



Global Adjustment and Financial Asymmetries:

Implications and Reform Priorities for EMDEs

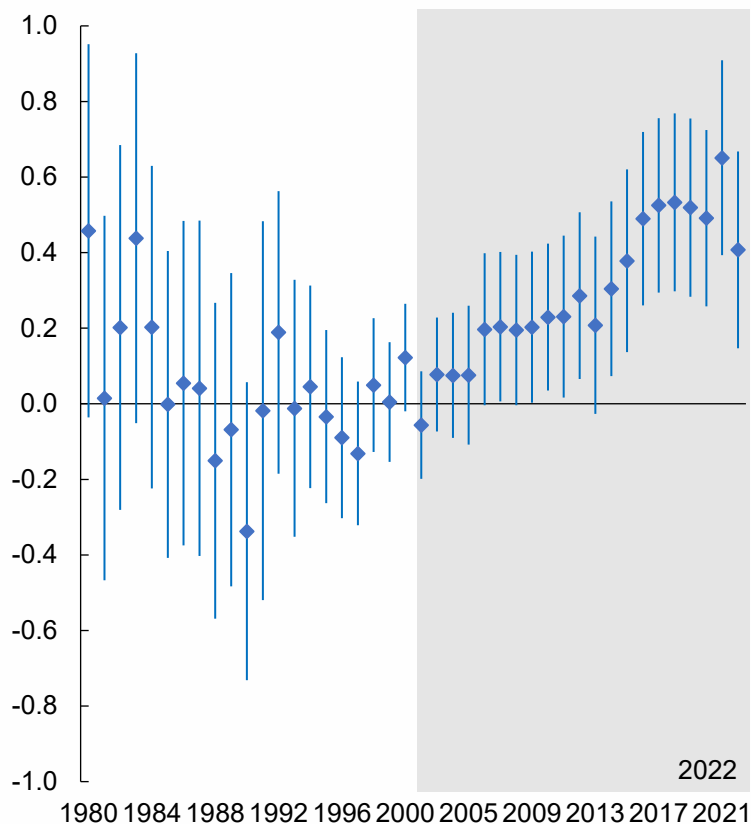
APRIL 14, 2026

Neil Meads

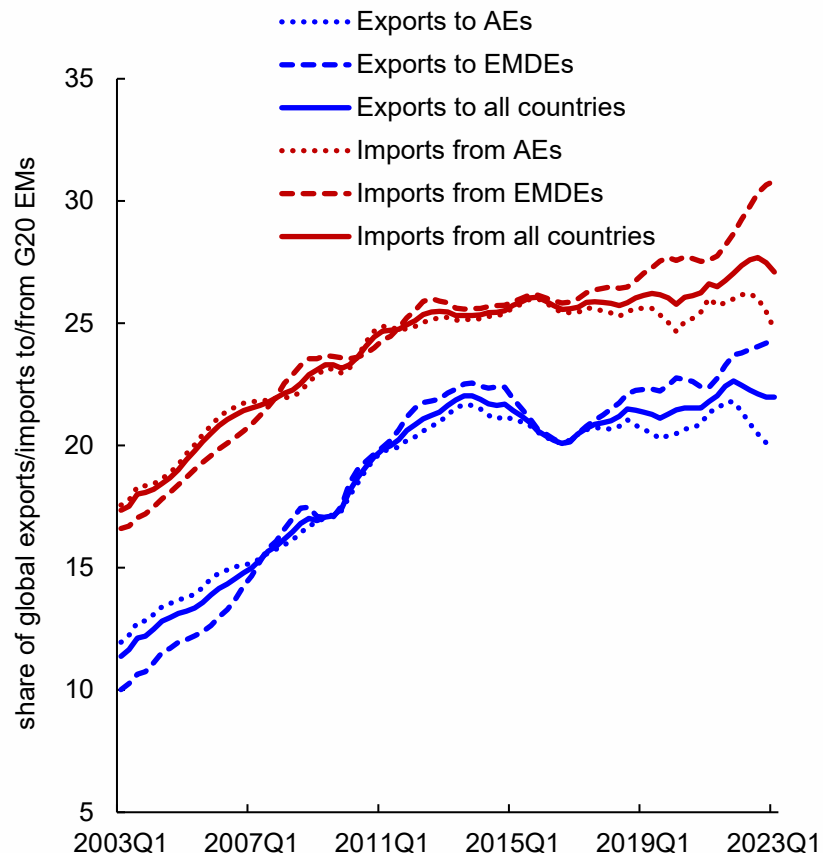
Multilateral Surveillance Division

Rising footprint of EMs in global trade and FDI

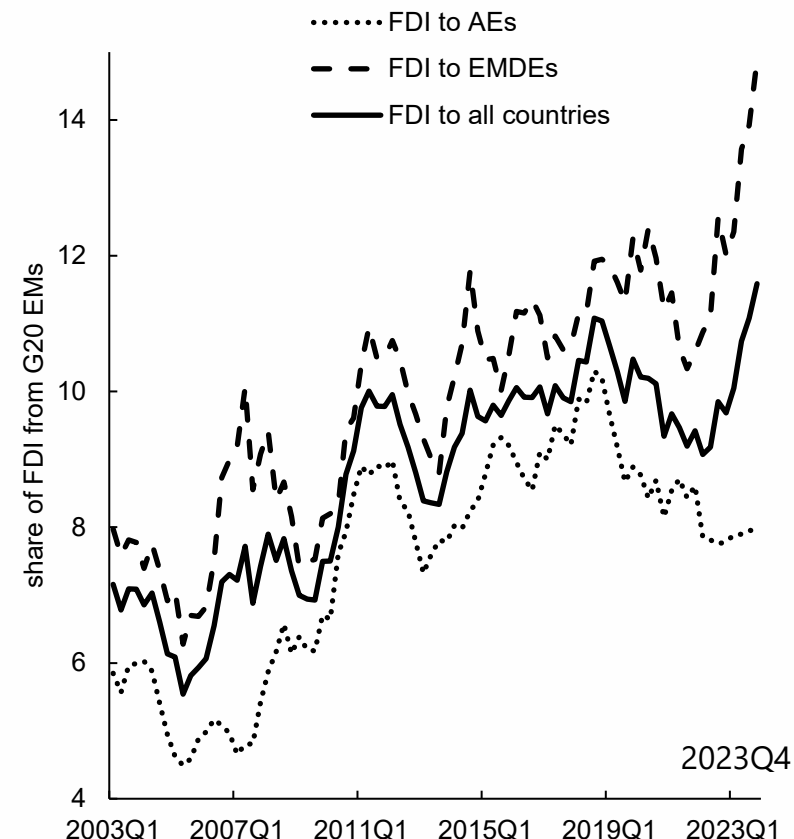
Increase in G20 EM global trade 1/
(log points)



G20 EM goods trade
(percent of global exports/imports to/from G20 EMs)



Foreign direct investment from G20 EMs 2/
(percent of total FDI from G20 EMs)



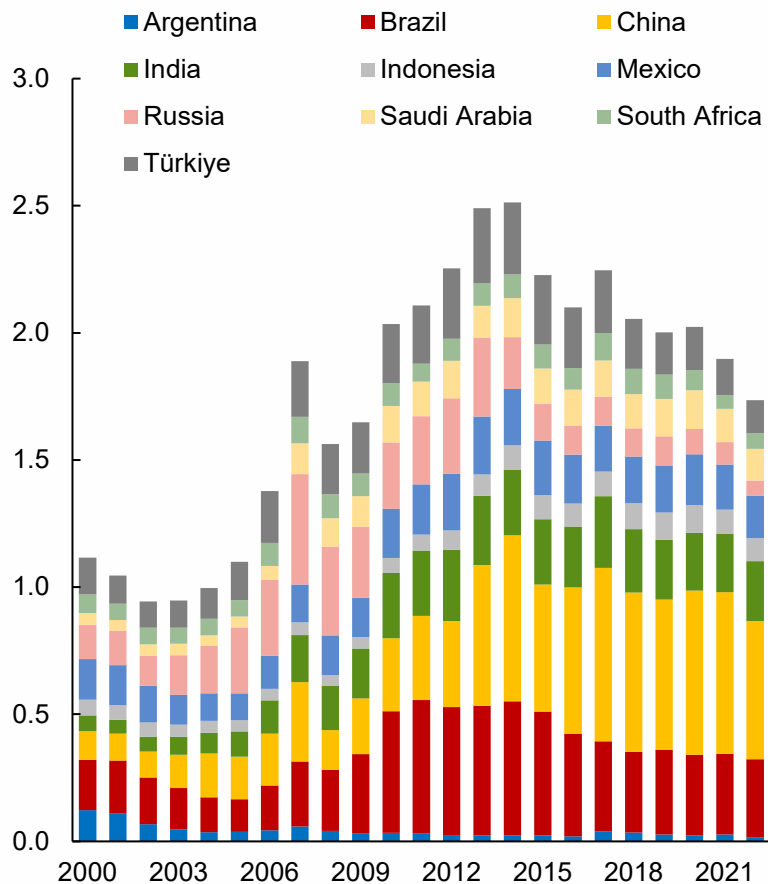
Sources: fDi Markets; IMF, *Direction of Trade Statistics*; and IMF staff calculations.

1/ This chart is based on a standard gravity trade model in which the dependent variable is the log of bilateral goods trade. The model includes country pair, source \times year, and destination \times year fixed effects. The chart plots the yearly coefficient of a dummy for the bilateral pairs involving G20 EMs (the reference year is 2001).

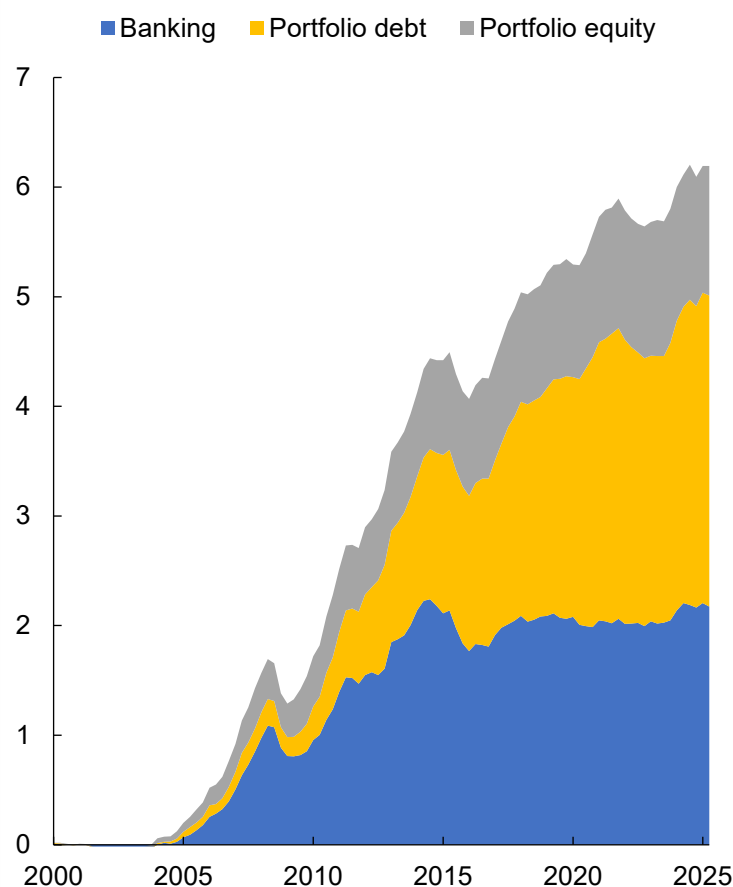
2/ This chart uses the count of FDI projects.

Growing EM financial integration over time

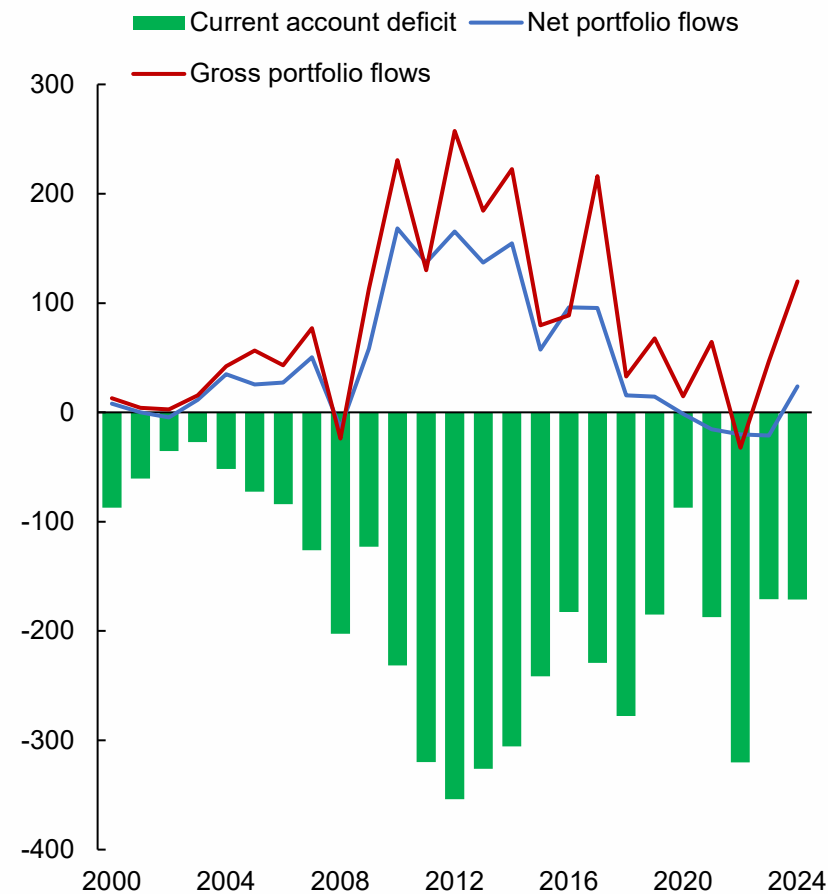
Cross-border bank lending to G20 EMs from G5 economies (percent of G5 GDP)



Cumulative nonresident portfolio and banking flows (trillions of US dollars)



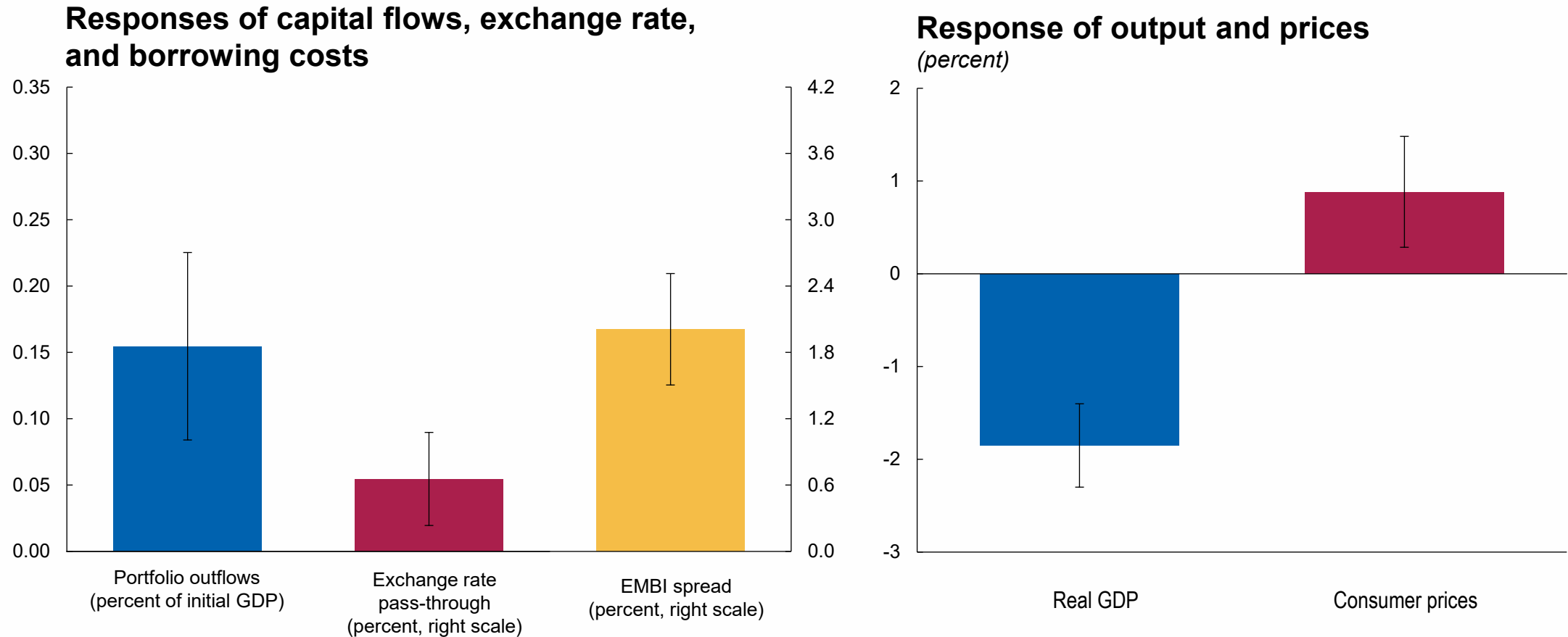
Current account deficits and portfolio flows (billions of US dollars)



Sources: Bank for International Settlements, locational banking statistics by nationality; Bank for International Settlements, locational banking statistics by residence; IMF, Coordinated Portfolio Investment Survey; Lane and Milesi-Ferretti (2018); and IMF staff calculations.

Notes: RHS shows the current account balance and associated portfolio flows for countries included in the MSCI Emerging Market Index that recorded a current account deficit in the respective years. G5 = France, Germany, Japan, United Kingdom, and United States; EMs = emerging markets; EMDEs = Emerging Market and Developing Economies.

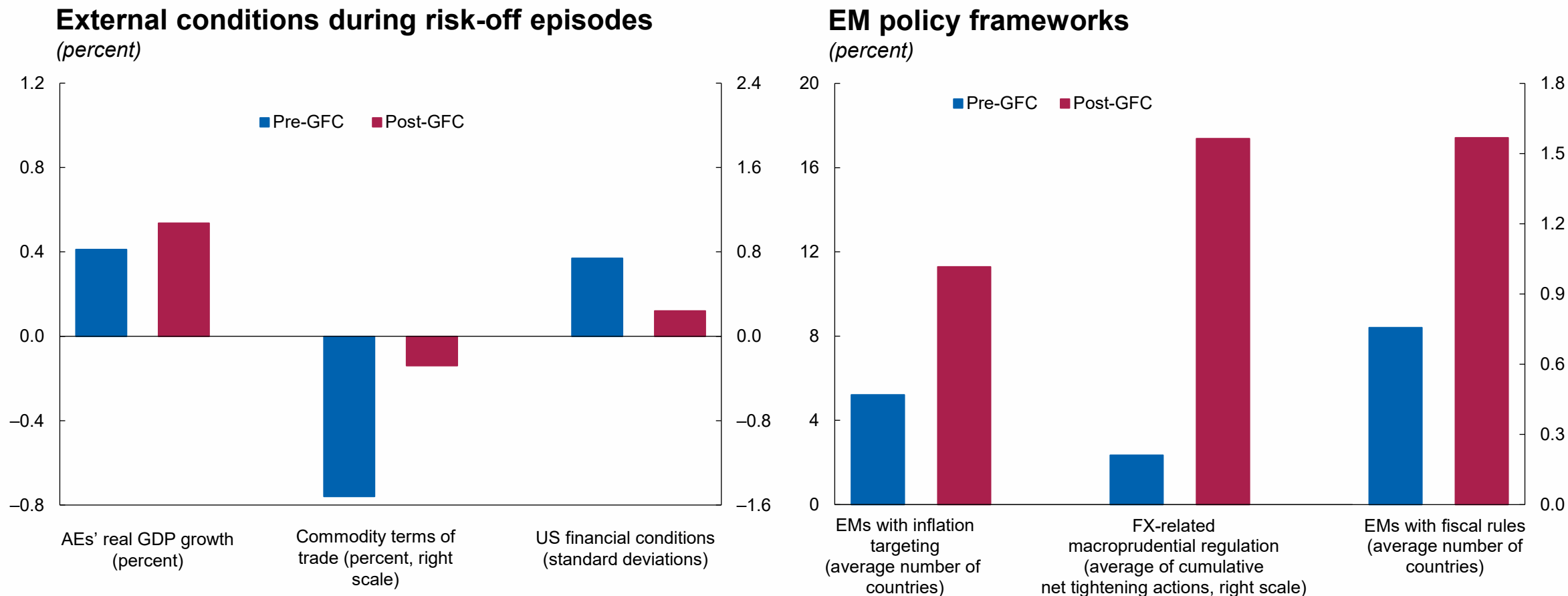
EMs historically vulnerable to broader global risk-off events...



Sources: Bloomberg Finance L.P.; Federal Reserve Board; Haver Analytics; J.P. Morgan; and IMF staff calculations

Notes: The bars denote the change in variables six months after the start of risk-off episodes compared with similar time windows with no risk-off episodes. The specifications control for past real GDP growth, consumer price inflation, and country fixed effects. The whiskers denote 90 percent confidence intervals. Risk-off episodes are identified using an extended version of the RORO Index of Chari, Dilts Stedman, and Lundblad (2023). The pre-GFC period is 1997–2009, and the post-GFC period is 2010–24.

...but benefitted from benign external conditions and improved policy frameworks since the GFC



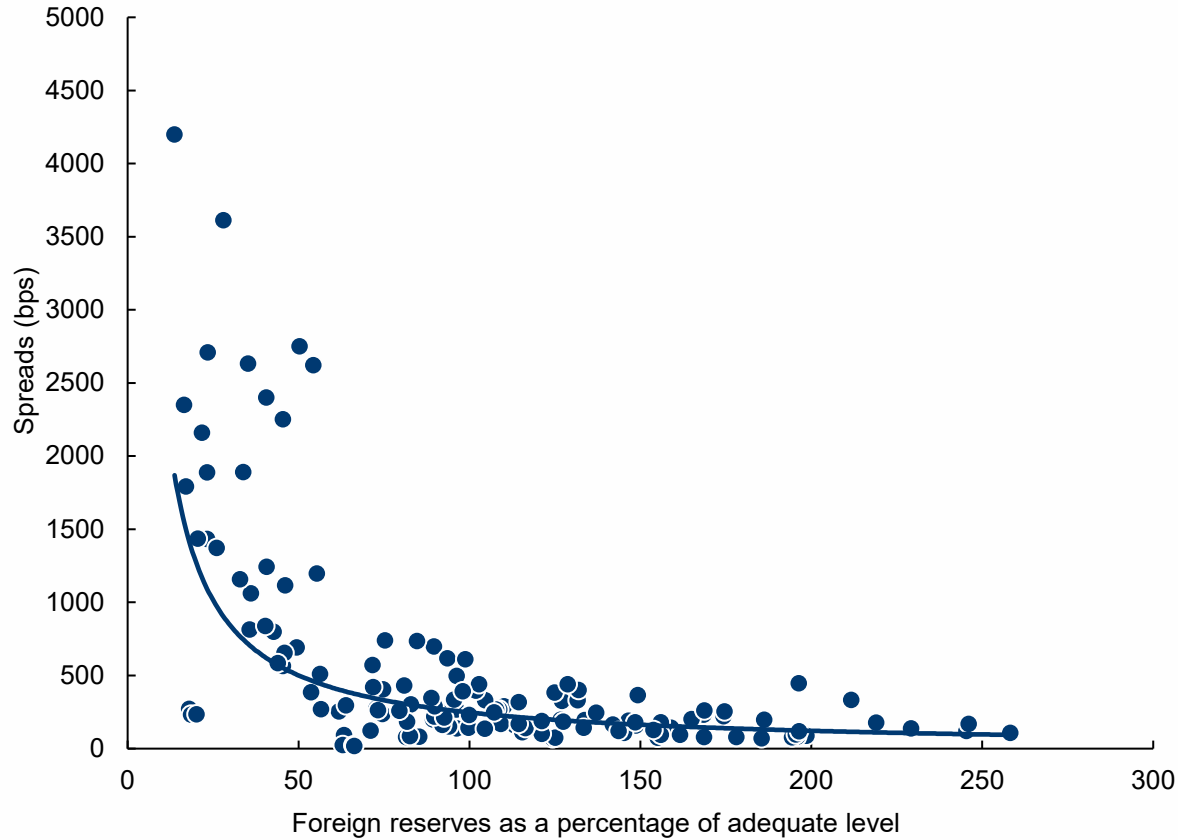
Sources: Haver; IMF World Economic Outlook, Gruss and Kebhaj (2019), Federal Reserve Board, Fiscal Rules Dataset; Integrated Macprudential Policy (iMaPP) Database.

Notes: External conditions are calculated as the weighted change in real GDP for AEs, the change in commodity price-based terms of trade for EMs, and the average of the US FCI-G index, all measured six months following start of a risk-off episode. The FX-related macroprudential regulation metric is calculated as the cross-country average of the cumulative net tightening actions related to capital requirements for banks; limits on foreign currency lending and rules or recommendations on foreign currency loans; and limits on net or gross open foreign exchange positions, foreign exchange exposures and funding, and currency mismatch regulations.

Reserves help lower EM spreads and have increased

Bond spreads in emerging markets

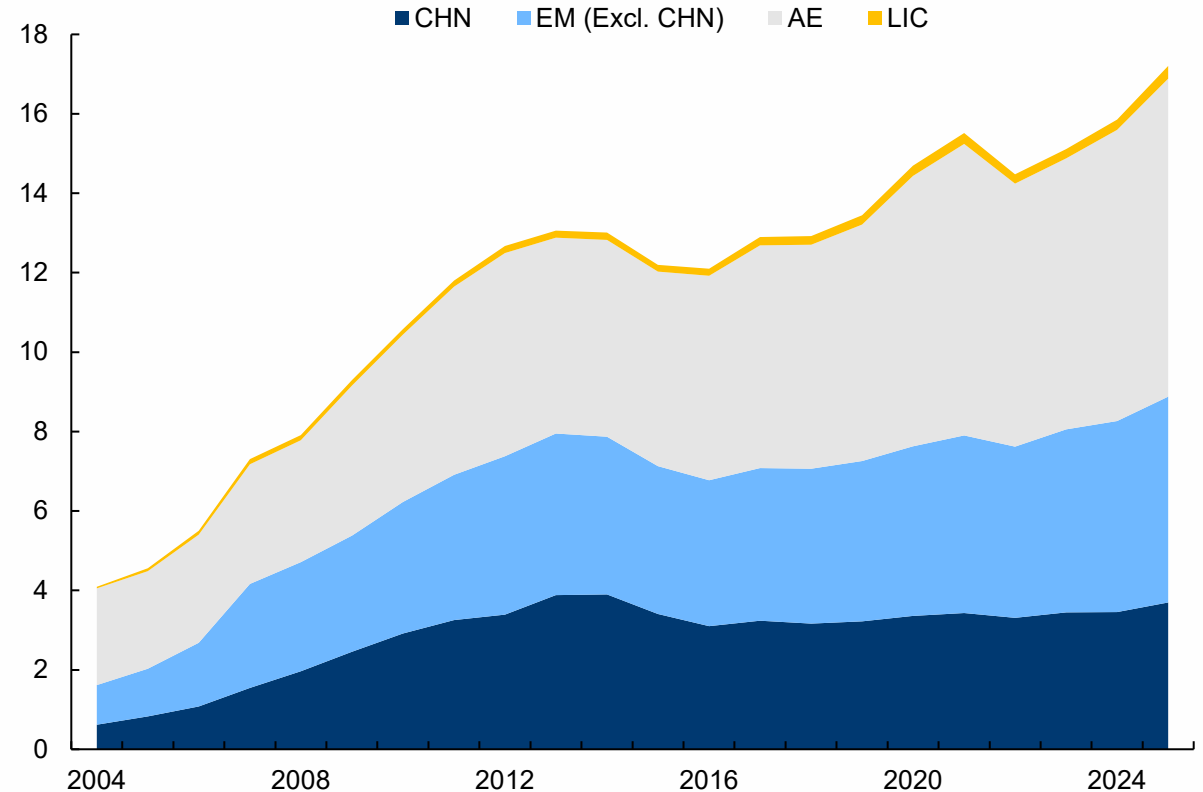
(basis points)



Sources: Bloomberg Finance; and IMF Assessing Reserve Adequacy October 2025.
 Note: Adequacy level is defined as the ratio of reserves to ARA metric in percent.
 Data from 2022 to 2025.

Reserves by income group or country

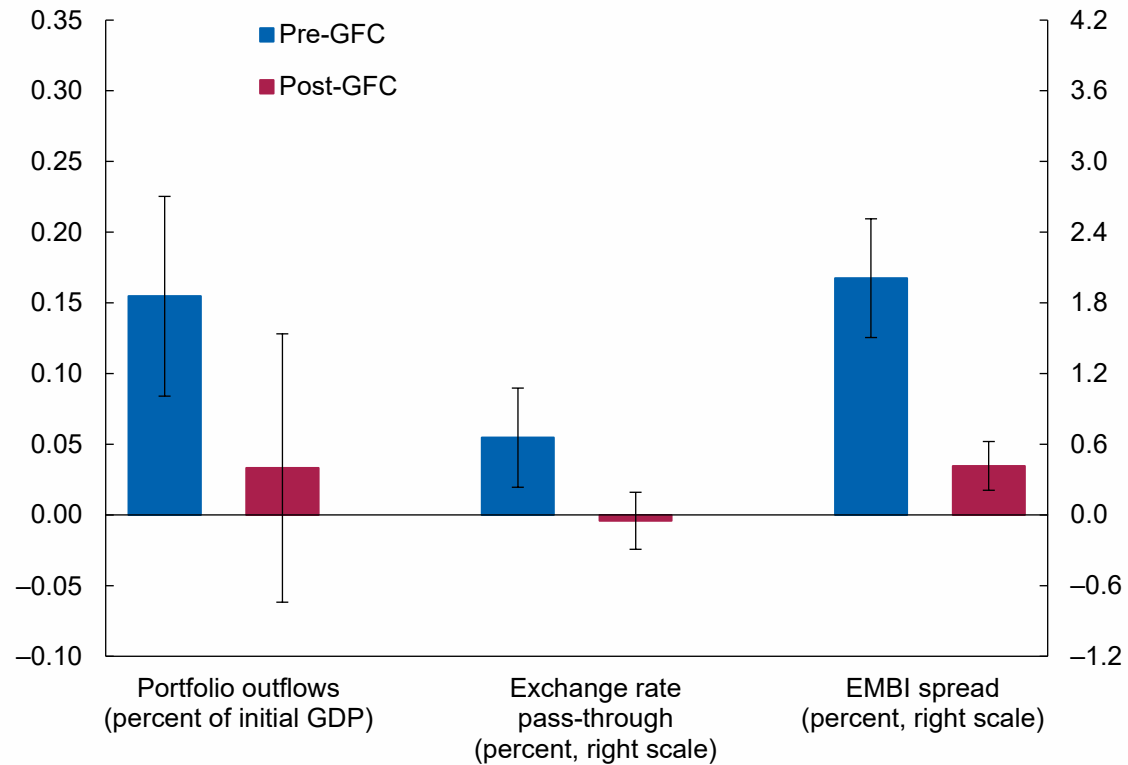
(in US\$ trillions)



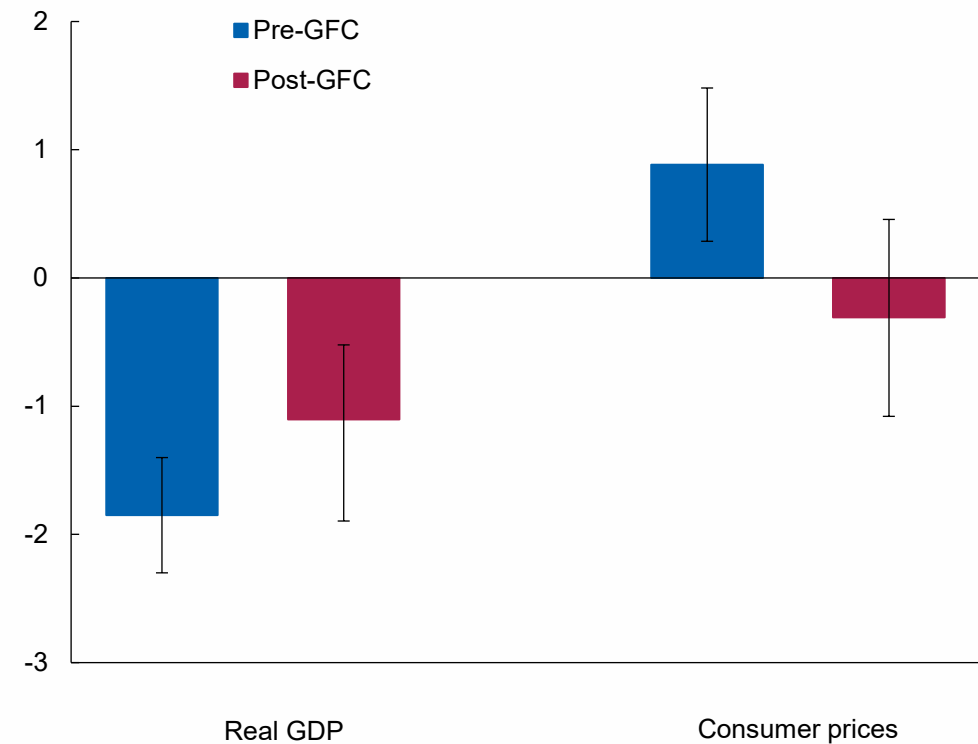
Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

...supporting greater resilience to risk-off shocks

Responses of capital flows, exchange rate, and borrowing costs



Response of output and prices



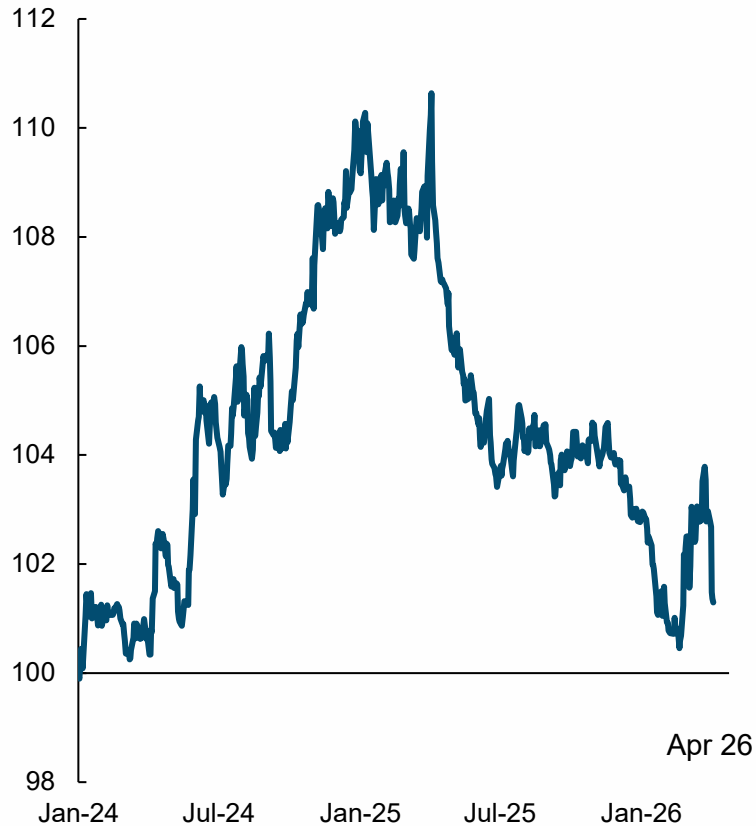
Sources: Bloomberg, Haver Analytics, Federal Reserve Board, JP Morgan, IMF *World Economic Outlook*, and IMF staff calculations.

Notes: The bars denote average change in variables six months after the start of risk-off episode compared to similar windows without risk-off episodes. The specifications control for past real GDP growth, consumer price inflation, and country fixed effects. The vertical lines denote 90 percent confidence intervals. Risk-off episodes are identified using an extended version of the Risk-On Risk-Off Index from Chari et al. (2023), see slide 6 for details. Pre-GFC period covers 1997 to 2009, while post-GFC period covers 2010 to 2024.

Prior to the war in the Middle East, EMDEs remained resilient

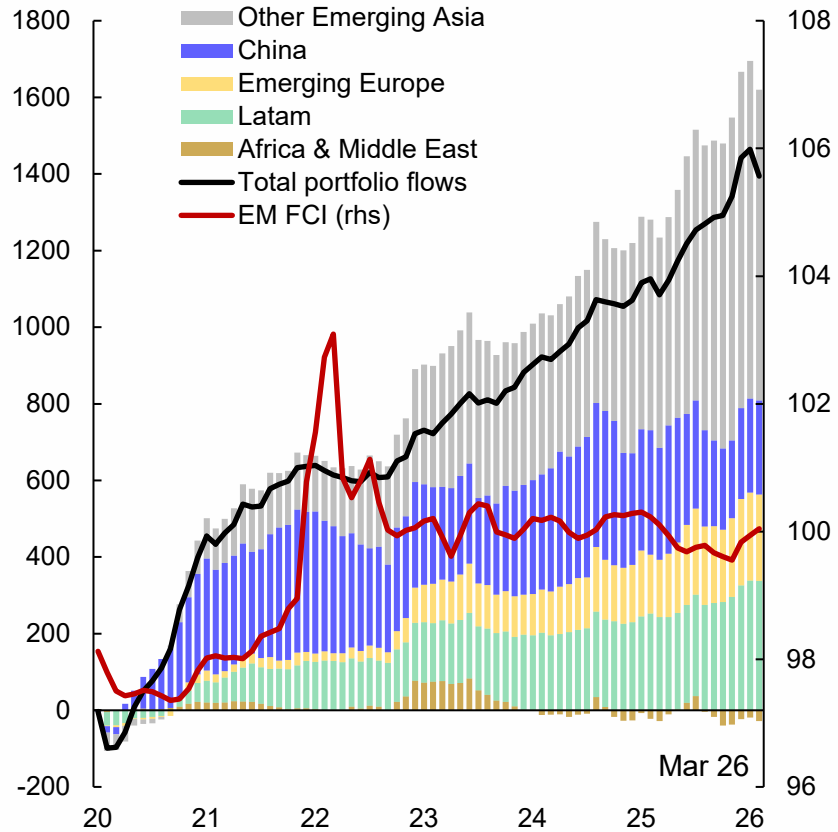
Nominal trade-weighted US dollar index vs. EM currencies

(Jan. 2024 = 100)



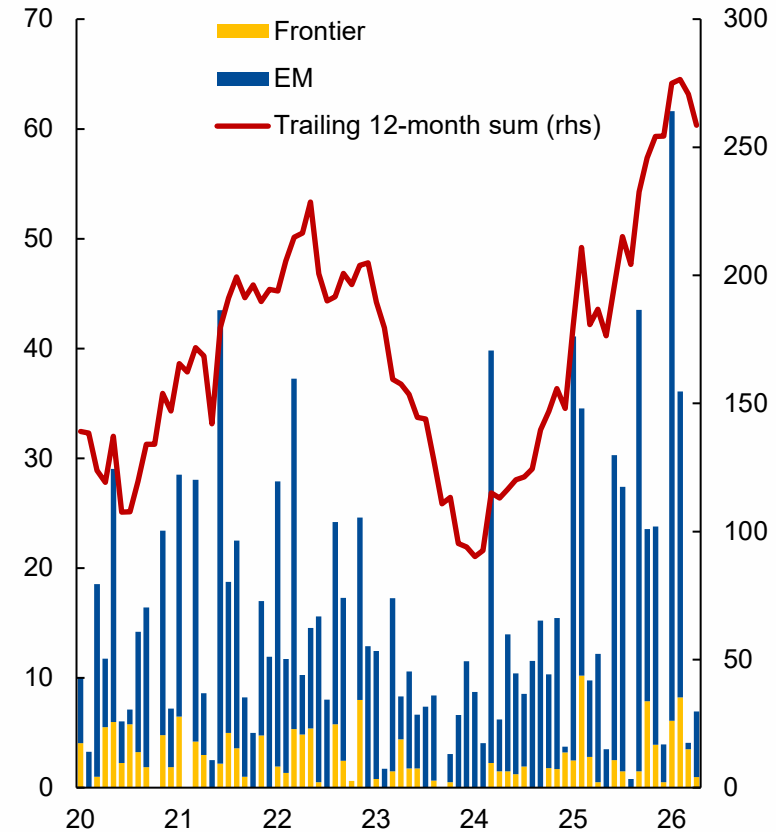
Financial conditions and EM net portfolio flows

(USD billion; cumulative; Jan 2020=0)



EM international sovereign issuances

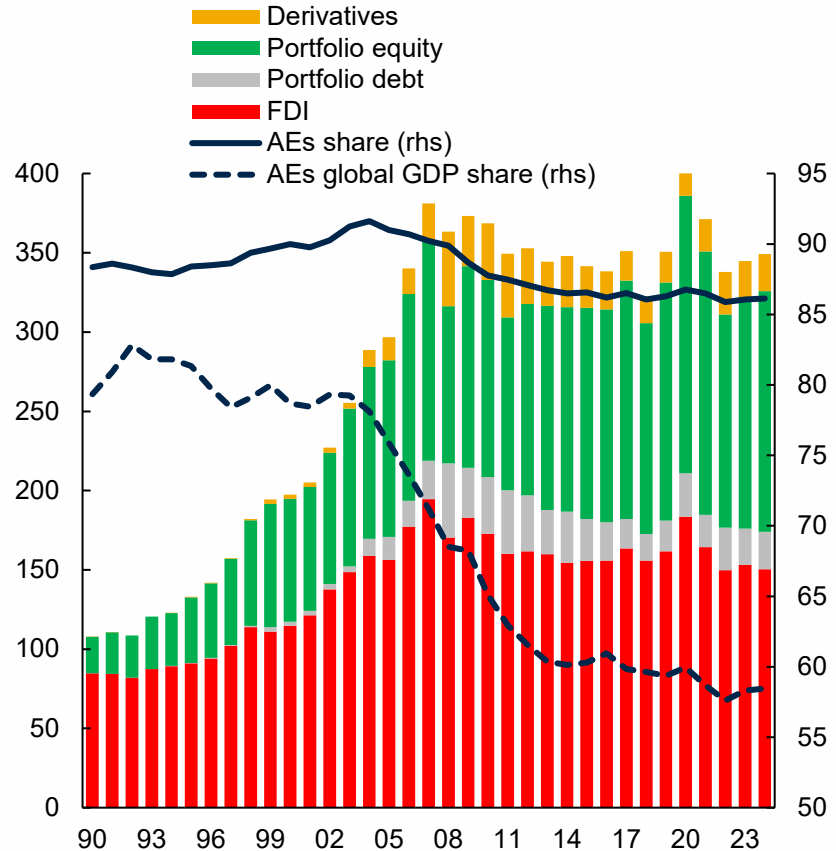
(USD billion)



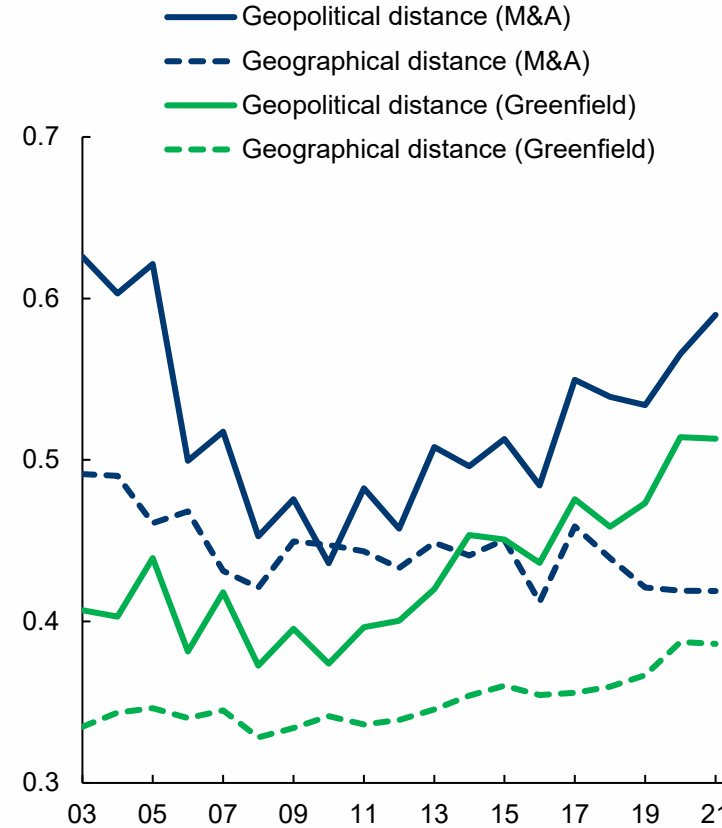
Sources: Bloomberg Finance L.P.; FRED; Goldman Sachs Research; Haver Analytics; IIF; and IMF staff calculations.

Reasons for caution

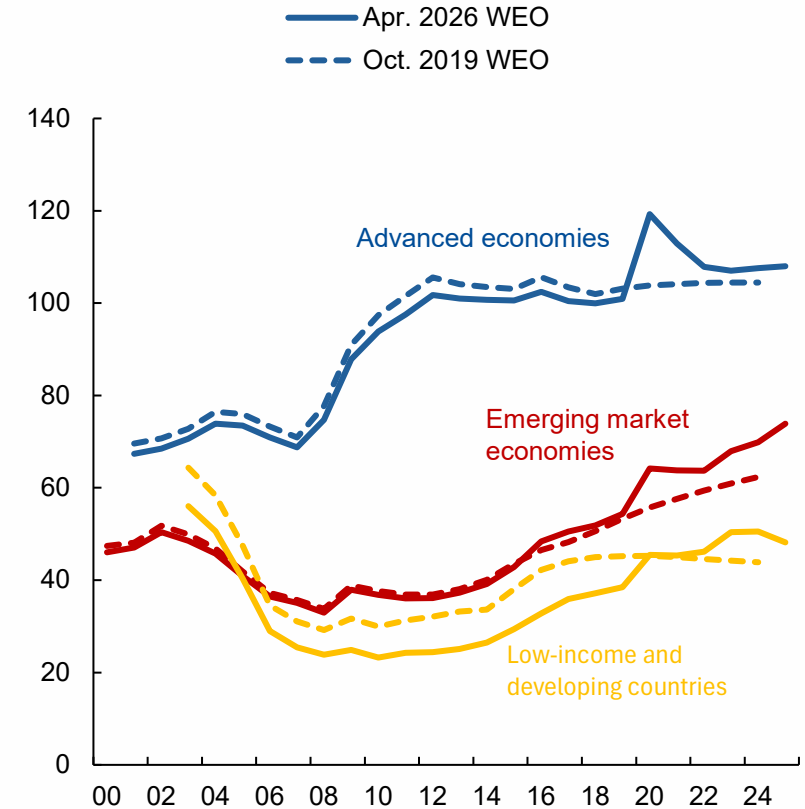
Global external financial assets and liabilities, 1990-2024 1/ (percent of global GDP)



Share of FDI taking place between close countries 1/



Public debt (percent of fiscal year GDP)

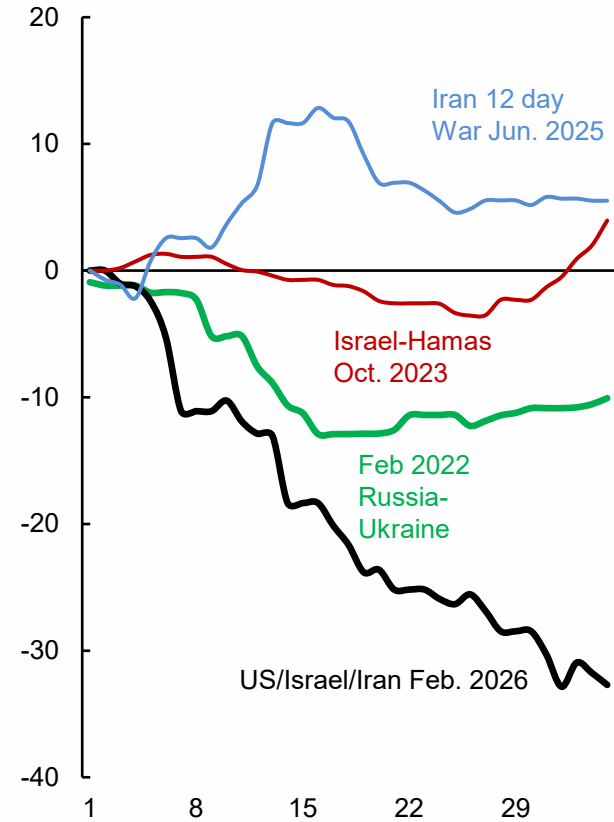


Sources: Bloomberg Finance L.P.; External Wealth of Nations database; Haver Analytics; Institute of International Finance; and IMF staff calculations.

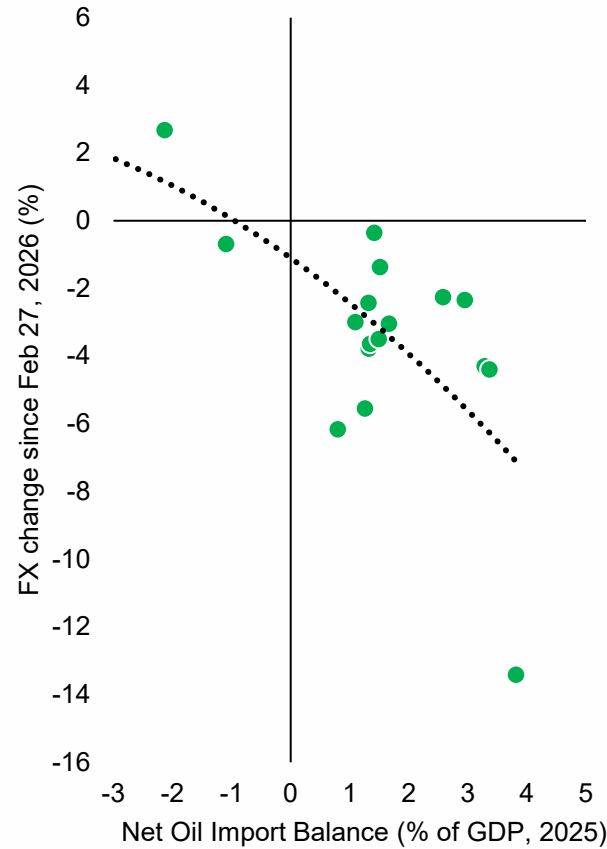
1/ External financial assets and liabilities are decomposed by FDI, portfolio debt and equity investment, and derivatives, etc. AEs' share of global external financial assets and liabilities and that of global GDP is in blue solid and blue dashed line, respectively.

Differentiated impact of the war on EMDEs

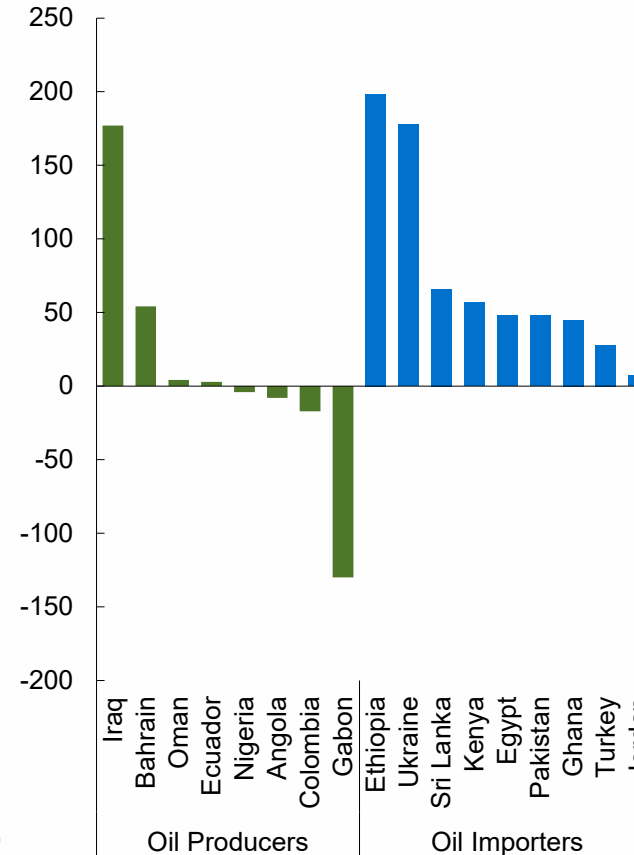
Portfolio flows: Equities and local currency bonds (USD billion)



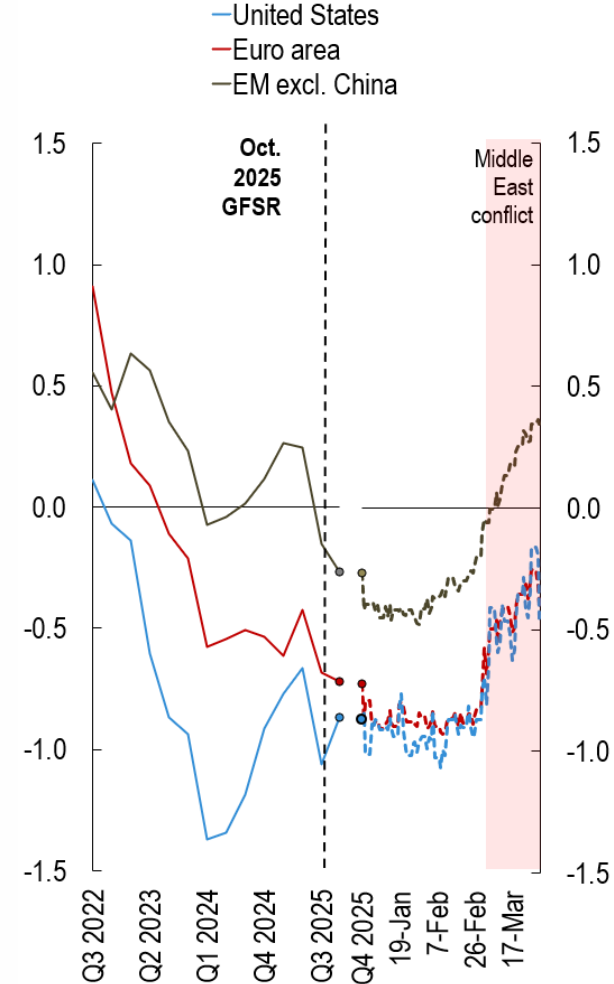
EM FX performance (percent)



EM HY sov spreads, change since conflict (basis points)



Financial conditions index (up indicate conditions tightening)

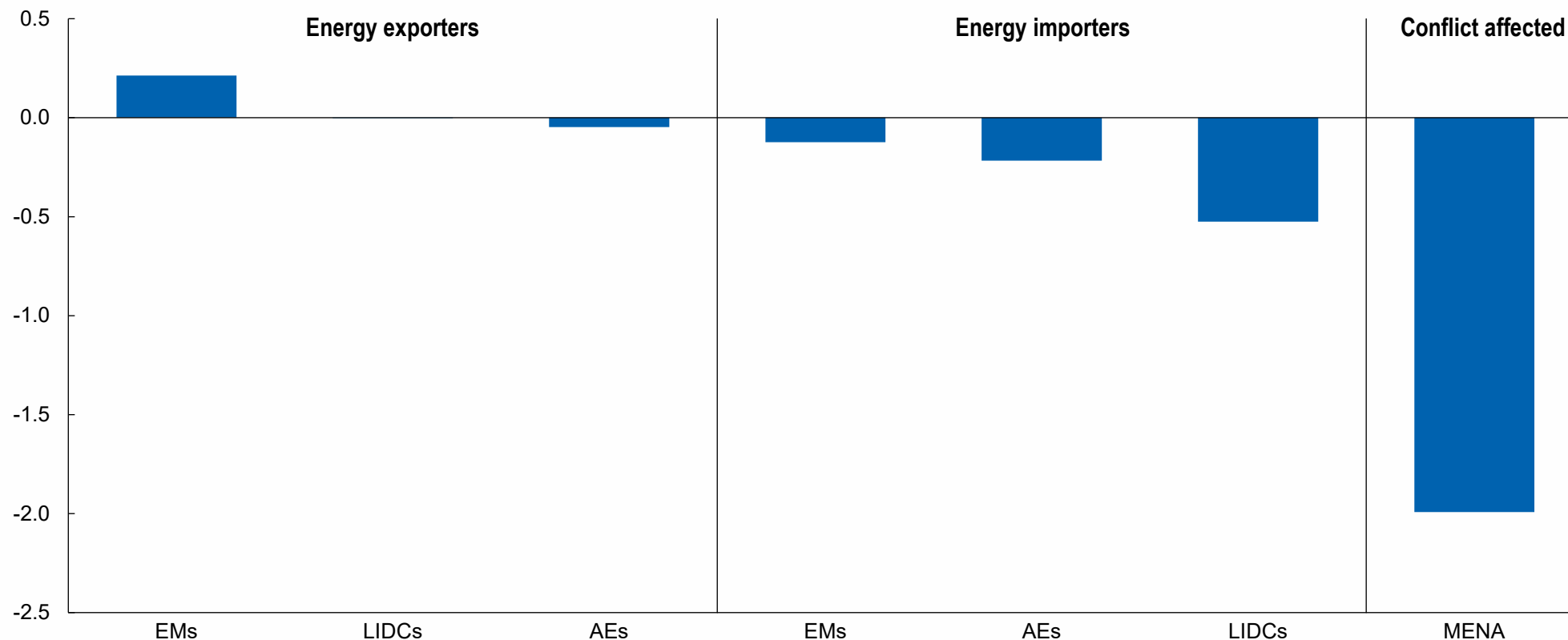


Sources: Bloomberg Finance L.P.; and IMF staff calculations.

Differentiated impact of the conflict

GDP growth revisions in the reference forecast

(percentage points)



Sources: World Bank, World Development Indicators; and IMF staff calculations.

Note: The figure presents cumulative GDP growth revisions for 2026–27 relative to January 2026 *World Economic Outlook* Update. Energy exporters and importers are defined using 2022 net energy imports as a share of energy use. Groups are aggregated using purchasing-power-parity weights. EMs and LIDCs exclude MENA. AEs = Advanced Economies; EMs = Emerging Markets; LIDCs = Low-Income Developing Countries; MENA = Middle East and North Africa.

Policy priorities

Policy agility and adaptability to address the implications of the war and maintain macroeconomic and financial stability.

- Provided inflation expectations remain well anchored, central banks can afford to wait and watch.
 - But they must be attentive to risks and prepared to act decisively.
- Allow flexible exchange rates to facilitate macroeconomic adjustment.
 - Be guided by the IMF's Integrated Policy Framework should movements become excessive or disorderly.
- Maintain strong prudential oversight and readiness to support market functioning if liquidity strains emerge.
- Carefully balance safeguarding fiscal sustainability and protecting the most vulnerable, while preserving price signals.
 - Where needed, fiscal support should be targeted, timely, and temporary and consistent with medium-term fiscal plans.
 - Where fiscal space is limited, find offsetting savings elsewhere in the budget or implement new revenue measures
- Ensure coherence between fiscal and monetary policies.

Broader need to strengthen resilience and durably raise growth prospects.

- Accelerate growth-oriented reforms and pursue smarter regulation to harness technological progress
 - Invest in people to raise skills and labor market opportunities and participation.
- Continue to pursue energy efficiency and diversification to deliver greater energy security.
- Safeguard independence of central banks to ensure policy credibility.
- Ensure credible fiscal frameworks, rules, and institutions which will help rebuild fiscal buffers.
- Swiftly address domestic imbalances to help correct global imbalances—rebalancing begins at home.
- Close data gaps for financial surveillance, improve oversight of NBFIs, and complete Basel III.

Role of the Fund

Support members handling of the shock

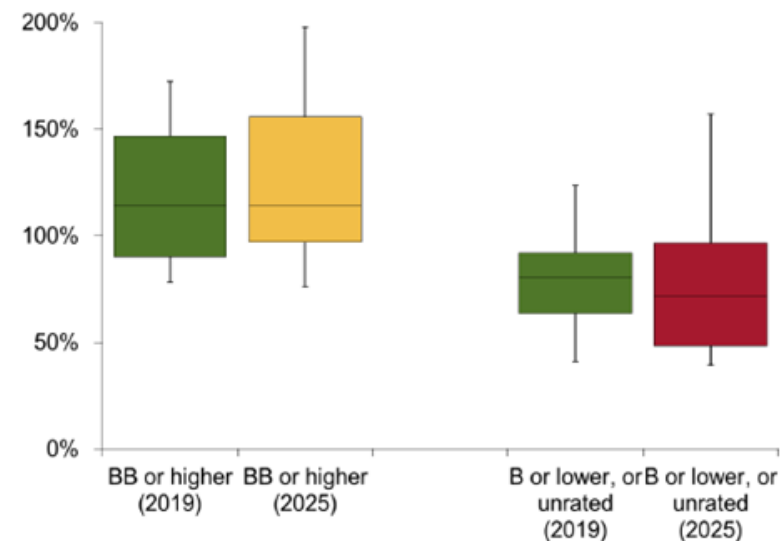
- Provide enhanced surveillance, targeted policy advice, and capacity development.
- Stand ready to provide significant financing, as needed, to support countries facing additional BoP needs.
- Coordination with other institutions (i.e., IEA/WB).

Upgrading surveillance and lending toolkits

- Comprehensive Surveillance Review
- Review of Conditionality

Distribution of FX reserves

(percent of assessing reserve adequacy metrics)



Sources: Assessing Reserve Adequacy Dataset.



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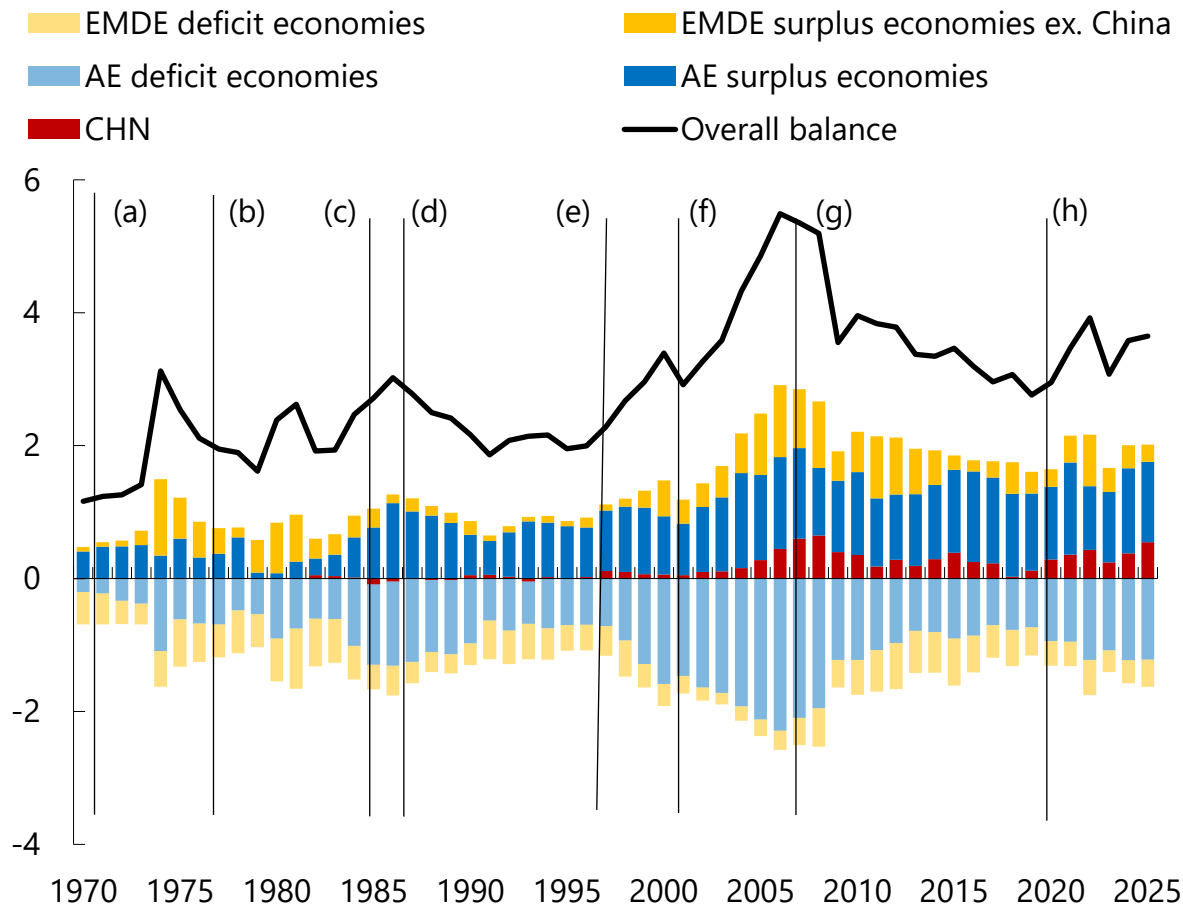
Neil Meads

Multilateral Surveillance Division

Global imbalances are widening once again...

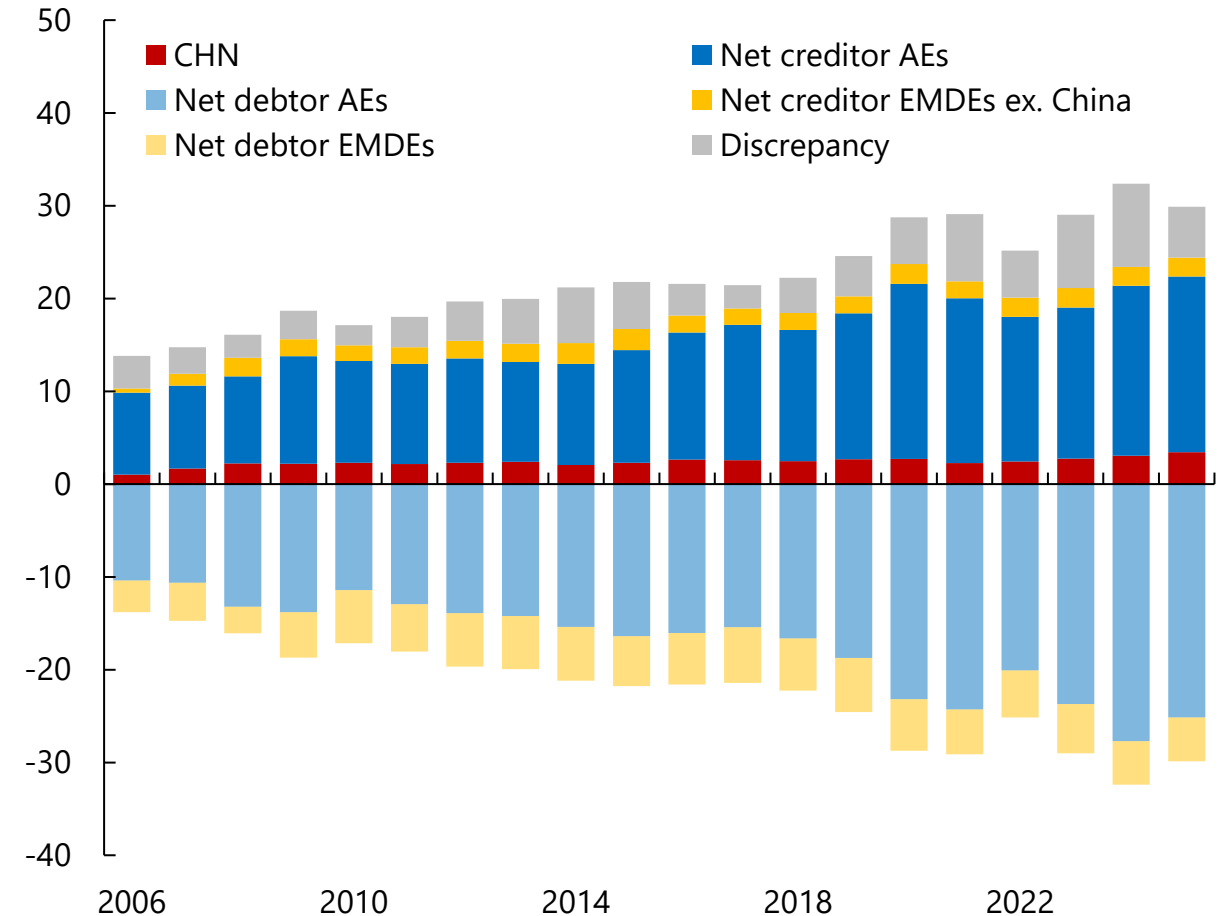
Global current account balances, 1970-2025

(percent of world GDP)



Net international investment position, 2000-25

(percent of world GDP)

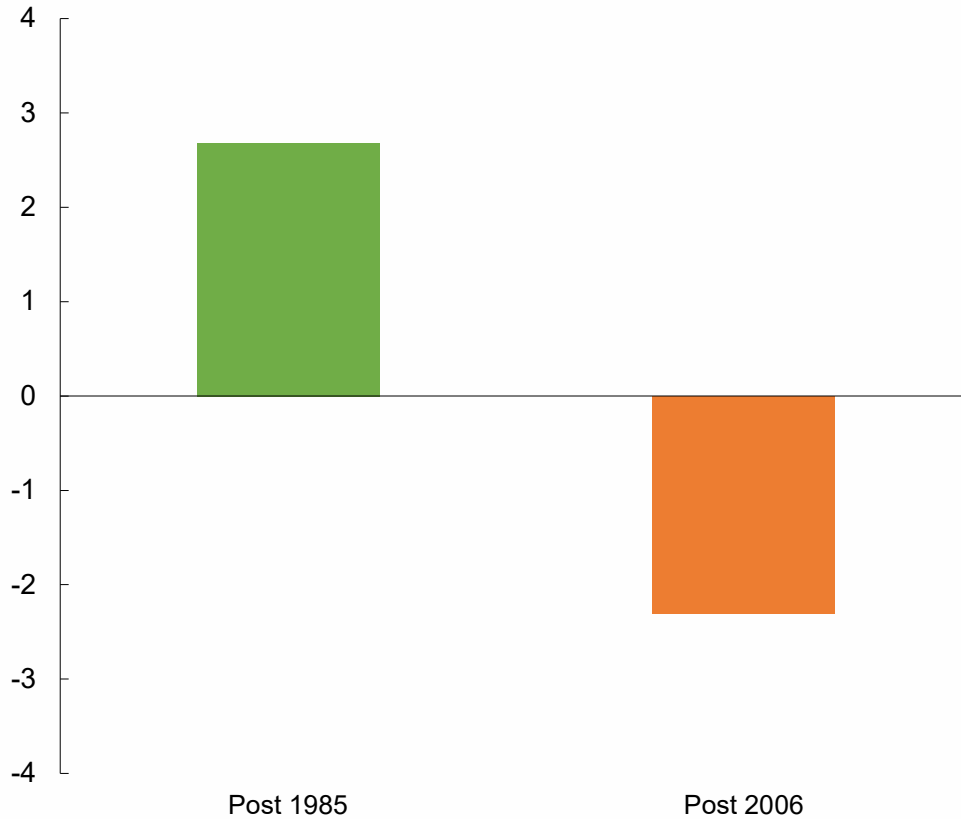


Sources: IMF, *World Economic Outlook*; IMF, *Balance of Payments*; and IMF staff calculations.

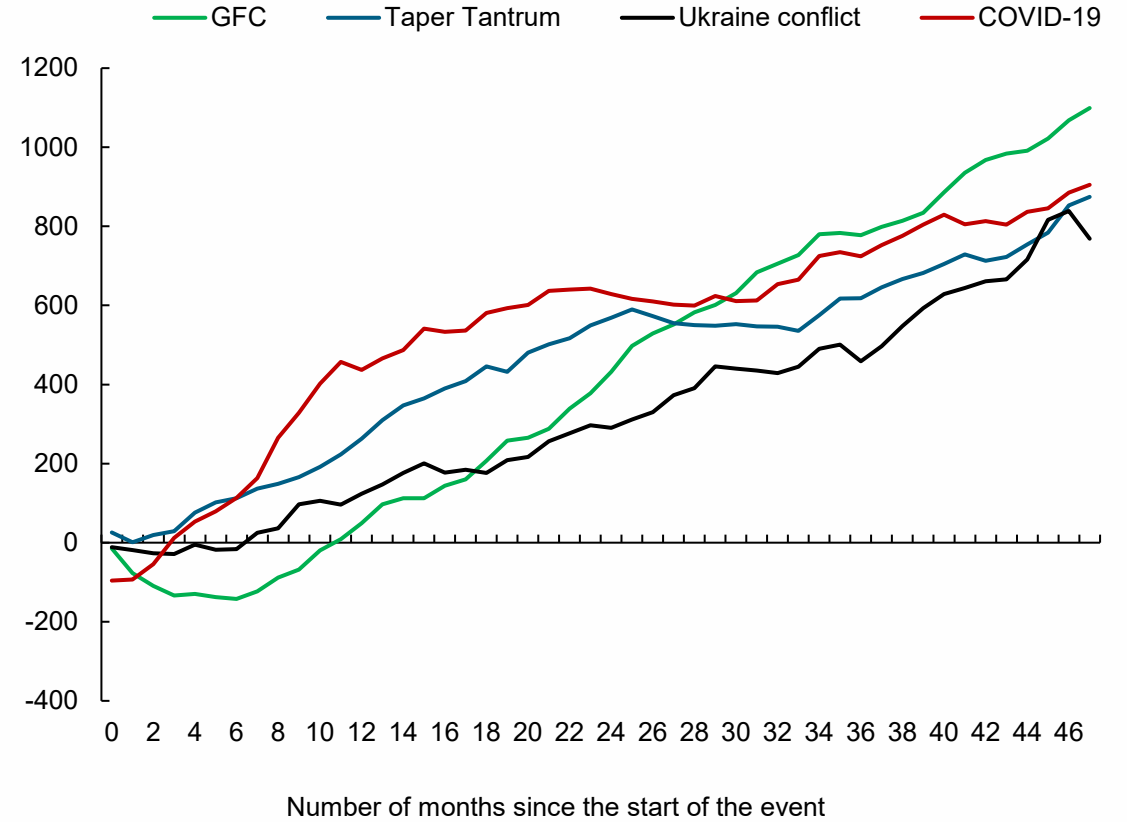
Notes: Left panel: The *overall balance* is defined as the sum of absolute values of current account surpluses and deficits (a) Collapse of Bretton Woods System (1971); (b) Dollar Crisis (1977); (c) Plaza Accord (1985); (d) Louvre Accord (1987); (e) Asian Crisis (1997); (f) China WTO accession (2001); (g) GFC (2007); (h) COVID-19 Pandemic (2020). AEs= advanced economies, EMDEs=emerging market and developing economies.

...raising concerns about potential adjustment costs

EMDEs output
(percent deviation after 4 years)



Capital flows to EMs
(cumulative, US billion, as of April 2026)



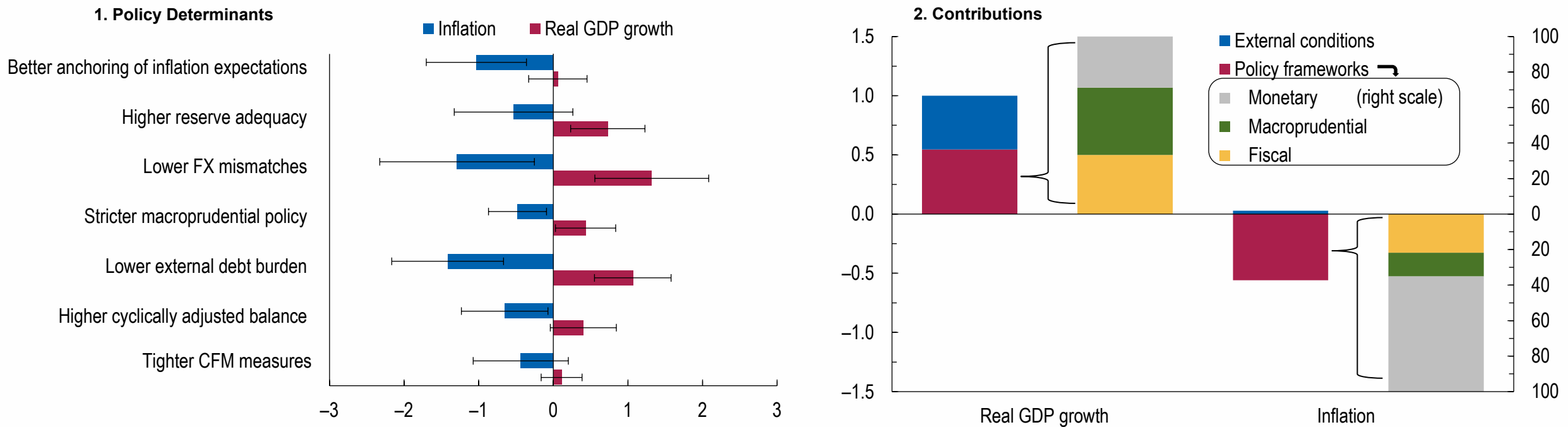
Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

Notes: The growth gap is calculated as the percentage point deviation from the 5-year average GDP growth rates prior to the event. EMDEs= emerging market and developing economies.

Better policies post-GFC enhanced resilience during risk-off episodes

Stronger monetary policy, macroprudential, and fiscal policy frameworks reduced output losses and lowered inflation; while external conditions contributed to faster growth but no impact on inflation during the post-GFC period.

Factors contributing to emerging markets' resilience during risk-off episodes (percent)



Notes: Left chart plots the predicted change in real GDP growth and inflation during risk-off episodes for a country moving from the 25th to the 75th percentile of the distribution of a set of policy variables. Estimated coefficients are obtained from regressions for individual policy variables. Right chart plots contributions of policy variables and external conditions implied for the median EM in the sample for the post-GFC period relative to the pre-GFC period. The specifications control for past real GDP growth, consumer price inflation, and episode fixed effects. The impact of external conditions is obtained by regressing the estimated contribution of common factors derived using the episode fixed effects on a set of variables proxying for external conditions, including real GDP growth in advanced economies, terms-of-trade shocks and global financial conditions. Pre-GFC period covers 1997 to 2009, while post-GFC period covers 2010 to 2024.

Sources: IMF World Economic Outlook, World Bank A Cross-Country Database of Fiscal Space, Allen & Juvenal (2025), Integrated Macroprudential Policy (iMaPP) Database, Consensus Economics, Haver Analytics, and IMF staff calculations