Current account surpluses and deficits narrowed modestly in 2019, and the outlook is highly uncertain for 2020. The COVID-19 pandemic has caused a sharp decline in global trade, lower commodity prices, and tighter external financing conditions. Implications for current account balances and currencies vary widely across countries. In 2019 the global current account balance (the absolute sum of all surpluses and deficits) declined by 0.2 percentage point of world GDP, to 2.9 percent of world GDP. The overall configuration of external positions in 2019 implied persistent vulnerabilities and remaining policy challenges on the eve of the pandemic. The IMF’s multilateral approach suggests that about 40 percent of overall current account surpluses and deficits were excessive in 2019, only slightly less than in 2018. Larger-than-warranted current account balances were mostly in the euro area (driven by Germany and the Netherlands) with lower-than-warranted current account balances mainly existing among Canada, the United Kingdom, and the United States. China’s assessed external position remained, as in 2018, broadly in line with fundamentals and desirable policies, due to offsetting policy gaps and structural distortions. Currency movements were generally modest, with exceptions including emerging market and developing economies with preexisting vulnerabilities. Addressing underlying structural distortions has been challenging, resulting in persistent excess global imbalances. Furthermore, the stocks of external assets and liabilities have reached historic highs, with attendant risks to both debtor and creditor countries.

At a global level, the latest IMF staff forecasts for 2020 imply a modest narrowing in current account surpluses and deficits by some 0.3 percent of world GDP, although subject to high uncertainty. The limited expected net impact reflects large fiscal expansions with offsetting expected increases in private saving and lower investment. Still, for economies dependent on severely affected sectors, such as oil and tourism, or reliant on remittances, the impact of the crisis has been especially acute, with negative effects on external current account balances expected to exceed 2 percent of GDP that will likely require significant economic adjustment. The deterioration in financial market sentiment early in the crisis triggered a sudden capital flow reversal and currency depreciations across numerous emerging market and developing economies. Global reserve currencies appreciated, reflecting their safe haven role in times of financial stress. The subsequent improvement in risk sentiment, reflecting exceptional monetary and fiscal policy support, came with a stabilization in capital flows and some unwinding of the initial currency shifts.

The outlook for external positions remains highly uncertain, with significant risks. Analysis in Chapter 2 suggests that a further worsening in risk sentiment could—for economies with preexisting vulnerabilities, such as large current account deficits, a high share of foreign currency debt, and limited international reserves—further increase risks of an external crisis. A second wave of the crisis, with a renewed tightening in global financial conditions, could narrow the scope for emerging market and developing economies to run current account deficits, further reduce the current account balances of commodity exporters, and deepen the decline in global trade.

In the near term, policy efforts should continue to focus on providing relief and promoting economic recovery. To adjust to external shocks, such as the fall in commodity prices or tourism, countries with flexible exchange rates should allow them to adjust as needed, with attendant risks to both debtor and creditor countries.

Over the medium term, economic and policy distortions that predated the crisis may persist or worsen, implying the need for reforms. Where excess current account deficits in 2019 partly reflected larger-than-desirable fiscal deficits and where such imbalances persist beyond the crisis, fiscal consolidation over the medium term would promote debt sustainability,
reduce the current account gap, and facilitate raising international reserves. Countries with lingering export competitiveness challenges would also benefit from productivity-raising reforms. In economies where excess current account surpluses that existed before the COVID-19 crisis persist after the crisis, prioritizing reforms that encourage investment and discourage excessive private saving are warranted. In economies with remaining fiscal space, a growth-oriented fiscal policy with greater public sector investment would make the economy more resilient and narrow the excess current account surplus. In some cases, reforms to discourage excessive precautionary saving by expanding the social safety net may also be warranted.

As more data become available to assess the effects of the crisis, comprehensive and multilaterally consistent analysis will remain necessary to promote a shared understanding of the underlying distortions and reforms needed to continue to rebalance the global economy.