	0.6	-0.1	0.0	0.1	0.1
Malaysia	1.5	1.6	1.6	-0.1	0.5	-0.3	0.3	-3.7	-2.5	0.8	0.9	-0.4	2.0	4.1	-0.5	0.3	-0.1	-3.2	0.0	0.7	0.8	0.6	2.2	0.0	0.6	0.3
Mexico	0.1	0.0	0.0	0.1	0.2	-0.6	0.3	-4.7	-2.5	0.2	0.3	-0.4	2.9	3.6	-0.6	0.1	-0.1	-1.8	0.0	0.1	0.2	0.6	0.6	0.0	0.4	0.3
The Netherlands	5.2	3.2	3.2	1.9	0.8	0.0	0.3	-2.1	-2.0	0.1	0.2	-0.4	8.3	8.8	2.3	3.1	-0.1	-36.2	0.0	0.0	0.0	0.6	0.2	0.0	0.0	0.3
Poland	-0.4	-0.2	-0.2	-0.2	-0.5	-1.4	0.3	-6.9	-2.0	0.0	0.1	-0.4	6.3	6.6	0.1	0.8	-0.1	-14.7	-5.0	0.2	0.2	0.6	0.8	0.0	0.4	0.3
Russian Federation	-1.1	0.0	0.0	-1.0	-0.2	-1.1	0.3	-4.8	-1.0	0.1	0.2	-0.4	4.9	5.5	0.4	1.1	-0.1	-12.9	0.0	-0.3	-0.3	0.6	-0.7	0.0	0.6	0.3
South Africa	-0.3	0.8	0.8	-1.1	0.2	-0.6	0.3	-5.7	-3.5	1.0	1.1	-0.4	4.0	6.6	-0.5	0.2	-0.1	-2.4	0.0	0.1	0.2	0.6	0.5	0.0	0.6	0.3
Spain	2.4	0.8	0.8	1.7	0.0	-0.9	0.3	-3.2	-0.1	-0.2	-0.1	-0.4	6.7	6.5	1.0	1.7	-0.1	-21.4	-1.0	0.0	0.0	0.6	0.0	0.0	0.2	0.2
Sweden	4.0	2.2	2.2	1.8	0.6	-0.2	0.3	-0.8	0.0	-0.1	0.0	-0.4	9.7	9.7	1.7	2.4	-0.1	-28.9	0.0	0.0	0.0	0.6	0.4	0.0	0.2	0.2
Switzerland	1.0	1.9	1.9	-0.9	1.3	0.4	0.3	0.5	-1.0	-0.1	0.0	-0.4	8.0	8.0	0.5	1.2	-0.1	-14.3	0.0	0.2	0.3	0.6	2.2	0.0	0.2	0.2
Thailand	2.0	1.6	1.6	0.4	0.8	0.0	0.3	-1.7	-1.6	0.0	0.1	-0.4	4.5	4.8	0.0	0.7	-0.1	-8.0	0.0	0.8	0.9	0.6	2.8	0.0	0.5	0.3
Turkiye	-2.9	0.5	0.6	-3.4	1.1	0.2	0.3	-2.8	-3.5	-0.1	0.0	-0.4	3.7	3.6	0.2	0.9	-0.1	-21.8	-10.9	-0.6	-0.5	0.6	-1.2	1.2	0.4	0.3
United Kingdom	-2.3	-0.7	-0.7	-1.5	0.1	-0.7	0.3	-5.0	-2.4	-0.6	-0.5	-0.4	9.1	7.9	-0.2	0.5	-0.1	-5.6	0.0	0.0	0.0	0.6	0.2	0.0	0.1	0.1
United States	-2.2	-0.6	-0.5	-1.7	-0.5	-1.3	0.3	-7.3	-2.5	-0.3	-0.2	-0.4	8.8	8.4	0.2	1.0	-0.1	-11.4	0.0	0.0	0.0	0.6	0.0	0.0	0.2	0.2

Source: IMF staff estimates.

Source: IMF staff estimates.

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

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

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

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

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

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

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

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

Economy	Overall 2025 Assessment	Policy Recommendations
Mexico	Broadly in line	Structural reforms are critical to boost investment in the medium to long term. In addition to boosting growth, this would offset the effect of needed fiscal consolidation and, thus, help maintain external balance. Priorities include addressing infrastructure and governance gaps, reducing informality, promoting financial deepening, and increasing private sector participation in the energy sector.
The Netherlands	Stronger	Sustained efforts to raise public investment and foster private investment are needed, notably in infrastructure and housing, while easing electricity grid and nitrogen-related growth bottlenecks. The new coalition government's plans to increase R&D spending, advance the climate transition, and substantially expand residential investment are appropriately aligned with the need to reduce external imbalances.
Poland	Broadly in line	Implement a cumulative fiscal adjustment of at least 4 percent of GDP by 2030, reducing the fiscal deficit from about 7 percent of GDP in 2025 to 3 percent over the medium term. To boost Poland's structurally low private investment levels, efforts should focus on easing regulatory hurdles to private sector participation and advancing the EU's Savings and Investment Union.
Russian Federation	Moderately weaker	...
Saudi Arabia	Moderately weaker	Implement fiscal consolidation, including through enhanced revenue mobilization and energy price reforms, to help raise public saving. Implement the structural reform agenda to diversify the economy, and boost non-oil exports.
Singapore	Substantially stronger	Implement higher public investment to address the structural transformation from a rapidly aging population and a transition to a green and digital economy. This includes spending on health care, green and other physical infrastructures, and human capital, as well as ongoing reforms to strengthen social safety nets, to help reduce external imbalances over the medium and long term by reducing net saving in both the public and private sectors of the economy.
South Africa	Broadly in line	Implement structural reforms supporting competitiveness, jobs, investment, and growth, that focus on addressing energy and logistics bottlenecks (including by promoting private sector participation), as well as on improving the business environment, governance, and the functioning of labor markets. An ambitious fiscal consolidation is needed to stabilize and put debt on a sustained downward path toward a more prudent level, while protecting vulnerable groups.
Spain	Stronger	Sustained fiscal consolidation efforts would rebuild fiscal space and raise public saving, thus increasing the CA and the NIP. This could be offset by the negative CA impact of the growth-enhancing structural reforms recommended by staff, which include further efforts to complete the single Spanish market (in addition to the single EU market) for goods and services, facilitate firms' access to financing through domestic initiatives to boost access to equity and support innovation by young firms by redesigning the R&D tax credit and streamlining red tape.
Sweden	Stronger	The expansionary fiscal stance is supportive of the economic recovery and external rebalancing. There is scope to enhance both private and public investment in productivity-enhancing projects, the green transition, and the health sector. Higher domestic absorption would help reduce external imbalances, while enabling Sweden to maintain its high living standards amid demographic challenges, support meeting the country's ambitious climate goals and scaling up of defense spending.
Switzerland	Broadly in line	Substantial fiscal policy space should be used to support growth if downside risks materialize. A comprehensive medium-term plan is needed to address increasing structural fiscal needs on aging, climate, and defense. Monetary policy should continue to pursue price stability and avoid the risk of inflation settling at a very low or negative level.
Thailand	Stronger	Promote productive investment, further liberalize the services sector, and reduce competition-distorting tax incentives and subsidies to support durable growth, reduce internal imbalances, and facilitate external rebalancing. Fiscal policy should remain prudent given elevated public debt, with spending focused on targeted social transfers and growth-enhancing investment, while revenue-driven medium-term fiscal consolidation would help rebuild fiscal buffers.
Türkiye	Weaker	Strengthen the policy framework to underpin external sustainability going forward. Tighten both the monetary and fiscal policy stance to contain demand, raise savings, bring down inflation, make medium-term growth more sustainable, and help pave the way for lower CA deficits over the medium-term. Collectively, these policies would improve confidence and help sustain capital inflows, which would allow for a welcome accumulation of international reserves.
United Kingdom	Weaker	The fiscal consolidation path will support external rebalancing by containing import growth and reducing interest rates on domestic liabilities, while progress in the net-zero transition should help mitigate risks of further energy-related terms of trade shocks.
United States	Weaker	Implement fiscal consolidation aimed at achieving a general government primary surplus of about 1 percent of GDP to put the debt-to-GDP ratio on a downward path and adjust the external position to the level implied by medium-term fundamentals and desirable policies.

Source: IMF, 2025 Individual External Balance Assessments.

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

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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 adjusters. IMF staff members estimate an economy's current account gap by combining the EBA model's current account gap estimate with adjusters. 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.

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

²The 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: <i>The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies.</i> 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

Overall Assessment: <i>The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies.</i> 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.						
Foreign Asset and Liability Position and Trajectory	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.					
2025 (% GDP)	NIIP: –22.4	Gross Assets: 159.7	Debt Assets: 38.1	Gross Liab.: 182.1	Debt Liab.: 88	
Current Account	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.					
2025 (% GDP)	CA: –2.6	Cycl. Adj. CA: –2.9	EBA Norm: 0.0	EBA Gap: –3.0	Staff Adj.: 0.0	Staff Gap: –3.0
Real Exchange Rate	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.					
Capital and Financial Accounts: Flows and Policy Measures	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.					
FX Intervention and Reserves Level	Background. The currency has been free floating since 1983. The central bank has not intervened in the FX market since the global financial crisis. The value of reserve assets increased in 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.					

Table 2.3. Belgium: Economy Assessment

Overall Assessment: <i>The external position in 2025 was substantially weaker than the level implied by medium-term fundamentals and desirable policies.</i> 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: <i>The external position in 2025 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.</i> 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: <i>The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies.</i> 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: <i>The external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policies.</i> 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: <i>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.</i> 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
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 $-\text{€}198.0$ 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: <i>The external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policies.</i> 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 Trajectory¹	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: <i>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.</i> 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 elasticity⁴ 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: <i>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.</i> 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

Overall Assessment: <i>The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies.</i> 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.						
Foreign Asset and Liability Position and Trajectory	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.					
2025 (% GDP)	NIIP: –18.9	Gross Assets: 38.7	Res. Assets: 10.8	Gross Liab.: 57.6	Debt Liab.: 30.0	
Current Account	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).					
2025 (% GDP)	CA: -0.1	Cycl. Adj. CA: -0.2	EBA Norm: -0.4	EBA Gap: 0.2	Staff Adj.: 0.0	Staff Gap: 0.2
Real Exchange Rate	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.					
Capital and Financial Accounts: Flows and Policy Measures	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.					
FX Intervention and Reserves Level	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.					

Table 2.13. Italy: Economy Assessment

Overall Assessment: <i>The external position in 2025 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.</i> 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: <i>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.</i> 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: <i>The external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policies.</i> 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: <i>Malaysia's external position in 2025 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.</i> 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: <i>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.</i> 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: <i>The external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policies.</i> 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: <i>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.</i> 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: <i>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.</i>						
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 Assessment¹

Overall Assessment: <i>The external position in 2025 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.</i> 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: <i>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.</i> 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: <i>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.</i>						
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: <i>The external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policies.</i> 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 <i>External Sector Report</i> 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 <i>External Sector Report</i>.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: <i>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.</i>						
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: <i>The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies.</i> 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: <i>The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies.</i> 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: <i>The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies.</i> 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 Trajectory¹	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 adjuster 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 govern-

ment'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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IN THIS ISSUE:

CHAPTER 1

External Positions and Policies

CHAPTER 2

2025 Individual Economy Assessments



PUBLICATIONS

EXTERNAL SECTOR REPORT 2026

