EXECUTIVE BOARD MEETING

SM/20/105
Correction 3

July 31, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **2020 External Sector Report—Chapter 1**

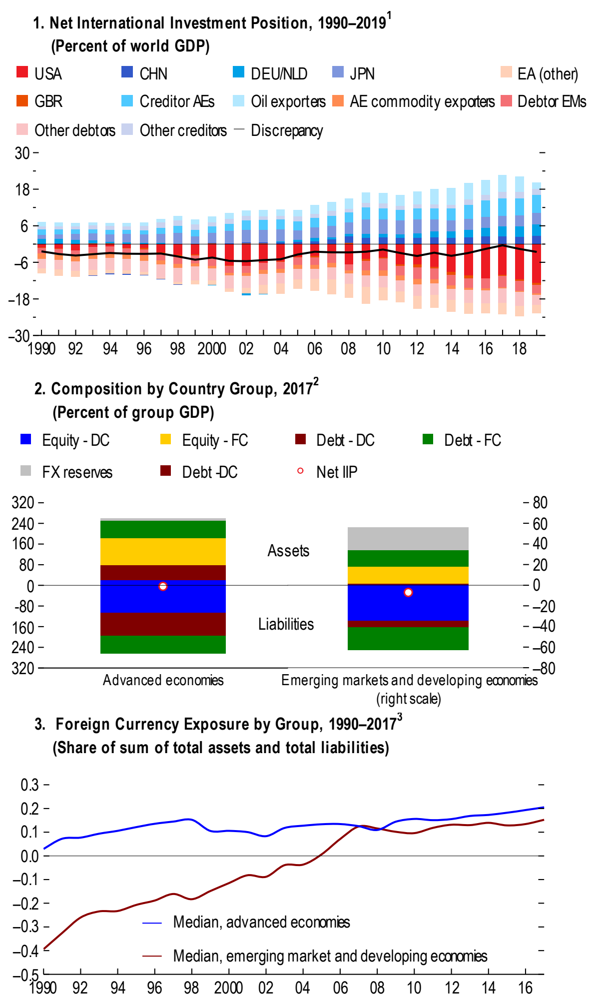
Board Action:	The attached correction to SM/20/105 (7/9/20) has been provided by the staff:
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views	**Page 6**
Questions:	Mr. Leigh, RES (ext. 34747) Mr. Adler, RES (ext. 35648) Mr. Rabanal, RES (ext. 36784)

GDP to 1.0 percent of GDP, reflecting the economic slowdown, lower commodity and semiconductor import prices, and the import response to expected and realized tariff hikes, which lowered the trade balances in 2018, with an unwinding in 2019. Current account balances also rose toward surplus in some emerging market and developing economies (Argentina, South Africa, Turkey) in 2019 as a result of tighter financial conditions, lower domestic demand, or currency depreciation. Other systemic economies' external balances moved little. The US current account deficit decreased by 0.1 percentage point of GDP to 2.3 percent of GDP, and Japan's surplus remained at 3.6 percent of GDP.

Currency movements were generally modest, with a number of exceptions. The US dollar and the Japanese yen appreciated about 3 percent in 2019 in real effective terms, while the euro and the renminbi depreciated by 3 percent and ~~0.6~~ 0.8 percent, respectively. Some emerging market and developing economies (India, Indonesia, Mexico, Thailand) saw their currencies appreciate by 3 percent to 6 percent in real effective terms, reflecting a partial rebound from sharp depreciations in 2018. A number of emerging market and developing economies with preexisting vulnerabilities experienced large currency depreciations. In Argentina, the peso depreciated almost 42 percent vis-à-vis the US dollar, although relatively high inflation limited the real effective depreciation to 11 percent. The currencies of Brazil, South Africa, and Turkey depreciated vis-à-vis the US dollar by 8 percent to 14 percent, also with smaller real effective depreciations.

Figure 1.2. External Assets and Liabilities, 1990–2019

Net creditor and debtor positions have increased three times since 1990. In emerging and developing economies, foreign exchange reserves are about 40 of external assets, while foreign-currency-denominated debt is about 79 percent of total external debt. Emerging market' foreign exchange positions turned long in the mid-2000s and have continued to increase since the global financial crisis.



Sources: Bénétrix, and others (2019); External Wealth of Nations database; IMF, *World Economic Outlook (WEO)*; and IMF staff estimates.
Note: AEs = advanced economies; DC = domestic currency; EA = euro area; EMs = emerging markets; FC = foreign currency; FX = foreign exchange; IIP = international investment position. Data labels use International Organization for Standardization (ISO) country codes.
[1]Creditor AEs comprise Hong Kong SAR, Korea, Singapore, Sweden, Switzerland, Taiwan Province of China; AE commodity exporters comprise Australia, Canada, New Zealand; deficit EMs comprise Brazil, India, Indonesia, Mexico, South Africa, Turkey; oil exporters comprise WEO definition plus Norway.
[2]Comprises 50 countries which are part of the IMF External Balance Assessment model and/or *External Sector Report*, except Costa Rica and Saudi Arabia.
[3]Aggregate foreign currency exposure is defined as net foreign assets denominated in foreign currency as a share of total assets and total liabilities.

Trade tensions contributed to currency and financial market fluctuations. US–China trade tensions escalated for much of 2019, with the average US tariff on Chinese imports increasing from 12.0 percent to 21.0 percent, and China's average tariff on US imports rising from 16.5