



R E P O R T T O C O N G R E S S



# Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States

U.S. DEPARTMENT OF THE TREASURY • OFFICE OF INTERNATIONAL AFFAIRS

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This Report reviews developments in international economic and exchange rate policies and is submitted pursuant to the Omnibus Trade and Competitiveness Act of 1988, 22 U.S.C. § 5305, and Section 701 of the Trade Facilitation and Trade Enforcement Act of 2015, 19 U.S.C. § 4421.<sup>1</sup>

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<sup>1</sup> The Treasury Department has consulted with the Board of Governors of the Federal Reserve System and International Monetary Fund management and staff in preparing this Report.

## Executive Summary

*This Report assesses developments in international economic and exchange rate policies over the four quarters through June 2025 (the official Report period) and more recent developments where data are available. The analysis in this Report is guided by Sections 3001-3006 of the Omnibus Trade and Competitiveness Act of 1988 (1988 Act) (codified at 22 U.S.C. §§ 5301-5306) and Sections 701 and 702 of the Trade Facilitation and Trade Enforcement Act of 2015 (2015 Act) (codified at 19 U.S.C. §§ 4421-4422), as discussed in Section 1 of this Report. Treasury reviews developments in the 20 largest trading partners of the United States over the period of review. These economies accounted for about 78% of U.S. trade in goods and services over the four quarters through June 2025.*

President Trump is committed to pursuing economic and trade policies that will spur an American revitalization marked by strong economic growth, the elimination of destructive trade deficits, and countering unfair trade practices. For decades, unfair currency practices abroad have contributed to the U.S. trade deficit and the hollowing out of U.S. manufacturing employment. When a trading partner engages excessively in foreign exchange market interventions or other actions to artificially lower the value or suppress appreciation of its currency, this distorts market-based competition, promoting domestic production and exports and suppressing imports in ways that do not reflect the productivity of economies or competitiveness of traded goods. Treasury is closely monitoring whether our trading partners may act through foreign exchange intervention and non-market policies and practices to manipulate their currencies for unfair competitive advantage in trade and prevent the swift recovery of American economic strength.

*Joint statements on macroeconomic and foreign exchange matters* – As part of President Trump's America First Trade Policy, in Spring 2025 Treasury initiated discussions with a number of trading partners that have regularly appeared on the Monitoring List of recent Foreign Exchange Reports. To date, Treasury has released joint statements with the relevant authorities of six major trading partners – Japan, Switzerland, Malaysia, Thailand, Korea, and Taiwan. These joint statements solidified close consultations on macroeconomic and foreign exchange matters and reaffirmed each party's commitment to avoid manipulating exchange rates to prevent effective balance of payments adjustment or to gain an unfair competitive advantage.

Generally, the joint statements affirmed that:

- macroprudential or capital flow measures will not target exchange rates for competitive purposes;
- other government investment vehicles continue to invest abroad for risk-adjusted return and diversification purposes and will not be used to target the exchange rate for competitive purposes; and
- in cases when foreign exchange intervention may be considered, it should be reserved for combatting excess volatility and disorderly movements in exchange rates, with the expectation that intervention would be considered equally

appropriate for addressing excessively volatile or disorderly depreciation or appreciation.

Finally, the joint statements highlighted the importance of transparent exchange rate policies and practices, and in many cases improve the frequency and timeliness of our trading partners' disclosure of foreign exchange intervention data and/or data on foreign exchange reserves.

This Report assesses the macroeconomic and exchange rate practices of major trading partners pursuant to the 1988 and 2015 Acts.

- The 1988 Act requires Treasury to consider whether any economy manipulates the rate of exchange between its currency and the U.S. dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. **In this Report, Treasury concludes that no major trading partner of the United States engaged in conduct of the kind described in Section 3004 of the 1988 Act during the official Report period.**
- Under the 2015 Act, Treasury is required to assess the macroeconomic and exchange rate policies of major trading partners of the United States for three specific criteria: (1) a significant bilateral trade surplus with the United States; (2) a material current account surplus; and (3) persistent, one-sided intervention in the foreign exchange market (see Section 1 for an elaboration of these criteria). **In this Report, Treasury finds that no major trading partner met all three criteria under the 2015 Act during the four quarters ending June 2025, such that no major trading partner requires enhanced analysis.**

Treasury maintains a Monitoring List of major trading partners, whose currency practices and macroeconomic policies merit close attention. When a major trading partner meets two of the three criteria in the 2015 Act, that trading partner is placed on the Monitoring List. Once on the Monitoring List, an economy will remain there for at least two consecutive Reports to help ensure that any improvement in its performance, such that it no longer meets two of the three criteria for enhanced analysis, is durable, rather than being due to temporary factors. **In this Report, the Monitoring List comprises China, Japan, Korea, Taiwan, Thailand, Singapore, Vietnam, Germany, Ireland, and Switzerland. All except Thailand were on the Monitoring List in the June 2025 Report.** Section 3 provides Treasury's intensified evaluation of these economies.

While Treasury has not designated China as a currency manipulator in this Report amid renminbi (RMB) depreciation pressure over the Report period, China stands out among our major trading partners in its relative lack of transparency around its exchange rate policies and practices. This relative lack of transparency will not preclude Treasury from designating China if available evidence suggests that it is intervening through formal or informal channels to resist RMB appreciation in the future. Given China's extremely large and growing external surpluses, and its substantially undervalued exchange rate, it is

important that the Chinese authorities allow the RMB exchange rate to strengthen in a timely and orderly manner in line with market pressure and macroeconomic fundamentals.

As noted previously, Treasury is closely monitoring whether our trading partners may act through foreign exchange intervention and non-market policies and practices to manipulate their currencies for unfair competitive advantage in trade and prevent the swift recovery of American economic strength. In support of the America First Trade Policy, Treasury has strengthened its analysis of trading partners' currency policies and practices. These analyses will inform Treasury's assessments of currency manipulation under the 1988 Act and of intervention under the 2015 Act.

*Symmetrical pattern of intervention* – In addition to its assessment of whether a trading partner is engaging in persistent, one-sided intervention as required under the 2015 Act, Treasury is monitoring more broadly the extent to which intervention by our trading partners is broadly two-sided, and whether economies that choose to smooth exchange rate movements do so to resist depreciation pressure in the same manner as they do to resist appreciation pressure.

Treasury's approach to assessing symmetry will not be mechanical or purely quantitative but will look to see if countries will respond to similar pressures in similar ways. Treasury is assessing intervention practices over more extended time periods based on exchange rate dynamics. Evidence of an asymmetric approach to intervention may include more frequent and/or larger intervention in the context of strong appreciation pressure on the domestic currency without a similar approach in the context of strong depreciation pressure on the domestic currency.

Treasury's approach includes more intensive analysis of market dynamics in circumstances where a central bank is ostensibly intervening to mitigate disorderly market conditions or excess volatility when the domestic currency is under appreciation pressure. It does so by monitoring exchange rate developments at an intra-day frequency and by tracking these movements alongside intervention data.

*Broadening the scope of foreign exchange intervention estimates and analysis* – Transparency practices with respect to foreign exchange intervention vary widely across the United States' major trading partners. Some economies announce the size of interventions when they occur, while others do not publish intervention data at all. Some economies publish intervention data on a monthly frequency with a one-month lag while others publish data at a more aggregated frequency and with a longer lag. As such, Treasury relies on its own estimates of monthly foreign exchange intervention for its assessment of currency practices supplemented by published intervention data, or intervention data conveyed bilaterally. Treasury will place greater scrutiny on intervention practices when its estimates of foreign exchange intervention deviate significantly from that officially reported by the economy in question and will seek to explain and reconcile these differences. An economy that fails to publish intervention data or whose data are incomplete will not be given any benefit of the doubt in Treasury's assessment of intervention practices.

A proper understanding of activity in the forward and swaps markets is also critical to assessing intervention practices of our major trading partners. Some central banks have used the forward market for intervention as it reduces the degree of transparency of central bank operations vis-à-vis spot transactions and obscures the central bank's balance sheet foreign exchange position. More frequently, central banks may use foreign exchange swaps to sterilize or offset spot interventions so as not to affect domestic monetary conditions. The IMF, through its data standards initiatives, has set up a mechanism for forward positions to be publicly reported through its voluntary International Reserves and Foreign Currency Liquidity Template, and Treasury has incorporated changes in the forward book in its estimates of foreign exchange intervention for years. Treasury is analyzing changes in the magnitude and composition of trading partners' net forward positions to better understand the intersection between foreign exchange intervention and domestic monetary conditions, as well as the outlook for gross foreign exchange reserves given that headline gross reserve levels will change as net forward positions wind down.

Treasury is also increasing its vigilance about other policies beyond foreign exchange intervention employed by U.S. major trading partners that may influence foreign exchange markets:

- Capital Controls and Macroprudential Measures – Capital flow measures are designed to limit capital inflows and/or outflows and can include ceilings or limits on nonresident purchases of domestic securities, bans on nonresident investments in certain sectors, reserve requirements on foreign investment, among other things. Macroprudential measures are designed to limit systemic financial risks and can include loan-to-value limits and debt-to-income limits on bank lending, higher reserve requirements on foreign exchange liabilities of banks than on local currency liabilities, and minimum capital requirements for financial institutions. While these tools can play an important role in limiting risks to the balance of payments and financial stability, they can also be abused in a way that substitutes for foreign exchange intervention in preventing appreciation of the domestic currency for competitive purposes. Treasury is monitoring changes in capital controls and macroprudential measures and will assess the intent and impact of such changes.
- Other Government Investment Vehicles – Foreign exchange reserves held at the central bank are not the only source of officially controlled liquid foreign assets. Other government investment vehicles include economically important<sup>2</sup> government pension, insurance and wealth funds, and state-owned financial institutions. While cross-border investment into the United States by these government investment vehicles is welcomed and encouraged, Treasury will be vigilant as to whether U.S. major trading partners use them as a substitute for traditional foreign exchange

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<sup>2</sup> Treasury will initially focus on firms with the largest assets under management in several trading partners and may expand the number of firms analyzed over time. Treasury is most focused on the funds that are at least partially funded in domestic currency yet hold liquid foreign currency assets and transact frequently in foreign exchange markets.

intervention to hold down the value of their currencies, resulting in an unfair advantage in trade, as opposed to traditional investment motivated by diversification and risk-adjusted return. It will call out behavior that appears to be focused on limiting exchange rate adjustment and stands ready to include such transactions in its estimates of foreign exchange intervention.

*Strengthening consequences for manipulators* – Treasury will use all available tools to implement strong countermeasures that will level the playing field against unfair currency practices. These may include recommending the use of existing tariff authorities that Congress has delegated to the Executive branch of government. One example would be to recommend USTR initiate a 301 investigation into currency practices. While USTR’s statutory authority over 301 investigations is distinct from Treasury’s statutory responsibilities to monitor exchange rate policies, following a manipulation designation in the Foreign Exchange Report, Treasury has the ability to recommend USTR open a Section 301 investigation into the currency practices of the designated economy.

## **Section 1: Treasury’s Analysis under the 1988 and 2015 Legislation**

This Report reviews developments in international economic and exchange rate policies and is submitted pursuant to the Omnibus Trade and Competitiveness Act of 1988, 22 U.S.C. § 5305, and Section 701 of the Trade Facilitation and Trade Enforcement Act of 2015, 19 U.S.C. § 4421. Because the standards in the 1988 Act and the 2015 Act are distinct, a trading partner could be found to meet the standards identified in one of the statutes without necessarily being found to meet the standards identified in the other.

Under the 1988 Act, the Secretary of the Treasury must provide semiannual reports to Congress on international economic and exchange rate policy. Under Section 3004 of the 1988 Act, the Secretary must:

*“consider whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade.”*

This determination may encompass analysis of a broad range of factors, including not only trade and current account imbalances and foreign exchange intervention (the criteria evaluated under the 2015 Act), but also currency developments, the design of exchange rate regimes and exchange rate practices, foreign exchange reserve coverage, capital controls, monetary policy, and trade policy actions, as well as foreign exchange activities by quasi-official entities that may be undertaken on behalf of official entities, among other factors.

Under the 2015 Act, Treasury is required to assess the macroeconomic and exchange rate policies of major trading partners of the United States that have: (1) a significant bilateral trade surplus with the United States, (2) a material current account surplus, and (3)

engaged in persistent one-sided intervention in the foreign exchange market. Treasury sets the benchmark and threshold for determining which countries are major trading partners, as well as the thresholds for the three specific criteria in the 2015 Act.

### ***Key Criteria under the 2015 Act***

As noted above and illustrated in Table 1 below, Treasury has reviewed the 20 largest U.S. trading partners<sup>3</sup> against the thresholds Treasury has established for the three criteria in the 2015 Act for the four quarters through June 2025:

#### **Criterion (1) – Significant bilateral trade surplus with the United States:**

Treasury assesses that economies with a bilateral goods and services surplus of at least \$15 billion have a “significant” surplus. Highlighted in red in column 3 of Table 1 are the 15 major trading partners that have a bilateral surplus that met this threshold for the four quarters through June 2025. Table 2 provides additional contextual information on total and bilateral trade, including individual goods and services trade balances, with these trading partners.

#### **Criterion (2) – Material current account surplus:**

Treasury assesses current account surpluses of at least 3% of GDP are “material.” Highlighted in red in column 2a of Table 1 are the eleven economies that met this threshold over the four quarters through June 2025. Column 2b shows the change in the current account surplus as a share of GDP over the last three years, although this is not a criterion for enhanced analysis.

#### **Criterion (3) – Persistent, one-sided intervention:**

Treasury assesses net purchases of foreign currency, conducted repeatedly, in at least 8 out of 12 months, totaling at least 2% of an economy’s GDP, to be persistent, one-sided intervention.<sup>4</sup> Columns 1a and 1c in Table 1 provide Treasury’s assessment of this criterion.<sup>5</sup> In economies where foreign exchange interventions are not published, Treasury uses estimates of net purchases of foreign currency as a proxy for intervention.

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<sup>3</sup> Based on total bilateral trade in goods and services (i.e., imports plus exports). The countries listed in Table 1 are ordered from largest to smallest trading partner based on total bilateral trade.

<sup>4</sup> Notably, this quantitative threshold is sufficient to meet the criterion. Other patterns of intervention, with lesser amounts or less frequent interventions, might also meet the criterion depending on the circumstances of the intervention.

<sup>5</sup> Treasury uses publicly available data for intervention on foreign asset purchases by authorities, or estimated intervention based on valuation-adjusted foreign exchange reserves. This methodology requires assumptions about both the currency and asset composition of reserves in order to isolate returns on assets held in reserves and currency valuation moves from actual purchases and sales, including estimations of transactions in foreign exchange derivatives markets. Treasury also uses alternative data series when they provide a more accurate picture of foreign exchange balances, such as Taiwan’s reporting of net foreign assets at its central bank. To the extent the assumptions made do not reflect the true composition of reserves, estimates may overstate or understate intervention. Treasury strongly encourages those economies in this Report that do not currently release data on foreign exchange intervention to do so.

Table 1. Major Foreign Trading Partners Evaluation Criteria

	FX Intervention			Current Account			Bilateral Trade Goods and Services Surplus with United States (USD Bil., Trailing 4Q) (3)
	Net Purchases (% of GDP, Trailing 4Q) (1a)	Net Purchases (USD Bil., Trailing 4Q) (1b)	Net Purchases 8 of 12 Months <sup>†</sup> (1c)	Balance (% of GDP, Trailing 4Q) (2a)	3 Year Change in Balance (% of GDP) (2b)	Balance (USD Bil., Trailing 4Q) (2c)	
Mexico	0.0	0	No	-0.3	0.8	-5	178
Canada	0.0	0	No	-0.9	-1.2	-22	29
China	-0.4 — 0.2 *	-84 — 37	No	3.2 **	1.1	615	246
United Kingdom	0.0	0	No	-2.8	0.1	-109	-27
Germany	0.0	0	No	4.9	-0.4	236	84
Japan	-0.8	-37	No	4.6	1.6	198	65
Ireland	0.0	0	No	10.2	-0.3	69	68
Switzerland	0.7	7	Yes	8.1	0.4	80	46
Korea	-0.4	-7	No	5.9	2.3	108	52
India	-2.0	-79	No	-0.5	1.4	-21	59
Taiwan	0.7	6	No	15.0	0.1	125	100
Vietnam	-0.7 ***	-3	No	6.4	8.0	30	147
Netherlands	0.0	0	No	8.1	0.5	102	-76
France	0.0	0	No	-0.3	-0.1	-9	21
Singapore	3.1	18	Yes	18.0	-1.8	102	-26
Italy	0.0	0	No	1.0	1.2	24	45
Brazil	-1.9	-42	No	-3.6	-1.4	-78	-32
Australia	0.0	1	No	-2.3	-3.5	-42	-23
Thailand	0.9 ***	5	Yes	3.8	7.0	21	54
Malaysia	-0.3 ***	-1	Yes	1.6	-1.1	7	28
Memo: Euro Area	0.0	0	No	2.1	0.9	354	150

Note: Current account balance measured using BOP data, recorded in U.S. dollars, from national authorities.

Sources: Haver Analytics; National Authorities; U.S. Census Bureau; Bureau of Economic Analysis; and U.S. Department of the Treasury Staff Estimates.

<sup>†</sup> In assessing the persistence of intervention, Treasury will consider an economy that is judged to have purchased foreign exchange on net for 8 of the 12 months to have met the threshold. Other patterns of intervention, such as less frequent interventions, might also meet the criterion depending on the circumstances of the intervention.

\* Because China does not publish FX intervention, Treasury staff estimates intervention activity from monthly changes in the PBOC's foreign exchange assets and monthly data on net foreign exchange settlements, adjusted for changes in outstanding forwards. Based on either the PBOC's foreign exchange assets data or net foreign exchange settlements data, intervention was not persistent.

\*\* Treasury is aware of statistical anomalies that may suggest that China's current account surplus is higher than what is reported in the official balance of payments data. See "Box 1: Anomalies in China's Current Account Data" in the June 2024 Report for more details. For consistency with other data in the Report, official balance of payments data are reported here. Using customs data, China's current account surplus would be 4.3% of GDP.

\*\*\* Authorities do not publish FX intervention. Authorities have conveyed bilaterally to Treasury the size of net FX purchases during the four quarters ending June 2025.

**Table 2. Major Foreign Trading Partners - Expanded Trade Data**

	USD Bil., Trailing 4Q					
	Total Trade with United States			Trade Surplus with United States		
	Goods and Services (1a)	Goods (1b)	Services (1c)	Goods and Services (2a)	Goods (2b)	Services (2c)
Mexico	952	857	95	178	185	-7
Canada	896	749	147	29	61	-32
China	615	536	79	246	280	-34
United Kingdom	359	158	201	-27	-21	-6
Germany	332	239	94	84	81	3
Japan	329	231	98	65	69	-4
Ireland	289	164	126	68	131	-62
Switzerland	257	154	103	46	76	-30
Korea	238	194	44	52	63	-11
India	230	142	89	59	56	3
Taiwan	222	195	28	100	100	-1
Vietnam	183	177	6	147	148	-1
Netherlands	181	130	52	-76	-57	-19
France	172	111	61	21	17	4
Singapore	145	85	60	-26	-1	-25
Italy	141	112	30	45	41	4
Brazil	134	96	37	-32	-8	-24
Australia	100	61	40	-23	-8	-15
Thailand	99	91	7	54	54	0
Malaysia	94	88	7	28	29	-1
Belgium	75	62	13	-4	-5	1
Memo: Euro Area	1404	939	465	150	238	-88

Source: U.S. Census Bureau, and Bureau of Economic Analysis.

## ***Summary of Findings***

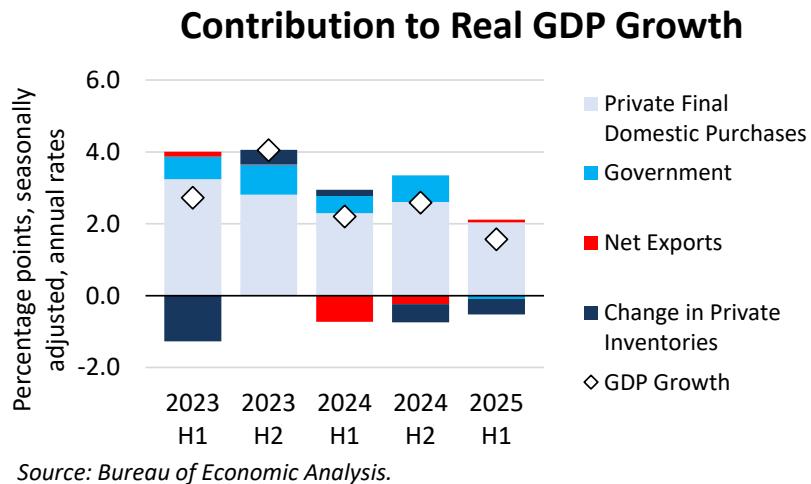
Pursuant to the 2015 Act, Treasury finds that no trading partner assessed in this Report met all three criteria for enhanced analysis in the current review period of the four quarters through June 2025, based on the most recent available data. Treasury maintains a Monitoring List of major trading partners, whose currency practices and macroeconomic policies merit close attention. In this Report, the Monitoring List comprises China, Japan, Korea, Taiwan, Singapore, Thailand, Vietnam, Germany, Ireland, and Switzerland. Treasury's intensified analysis of these economies can be found in Section 3 of this Report.

Treasury has also concluded that no major trading partner of the United States engaged in conduct of the kind described in Section 3004 of the 1988 Act during the relevant period. This determination has taken account of a broad range of factors, including not only trade and current account imbalances and foreign exchange intervention (the criteria in the 2015 Act), but also currency developments, exchange rate practices including through government investment vehicle activity, foreign exchange reserve coverage, capital controls, and monetary policy.

## **Section 2: Global Economic and External Developments**

### ***U.S. Economic Trends During the Official Report Period***

Real GDP growth was 2.6% at an annual rate during the latter half of 2024, and 1.6% during the first half of 2025. This reflected a small decline in real GDP during the first quarter of 2025, driven by a surge in imports. In the second quarter, growth accelerated sharply to 3.8%, the fastest quarterly pace in nearly two years. Over the first half of 2025, growth of private household spending slowed, and residential investment declined, but business fixed investment accelerated sharply. Private domestic final purchases (PDFP)—which includes personal consumption expenditures, business fixed investment, and residential investment—added 2.0 percentage points to GDP growth, while total government consumption and investment subtracted 0.1 percentage point from growth, as federal spending decreased. A surge in imports during the first quarter (reflecting front-running of tariffs) and a pull-back in the second caused record movements in the contribution of trade to growth. Over the first half of 2025, net exports added 0.1 percentage point to real GDP – the first time since 2023 that net exports made a positive contribution to half-year growth.



Labor market conditions were generally healthy in the first half of 2025.

Unemployment rates remained near historic lows and participation was relatively stable. The economy created an average of 83,000 jobs per month during the first half of 2025, while the unemployment rate (U-3) held steady around 4.1%. The overall labor force participation rate (LFPR)

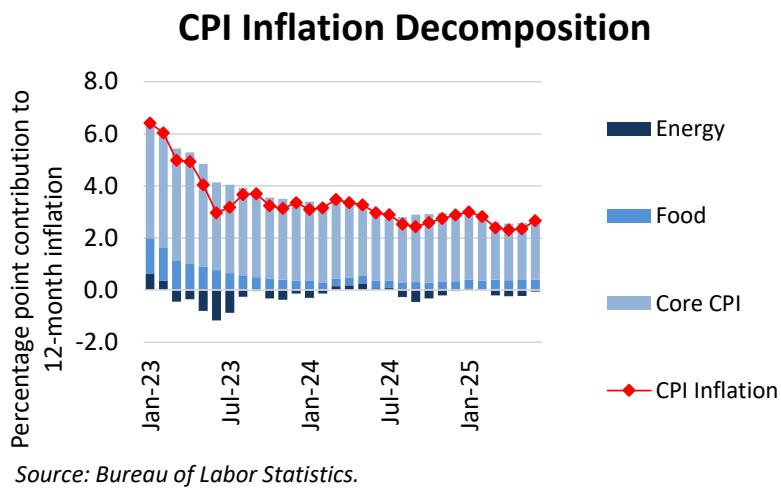
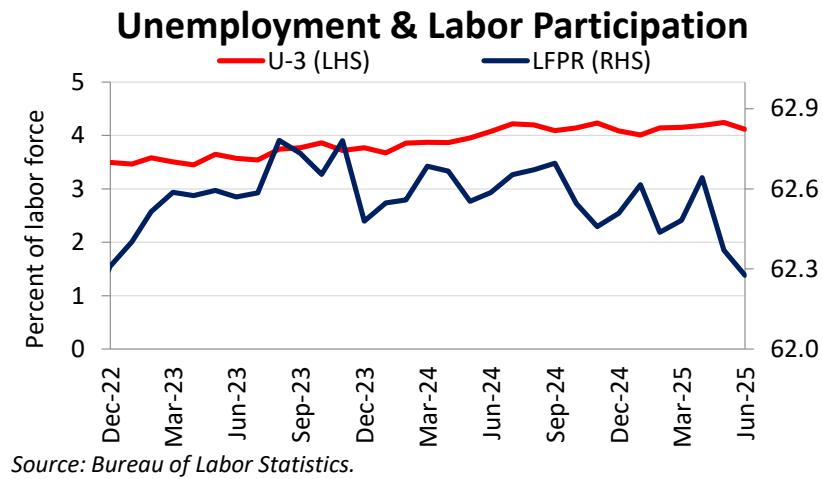
ticked down to 62.3% by June 2025, reflecting declining participation by younger (ages 16-24) and elderly (older than 54) workers. By contrast, the LFPR for prime-age (ages 25-54) workers increased to 83.5% over the first half of 2025.

After leveling off in the second half of 2024 inflation decreased during the first half of 2025. As of June 2025, 12-month CPI inflation was 2.7%, easing by 0.2 percentage points from December 2024. Twelve-month core CPI inflation (which excludes food and energy) slowed to 2.9% over the year ending in June 2025. Meanwhile, the Federal Reserve's preferred measure,

PCE inflation, edged down during 2025's first half, after accelerating during the latter half of 2024. On a twelve-month basis through June 2025, headline PCE inflation was 2.6%, ticking down from 2.7% in December 2024, while core PCE inflation inched down to 2.8% in June 2025.

### ***Economic Developments Since June 2025***

Real GDP growth strengthened during the third quarter of 2025, although the pace of job creation and the annual core inflation rate moderated. In the third quarter of the year, real GDP rose 4.3% at an annual rate, mainly due to strong consumer spending, continued business fixed investment in equipment and intellectual property products, and a narrower trade deficit. Businesses continued to draw down inventories, yielding a modest drag on third quarter GDP growth, after building up inventories in the first quarter of the year in



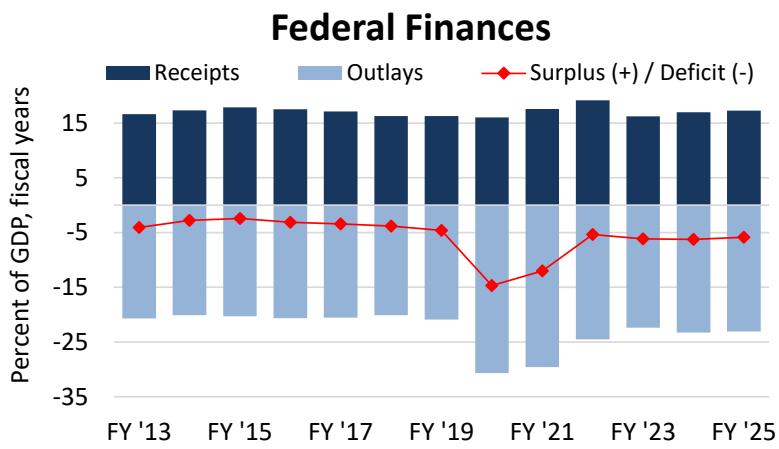
anticipation of higher tariffs. Growth of PDPF was 3.0% during the third quarter, picking up from the 2.4% annualized pace during the first half of 2025.

Labor market data since June suggest some downside risks have emerged, but labor supply remains strong. Since June 2025, private-sector employers have added an average of 43,000 jobs per month, slower than the 79,000 average monthly pace during the first half of the year and considerably below the 135,000 average during the second half of 2024. Meanwhile, the unemployment rate since June has averaged 4.4%, or about 0.2 percentage points above the average in the first half of 2025—though the increase in the unemployment rate is due to a low hires rate rather than a rising layoffs rate, which remains stable and low. Despite softer labor demand, labor supply has continued to improve since the first half of 2025: the average for the overall LFPR ticked up 0.1 percentage point to 62.4% through December and the prime-age LFPR has increased by 0.2 percentage points to 83.7%, a high rate relative to the past 25 years.

Annual inflation has slowed in recent months. Over the twelve months ending in December 2025, year-over-year CPI inflation was 2.7%, matching the pace over the twelve months through June. Slower rent of housing inflation readings has driven the slowdown, although energy inflation has accelerated very recently. Core CPI was 2.6% over the year through December, 0.3 percentage points below June's 12-month rate. Year-over-year rent of housing inflation has moderated substantially, and in December was 0.8 percentage points slower than June's 4.1% pace, while core non-housing services inflation has declined 0.4 percentage points since June.

## Federal Finances

The fiscal deficit as a share of GDP during the previous Administration was the largest in history outside of a war or recession—peaking at 6.3% of GDP. In FY 2025, which ended last September, the deficit narrowed by \$41 billion to \$1.78 trillion, equal to 5.8% of GDP as an increase in receipts more than offset rising outlays. Total federal receipts rose by \$317 billion to \$5.24 trillion (17.2% of GDP) in FY 2025. The rise in receipts largely reflected strong growth of individual income tax withholdings and capital gains realizations, as well as higher customs duties. Meanwhile, outlays rose by \$275 billion to \$7.00 trillion (23.1% of GDP) in FY 2025, reflecting higher spending on Social Security from both legislation and demographic aging, increased Medicare outlays, and higher net interest payments on the federal debt.



Sources: U.S. Treasury; Bureau of Economic Analysis.

The Treasury's borrowing limit was raised to \$41.1 trillion with the passage of the One Big Beautiful Bill Act in July 2025. At the end of FY 2025, gross federal debt stood at \$37.6 trillion (124.0% of GDP), while debt held by the public was \$30.3 trillion (99.7% of GDP).

The fiscal path this Administration inherited is unsustainable, and it is working tirelessly to cut spending, grow the economy and bring America back to a healthy fiscal path. The Administration seeks Congress's collaboration to cut wasteful government spending to bring down the federal deficit and to pass tax reform that promotes supply-side friendly macroeconomic environments through which the benefits of economic growth are broadly shared.

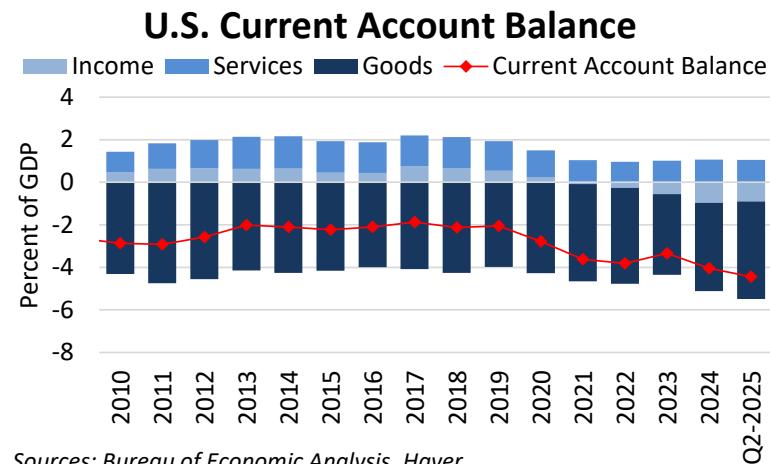
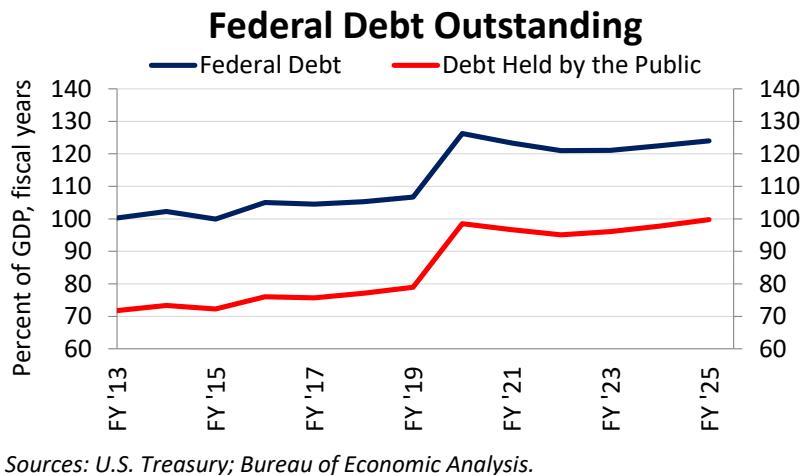
### ***U.S. Current Account and Trade Balances***

The U.S. current account deficit widened by \$317.1 billion to \$1.3 trillion in the four quarters through June 2025. The deficit was 4.6% of GDP over the same period, up from 3.6% in the four quarters through June 2024.

The widening of the current account deficit mostly reflected an expanded deficit in goods. Overall, the goods deficit increased by around \$276.4 billion in the four quarters through June 2025 while the services surplus increased by \$15.0 billion. Total U.S. exports grew 5.4% in the four quarters through June 2025 while imports grew 10.9%. Taken together, the total U.S. trade deficit increased by \$261.4 billion in the four quarters through June 2025, compared to the four quarters through June 2024.

### ***International Economic Trends***

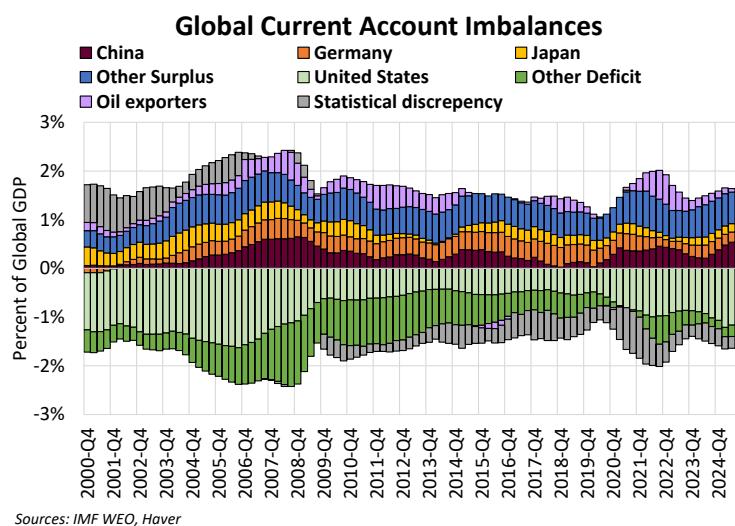
Despite resilient global growth, for several major trading partners, an excessive regulatory burden hinders the investment and private sector-led activity necessary to support economic dynamism. In some countries, high savings rates, beyond what would be implied



by demographics, are propagated by weak social safety nets and holding back consumption. Of the economies covered in this Report, China, Thailand, and Vietnam are notable in this regard. While fiscal consolidation is needed for many, several trading partners maintain excessively tight fiscal policies, including Taiwan, Singapore, Vietnam, and Switzerland, which underpin material current account surpluses. Overcoming impediments to growth, including through deregulation and appropriately calibrated fiscal policy, would be growth supportive both in individual economies and globally.

*Global External Imbalances, Capital Flows to Emerging Market Economies, and Foreign Exchange Developments<sup>6</sup>*

Global current account imbalances<sup>7</sup> have been persistent for decades. After a notable COVID-related increase, imbalances have leveled off in recent quarters at a level higher than before the pandemic. Of countries with large surpluses, the increase is driven largely by China. Additionally, the IMF assesses that many other trading partners have current account surpluses higher than warranted by fundamentals including Singapore, the Netherlands, Germany, Malaysia, India, Mexico and the euro area.<sup>8</sup> Europe has taken some steps recently to stimulate domestic demand, but more can be done. Global imbalances also reflect drivers in current account deficit economies, such as the United States' fiscal deficit. Past U.S. administrations had run up the highest fiscal deficit in U.S. history outside of a recession or wartime. The Trump Administration seeks to cut wasteful government spending and bring fiscal deficits down to 3% of GDP. Progress is being made: the federal deficit in fiscal year 2025 was equal to 5.9% of GDP, a decrease from 6.3% of GDP in 2024.



<sup>6</sup> Unless otherwise noted, this Report quotes exchange rate movements using end-of-period data. Bilateral movements against the dollar and the nominal effective dollar index are calculated using daily frequency or end-of-period monthly data from the Federal Reserve Board. Movements in the real effective exchange rate for the dollar are calculated using monthly frequency data from the Federal Reserve Board, and the real effective exchange rate for all other currencies in this Report is calculated using monthly frequency data from the Bank for International Settlements (BIS) or JP Morgan if BIS data are unavailable.

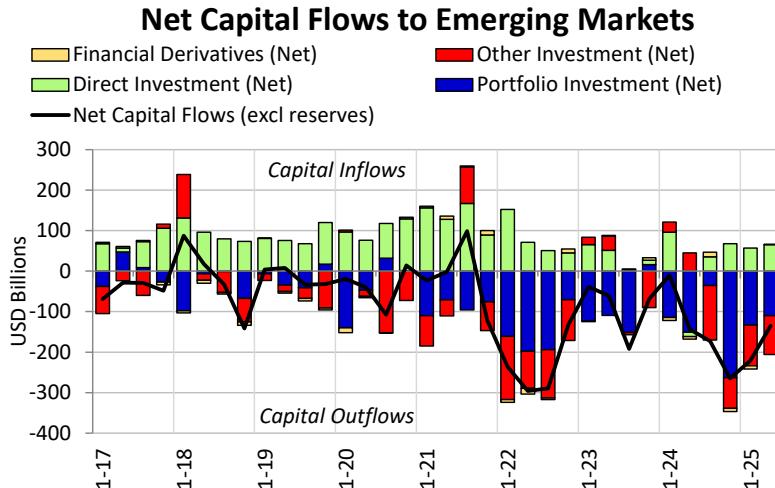
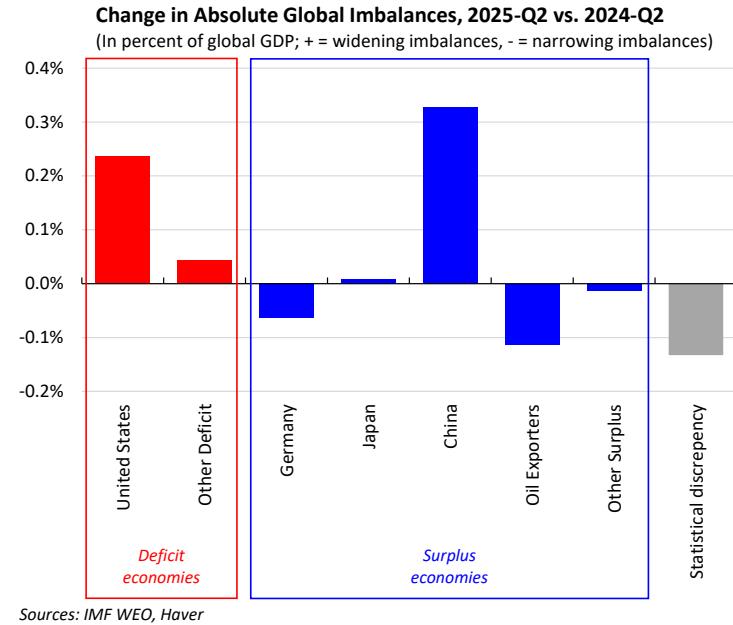
<sup>7</sup> Measured as the sum of the absolute values of current account deficits and surpluses.

<sup>8</sup> <https://www.imf.org/en/publications/esr/issues/2025/07/22/external-sector-report-2025>.

Net capital flows to emerging market economies remained under pressure in the second half of 2024 and the first half of 2025, largely reflecting sustained capital outflow pressures on China. Over the four quarters through June 2025, net outflows of FDI, portfolio investment, and other investment from emerging market economies have totaled \$724 billion. The dramatic pullback primarily reflects large scale net outflows from China. Resident net outflows of FDI, portfolio, and other investment from China widened to \$653

billion over this period, while net nonresident flows remained weak. In particular, net nonresident portfolio flows turned negative in the fourth quarter of 2024 and totaled \$68 billion), the largest nominal quarterly outflow on record for China. Excluding China, outflows of capital from emerging market economies have remained more muted, totaling \$38 billion over this period.

Outflows from emerging market economies over this period continued to reflect rising net outflows from residents while net inflows from nonresidents have increased at a slower pace. Total net FDI inflows remained weak resulting from collapsed net FDI flows into China. Meanwhile, portfolio investment and other investment net outflows totaled \$948 billion over the year, narrowing somewhat in 2025 from their highest nominal quarterly amount on record in the fourth quarter of 2024.



Note: Financial account (excluding reserves) adjusted for errors and omissions.  
2025 reflects data through the end-June where available.  
Source: National Authorities, U.S. Department of the Treasury Staff Calculations

The nominal trade-weighted dollar weakened 3.8% over the four quarters through June 2025, depreciating against advanced economy currencies by 6.7% and emerging market economy currencies by 1.0%.

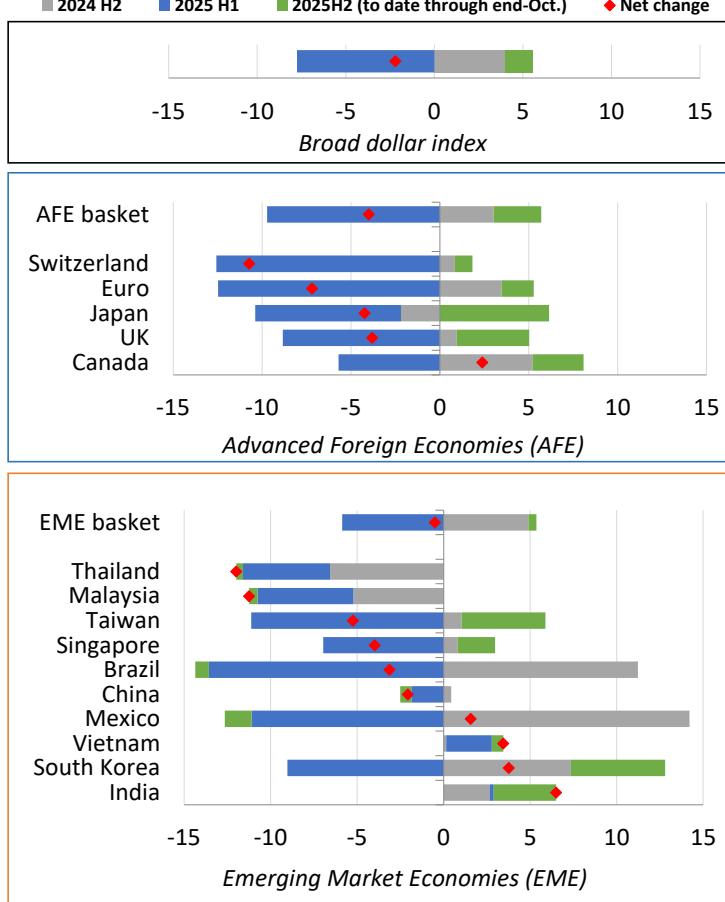
After appreciating by 4.0% in the second half of 2024, the dollar weakened 6.0% between end-2024 and end-October 2025, by 6.8% against advanced economy currencies, and by 5.1% against emerging market currencies. During this period, the dollar depreciated significantly against the Swedish krona, Brazilian real, Swiss franc, Mexican peso, Norwegian krone, euro, and Danish krone, each by at least 10%. Meanwhile, the dollar appreciated against the Vietnamese dong by 3% and the Indian rupee by 4% over this period.

On a real effective basis, the dollar appreciated 3.3% in the second half of 2024 and had weakened by 4.6% through end-October 2025, leaving it still 14.2% above its 20-year average. Adjustments for relative inflation continue to contribute minimally to year-over-year monthly real effective exchange rate movements thus far in 2025, so nominal effective exchange rate movements primarily explain real dollar developments. In its most recent assessment from July 2025, the IMF assessed the dollar to be overvalued by 11.9% on a real effective exchange rate basis in 2024, consistent with its assessment that the U.S. external position was moderately weaker than the level implied by medium-term fundamentals and desirable policies during this period.

As of October 2025, real effective exchange rates across many other economies have moved in the direction of easing imbalances. For example, among economies with surpluses exceeding 3% of GDP in 2024, the Netherlands, Ireland, and Taiwan have seen real exchange rate appreciation in excess of 3% over the first ten months of 2025. On the other hand, real exchange rates among several major trading partners with sizable current account surpluses have depreciated over the course of 2025, especially for China, Korea, and Vietnam, shifting relative prices in a direction making it likely they will run even larger surpluses. Some countries that had current account deficits in 2024 have seen continued

### U.S. Dollar vs. Major Trading Partner Currencies

(+ denotes dollar appreciation)  
Contribution to percent change between end-Jun. 2024 and end-Oct. 2025



Sources: FRB, Haver

real appreciation in 2025 (Belgium, the United Kingdom, and Brazil), while others have seen mild real depreciation, such as the United States and Australia over this period. Notably, India has experienced sizable real depreciations.

Global foreign currency reserves reached \$12.9 trillion by June 2025, rising by \$593 billion since June 2024. Treasury estimates foreign exchange sales during this period of just \$90 billion, with only a handful of major U.S. trading partners purchasing foreign exchange reserves. Treasury estimates that gains due to valuation effects outweighed these estimated sales (\$684 billion), with estimated interest income totaling \$263 billion and exchange rate-related gains totaling \$420 billion. The gains from changes in exchange rates largely reflect appreciations in the euro and, to a lesser extent, most other reserve currencies over this period, which were particularly pronounced in the first half of 2025. Treasury assesses that the economies covered in this Report continue to maintain broadly ample—or more than ample—foreign exchange reserves based on standard adequacy benchmarks.

**Table 3: Foreign Exchange Reserves**

	1Y Δ FX Reserves (USD Bns)	Reserves (USD Bns)	FX Reserves (% of GDP)	FX Reserves (% of ST debt)	FX Reserves (% of IMF ARA Metric)*
China	3,317.4	95.1	17%	246%	105%
Japan	1,151.7	51.0	26%	34%	..
Switzerland	894.2	102.6	89%	73%	..
India	591.4	18.5	15%	437%	111%
Taiwan	598.4	25.1	71%	277%	..
Korea	385.0	-3.4	21%	230%	..
Singapore	392.1	34.5	70%	27%	..
Brazil	307.0	-18.5	14%	334%	127%
Thailand	230.7	30.4	42%	334%	219%
Mexico	217.0	19.4	12%	321%	133%
UK	116.9	14.8	3%	2%	..
Malaysia	109.3	5.4	24%	77%	104%
Vietnam	81.1	-1.8	17%	332%	..
Canada	98.5	3.6	4%	8%	..
France	33.7	5.0	1%	1%	..
Italy	52.3	2.7	2%	5%	..
Australia	40.0	2.3	2%	9%	..
Germany	38.1	0.5	1%	1%	..
Belgium	6.5	-2.5	1%	1%	..
Netherlands	6.9	0.8	1%	1%	..
Ireland	4.8	-0.3	1%	0%	..
United States	39.5	4.2	0%	0%	..
World	12,930.4	593.0	n.a.	n.a.	..

Foreign exchange reserves as of end-June 2025.

GDP calculated as sum of rolling 4Q GDP through Q2-2025.

Short-term debt consists of gross external debt with original maturity of one year or less, as of the end of Q2-2025; Vietnam as of Q1-2025; United States as of Q1-2025.

\* IMF Assessing Reserve Adequacy Metric, a composite measure of reserve adequacy, as of end-2025. China's reserves are compared to the IMF's capital controls-adjusted metric. The IMF assesses reserves between 100-150% of the ARA metric to be adequate. While the IMF usually reports gross international reserves as a share of the ARA metric, foreign currency reserves as a share of the ARA metric are presented here for comparability purposes.

Sources: National Authorities, World Bank, IMF, BIS.

### **Section 3: Intensified Analysis of Major Trading Partners**

Treasury maintains a Monitoring List of major trading partners, whose currency practices and macroeconomic policies merit close attention. When a major trading partner meets two of the three criteria in the 2015 Act, that trading partner is placed on the Monitoring List. Once on the Monitoring List, an economy will remain there for at least two consecutive Reports to help ensure that any improvement in its performance, such that it no longer meets two of the three criteria for enhanced analysis, is durable, rather than being due to temporary factors. As a further measure, Treasury will add and retain on the Monitoring List any major U.S. trading partner that accounts for a large and

disproportionate share of the overall U.S. trade deficit, even if that economy has not met two of the three criteria from the 2015 Act. **In this Report, the Monitoring List comprises China, Japan, Korea, Taiwan, Singapore, Thailand, Vietnam, Germany, Ireland, and Switzerland. All except Thailand were on the Monitoring List in the June 2025 Report.** This section provides Treasury's intensified evaluation of these economies.

In this Report, each of these trading partners except for Singapore meet the criteria for having a significant bilateral surplus and a material current account surplus, while Singapore meets the criteria for engaging in persistent, one-sided foreign exchange intervention and having a material current account surplus.

### ***China***

*China's large and growing trade and current account surpluses reflect its domestic imbalances. China has enacted policies which have resulted in weak domestic demand, suppressed imports, provided large-scale non-market support for domestic manufacturing, and reinforced the economy's excessive reliance on export growth. In 2025, China's goods trade surplus reached \$1.2 trillion, a record high, and accounted for nearly 70% of global goods trade surpluses. China continues to rely on a range of tools to manage the RMB, particularly the daily fix<sup>9</sup> and the more opaque foreign exchange activities of China's state-owned banks. Over the Report period, Chinese authorities appeared primarily to have resisted RMB weakness against the dollar, though more recently, as the direction of market pressure has shifted, the authorities appear to have acted to moderate the pace of RMB appreciation against the dollar. Given China's extremely large and growing external surpluses and now substantially undervalued exchange rate, it is important that the Chinese authorities allow the RMB exchange rate to strengthen in a timely and orderly manner in line with macroeconomic fundamentals.*

### *Growth and Macroeconomic Policies*

China's economy grew 5.3% in the first half of 2025, with net exports buoyed by export frontloading in expectation of increased tariffs and diversion from the United States to alternative markets. The IMF revised China's growth forecast for 2025 upward from 4.0% in April 2025 to 5.0% of GDP, in line with the authorities' official full-year growth target of 5%. China continues to face persistent deflationary pressures and lower inflation relative to its trading partners in recent years, contributing to real effective depreciation of the renminbi.

In 2025, the authorities publicly indicated that they would substantially expand government spending to bolster growth. Through the second quarter of 2025, central and local government spending from China's two main budgets – the government funds and general public budgets – increased by nearly 9% on an annual basis, driven by increased bond issuance to fund infrastructure spending, subsidies for consumer durable purchases, clearance of government arrears to private firms, and refinancing off-balance sheet local

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<sup>9</sup> The daily fix is the central parity rate around which the RMB is permitted to trade within a ±2% band.

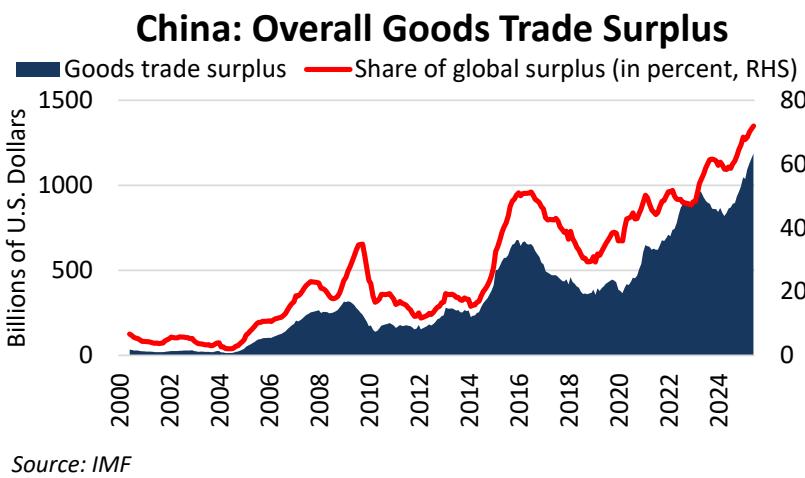
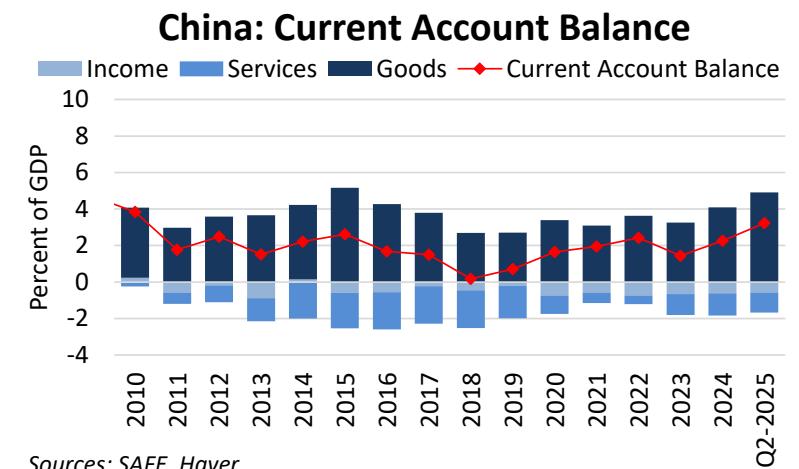
government debt. Meanwhile, government revenue declined by 0.6% over the same period, as tax and property-related revenue weakened under substantial downward price pressures and a prolonged real estate downturn. By the end of the year, China's total budget deficit is expected to have widened by 2.4% of GDP relative to the prior year, reaching an estimated 10.9% of GDP.<sup>10</sup>

The People's Bank of China (PBOC) has also recently adopted a more accommodative monetary policy stance. Since July 2024, the PBOC has cut its policy rate by a cumulative 40 basis points and reduced banks' reserve requirement ratio by 100 basis points. The PBOC has also rolled out new lending facilities and higher quotas for existing programs, aimed at equipment upgrades, services consumption, elderly care, and support for equity markets. However, the PBOC faces several constraints on further monetary easing, including low bank net interest margins.

### *Balance of Payments Developments*

According to China's balance of payments data, the current account surplus widened to 3.2% of GDP over the four quarters through June 2025, up from 1.3% in the same period a year earlier. The increase in the current account surplus was driven primarily by the goods trade balance, as exports rose \$295 billion and imports fell \$46 billion year-over-year. Balance of payments data recorded a surge in the goods trade surplus to 4.9% of GDP, up from 3.3% of GDP during the same period a year earlier.<sup>11</sup> China's customs data show an even larger goods trade surplus that rose to 6.0% of GDP in the four quarters

through June 2025 from 4.7% a year earlier. Using the customs data, China's current account surplus would be 4.3% of GDP. Over the reporting period, China's services deficit



<sup>10</sup> This refers to the deficit across China's state capital operations, social insurance fund, government funds, and general public budgets.

<sup>11</sup> Treasury's use of trade data from the State Administration of Foreign Exchange (SAFE) in this Report is not meant to imply that these data are more accurate but is instead motivated by these data's consistency with other components of the balance of payments.

narrowed to 1.1% of GDP from 1.3% of GDP, reflecting higher inbound and lower outbound tourism. Meanwhile, China's income deficit also narrowed to 0.6% of GDP from 0.7%, driven by a modest increase in residents' reported investment income. Despite the reported increase, China's subdued investment income since 2021 remains inconsistent with the global rise in interest rates and suggests that the authorities should release more detailed primary income flow data to align with international statistical standards.<sup>12</sup>

China's bilateral trade surplus with the United States remains by far the largest of any U.S. trading partner. China's bilateral goods and services trade surplus with the United States remained roughly unchanged at \$246 billion in the four quarters through June 2025. China's bilateral goods surplus rose modestly to \$280 billion through June 2025 from \$277 billion in the same period a year earlier, as a larger fall in Chinese imports from the United States outweighed a smaller decline in Chinese exports to the United States. China ran a bilateral services trade deficit with the United States of \$34 billion in the four quarters through June, compared to a deficit of \$32 billion during the same period a year earlier.

China's financial account deficit widened to \$702 billion over the four quarters through June 2025 from \$261 billion in the same period a year earlier. The financial account deficit was driven primarily by substantial outflows in both portfolio investment and other investments, which more than offset a recovery in the net FDI deficit. China's FDI deficit narrowed to \$88 billion compared to \$218 billion over the same four quarters one year prior, as nonresidents slowly resumed direct investments into China alongside a decline in residents' direct investments abroad. China's portfolio investment deficit widened to \$277 billion from \$28 billion one year prior, as Chinese residents ramped up purchases of foreign equities and debt securities while nonresidents also turned into net sellers of onshore debt securities. Meanwhile, other investments – which primarily consists of deposits, loans, trade credits, and other – recorded a deficit of \$320 billion over the Report period compared to a \$5 billion deficit during the over the same four quarters one year prior. The surge in the other investment deficit was primarily concentrated in an increase in Chinese banks' loans to nonresidents from \$5 billion to \$134 billion, as well as a shift in the unspecified "other, other" component from net inflows of \$57 billion to net outflows of \$49 billion.

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<sup>12</sup>The Balance of Payments and International Investment Position Manual (BPM6).

## Exchange Rate Developments

The RMB appreciated 1.4% against the U.S. dollar over the four quarters through June 2025. The RMB faced acute depreciation pressures against the dollar for most of the Report period through April 2025, reflecting continued interest rate differentials between the United States and China, capital outflows from China amid its subdued economic outlook, and escalating trade tensions. However, RMB sentiment appeared to have stabilized following U.S.-China trade announcements in May and the subsequent economic and trade deal announced on November 1, 2025. As a result, the RMB has been on a clear appreciating trend since the end of May 2025.



Sources: CFETS, FRB, BIS

Even with the shift in market sentiment, the RMB has appreciated less against the dollar than have the currencies of many of China's major trading partners. As a result, the RMB depreciated by 4.7% against the PBOC's China Foreign Exchange Trade System (CFETS) nominal basket over the Report period.<sup>13</sup> Nominal RMB depreciation, coupled with continued deflation in China relative to its trading partners, further led China's real effective exchange rate (REER) to depreciate by 5.4% over the Report period. This follows a 13.4% depreciation between end-2021 and end-2024, pushing the REER to its weakest level since 2012.

The RMB's real depreciation in recent years has not only affected the United States, but also many of China's other major trading partners. Notably, the RMB has depreciated by 20% against the euro on a real basis from January 2020 to September 2025, with roughly half of that depreciation occurring over the Report period.<sup>14</sup>

Treasury assesses that China's current account surplus is driven by significant domestic macroeconomic imbalances that generate spillovers to the rest of the world. These factors include domestic demand weakness coupled with industrial policies and non-market practices that lead to an overreliance on exports to drive growth. China's aging population alongside its inadequate social safety net policy have incentivized greater household precautionary savings, while financial repression leaves households with few avenues to channel these savings, leading to correspondingly low household consumption. In recent years, local government fiscal strains have emerged amid the prolonged property sector

<sup>13</sup> The CFETS RMB index is a trade-weighted basket of 24 currencies published by the PBOC.

<sup>14</sup> Bilateral real exchange rate is calculated using consumer-price index deflator. On a producer-price index basis, RMB real depreciation against the Euro is even more stark at 30% depreciation since January 2020.

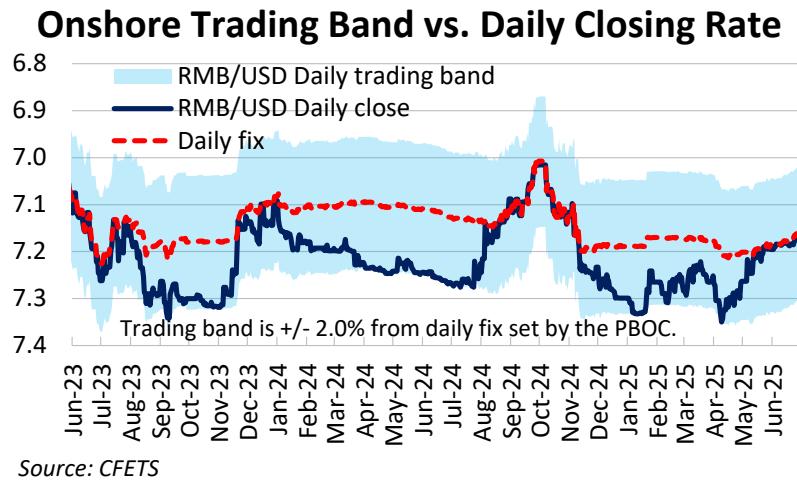
downturn, further limiting fiscal space to boost domestic demand. Finally, China's continued focus on promoting key industries coupled with insufficient domestic demand has led to overcapacity in certain manufacturing sectors, which firms have sought to channel into exports. In its most recent external sector assessment, the IMF assessed China's external position in 2024 to be moderately stronger than the level implied by medium-term fundamentals and desirable policies. Consistent with this overall assessment, the IMF assessed the RMB to be undervalued by 8.5% on a real effective basis in 2024.

### *Intervention Policy*

China provides very limited transparency on its exchange rate policy tools and the policy objectives of its exchange rate mechanism. Treasury continues to monitor three key metrics to assess China's intervention policy: the daily fix, PBOC's foreign exchange assets, and net foreign exchange settlement data. Treasury has also examined broader activities by state banks that could affect exchange rates which, over this reporting period, includes banks' swap-funded activities, accumulation of net foreign assets, and reverse repo activities.

- *Key Metrics*

The daily fix is a key tool in China's exchange rate management. The daily fix serves as a clear policy signal from the PBOC on the anchor value of the yuan to guide daily trading. In November 2024, the PBOC again set the daily fix at a level substantially stronger than market forecasts, continuing a practice employed since mid-2023 to manage the exchange rate during periods of elevated depreciation pressures.<sup>15</sup> The PBOC has not offered an official explanation for this practice, which market participants have interpreted as signaling the PBOC's intent to resist RMB weakness. This gap reached a peak in April 2025 amid escalating trade tensions and remained large until May 2025 when RMB appreciation pressures appeared to render additional PBOC efforts unnecessary following the announcement of U.S.-China trade meetings. The authorities gradually allowed the fix to rise from 7.20 per dollar in May



<sup>15</sup> Market forecasts generally rely on the PBOC's official guidance to forecast the next day's fix. According to this guidance, the daily fix is based on a trimmed weighted average of quotes received from market-making banks, which are supposed to base their quotes on the previous day's closing rate plus an adjustment factor to offset overnight changes in the RMB's value against a currency basket.

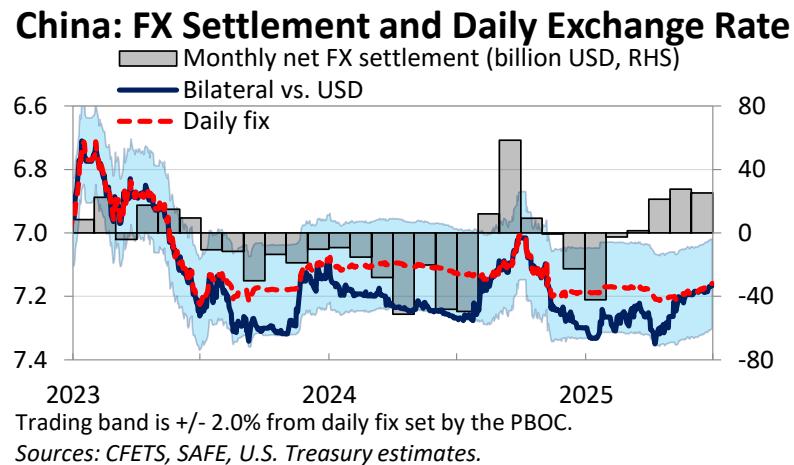
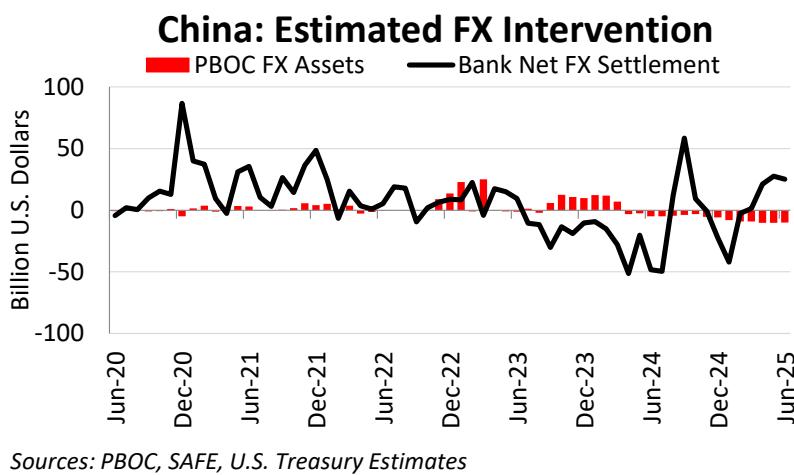
2025 to 7.12 per dollar by end-October 2025, which market participants generally interpreted as a signal of authorities' tolerance for a gradual strengthening of the RMB.

Despite the PBOC's use of the daily fix to lean against depreciation pressures for most of the Report period, the PBOC has more recently used the daily fix to signal discomfort with the pace of RMB appreciation. In May and June 2025, the PBOC set the daily fix weaker than market forecasts for several trading days, which market participants interpreted as an attempt to manage the pace, but not reverse the direction of, RMB appreciation. Beginning in late November as the RMB appreciated toward to a psychological threshold of 7 per dollar, the PBOC consistently set the fix weaker than market expectations at a size and frequency unseen in recent years. This practice raises questions regarding the extent to which the PBOC is allowing the RMB exchange rate to appreciate in line with market forces.

The authorities appear to intervene directly in foreign exchange markets as well as influence the timing and volume of foreign exchange sales and purchases by Chinese state-owned banks. China is the only economy covered in this Report that does not disclose its foreign exchange market intervention. To estimate China's intervention in the foreign exchange market,

Treasury staff use two primary proxy measures. The first proxy measure, monthly changes in PBOC's foreign exchange assets booked at historical cost, showed consistent but modest FX sales throughout the reporting period, totaling \$84 billion in the four quarters through June 2025.

Meanwhile, the second proxy measure – net foreign exchange settlement data (adjusted for changes in outstanding forwards) that includes the activities of China's state-owned banks as well as the PBOC – indicated a total of \$37 billion in net foreign exchange purchases over the reporting period. Notably, FX purchases were concentrated in the second quarter of 2025 (\$74 billion).



Press reports further suggest that these purchases occurred during the months of May and June 2025 amid rapid RMB appreciation pressures.<sup>16</sup> For example, on May 6, Chinese state-owned banks were reported to be making spot dollar purchases amid rapid RMB gains. The timing of this activity coincided with the announcement of U.S.-China trade meetings that led the RMB to appreciate 0.64% in one day, its largest move since the beginning of 2025. State banks' activities in the swaps market, which have historically funded state banks' FX activities in the spot market, have also shifted in recent months amid renewed RMB strength (*see Box on Swaps*).

Beyond net purchases and sales, state-owned banks can impact foreign exchange market conditions through their repo and reverse repo operations. During periods of RMB weakness, state-owned banks stepped up foreign currency lending in the onshore interbank market via reverse repo operations. Banks' FX reverse repos surged to \$289 billion in the four quarters through June 2025, compared to \$75 billion over the previous four quarters.<sup>17</sup> Increased dollar lending in the interbank market can ease onshore dollar funding stress and reduce precautionary demand for dollars, thereby indirectly alleviating depreciation pressures on the RMB. The increase in interbank dollar lending is notable in the second half of 2024 when dollar funding costs were higher onshore than offshore, suggesting that the main counterparties to reverse repo transactions were likely not foreign portfolio investors who can otherwise access dollar funding at a cheaper rate offshore. Instead, banks were likely providing U.S. dollar liquidity to onshore financial institutions with the potential objective of lowering dollar funding costs.<sup>18</sup>

State banks also substantially increased their net foreign asset position over the Report period. Over the four quarters through June 2025, the net foreign assets of deposit-taking banks (which includes the 5 major state-owned banks) rose \$307 billion, the largest jump since reporting began in 2006 and much larger than the cumulative \$37 billion of FX purchases over the Report period as implied by the net FX settlement data.<sup>19</sup> While state banks certainly may have commercial reasons to accumulate foreign assets – such as to match the inflows of FX deposits onshore – Chinese banks have consistently acquired more foreign assets than required to match FX deposits since 2018. Other possible explanations include an increase in RMB-denominated foreign assets by the state banks and the activities of policy banks, though Treasury staff cannot provide a confident assessment of

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<sup>16</sup> See, for example, Bloomberg, "China's Firm Hand Restores Calm After Asia's Wild Currency Moves", May 6, 2025; Bloomberg, "China Seeks to Slow Yuan's Gains After Months of Propping It Up", May 28, 2025; and Bloomberg, "Stronger Yuan Fixings Trend Is No Friend to Bulls", June 23, 2025.

<sup>17</sup> FX reverse repo transactions are collateralized lending by state-owned banks to counterparties in the interbank market, which can include other banking institutions and non-bank financial institutions onshore, as well as select offshore investors with access to the repo market.

<sup>18</sup> Some portion of the increase in reverse repo activity may also reflect the unwinding of FX repo (borrowing) positions accumulated earlier in 2023–24. However, this explanation is consistent with onshore state-owned banks playing a role as the provider of FX liquidity via reverse repos amid elevated onshore funding costs at the time.

<sup>19</sup> By definition, banks' net foreign assets are recorded on a balance of payments basis and thus include RMB-denominated claims on nonresidents. The increase in banks' net foreign assets appears to be primarily driven by an increase in gross foreign assets of \$247 billion, while a decline in banks' foreign liabilities of \$60 billion accounted for the remainder of the increase in net foreign asset position.

these flows due to a lack of detail on the foreign asset data. The divergence between state banks' net foreign assets and net FX settlement warrants continued scrutiny.

The relative lack of transparency around the PBOC's tools and their use require that Treasury take into account both qualitative and quantitative factors in its assessment of China's foreign exchange intervention in the Report. Treasury will not hesitate to identify protracted, one-way intervention regardless of the limitations of existing proxy measures. Improved transparency regarding its foreign exchange intervention activities would reduce these uncertainties, and would also help to enhance the authorities' credibility, reduce the risk of policy miscommunication, and diminish associated market volatility.

#### **Box 1. Swaps Activity of Chinese Banks**

Chinese banks appear to have scaled back a strategy of swap-funded intervention to resist RMB depreciation. From mid-2023 to early 2025, Chinese banks engaged in FX swaps, wherein they received dollars – including from foreign investors and Chinese exporters – in exchange for RMB and agreed to return the dollars at a predetermined forward rate in 3 to 12 months. Chinese banks then sold these dollars to buy RMB in the spot market, which helped combat RMB depreciation pressures at the time. By engaging in such trades, Chinese state-owned banks accumulated a short-dollar position of at least \$100 billion.<sup>20</sup>

Since the second quarter of 2025, there is evidence that Chinese banks have partially unwound their positions:

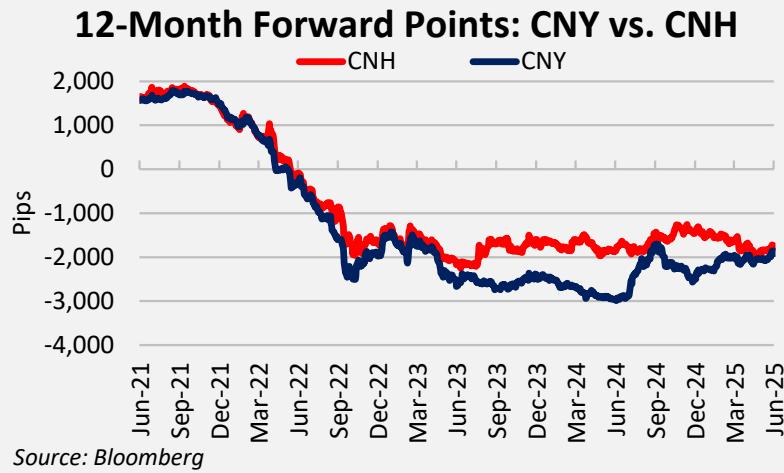
- *Chinese banks have reduced the FX swaps they previously used to fund RMB purchases:* Chinese banks' net FX borrowing via swaps from non-bank clients in the second quarter of 2025 fell to \$98 billion, its lowest level since the fourth quarter of 2023. Press reports further state that Chinese state-owned banks had been cutting their dollar borrowings via one-year swaps since the second quarter and are now lending dollars in the offshore swaps market.<sup>21</sup>
- *Chinese banks are now buying, rather than selling, dollars in the spot market:* In the second quarter 2025, Chinese banks' FX purchases from non-bank clients in the spot market jumped to \$49 billion, the fastest pace of purchases since early 2022.

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<sup>20</sup> As discussed in the November 2024 FX Report.

<sup>21</sup> Bloomberg, "Dollar Losing Allure for Chinese Traders Creates Runway for Yuan," July 10, 2025; and Bloomberg, "China's State Banks Shift Dollar Swap Strategy as Yuan Gains," September 23, 2025.

- *The spread between onshore and offshore RMB forward rates has normalized:* When state-owned banks engaged in swap-funded trades to support the RMB, the onshore 12-month USD/RMB forward rate remained considerably stronger than its equivalent in the offshore market, where the RMB trades more freely.<sup>22</sup> By the end of June 2025, this spread had essentially disappeared as the onshore forward rate converged back to its offshore equivalent, suggesting that the intervention activity responsible for the elevated spread had ceased.
- *Banks' counterparties in the swaps appear to be exiting their positions:* Foreign investors who provided banks dollars via FX swaps had previously invested the RMB that they acquired in onshore securities, primarily negotiable certificates of deposits (NCDs) issued by Chinese banks. These foreign investors earned a sizable, low-risk return due to the distortions in onshore FX pricing discussed above and the premium paid on NCDs. From May to July 2025, however, these securities saw cumulative foreign outflows of \$43 billion, as the rising 12-month onshore USD/RMB forward rate collapsed the arbitrage opportunity engendered by the state-owned banks' activity.



<sup>22</sup> The offshore RMB (CNH) is a parallel version of onshore RMB (CNY) that lacks restrictions on conversion into freely traded currencies. It therefore provides a more market-driven valuation of the renminbi than its onshore counterpart, although market arbitrage and PBOC offshore liquidity adjustments have worked to prevent large deviations between CNH and CNY.

Since 2016, Chinese authorities have entered the market to resist sharp swings in response to both depreciation and appreciation pressures. Treasury estimates – using forward-adjusted net FX settlement data – that the PBOC and Chinese state-owned banks accumulated a total of \$55 billion in net FX purchases between 2016 and 2024. This is a welcome shift

from authorities' efforts to resist appreciation between 2001 and 2014, when China conducted staggeringly high and protracted one-way intervention and accumulated more than \$3.6 trillion of net FX purchases while tightly managing the RMB to limit appreciation.

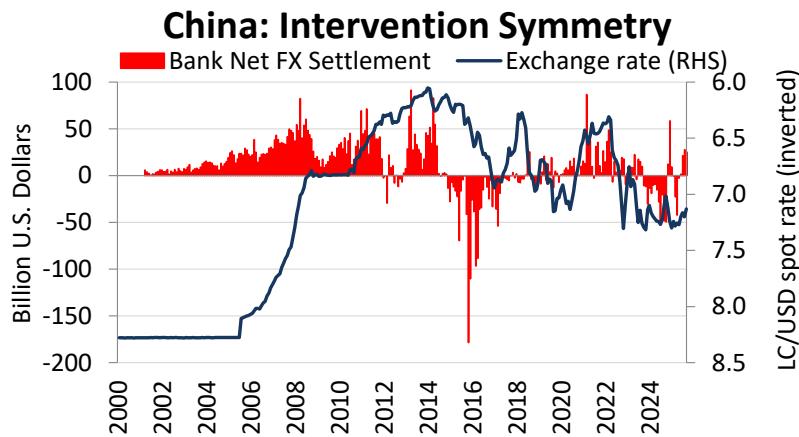
With the improvement in RMB market sentiment since April 2025, the authorities appear to have acted to moderate the pace of needed RMB appreciation against the dollar. Given China's extremely large and growing external surpluses and now substantially undervalued exchange rate, it is important that Chinese authorities allow the RMB exchange rate to strengthen in a timely and orderly manner in line with macroeconomic fundamentals.

#### *Capital Controls and Macroprudential Measures*

China maintains various capital control and macroprudential measures that restrict both inbound and outbound capital investment, which authorities can loosen or tighten to support their balance of payment objectives. This includes regulatory requirements – such as the reserve requirement ratio for FX deposits and the risk reserve ratio for forward trades – as well as capital controls on cross-border transactions through programs such as via the Qualified Foreign Institutional Investor Program (QFII), Bond and Stock Connect programs, and Qualified Domestic Institutional Investor program (QDII). In addition to impacting the exchange rate, China's capital controls effectively lock domestic savings inside China, contributing to overinvestment and worsening internal imbalances.

Over the Report period, China primarily sought to both encourage inflows and discourage outflows with one objective of resisting RMB depreciation pressures. In January 2025, the authorities raised the "macro-prudential parameter" from 1.50 to 1.75 – the first increase since July 2023 – which raised the amount that Chinese financial institutions and corporates could borrow from abroad. Chinese authorities have also reportedly intensified scrutiny of Chinese corporates' investments abroad.

Amid renewed RMB appreciation pressures in Q2 2025, Chinese authorities took steps to relax some controls on capital outflows that may have the impact of moderating RMB appreciation. In June, China's State Administration of Foreign Exchange announced it will



lift the cap on RMB outflows under the QDII program by \$3 billion (or 1.8% from the prior quota). The announced increase appears modest compared to a series of increases announced in 2020-2021 totaling \$50 billion, when the authorities were similarly combatting RMB appreciation. In addition, changes to expand Southbound Bond Connect flows (a channel for mainland Chinese investors to purchase bonds overseas via Hong Kong) – including expanding eligibility to non-bank financial institutions and reportedly considering a substantial increase in the annual quota – may also limit RMB appreciation pressures.

#### *Government Investment Vehicles*

China Investment Corporation (CIC) is China's sovereign wealth fund, established in 2007, with a stated purpose to maximize return at acceptable risk tolerance and improve the corporate governance of key state-owned financial institutions. CIC was originally capitalized with \$200 billion, or 20% of China's foreign exchange reserves at the time. CIC consists of three distinct subsidiaries:

- CIC International: The overseas portfolio investment arm of CIC, responsible for managing the majority of CIC's global financial assets. CIC International invests primarily in public equities, fixed income, hedge funds, private equity funds, real estate assets, and other diversified portfolio investments across global markets, with a mandate focused on long-term risk-adjusted financial returns.
- CIC Capital: The alternative direct investment arm of CIC with a mandate to support Chinese businesses exporting and investing overseas, CIC Capital's primary investment focus is private equity and direct investments in sectors like real estate, infrastructure, resources, and agriculture.
- Central Huijin: Central Huijin manages domestic equity stakes in key financial institutions in China (including the major state-owned commercial banks and China Development Bank), with the stated objective of "preserving and enhancing the value of state-owned financial assets" to "maximize the role of state-owned financial capital in economic development."

As of 2024, CIC's total fund assets across all of its subsidiaries stood at \$1.6 trillion. CIC International and CIC Capital together holds roughly \$600 million in assets (CIC does not publicly disclose the breakdown between these subsidiaries), while Central Huijin separately reports the value of state-owned financial capital under management at \$967 million as of end-2024.

Because CIC International and CIC Capital are funded in foreign currency and make investments abroad, they do not appear to actively transact in the RMB/USD exchange rate and thus their actions do not lend themselves to concerns about impacting the exchange rate for competitive purposes. Central Huijin is effectively a domestic holding company given its domestic investments in China's largest commercial banks and policy banks and therefore has no direct impact on the exchange rate.

Beyond CIC, China's policy banks have also received funding from SAFE that would otherwise have contributed to a larger increase in China's foreign reserves holdings.<sup>23</sup> For example, in 2015 it was reported that SAFE converted \$93 billion of entrusted loans to equity at China's two large policy banks, the Export-Import of China and China Development Bank, which was used to support the policy banks' investments offshore. The objective of China Development Bank is to foster the economic development of China by providing long-term policy-oriented financing in line with the government's development strategy and its industrial policies, while China EXIM supports Chinese firms' exports and overseas investment via concessional lending, export credit, and trade finance. Because the cross-border activities of China's policy banks primarily consist of long-maturity lending rather than portfolio investments, these flows affect the composition and evolution of capital and current account balances over time but are not designed to respond to, or target, short-term exchange rate movements.

## ***Japan***

*Japan's perennial current account surplus has been on the rise in recent years, driven by higher primary income from Japan's large stock of foreign assets accumulated over many decades. The Japanese yen remains near a multi-decade low against both the dollar and on a real effective basis even as years of highly accommodative monetary policies are slowly unwound by the Bank of Japan (BOJ). While Japan's overall goods and services trade balance has mostly been in deficit since 2019, Japan has maintained a relatively stable bilateral trade surplus with the United States. Japan is exceptionally transparent about its foreign exchange intervention, publishing monthly intervention in aggregate and detailed daily intervention once a quarter.*

### ***Growth and Macroeconomic Policies***

Japan's economy sustained weak but positive momentum in the first half of 2025, following weak growth in 2024, as robust private investment and front-running of U.S. tariffs with higher exports offset uneven consumption growth and services activity. In October 2025, the IMF forecast real GDP growth of 1.1% in 2025 and 0.6% in 2026. Japan's general government fiscal deficit remained wide in the post-pandemic years – an average of 4.2% of GDP between fiscal years 2021 and 2023 – driven by measures to absorb the impact of higher energy prices and increases in spending on defense and social programs.

The BOJ raised its policy rate twice following its March 2024 exit from Negative Interest Rate Policy to "around" 0.5% by January 2025, but subsequently paused further hikes citing uncertainty about growth, real wages, and the staying power of underlying inflation. Notably, the BOJ announced that it would proceed with gradual reductions in the amount of its monthly JGB purchases through March 2026 and will adjust the pace of purchase reductions during the 12 months through March 2027, reflecting concerns about supply-demand mismatches for long-term JGBs. The BOJ also announced in September 2025 that

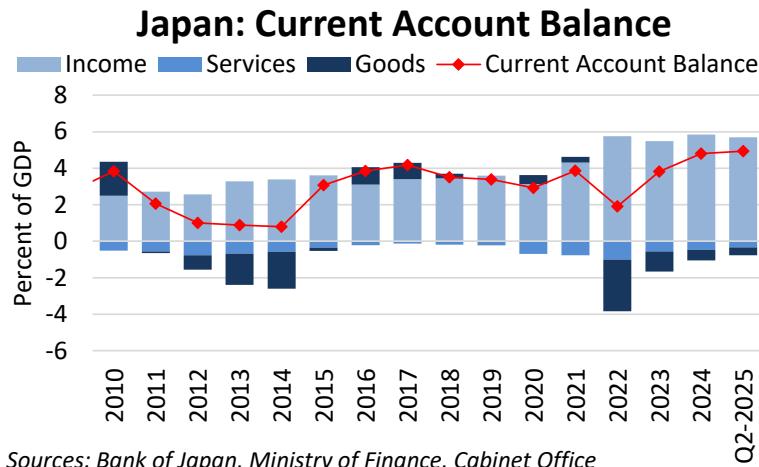
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<sup>23</sup> For more examples, see Brad Setser, "Shadow reserves — how China hides trillions of dollars of hard currency", June 2023.

it would begin selling its holdings of exchange-traded funds and real estate investment trusts, though at a pace that will take more than 100 years to fully unwind.

### *Balance of Payments Developments*

Japan's current account surplus ticked up slightly to 4.8% of GDP through the four quarters ending June 2025, up from 4.5% of GDP over the same period one year prior, and remained the byproduct of Japan's substantial primary income surplus. The primary income surplus remained very high at 6.4% of GDP, owing to continued robust returns from Japan's foreign assets, which are well diversified among dividends from foreign direct investment, portfolio assets, including sovereign and corporate bonds, foreign equities, and overseas bank lending. Japan's primary income is not fully repatriated to Japan, which limits appreciation pressure on the yen from the current account surplus. The larger current account balance also reflected a slight improvement in Japan's goods and services trade deficit, which narrowed to 0.8% of GDP during the report period from 1.2% over the same period one year prior.



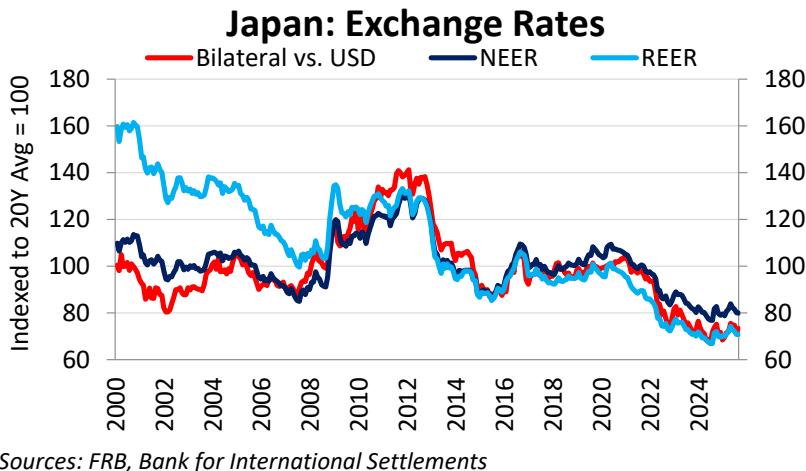
Sources: Bank of Japan, Ministry of Finance, Cabinet Office

Japan's goods and services trade surplus with the United States in the four quarters ending June 2025 was \$65 billion, an increase of about \$2 billion compared to the same period ending June 2024. Japan's bilateral goods trade surplus with the United States has been relatively stable over the past 15 years, in the range of \$60-75 billion, despite exchange rate fluctuations over that period. The top U.S. goods imports from Japan are passenger vehicles, parts for public and goods transit vehicles, and heavy construction machinery, with the auto sector accounting for one-third of Japan's exports to the United States.

Japan's financial account deficit was 4.8% of GDP in the four quarters through June 2025 and reflected the activities of Japan's large, internationally active institutional investors, banks, insurance companies, and corporate conglomerates with ever-increasing manufacturing presences in overseas markets. Outbound direct investment accounted for the majority of net capital outflows from Japan during the report period. Over the long term, Japanese residents are likely to continue to seek foreign assets alongside their growing investment in domestic equities to diversify portfolios and earn higher returns, particularly as domestic inflation settles at a higher level. One factor that is driving such diversification is the government's effort to expand households' tax-free allowance for investments through the Nippon Individual Savings Account (NISA), a move that has contributed to higher resident purchases of foreign equities since January 2024.

## Exchange Rate Developments

The Japanese yen appreciated nearly 12% against the dollar over the four quarters through June 2025 – albeit from a 34-year low – as the dollar weakened against a broad basket of currencies. Similarly, the yen appreciated about 8% on a real effective basis during the Report period. Even with its recent gains, the yen has been anchored near multi-decade lows due in large part to wide policy rate differentials between Japan and its major trading partners, and the prospects for more expansionary fiscal policies under a new Japanese government.



Sources: FRB, Bank for International Settlements

Treasury assesses that Japan's large imbalances stem from the legacy effects of Japan's high levels of domestic saving and decades of trade surpluses that resulted in substantial accumulation of foreign assets by both the official and private sectors. Until recently, Japan's net international investment position was the largest globally and sat at \$3.6 trillion, or 87% of GDP, as of June 2025. Going forward, Japan's projected population decline, intergenerational wealth transfers, and structural trade deficit signal a structural dissaving trend that could, in principle, reduce Japan's current account balance. In its most recent external sector assessment, the IMF assessed Japan's external position in 2024 to be broadly in line with fundamentals and desirable policies. Consistent with this overall assessment, the IMF assessed the yen to be undervalued by 3.3% on a real effective basis.

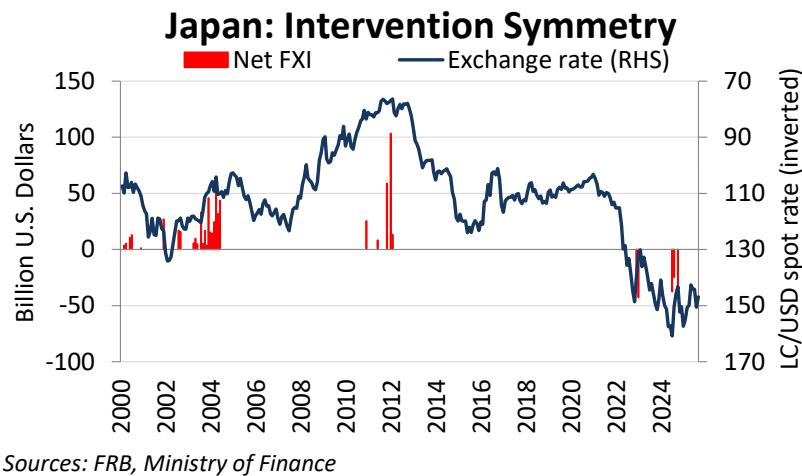
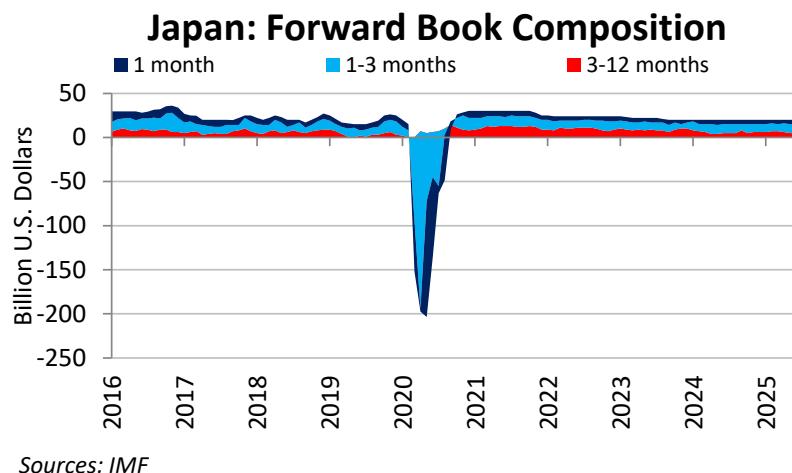
## Intervention Policy

Around the time of pronounced yen depreciation pressure in July 2024, Japan intervened in foreign exchange markets by selling ¥5.5 trillion (\$35 billion) on July 11 and 12. These dollar sales represented the third major episode of intervention in 2024 in which the Japanese authorities sought to support the yen against the dollar, with the Japanese Ministry of Finance (MOF) selling nearly \$100 billion over the course of the year.

Japan's forward book composition has remained stable since the COVID-19 pandemic, when authorities intervened to maintain ample dollar liquidity amidst global disruptions to domestic economic activity, trade, and cross-border travel.

Overall, Japan is very transparent with respect to foreign exchange operations, publishing the total value of its foreign exchange interventions each month and the specific daily amounts and currencies used on a lagged quarterly basis. Since 2022, MOF has often cited excess volatility or speculative pressures as the rationale for actual or verbal interventions to support the yen. Japanese authorities maintain that interventions are not targeting specific exchange rate levels.

Japan's interventions from 2022-24 to resist depreciation were a break from its historic tendency to resist yen appreciation. Since May 1991, the earliest month for which daily intervention data are available, Japanese authorities have intervened on at least 365 discrete days, of which 321 days of intervention resisted yen appreciation (via foreign exchange purchases) and only 44 resisted yen depreciation. Interventions to support the yen have been comparatively rare, and the only such cases prior to 2022 were in 1998 in the immediate aftermath of the Asian Financial Crisis. There were no reported interventions during the covered Report period.



#### *Capital Controls and Macroprudential Measures*

Japan maintains a highly open financial account, reflecting its large and deep financial markets and the yen's free convertibility as a global reserve currency. Nearly all foreign exchange transactions, including transfers of profits, dividends, royalties, repatriation of capital, and repayment of principal, are freely permitted, and equities and bonds across

maturities are accessible to foreign investors. Japan has not employed any capital controls or macroprudential measures to affect the exchange rate in recent years.

### *Government Investment Vehicles*

Japan's Government Pension Investment Fund (GPIF) is one of the largest institutional investors in the world, with ¥282 trillion (\$2 trillion) in assets under management as of June 2025. Its stated investment objective is to "contribute to the stability of the national pension system by securing the investment returns that it requires with minimal risk and from a long-term perspective." GPIF is funded in yen, primarily from pension premiums and government contributions. To the extent it invests abroad, it exchanges that yen for foreign currency. GPIF reports its total assets quarterly, with a targeted allocation across four categories: (1) domestic bonds; (2) domestic equities; (3) foreign bonds; and (4) foreign equities. As of June 2025, GPIF held ¥139 trillion (\$966 billion) in foreign bonds and equities. Moreover, GPIF defines FX-hedged foreign bonds as domestic bonds, implying that GPIF's domestic allocation could also include FX-hedged foreign bonds. However, GPIF does not disclose the exact breakdown of its FX-hedged foreign holdings.

In 2014, GPIF adjusted its portfolio allocation to increase the shares of foreign bonds and equities and reduce the share of domestic bonds at a time when JGB yields were very low due to the BOJ's Quantitative and Qualitative Easing policy. The allocation shift prompted broader resident capital outflows from Japan and led to market speculation that the GPIF's decision figured in a broader government effort to weaken the yen.

The GPIF's four-way portfolio breakdown is adjusted every five years and by 2020, GPIF further rebalanced its portfolio to comprise an even 25% split among these four categories. In March 2025, GPIF confirmed it would maintain this allocation for FY2025-2029.

Japan Post Bank (JPB) operates as a commercial bank and institutional investor, with ¥231 trillion (\$1.6 trillion) in total assets as of June 2025, about 12% of which (¥28 trillion, or \$193 billion) was held in foreign bonds. JPB reports these assets on a quarterly basis but does not further disclose the currency or jurisdictional composition of these foreign securities. Until March 2025, JPB was government-owned through Japan's majority ownership of Japan Post Holdings. However, Japan Post Holdings has recently dropped its shareholding in JPB to below 50%, in line with the government's privatization drive. Nevertheless, JPB can impact financial markets with any major shifts in its large balance sheet.

### ***Korea***

*Korea's current account surplus and bilateral trade surplus with the United States have increased rapidly since mid-2023, driven by technology exports. Notwithstanding these large external surpluses, the Korean won has come under sustained depreciation pressure and the authorities sold foreign exchange on net during the Report period. The won depreciated further in late 2025, which was not in line with Korea's strong economic fundamentals. The*

*large National Pension Service (NPS) pension fund continued to buy foreign exchange to meet its overseas diversification objectives. The authorities have made some welcome progress in reducing restrictions on foreign investor participation in onshore foreign exchange markets, which should help liquidity and price discovery in local markets over the medium-term. In its September 30, 2025 joint statement with the U.S. Department of the Treasury, the Korean Ministry of Economy and Finance committed to exchanging any foreign intervention operations on a monthly basis, and publishing publicly foreign exchange reserves data and forward positions according to the IMF's Data Template on International Reserves and Foreign Currency Liquidity on a monthly basis and the foreign currency composition of foreign exchange reserves on an annual basis.*

### *Growth and Macroeconomic Policies*

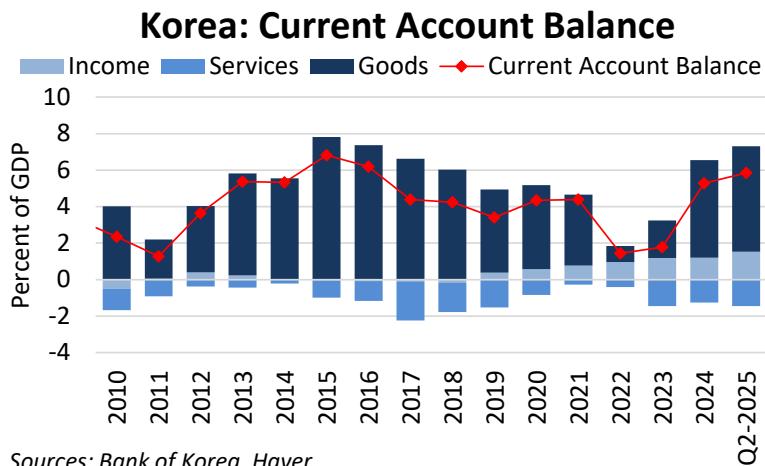
Amid domestic political volatility and elevated uncertainty in the global trade environment over the first half of the year, the IMF projects Korea's economic growth slowed to 0.9% GDP in 2025, after reaching 2.0% in 2024. To support growth, Korea enacted two supplemental budgets in 2025, leading the government's projected consolidated fiscal deficit to deteriorate from the originally estimated 0.8% of GDP to 2.4% of GDP in 2025. Still, Korea has ample fiscal space, with general government gross debt-to-GDP projected at 53.4% in 2025.

The Bank of Korea (BOK) began its easing cycle in October 2024, ending a 20-month period where it held rates at 3.5%. Korea's headline inflation peaked at 6.3% in July 2022. The BOK's 25-basis point cut in October 2024 was followed by three subsequent rate cuts at its November 2024, February 2025, and May 2025 meetings to bring the policy rate to 2.5%. Headline inflation ticked above the BOK's 2.0% target level throughout the course of 2025, increasing from 1.9% in December 2024 to 2.3% in December 2025.

### *Balance of Payments Developments*

Korea's current account surplus increased considerably during the Report period, totaling 5.9% of GDP over the four quarters through June 2025, up from 4.3% a year prior. This rise was driven almost entirely by goods trade (primarily semiconductors and other technology related products), as income and services trade were largely unchanged.

Korea's current account surplus now exceeds its five-year pre-pandemic average of 5.2%. Korea's goods and services surplus with the United States has also grown considerably in recent years. Its

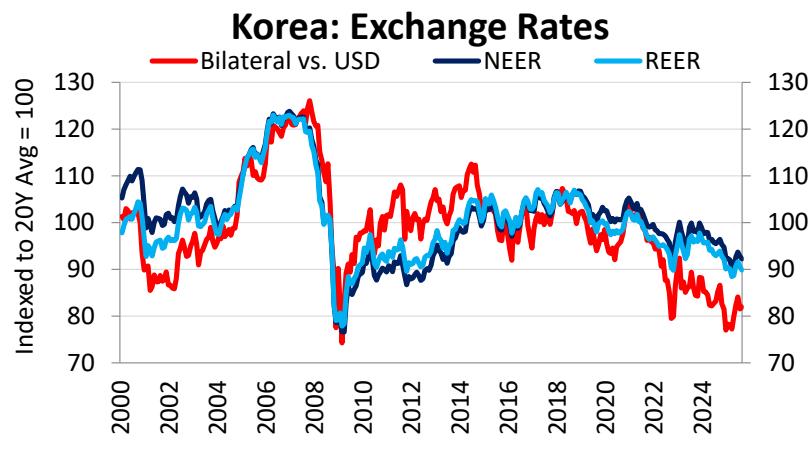


bilateral surplus reached \$52 billion during the Report period, more than doubling its pre-pandemic high of \$18 billion in 2016.

Korea's financial account has also seen renewed outflows that mimic pre-pandemic trends, albeit at slightly higher levels. Korean private sector portfolio outflows have been the principal driver of depreciation pressures in 2025, more than doubling during the Report period to \$107 billion. The private sector outflows stem from retail investors purchasing overseas equities in a "unique phenomenon" according to the BOK.<sup>24</sup> Korean general government flows<sup>25</sup> turned inward in the fourth quarter of 2024 during a period of acute domestic political uncertainty, partially offsetting foreign outflows and easing depreciation pressures on the won. In 2025, net general government outflows resumed at slightly higher levels than 2024 and pre-pandemic norms, consistent with the NPS's plan to increase its annual foreign equity asset allocation by about 3% in 2025 and 2026.

### *Exchange Rate Developments*

The won appreciated 1.7% against the U.S. dollar over the four quarters through June 2025 but depreciated by 2.1% and 1.8% on a nominal and real effective basis, respectively, over the same period. Depreciation pressures on the won were acute in the fourth quarter of 2024 as the central bank reduced its policy rate in November and amid the onset of domestic political instability. The won depreciated further in late 2025, which was not in line with Korea's strong economic fundamentals.



*Sources: FRB, Bank for International Settlements*

Treasury assesses that the role of demographics, particularly the rapidly aging population, and Korea's fiscal stance have contributed significantly to its external surpluses over the past several years. Korea's demographic outlook implies an elevated need for precautionary savings to pay for medium-term age-related expenses, consistent with Korea's high savings rate of about 35% of GDP. Korean households and institutions are incentivized to channel these savings abroad to achieve higher yields than may be available in Korean markets due, in part, to the dominance of large, family-owned conglomerates, limited dividend payouts, and low price-to-book values. These outflows put depreciation pressures on the won. The IMF has not yet published an assessment of the won's valuation for 2025. In its most recent assessment for 2024, the IMF assessed Korea's external position to be broadly in line with the level implied by medium-term fundamentals and

<sup>24</sup> Bloomberg, Rhee Warns of Trendy 'Cool' Youth Bets Fueling Won's Weakness, November 27, 2025.

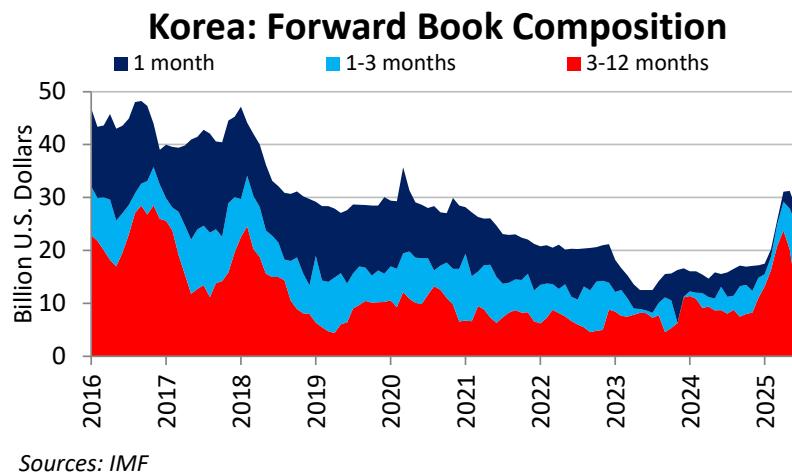
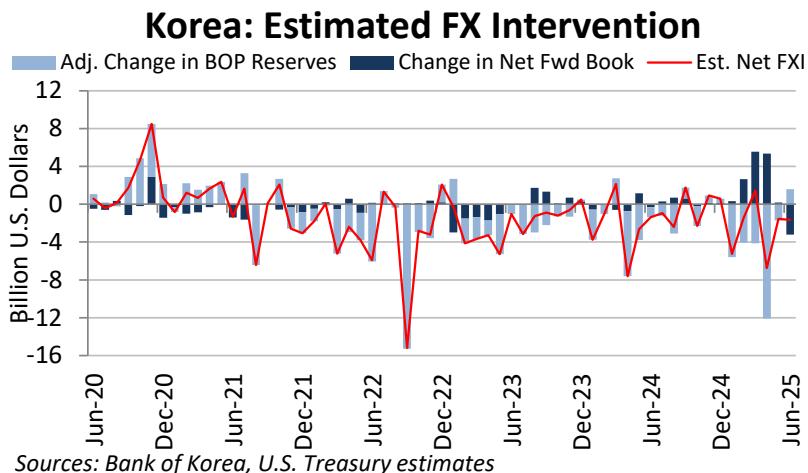
<sup>25</sup> Includes flows from the state pension fund.

desirable policies. Consistent with this overall assessment, the IMF assessed the won to be undervalued by 2.4% on a real effective basis at that time.

### *Intervention Policy*

The Korean authorities' foreign exchange intervention in the Report period appeared to focus on smoothing excess volatility amid depreciation pressure on the won. Korean authorities reported net sales of foreign reserves of \$7.3 billion for the Report period, approximately 0.4% of GDP, concentrated in the fourth quarter of 2024 and the first quarter of 2025.<sup>26</sup>

The BOK's forward book increased 80% during the Report period, from \$16 billion in June 2024 to \$28 billion in June 2025. The change appears to reflect the activation of a swap line between the NPS and BOK, which gradually expanded from a maximum drawable amount of \$10 billion in 2022 to \$65 billion in December 2024. This swap line mechanism may have contributed to resisting depreciation pressures during a period of acute won volatility in the fourth quarter of 2024. Mechanically, under this swap line, the BOK provides NPS with dollars for won on the front leg. The NPS then uses those dollars to fund its overseas investments, and the back leg of the swap also appears as an increase in the BOK's forward book. The reported swap term is a relatively long 3 to 12 months. This swap arrangement allows the NPS to reduce its presence in the onshore spot market during periods of acute depreciation pressure.



<sup>26</sup> Korea reports its interventions on a quarterly basis with a one quarter lag. Treasury estimates are monthly and are based on interest-adjusted changes in foreign currency reserves from monthly balance of payments statistics as well as changes in the central bank's forward position.

Korea's approach to foreign exchange intervention since 2016 has been broadly symmetrical, with the authorities entering the market to resist sharp swings in both depreciation and appreciation pressures. The BOK disclosed total net sales of \$86 billion from the second half of 2018 through the second quarter of 2025, broadly consistent with Treasury estimates. The BOK

reported that \$72 billion of these sales occurred in a two-year span from 2021 to 2023, during a period of broad dollar strength. The BOK has reported net sales in 20 of the 24 quarters since they began this reporting frequency in 2019. Korea's broadly symmetrical pattern of intervention has been a welcome shift from the consistent pattern of intervention to resist won appreciation from 2009-2016.

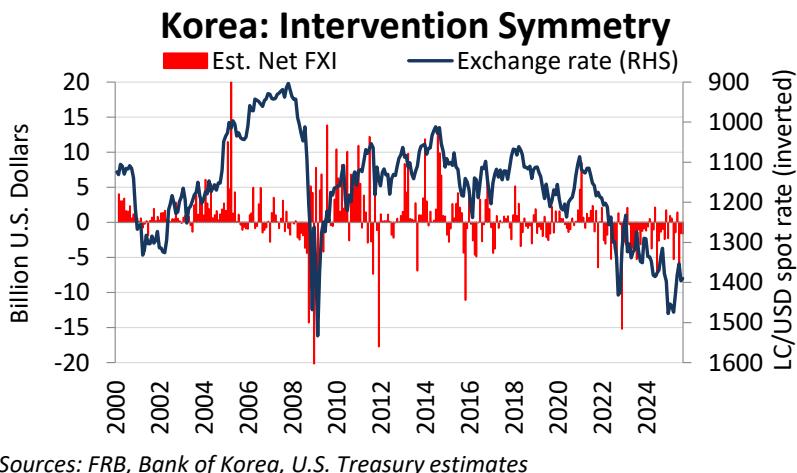
### *Capital Controls and Macroprudential Measures*

Korea maintains significant openness to capital flows. Korea's equity and bond markets are broadly accessible to foreign investors, with most capital flows freely allowed, particularly for trade and investment transactions. Yet, Korea does not allow deliverable offshore trading of the won or the holding of won accounts abroad.

Korea also retains some macroprudential measures and restrictions on foreign exchange transactions to manage FX market and financial sector vulnerabilities. The authorities are in the process of reducing restrictions on the participation of foreign financial institutions in onshore foreign exchange markets in a shift welcomed by international market participants. Since July 2024, the Korean authorities have expanded FX market trading hours and allowed the direct participation of some foreign financial institutions in local foreign exchange markets. The IMF expects that these measures will strengthen FX market resilience and efficiency by deepening the local currency market. The authorities also manage foreign exchange risks in the financial sector through macro-prudential measures, including by requiring securities companies to maintain a net long foreign exchange position and by adjusting banks' foreign exchange limits. For example, in December 2024, the authorities raised the limit on banks' forward foreign exchange position limits as a percentage of equity capital from 50% for domestic banks and 250% for domestic branches of foreign banks to 75% and 375%, respectively.

### *Government Investment Vehicles*

The NPS manages and invests approximately \$900 billion of state pension assets with the official goal of generating returns within acceptable risk parameters to ensure the long-



term financial stability of the national pension system.<sup>27</sup> The NPS' most recent annual investment plan calls for increasing its allocation of global equities to 38.9% in 2026, up from 35.9% in 2025 and 33% in 2024. During the Report period, the NPS's total assets increased by 11%, primarily driven by the won's depreciation, outperformance of foreign equities, and, more recently, from a rebound in Korean equities. Beginning in Q4 2024, domestic equity markets weakened, and the won was subject to acute depreciation pressures. The NPS likely used this episode to hedge some overseas holdings to lock-in won-denominated profits. Additionally, the NPS tripled its advance FX purchase limit to \$3 billion from \$1 billion per month in September 2024, alongside the previously mentioned BOK-NPS swap line. Collectively, these actions likely reduced FX market volatility and mitigated outsized depreciation pressures.

Korea also has a sovereign wealth fund, the Korea Investment Corporation (KIC), which manages about \$207 billion as of 2024. However, unlike the NPS which is funded in won and transacts regularly in the won/dollar foreign exchange market, the KIC is almost entirely funded through foreign currency and invests only in foreign assets.

## **Taiwan**

*Taiwan's extremely large current account surplus persisted during the Report period, driven primarily by elevated demand for technology products. Taiwan's bilateral trade surplus with the United States has grown considerably, continuing the trend of the last five years. Taiwan's central bank made small net purchases of foreign exchange over the Report period, with most occurring in May amid elevated volatility in the foreign exchange market. The Taiwan dollar nonetheless appreciated 11.2% against the U.S. dollar during the Report period, before partially retracing in recent months. In its November 14, 2025 joint statement with the U.S. Department of the Treasury under the auspices of the American Institute in Taiwan and the Taipei Economic and Cultural Representative Office in the United States, the Taiwan central bank committed to publicly disclose foreign exchange intervention on at least a quarterly basis with a quarterly lag.*

### *Growth and Macroeconomic Policies*

Taiwan's economic growth accelerated to 8.0% in the four quarters through June 2025. Outsized growth in the second quarter led the Taiwanese authorities to increase their 2025 GDP growth forecast from 3.1% to 4.5%, driven primarily by a surge in exports and continued strength in private investment. Taiwan has considerable fiscal space to deploy if necessary, with general government debt-to-GDP totaling 26% as of 2024.

Taiwan's central bank has maintained its policy interest rate at 2.0% since the start of 2024, due to continued moderation in the domestic inflation rate, elevated global trade uncertainty, and local real estate market dynamics. Taiwan's headline inflation eased to 1.4% in June 2025, down from 2.4% one year prior. The Taiwan dollar's (TWD)

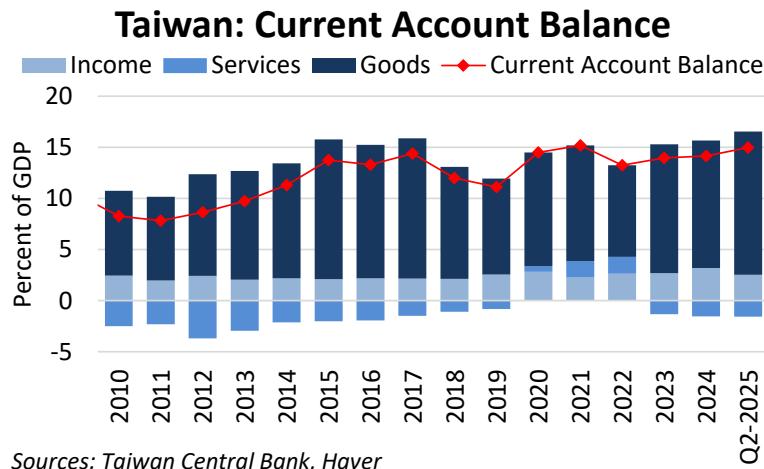
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<sup>27</sup> The NPS is overseen by Korea's Minister of Health and Welfare who consults with the Minister of Economy and Finance and reports to the National Assembly.

appreciation during the report period has likely contributed to the easing of inflationary pressures at the start of 2025. During the Report period, M2 growth slowed to 3.1% in June 2025, down from 6.2% in June 2024, both within the central bank's reference range of 2.5% to 6.5%.

### *Balance of Payments Developments*

Taiwan's current account surplus ticked up to 15.0% of GDP through June 2025 compared to 14.7% for the four quarters ending in June 2024. Taiwan's extremely large current account surplus continues to be driven by goods trade, with the income surplus and services deficit largely unchanged. Taiwan's goods and services surplus with the United States nearly doubled, increasing by \$44 billion to \$100 billion in the four quarters ending in June 2025. The large increase in the bilateral trade balance was driven by persistent U.S. demand for Taiwanese technology products and the frontrunning of U.S. tariffs.



Sources: Taiwan Central Bank, Haver

Foreign direct investment net outflows surged in the second quarter of 2025 to a record of \$16 billion, nearly doubling the previous record of \$8.4 billion in the third quarter of 2023. These FDI outflows were likely driven by shifts in global supply chains as leading Taiwanese companies seek to diversify their production capabilities in the United States, Europe, Japan, and elsewhere. Portfolio investment flows have been volatile, swinging from a net outflow of \$32 billion in the first quarter to a net inflow of \$21 billion in the second quarter (the first net inward quarterly flows since 2009). Three contributing factors are notable:

- Taiwanese residents' portfolio investment recorded a \$7 billion inflow in the second quarter of 2025, up from a \$12 billion outflow in the first quarter, the first such inflow since 2011. This swing was predominantly driven by the life insurance industry. Taiwan's life insurance industry has historically played an outsized role in Taiwan's financial accounts as the industry's foreign assets rapidly grew from about \$120 billion in 2010 to about \$685 billion in 2024. Industry-level data reported by Taiwan's central bank indicates a sharp reduction in foreign assets in May, consistent with the TWD's appreciation and inflows reported in the balance of payments.
- Nonresident flows, driven by enthusiasm for Taiwanese tech stocks, shifted from a net outflow of \$20.3 billion in the first quarter of 2025 to a net inflow of \$14.1 billion, the largest quarterly net inflow on record in the balance of payments.

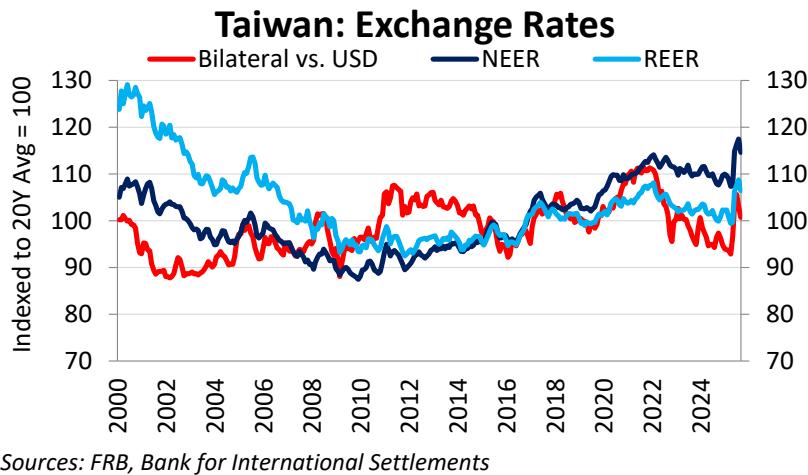
- Flows of other investment partially offset the large swings in portfolio flows, changing from a \$9 billion net incurrence of liabilities to a \$25 billion net acquisition of assets from the first to the second quarter, primarily in the form of short-term currency deposits by deposit-taking corporations.

### Exchange Rate Developments

The TWD appreciated 11.2% against the U.S. dollar over the four quarters through June 2025. It also appreciated 5.4% and 5.8% on a real and nominal effective basis, respectively, over the same period. Over the last ten years, the TWD has appreciated 8.6% and 17.0% on a real and nominal effective basis, respectively. Consistent with the portfolio flow dynamics described

above, appreciation pressures on the TWD were most acute in early May 2025, which Taiwan's central bank attributed to speculation, exporters repatriating foreign exchange, and outsized foreign equity inflows. The rapid appreciation may also have been exacerbated by thin liquidity during local holidays. The authorities resisted appreciation pressure through foreign exchange purchases, though generally allowed the bilateral exchange rate to strengthen about 10% to a level more consistent with the underlying fundamentals of Taiwan's economy. Since end-June, the TWD depreciated 5.1% through end-October, bringing year-to-date appreciation to 6.6%.

Treasury assesses that Taiwan's high domestic saving, driven by an aging population and a relatively tight fiscal stance, has contributed significantly to its external surpluses in recent years. These external surpluses have also been supported by income flows from its large stock of net foreign assets. Since Taiwan is not a member of the IMF, the IMF does not assess Taiwan's external position nor any misalignments of the TWD. However, private models, whether based on the current account, REER, or purchasing power parity (PPP), tend to show substantial undervaluation of the TWD.<sup>28</sup>



Sources: FRB, Bank for International Settlements

<sup>28</sup> The author William Cline has consistently estimated the fundamental equilibrium bilateral exchange rate of the TWD in the low to mid 20s, *see* Estimates of Fundamental Equilibrium Exchange Rates, May 2022 (<https://econintl.com/wp-content/uploads/2023/05/May22.pdf>). The method used by the IMF in its annual estimates cited elsewhere in this Report relies on a different analytical approach.

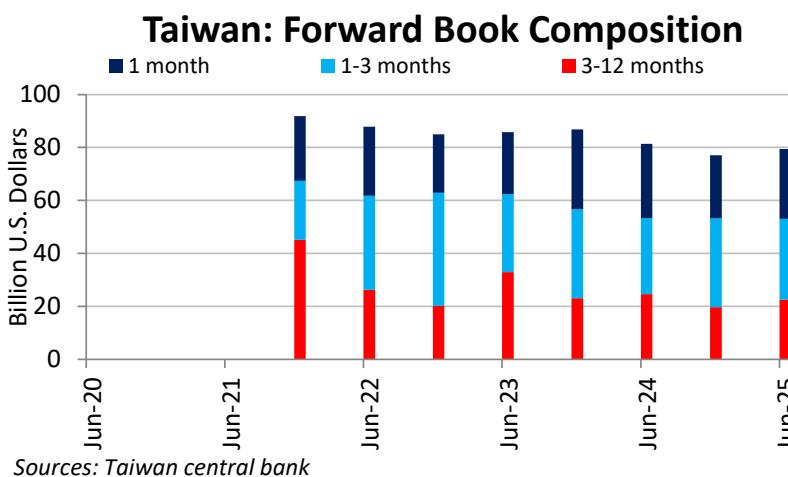
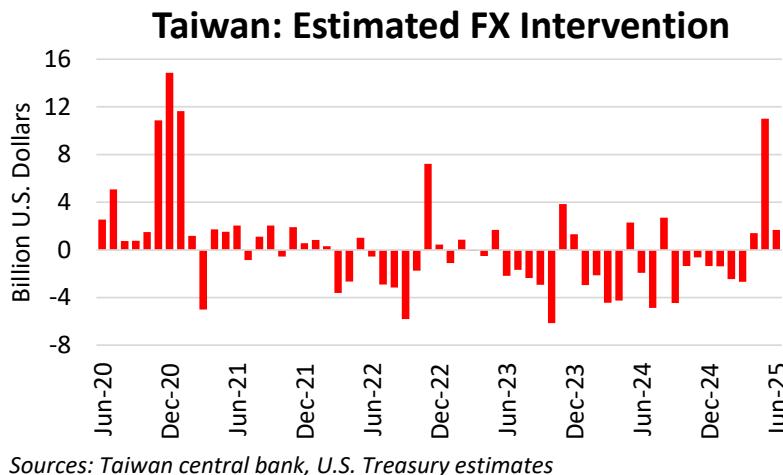
## *Intervention Policy*

The Taiwan central bank's foreign exchange intervention appeared to focus on responding to strong appreciation pressures amidst excess market volatility over the Report review period, particularly in May 2025. However, the central bank also engaged in smaller net sales of foreign exchange in other months and reported net purchases of foreign exchange of \$5.9

billion for the four quarters ending in June 2025, approximately 0.7% of GDP. The authorities' official disclosures are broadly consistent with Treasury estimates.

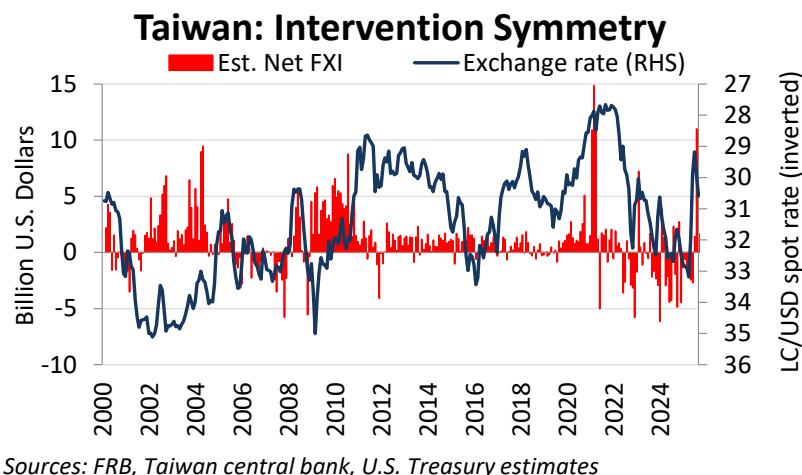
Market attention has focused on two instances of particularly strong intervention by the central bank. The first was during the period of acute appreciation pressures on May 2 and May 5. The second was on June 27 and June 30, when the TWD depreciated 0.8% and 1.5%, respectively, in about the last hour of onshore trading, before retracing in the following two trading sessions. Market analysts have noted that June 30 is the end of the accounting year, and many life insurers use end-of-period exchange rates to calculate foreign exchange gains and losses.

The central bank's forward book has, at least temporarily, paused its declining trend. Consistent with previously mentioned intervention in May, the central bank increased its long foreign exchange swap position by about \$2.5 billion that month. The central bank publishes aggregate forward book data on a monthly basis and more detailed compositional data using the International Reserves and Foreign Currency Liquidity template on a semi-annual basis with a quarterly lag. The central bank's forward book is increasingly balanced across the three reported durations with three-to-twelve-month forwards decreasing from 49% in 2021 when reporting began to 28% of the forward book as of end-September 2025.



The central bank, by its statutory mandates, maintains a managed float exchange rate regime by conducting two-way smoothing operations in the foreign exchange market to maintain the dynamic stability of the TWD and to contain sharp exchange rate fluctuations. Following an extended period of one-sided intervention to resist appreciation pressures

throughout the 2000s and 2010s, since 2021 intervention activity appears to have become more two-way and better focused on attenuating sharp movements in the exchange rate in either direction. Taiwan began publicly disclosing foreign exchange intervention on a semi-annual basis in 2020, starting with data for 2019. Since that time Taiwan has reported cumulative net purchases of \$34.8 billion and has reported net sales in seven of the 13 semesters.



### *Capital Controls and Macroprudential Measures*

Taiwan's capital account is largely open, though some capital control measures remain.

- Taiwan does not allow deliverable offshore trading of the TWD or the holding of TWD accounts abroad.
- Taiwan limits the percentage a foreign investor can invest in a range of fixed income and over-the-counter financial products to 30% of their inflows. The authorities have also applied this limit to inverse ETFs; foreign investors could offset an ETF position with an inverse ETF position thereby leaving only currency exposure to speculate on the TWD. The authorities stepped up enforcement of these limits following the May exchange rate appreciation.
- The central bank's foreign exchange settlement management principles require foreign inflows to be directed towards domestic securities rather than held as TWD deposits, and the Financial Supervisory Commission (FSC) has reduced the limit on intraday sell orders for borrowed securities to 3%, from 30%. Together, these measures have suppressed onshore speculation on the TWD. The central bank has stated it would strengthen the targeted examinations of foreign exchange businesses to ensure compliance.
- The central bank is required to approve annual remittances exceeding \$10 million for individuals and \$100 million for juridical persons. The central bank can also review any nonresident foreign exchange transaction exceeding \$100,000.

Taiwan's authorities are in the process of reducing regulations on the onshore banking sector in an attempt to develop the local asset management industry. If successfully implemented, these changes may increase resident and nonresident inflows.

In December 2025, the Financial Services Commission adopted changes to accounting rules that allow life insurers to amortize foreign exchange-related gains and losses of certain foreign bonds in order to allow the life insurers to save on hedging costs, though potential lower hedging ratios could increase risk in Taiwan's life insurance sector.<sup>29</sup>

#### *Government Investment Vehicles*

Taiwan does not have a sovereign wealth fund or other government investment vehicles of sufficient size to invest abroad in a manner that could impact the exchange rate for competitive purposes. In the past, the central bank supported the hedging activities of Taiwan's life insurance industry through a previously undisclosed forward book that at one point approached \$100 billion. However, the central bank began disclosing its forward book in 2020 in a significant step towards increased transparency. In May 2025, Taiwan's president announced a plan to establish a sovereign wealth fund.

### ***Thailand***

*Thailand's current account surpluses have gradually reemerged since the pandemic, though at a lower level given subdued recoveries in both tourism and manufacturing. Thailand's bilateral trade surplus with the United States has grown steadily in recent years, driven by continued expansion of bilateral manufacturing exports. During the Report period, the Bank of Thailand purchased a small amount of foreign exchange on net. Thailand maintains some foreign exchange restrictions on foreign investors, though has taken steps to liberalize them since 2023. In recent years, it does not appear that Thailand has actively used capital control or macroprudential measures to resist exchange rate adjustment in line with macroeconomic fundamentals. In its October 28, 2025 joint statement with the U.S. Department of the Treasury, the Bank of Thailand committed to publicly disclose foreign exchange intervention on at least a semiannual basis with a quarterly lag.*

#### *Growth and Macroeconomic Policies*

Thailand's economy has faced a long and sluggish recovery from the pandemic: real output as of mid-2025 remains less than 10% above its pre-pandemic high (compared to an increase of at least 20% among all the other large Southeast Asian economies). While the economy grew 3% in the first half of 2025, the IMF expects growth to slow going forward. In October 2025, the IMF projected that growth would decelerate from 2.5% in 2024 to 2.1% in 2025 and 1.6% in 2026.

The Bank of Thailand began its easing cycle in October 2024, after holding rates steady at 2.5% for over a year. With monthly inflation prints in 2023 and 2024 averaging below the 1% lower bound on BOT's target inflation range, the BOT cut rates four times between October 2024 and August 2025, bringing the policy rate to 1.5%, and maintained this level

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<sup>29</sup> The life insurers are to allocate the savings from hedging into reserve accounts to gradually build a stronger balance sheet buffer to offset potential future losses from appreciation of the TWD.

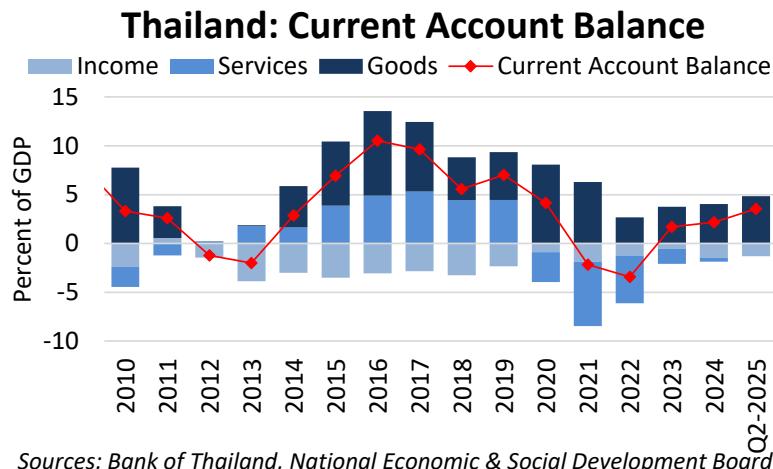
at its monetary policy committee meeting in October. Price pressures remain very weak, with headline CPI in modest deflation since April 2025. The Bank of Thailand has also expressed public concern about the potential implications of Thailand's high household debt for financial stability and long-term economic growth.

Fiscal policy has limited room to support growth with public debt close to 65% of GDP, approaching Thailand's 70% of GDP statutory limit.

### *Balance of Payments Developments*

Thailand's current account has returned to surplus after swinging into deficit in 2021 and 2022 amid pandemic-related disruptions to global trade and tourism. But both the size and composition of the current account have changed compared to the pre-pandemic period. Prior to 2020, a robust manufacturing sector and a large and competitive tourism sector powered elevated surpluses for both goods and services. Tourism has faced a sluggish post-pandemic recovery, however, and the services deficit has only recently receded, leaving service flows roughly in balance. Thailand's manufacturing sector, meanwhile, has faced increased competitive pressure in recent years emanating from excess capacity in China. The goods surplus has averaged below 4% of GDP since 2023, compared to above 6% of GDP from 2015-2019. When combined with a modest income deficit, the overall current account surplus stood at 3.8% of GDP over the four quarters through June 2025.

Despite the headwinds facing the Thai manufacturing sector, Thailand's trade surplus with the United States has continued to trend higher in recent years. The bilateral goods and services trade surplus stood at \$54 billion over the four quarters through June 2025, more than double its level five years prior. Electronic equipment and machinery make up the largest share of Thai exports to the United States, while bilateral services trade is among the lowest of all major U.S. trading partners.



Thailand has reverted to being a significant net exporter of capital as it was prior to the pandemic. Outflows have been dominated by portfolio investment abroad, which rose above 5% of GDP over the four quarters through June 2025. General government flows have played a very minor role, amounting to less than one-tenth of recent outbound portfolio flows.

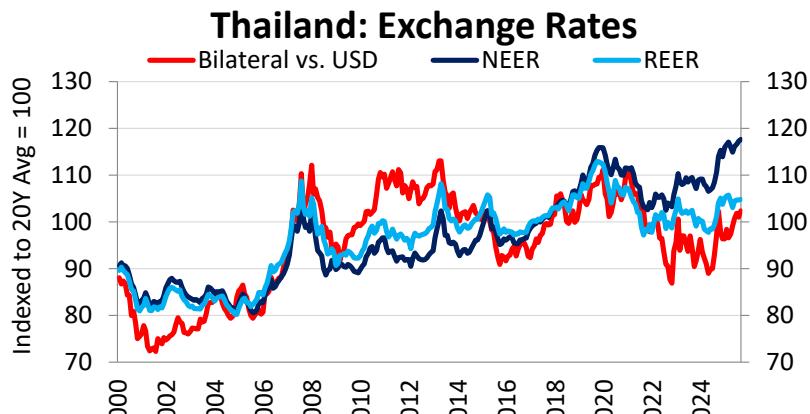
### *Exchange Rate Developments*

The Thai baht was one of the strongest-performing currencies against the dollar over the four quarters through June 2025, appreciating 13.1%. The baht was supported by Thailand's cyclical recovery, alongside shifting interest rate differentials in the second half of 2024 as major central banks embarked on their easing cycles. The Bank of Thailand has also publicly

attributed baht strength to an elevated correlation with gold prices (which have also risen notably since the start of 2024) and Thailand's role as a regional destination for safe-haven flows. The majority of the baht's increase came in the second half of 2024, when the Thai baht was one of the few currencies to appreciate notably against the dollar. Accordingly, the baht appreciated rapidly on both a nominal and real effective basis in the second half of 2024, and on net rose 8.7% and 6.3%, respectively, over the four quarters through June 2025. Real appreciation was contained somewhat by a significant inflation differential to trading partners, as domestic inflation averaged just 0.6% over the four quarters to June. The real effective exchange rate remains broadly in line with its 10-year average.

Treasury assesses that Thailand's demographic profile and the composition of fiscal policy contribute to its external surpluses. The rapidly aging population implies an elevated need for precautionary savings to pay for medium-term age-related expenses. Incentives for precautionary savings are amplified by gaps in the social protection system. Additionally, domestic investment has been weak for much of the last decade. Public investment has failed to keep pace with infrastructure needs, while private investment has been held back by political uncertainty and structural economic weaknesses (including shortfalls in human capital and elevated private debt). In its most recent assessment for 2024 the IMF assessed Thailand's external position to be broadly in line with the level implied by fundamentals and desirable policies. Consistent with this overall assessment, the IMF assessed the baht to be undervalued by 1.8% on a real effective basis.

#### *Intervention Policy*



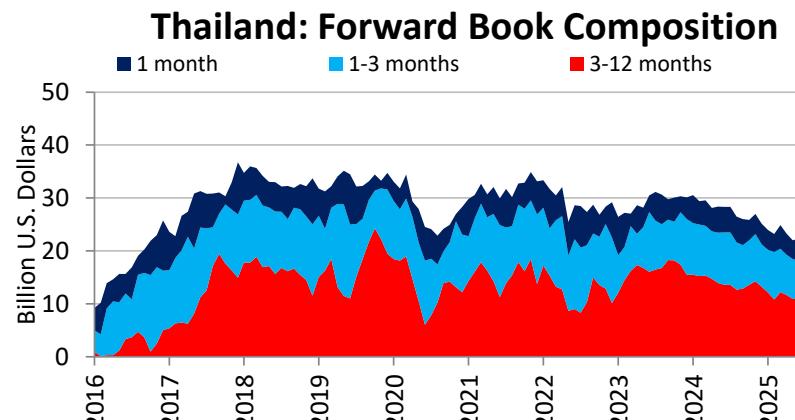
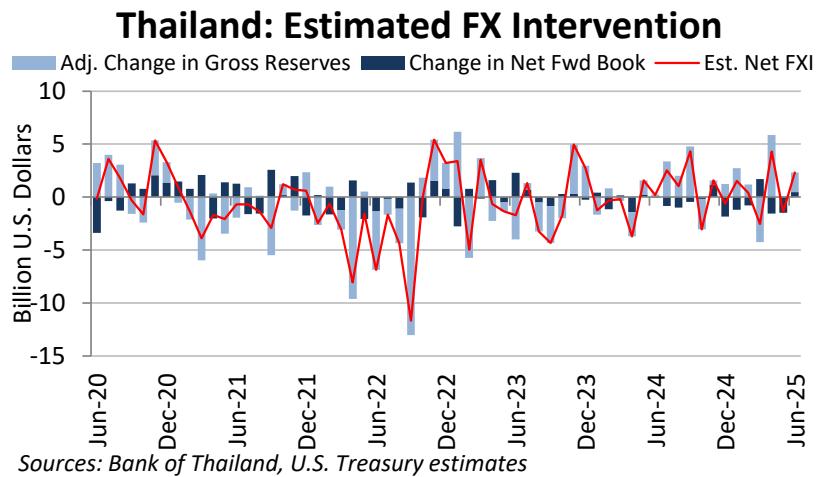
Sources: FRB, Bank for International Settlements

The Thai authorities' foreign exchange intervention appears to focus on smoothing excess volatility amid appreciation pressure on the baht over the Report period. Thai authorities reported net purchases of foreign reserves of \$5 billion over the four quarter through June 2025, approximately 0.9% of GDP. The authorities' official disclosures report fewer net purchases than

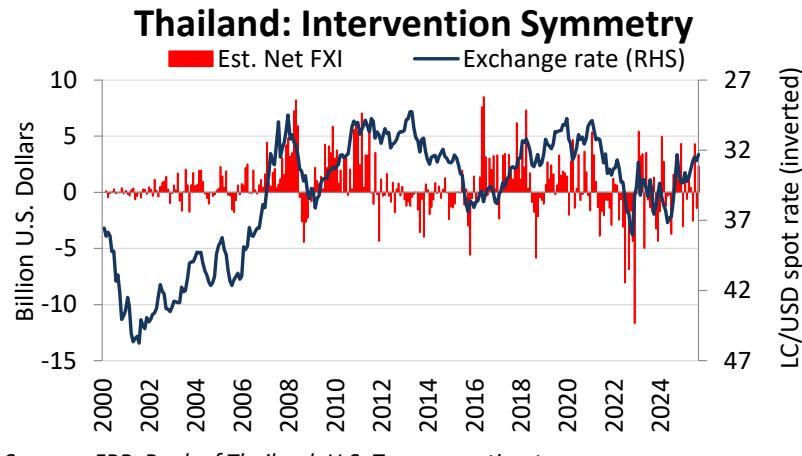
Treasury estimates, which may be attributable to uncertainty about the composition of assets (and therefore the adjustments for interest earnings on the stock of foreign exchange reserves). Treasury welcomes additional detail regarding the composition of assets or intervention activity.

The Bank of Thailand has drawn down its forward book by 20% during the Report period – to \$10.9 billion in June 2025, from \$13.6 billion a year earlier – continuing a general pattern that has held for most of the last five years. The total forward book is at levels last recorded in 2017. This decline is consistent with an absence of large-scale intervention to resist baht appreciation, which can often

be sterilized by the Bank of Thailand through foreign exchange swaps. There have been no notable changes in the forward book's composition over the last several years.



Thailand's approach to foreign exchange intervention since 2021 has indeed been broadly symmetrical, with the Bank of Thailand entering the market to resist sharp swings in both depreciation and appreciation pressures. Treasury estimates aggregate net sales of almost \$40 billion since the start of 2021, with the heaviest period of sales occurring in mid-2022 as the baht reached its weakest level against the dollar in more than 15 years.



Sources: FRB, Bank of Thailand, U.S. Treasury estimates

### *Capital Controls and Macroprudential Measures*

Thailand has a broadly open posture regarding capital transactions for residents. There are no restrictions or approval requirements for holding foreign currency either domestically or abroad, and minimal restrictions on residents investing abroad. Thailand does impose end-of-day balance limits for domestic currency accounts for nonresidents, aimed at preventing baht speculation. Absent an underlying domestic trade or investment activity, this end-of-day balance limit is 200 million baht (equivalent to around \$6 million). Thailand has taken steps to liberalize these foreign exchange limits in recent years, most notably by creating a category of registered “Nonresident Qualified Companies” that have trade and investment in Thailand that are then exempt from the domestic currency balance limits imposed on most non-residents.

Thailand's macroprudential measures are focused on containing risks from elevated private (particularly household) debt (through loan-to-value and loan-to-income measures, for example) rather than foreign exchange risks.

### *Government Investment Vehicles*

Thailand does not have a sovereign wealth fund or other government investment vehicles of sufficient size to invest abroad in a manner that could impact the exchange rate for competitive purposes.

### *Singapore*

*Singapore continues to run extremely large and persistent current account surpluses, averaging around 18% of GDP over the past fifteen years. These deep external imbalances reflect in part policy decisions that encourage high savings rates. Singapore runs a bilateral trade deficit with the United States driven by services imports. The scale of exchange rate*

*intervention has been elevated over several years, though it fell in the latest reporting period. The Singapore dollar is fully convertible, but the authorities retain longstanding guardrails to protect against offshore speculative activity. Singapore has two sovereign wealth funds, Government of Singapore Investment Corporation (GIC) and Temasek. GIC does not publicly disclose complete and detailed financial information. However, its estimated large size, its portfolio investments in highly liquid markets, and its funding mix in both local and foreign currency suggest its activities could have bearing on the foreign exchange rate. However, GIC relies on the Monetary Authority of Singapore (MAS) for conversion of its domestic currency to foreign exchange, does not as a practice hold domestic currency-denominated investments, and therefore there is no evidence that GIC has sought to impact the exchange rate for competitive purposes in shifting its investment allocations. Temasek's investment strategy is focused more on domestic firms, direct investments abroad, and partnerships with other investors. Singapore began publishing intervention data on a semiannual basis with a quarterly lag in 2020 (2H 2019 data).*

### *Growth and Macroeconomic Policies*

Real GDP growth surprised materially to the upside in 2024, expanding at a clip of 4.4%. In October 2025, the IMF projected growth to slow to 2.2% in 2025, and MAS expects the output gap to stay positive for the year as a whole before narrowing to around 0% in 2026. Singapore's fiscal and monetary policy settings have become more accommodative in 2025. Singapore maintains ample fiscal space: although the gross public debt-to-GDP ratio appears high enough at face value (173% of GDP at end-FY2024) to pose a fiscal constraint, the government's large public financial assets result in a positive net asset position. Further, the government does not have any external public debt, and the issuance of local debt securities is largely unrelated to fiscal needs. The pace of disinflation has exceeded the central bank's expectations, with core inflation averaging 0.6% year-over-year in the second quarter of 2025. MAS, which uses an exchange rate-based regime for monetary policy (discussed in detail below), eased policy at the January and April 2025 reviews by slightly reducing the rate of appreciation of the Singapore dollar nominal effective exchange rate (S\$NEER). At the July 2025 review, the MAS maintained the prevailing rate of appreciation (not disclosed but estimated by independent analysts at 0.5% per annum) and left band parameters unchanged.

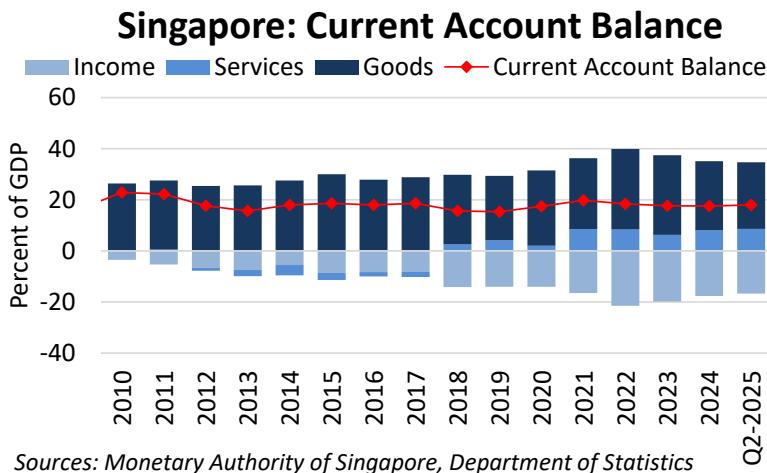
### *Balance of Payments Developments*

For nearly two decades, Singapore's current account surpluses have averaged nearly 20% of GDP with little variation. Over the four quarters ending in June 2025, the current account surplus rose to 18.0% of GDP, up from 17.3% of GDP in the same period one year prior. The current account surplus is primarily a reflection of Singapore's goods surpluses, though its growing services

surpluses have become an important factor as well. The goods surplus narrowed modestly to 26.1% of GDP in the four quarters ending June 2025 from 29.4% one year prior. The services balance, which first transitioned from deficit to surplus in the second quarter of 2018 (on a four-quarter rolling basis) has averaged nearly 8% of GDP over the past three years and stood at 8.6% of GDP over the four quarters ending June 2025. The primary drivers of the rising services surplus have been net receipts for transport services, financial services, and other business services. These goods and services surpluses were partially offset by an income deficit of 16.7% of GDP, reflecting high outbound payments given Singapore's large stock of FDI inflows. External surpluses have led to an extremely large net international investment position, which stood at 150% of GDP at end-March 2025.

Singapore ran a bilateral trade deficit with the United States of \$26 billion over the four quarters ending June 2025, driven primarily by a deficit in services (\$25 billion). The goods and services deficit with the United States narrowed by 13% from one year prior, driven largely by a narrowing of the goods deficit. Key Singaporean services imports from the United States include research and development, intellectual property, and professional and management services. The modest Singapore goods deficit with the United States (\$1 billion) reflects, in part, Singapore's role as a regional transshipment hub, with some of Singapore's imports from the United States ultimately intended for other destinations in the region. Bilateral balances tend to be a less reliable measure of absorption of economic output when one partner is a major hub economy.

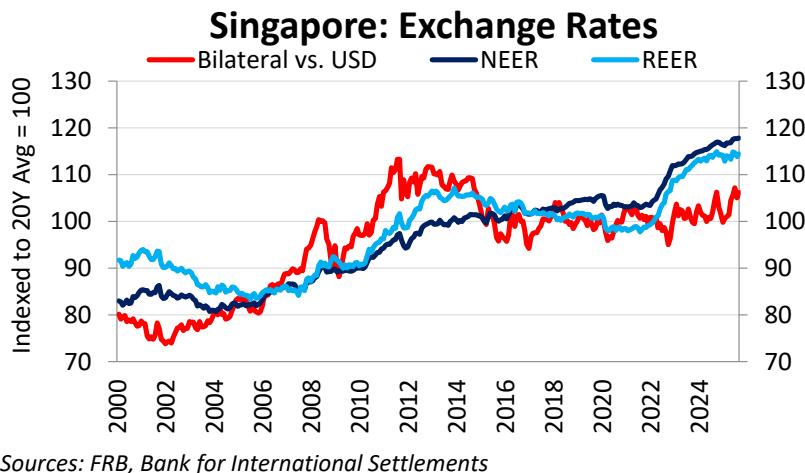
The financial account registered a large net outflow of 13.8% of GDP over the four quarters ending in June 2025, compared to 8.7% of GDP in the same period the prior year. The widening outflows reflected stronger resident portfolio investment abroad, particularly in equities and debt securities, alongside larger net other investment outflows as banks expanded overseas lending and deposits. By contrast, foreign direct investment flows remained relatively steady, with both inward and outward FDI moderating from elevated levels in prior years. Overall, the increase in financial account outflows is consistent with Singapore's role as a regional financial hub, where shifts in global yields and investor risk appetite can produce sizable swings in cross-border financial flows.



Sources: Monetary Authority of Singapore, Department of Statistics

## Exchange Rate Developments

The MAS manages the exchange rate under a “Basket, Band, and Crawl” (BBC) framework. The basket targets the S\$NEER—the Singapore dollar’s value against a trade-weighted basket of currencies. The MAS maintains that this targeting is appropriate because Singapore’s inflation rate is more heavily influenced by the exchange rate than by the interest rate, given its status as a small, open economy with large gross trade flows.



The composition of currencies and their respective weights in the basket are undisclosed, although the MAS publishes the weekly average value of the S\$NEER on a monthly basis. The S\$NEER is allowed to fluctuate within a band. While the width of the band is also undisclosed, market participants generally believe the MAS sets it at +/- 2% against the midpoint based on resistance points at which the central bank intervenes to defend the Singaporean dollar (S\$). The crawl element reflects the slope at which the MAS allows the S\$ to appreciate over time.

As noted above, MAS has slowed the pace of S\$NEER appreciation (loosened its policy stance) in 2025. Over the four quarters through June 2025 the S\$ has appreciated by 1.4% and 0.4% on a nominal effective and real effective basis, respectively. Over the same period, the Singapore dollar appreciated by 6.5% against the U.S. dollar.

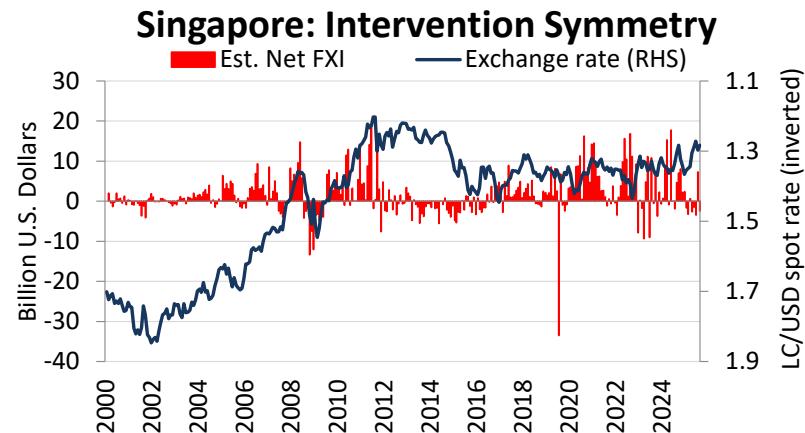
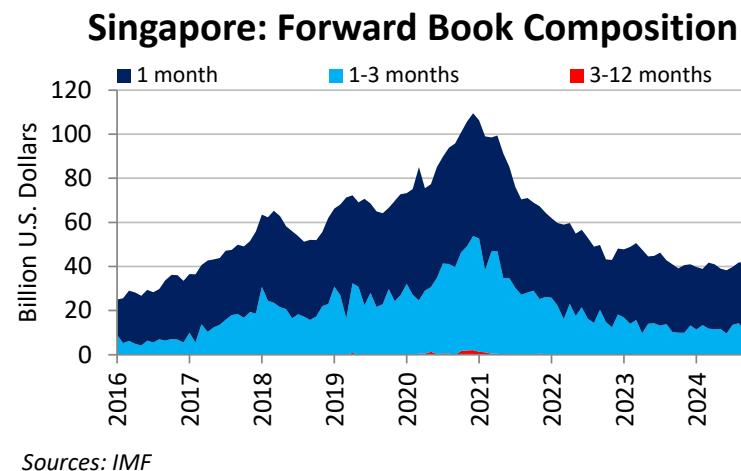
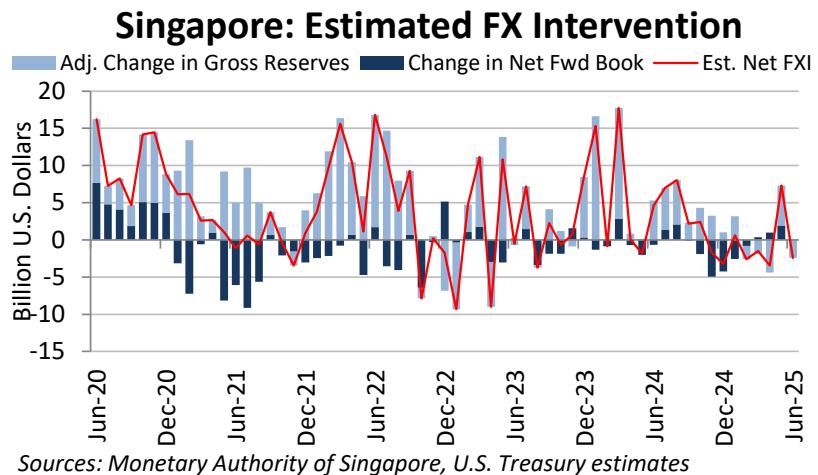
Treasury assesses that relative growth performance, a relatively tight fiscal stance, a large negative credit gap compared to the rest of the world, and continued income flows resulting from a large stock of central bank foreign assets have contributed significantly to Singapore’s external surpluses over the past several years. The IMF has consistently assessed Singapore’s external position as substantially stronger than warranted by fundamentals, linking the excess surpluses to factors including the tight fiscal stance and high savings rates. Consistent with this assessment, the IMF assessed the Singaporean dollar to be undervalued by 10.2% on a real effective basis, though this assessment is subject to wide uncertainty given Singapore’s status as a global trade and financial center.

## Intervention Policy

Over the four quarters through June 2025, net purchases of foreign currency totaled \$17.7 billion, equivalent to 3.2% of GDP. This is a decline from previous reporting periods. For example, over the four quarters of 2024, Singapore reported \$29 billion in net purchases, equivalent to 5.3% of GDP.

The forward book has decreased modestly with a slight shift towards one-month instruments over the review period. The forward book's net long position stood at 5.4% of GDP in June 2025, down from 7.3% of GDP a year earlier.

From a longer-term perspective, MAS has been a large net purchaser of foreign exchange in service of the S\$NEER band and crawl. This is reflected in the foreign exchange intervention data published by MAS, which indicates that on balance, greater resources have been deployed to lean against appreciation pressures than to defend against depreciation pressure of the Singapore dollar. MAS has supported the Singapore dollar against depreciation pressures at times. However, since Singapore started publishing semiannual intervention data (with H2 2019 as the initial reporting period), Singapore has reported twelve consecutive six-month periods of foreign asset accumulation totaling \$307 billion. The persistence and size of Singapore's foreign asset



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accumulation through intervention over the last five years stands in marked contrast to other economies covered in this Report.

### *Capital Controls and Macroprudential Measures*

Singapore maintains an open capital account and de facto full convertibility while preserving onshore price discovery via longstanding guardrails on offshore speculative use of the Singapore dollar designed to protect the effectiveness of its exchange-rate-centered monetary framework.

The latter provisions include per-entity limits on aggregate local currency credit facilities extended to non-resident financial institutions (NRFIs), requirements that sizeable (\$5 million per entity) Singapore dollar lending proceeds be swapped or converted into foreign currency before being used abroad; and strict guidelines that no local currency credit facilities should be extended to an NRFI if there is cause to believe that the purpose is for speculative activity.

### *Government Investment Vehicles*

Beyond the MAS's official foreign exchange reserves, Singapore's sovereign foreign assets are managed principally by GIC and Temasek.

GIC was formed in 1981 to invest, with a long-term perspective, that portion of Singapore's foreign exchange assets that MAS did not need for short-term exchange rate management. GIC does not publicly disclose complete and detailed financial information. However, its large size (which public estimates put roughly in the \$800-950 billion range), its portfolio investments in highly liquid markets, and its funding mix in both local and foreign currency suggest its activities could have bearing on the foreign exchange rate. However, GIC relies on the MAS for conversion of its domestic currency to foreign exchange, and it does not as a practice hold domestic currency-denominated investments. Therefore there is no evidence that GIC has sought to impact the exchange rate for competitive advantage in trade in shifting its portfolio allocations across Singapore dollar and U.S. dollar assets.<sup>30</sup>

Temasek was originally formed in 1974 as a holding company for state-owned enterprises and now has a highly diversified investment portfolio of over \$324 billion. In contrast to GIC's more limited public disclosures, Temasek publishes a detailed annual review that includes audited financial statements and extensive information on its portfolio and performance. Temasek's investment strategy is focused on domestic firms (27% is still invested in Singapore, including DBS Group and Singapore Telecommunications), direct investments abroad, and partnerships with other investors. Temasek therefore does not

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<sup>30</sup> Separately, MAS has recently begun disclosing, in its statistical releases, transfers of reserves to the Government for subsequent placement with GIC. While this represents a notable increase in transparency relative to past practice, MAS indicates that these disclosures primarily capture transfers effected through the Reserve Management Government Securities (RMGS) framework. Transfers may also occur through reductions in the Government's deposits at MAS, and therefore the published figures may not represent a complete accounting of all transfers to GIC.

lend itself to potential concerns about shifts in portfolio allocations across liquid Singapore dollar and U.S. dollar assets to impact the exchange rate for competitive advantage in trade.

## ***Vietnam***

*Vietnam's current account surpluses have risen to record levels in the last two years, powered by the reemergence of an elevated goods surplus. Notwithstanding pandemic-related disruptions to trade, Vietnam's bilateral goods trade surplus with the United States has expanded almost continuously over the last decade and is the third-largest among all U.S. trading partners. The Vietnamese dong has faced consistent depreciation pressures in recent years, weakening both against the dollar and on a trade-weighted basis. In this context, the authorities sold foreign exchange on net over the Report review period. Vietnam maintains extensive and strict controls on cross-border capital account transactions, but the authorities have not shown a tendency to actively adjust capital controls to prevent exchange rate adjustment in line with macroeconomic fundamentals.*

### *Growth and Macroeconomic Policies*

Vietnam has been one of the strongest-performing economies in Southeast Asia since the pandemic, with real GDP growth averaging almost 7% from 2022 to 2024. Output continued to expand briskly in the first half of 2025, with GDP up 7.5% year-over-year. Growth was broad-based, as domestic consumption and investment both rose, while trade data showed clear signs of tariff frontloading (with both imports and exports jumping in the first half of the year). In October 2025, the IMF projected growth to be 6.5% in 2025 and below 6% over the medium term.

Vietnam has run a very restrained fiscal policy for many years; it is one of the few countries where public debt-to-GDP is lower today (at just above 30%) than it was prior to the pandemic. To bolster their new ambitions for growth, the Vietnamese authorities are aiming to raise public investment from its recent level around 6.5% of GDP towards 8% of GDP by improving both execution and efficiency of capital spending.

With limited support for growth coming from fiscal policy in recent years, monetary policy has been the primary tool for providing macroeconomic accommodation. While the State Bank of Vietnam (SBV) has a main policy rate – its refinancing rate has been held at 4.5% since the middle of 2023 – in practice it has not yet fully moved to a modern inflation-targeting regime. Instead, the SBV relies primarily on a range of more quantitative tools—most notably the exchange rate as a nominal anchor and credit growth targets—to try to balance nominal growth, inflation, and financial sector stability. While inflation, which averaged 3.3% over the first half of 2025, remains below the 2025 target range of 4.5-5%, it has generally been rising since the end of 2024.

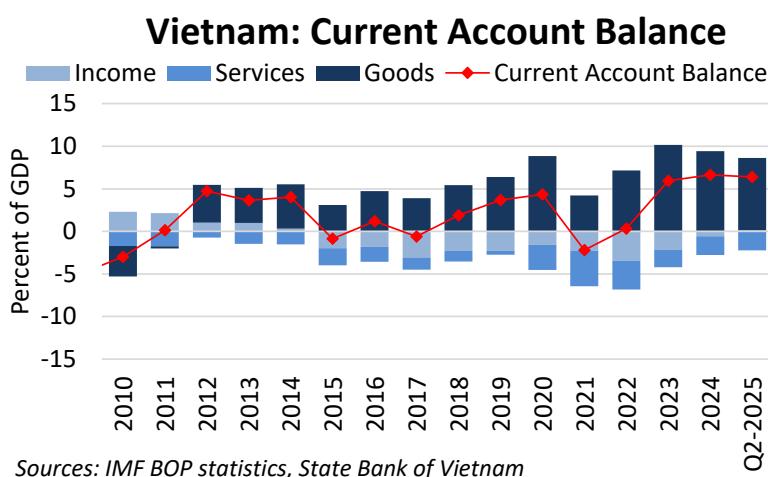
### *Balance of Payments Developments*

Vietnam's current account surplus totaled 6.4% of GDP over the four quarters through June 2025, remaining broadly unchanged from 2024 levels. Over the last decade Vietnam has become an increasingly important hub for final assembly and shipment of intermediate components that are manufactured elsewhere in Asia (particularly Korea, Japan,

Taiwan, and China). This has generated a steady rise in the goods trade surplus, interrupted briefly by pandemic-related disruptions. Vietnam's current account surplus widened to historical highs in 2023 and 2024, powered by a goods surplus running between 7% and 11% of GDP. More recently, the current account has also been raised by a narrower income deficit compared to much of the last decade. In 2024, primary income payments abroad – associated with foreign-invested firm remitting income payments to foreign owners – dropped notably. That, combined with resilient inward remittance flows, left the income balance with a much narrower deficit of 0.6% of GDP in 2024 compared to the 2.3% of GDP deficit it averaged from 2015-2023. Services trade has been in persistent deficit over the last decade, and in 2024 stood at 2.2% of GDP, identical to its average level since 2015.

There is also a higher-than-usual degree of uncertainty associated with balance of payments statistics in Vietnam. While Vietnam remains proactively engaged with the IMF to improve its economic statistics, the IMF continues to flag shortcomings, which are particularly serious in external statistics. While net inward foreign direct investment has been large and steady – averaging roughly 4% of GDP since 2020 – other components of the financial account have been volatile, particularly short-term capital flows. Meanwhile, negative errors and omissions have been very large in recent years, averaging above 6% of GDP from 2022-2024 (larger than net inward FDI and nearly three-fourths of the goods trade surplus).

Bilateral trade between Vietnam and the United States is dominated by goods, with total services trade equivalent to only 3% of goods trade (the smallest share for any major U.S. trading partner). Vietnam's bilateral goods trade surplus with the United States has expanded almost continuously over the last decade, with large and growing exports of electronics, machinery, textiles, and footwear. The bilateral goods surplus stood at \$148 billion over the four quarters through June 2025, more than four times its size in 2015. Given that much of Vietnam's final assembly relies on imported content, the rise in Vietnam's domestic value-add exports to the United States has been much smaller than the rise in gross exports. At the same time, Vietnam's role as a hub for assembly also

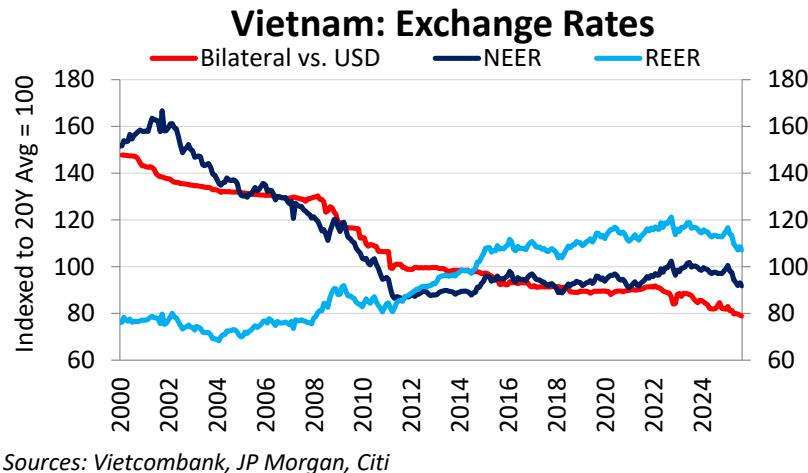


significantly raises risks of illegal transshipment or misrepresentation of product origin, including as an avenue to circumvent tariffs.

### *Exchange Rate Developments*

The Vietnamese dong depreciated 2.7% against the U.S. dollar over the four quarters through June 2025. Depreciation pressures were largely sustained from the fourth quarter of 2024 onward. The dong was one of the few Asian currencies to depreciate against the dollar over the first half of 2025. Accordingly, depreciation has been more notable on a trade-weighted basis.

Nominal and real effective exchange rates were weaker by 5.8% and 5.5%, respectively, over the four quarters through June 2025. There is some evidence that depreciation pressures in recent years have been exacerbated by unrecorded capital outflows: analysis by the IMF suggests that the sharp rise in errors and omissions in the balance of payments since 2022 may be partly explained by unrecorded net purchases of crypto assets by residents.



Treasury assesses that Vietnam's macroeconomic policy mix – a relatively tight fiscal policy stance and a relatively accommodative monetary stance – has contributed to Vietnam's substantial external imbalances. Additionally, the composition of fiscal policy further contributes to external surpluses: public investment is insufficient to meet large infrastructure needs, which has knock-on effects of hampering private investment. Meanwhile, social protection is underfinanced, which increases household precautionary saving and restrains consumption. In its most recent assessment for 2024, the IMF assessed Vietnam's external position to be substantially stronger than the level implied by medium-term fundamentals and desirable policies. Consistent with the current account assessment, the IMF estimated the dong was undervalued 12.9% on a real effective basis, though other IMF estimates suggest overvaluation in the range of 15-20%. The IMF particularly stresses uncertainty in its external assessment given data shortcomings in Vietnam.

### *Intervention Policy*

Vietnam does not publish data on its spot or forward foreign exchange intervention. The authorities have conveyed credibly to Treasury that net sales of foreign exchange in the four quarters through June 2025 were 0.7% of GDP. That figure is equivalent to about \$3 billion.

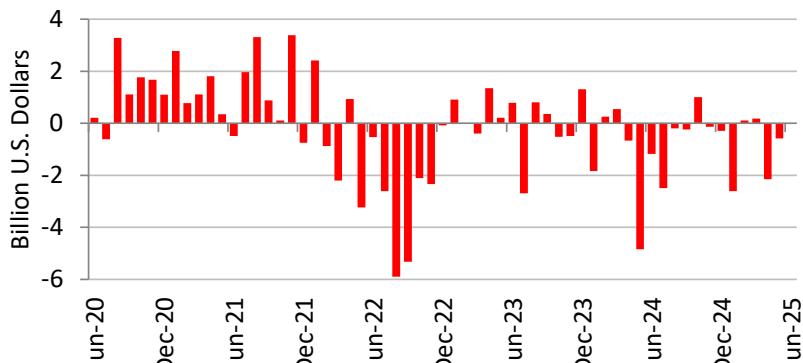
While historically the bulk of foreign exchange

intervention activities conducted by the SBV have been via the spot market, the SBV has on occasion in recent years used forwards to conduct intervention. At the same time, Vietnam's domestic financial markets remain relatively shallow, and the SBV has not built and maintained a standing forward book by using foreign exchange swaps to sterilize intervention to resist appreciation in the manner of many other central banks covered in this Report.

Over 2009-2010, the authorities sold around half of existing foreign exchange reserve buffers trying to counter intensified depreciation pressures stemming from the global financial crisis alongside a domestic banking crisis. By the end of 2011 the downward pressures on the exchange rate and reserves had abated, and over the next decade the SBV's intervention

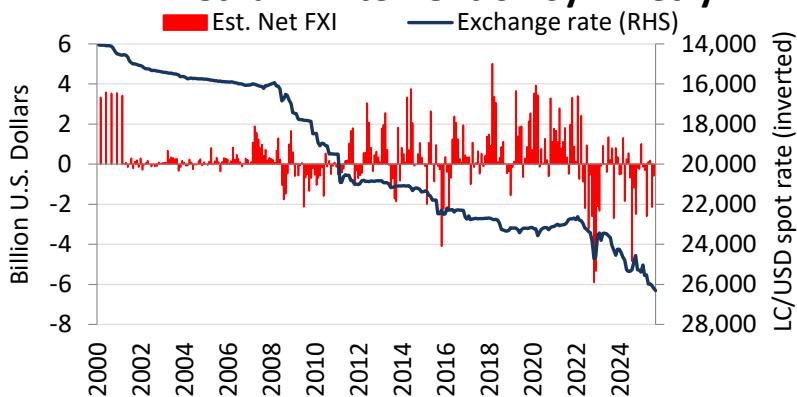
activities swung heavily towards purchases. Global liquidity was ample amid the low-for-long policies of major central banks, while Vietnam attracted rising levels of foreign investment and large external surpluses gradually built. The SBV kept the dong relatively stable for much of this period – with the dong depreciating on net 7.5% against the dollar from end-2011 to end-2021, less than 1% on average annually and built foreign exchange reserves from \$13.1 billion at end-2011 up to a peak of around \$107 billion by end-2021. Intervention activity over most of this decade appeared to be particularly non-symmetric, with the SBV often accumulating reserves when the dong faced appreciation pressure, and allowing modest, controlled depreciation of the dong when exchange rate pressures (more briefly) reversed. Toward the end of this period the SBV accommodated some appreciation

### Vietnam: Estimated FX Intervention



Sources: State Bank of Vietnam, U.S. Treasury estimates

### Vietnam: Intervention Symmetry



Sources: Vietcombank, JP Morgan, Citi, SBV, U.S. Treasury estimates

pressure – the dong rose 1.5% against the dollar in 2021 – signaling the start of a shift towards more comfort with two-way movements in the dong.

Since early 2022 the dong has mostly faced large depreciation pressures, as a synchronized tightening cycle across major central banks shifted interest rate differentials in favor of the U.S. dollar and other major currencies. As of June 2025, the SBV had on net sold roughly \$30 billion in reserves since the end of 2021 (equal to roughly one-fourth of the end-2021 stock), while the dong had depreciated 12.6% against dollar over the same two-and-a-half year period. Compared to the earlier period, the SBV appears to have resisted depreciation pressures more forcefully in the recent past. At the same time, in a welcome development, the SBV has allowed a greater degree of two-way flexibility in the exchange rate by widening the trading band – exemplified by large two-way movements from mid-2022 to mid-2023 – which should facilitate a transition to a more modern framework for monetary and exchange rate policy.

#### *Capital Controls and Macroprudential Measures*

Vietnam maintains strict controls on cross-border capital account transactions, to buttress the stability of a financial system that remains shallow and under-developed. Foreign investors are generally welcome but must navigate a structured framework of regulations that governs transfers into and out of the country. Key aspects include using specialized accounts for investment capital and profit remittances, controls on inward and outward foreign investments, and strict adherence to procedures for currency conversions through SBV-licensed institutions. FDI investors seeking to invest in Vietnam must seek approval from the government, though in practice Vietnam remains substantially open to FDI.

Resident investors face strict notification and approval requirements for investments abroad; in practice, there are greater barriers for resident portfolio investors to invest offshore than vice versa. Resident investors also face repatriation requirements on profits earned abroad.

While Vietnam's capital controls are extensive and strict, the authorities have not shown any tendency to actively adjust capital controls to prevent exchange rate adjustment in line with macroeconomic fundamentals.

Vietnam's macroprudential framework, on the other hand, is underdeveloped, reflecting the authorities' use of comprehensive capital controls and more blunt instruments like credit ceilings to limit financial stability risks. The IMF has called for Vietnam to strengthen its macroprudential framework as a more efficient and targeted alternative.

#### *Government Investment Vehicles*

Vietnam does not have government investment vehicles that invest abroad in a manner that could impact the exchange rate for competitive purposes. The sovereign wealth fund, State Capital Investment Corporation, currently invests only in domestic assets.

## **The Euro Area**

*The euro area's persistent external imbalances arise from a combination of weakened competitiveness and lethargic domestic demand, both compounded by intra-EU barriers disrupting the Single Market. The euro area economy returned to growth in recent years. However, ongoing global economic headwinds will likely demand fiscal stimulus and competitiveness-focused structural reforms to help support momentum and external rebalancing and growth – notably by further encouraging domestic consumption and investment. Euro-area-wide initiatives to improve productivity, reduce regulatory burdens, and strengthen the Single Market could similarly help address imbalances.*

### *Growth and Macroeconomic Policies*

The euro area economy returned to growth in 2024, with real GDP growth of 0.9%. Depressed consumer sentiment and weakness in service and manufacturing activity have likely weighed on growth in 2025. In October 2025, the IMF expected real GDP growth to increase only slightly to 1.2% in 2025 on an annual basis, with a slight lift anticipated from monetary policy easing and fiscal policy. Services-oriented economies will continue to partially offset weakness in manufacturing-driven economies. Fiscal stimulus in the form of higher defense spending and Germany's fiscal package could mildly boost growth in the longer term, but these growth prospects depend on both European Commission and euro area member states' efforts to remove structural constraints on the economy – including by deepening integration of the Single Market.

The euro area's national fiscal deficits remain elevated above pre-pandemic averages of around 0.5% of GDP, with the euro area average deficit narrowing to 2.7% of GDP in the second quarter of 2025. Both the EU and some member states aim to use fiscal stimulus to bolster domestic demand and increase defense capabilities, but high debt burdens and interest rate payments will continue to inhibit many member states from taking these steps.

Disinflation progress remains well on track. Inflation reached 2.2% in November 2025 on a year-over-year basis, up slightly from 2.1% in October but still hovering near the European Central Bank's (ECB) 2% target for headline inflation. Wage growth continues to show signs of moderation, which is likely to moderate services inflation, one of the largest contributors to euro area inflation, through the first half of 2026. Persistently low energy prices and continued strength in the euro will dampen headline numbers into 2026 as well. With inflation close to target, the ECB held its deposit rate at 2.0% in October for the third consecutive meeting, following eight 25 basis points cuts since June 2024. The ECB's most recent bank lending survey, released September 25, shows firms' net demand for loans continued to increase, reflecting support from declining interest rates. This pace of the increase is moderated by the impact of trade and geopolitical uncertainty on manufacturing activity, where fixed investment and inventory and working capital needs remain low.

## *Balance of Payments Developments*

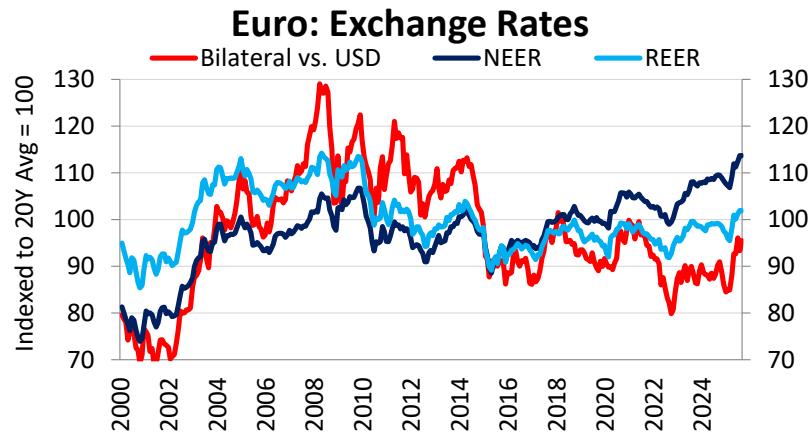
The euro area current account surplus continues to converge to its pre-pandemic average, reaching 2.1% of GDP in the four quarters through June 2025. The current account surplus has narrowed from its June 2024 levels, largely driven by a shift in the primary income balance from a surplus to a deficit. The euro area had net financial outflows of 2.9% in the four quarters through June 2025, with a rebound in net direct investment driving the increase from a 1.9% surplus in 2023. The IMF expects the current account surplus to stabilize at a more typical 2.3% of GDP on an annual basis in 2025.

The euro area is one of the United States' largest and most important trading partners. The euro area's bilateral goods and services trade surplus with the United States reached \$150 billion over the four quarters through June 2025. Machinery, chemicals, energy products, and manufactured goods make up the majority of bilateral goods trade. Services trade is largely concentrated in the professional and management, intellectual property, and financial services sectors. Euro area goods exports to the United States spiked in the first quarter of 2025, as European firms sought to front-load their exports ahead of anticipated tariffs, before falling 21% in the second quarter amid continued trade uncertainty and euro appreciation against the dollar.

## *Exchange Rate Developments*

The euro has recovered from the two-decade low against the dollar reached in September 2022 and continues to strengthen despite persistent monetary easing. Following a weakening against the dollar in 2024, the euro has rebounded in 2025, strengthening against the dollar by 9.9% in the four quarters through June 2025.

The broad euro strength is similarly reflected in nominal effective terms, where the euro appreciated by a more muted 3.6% over the same period. In real effective terms, the euro appreciated by 2.3% in the four quarters through June 2025. The ECB publishes its foreign exchange intervention and has not intervened in foreign exchange markets since 2011.



*Sources: FRB, Bank for International Settlements*

Treasury assesses that the euro area's persistent external surpluses arise from weak growth and lethargic domestic demand driven by a combination of structural and policy constraints, including persistent internal barriers within the Single Market and relatively low fiscal stimulus compared to pre-Global Financial Crisis averages. These factors inhibit domestic demand-driven economic growth and force the bloc to rely on exports to foreign

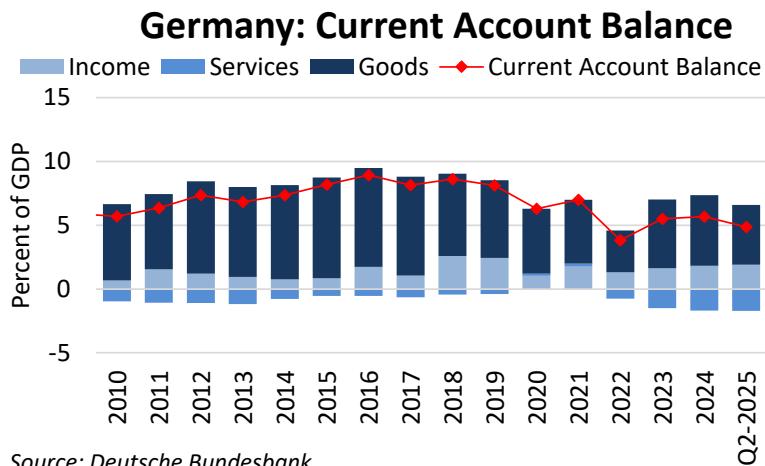
markets. Low levels of fiscal stimulus also undercut domestic demand, keeping imports low, and weaken investment. Other structural constraints contributing to the euro area's large external surpluses include shallow capital markets, regulatory hurdles, an aging population, a high household savings rate, and conflicting economic policies across member states. In its most recent assessment, the IMF found that the euro area's external position in 2024 was moderately stronger than the level implied by fundamentals, and similarly assessed the euro was undervalued by 3.1% on a real effective basis over the same period. This assessment masks substantial heterogeneity among member states.

### *Germany*

In line with broader euro area trends, Germany's persistent external surpluses can largely be attributed to weak domestic demand and restrictive fiscal policy relative to the rest of the world. These factors were further exacerbated by Germany's constitutional debt brake, which, until earlier in 2025, was even more restrictive than EU fiscal rules. Other structural factors contributing to Germany's historically large current account surpluses include an aging population, a high household savings rate, and shallow capital markets. In its most recent external sector assessment, the IMF found that Germany's external position in 2024 was stronger than the level implied by medium-term fundamentals and desirable policies.

Germany has run a large current account surplus for well over a decade as production levels are consistently above domestic absorption. Germany's current account surplus was 4.9% during the Report period, although this is noticeably lower than the pre-pandemic current account surplus of 8% in 2019. Germany's current account continues to be driven by goods exports, although other components – such as a growing income surplus and a widening services deficit – are becoming increasingly more relevant. The income balance was 1.9% of GDP during the Report period, continuing to converge with pre-pandemic levels as German residents' considerable external asset holdings produced higher returns on investments abroad than on foreign investments in Germany. During the Report period, Germany also experienced its widest services deficit in more than a decade, reaching 1.7% of GDP, which was largely due to cross-border travel.

Germany's bilateral goods and services trade surplus with the United States has more than tripled since the creation of the euro, with the United States regularly performing as one of Germany's major trading partners. The bilateral goods and services trade surplus with the



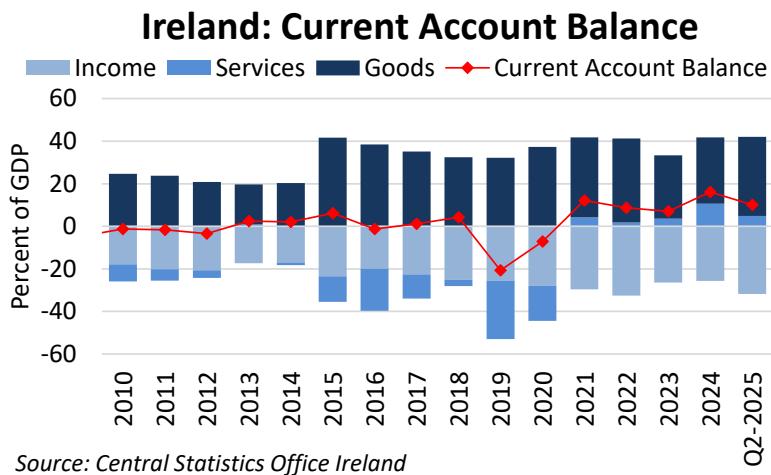
United States reached \$84 billion during the Report period, \$81 billion of which was due to German exports of goods such as vehicles, machinery, pharmaceuticals, and chemicals. However, between January and September 2025, the monthly value of German exports to the United States decreased by 7%.

The financial account deficit widened in 2024, as ongoing domestic cyclical weakness contributed to declining net direct investment inflows and rising net portfolio investment outflows. However, net portfolio investment inflows were supported by slightly looser monetary policy and the end of ECB asset purchases, which caused foreign investors to significantly increase their purchases and replenish their holdings of German government debt securities. Despite this, the financial account deficit has continued to widen over the first two quarters of 2025, with resident investment outflows generally outpacing non-residents' direct and portfolio investments in Germany.

### *Ireland*

Unlike other major trading partners included in this Report, Ireland's large external surplus largely reflects the nature of the externally-oriented multinational enterprises (MNEs) – more so than other factors mentioned elsewhere like demographics, growth differentials, and relative macroeconomic policies – which can distort headline current account data as well as the underlying balance of saving and investment in the economy. Ireland's headline current account balance has been especially volatile over the past few years and subject to large revisions, rendering assessments of the external position particularly challenging and subject to high levels of uncertainty. In its most recent external sector assessment, the IMF found that Ireland's external position in 2024 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.

The activities of large export-oriented MNEs affect all components of Ireland's balance of payments accounts. Ireland's current account registered a surplus of 10.2% of GDP over the four quarters through June 2025, falling from 12.8% of GDP over the same period one year prior. Export demand (especially for pharmaceutical products) continues to drive Ireland's



current account surplus. Ireland's goods trade balance surged to 37% of GDP over the four quarters through June 2025 from 27% of GDP one year prior, while the services balance fell to 5% of GDP from 9% over this same period. Offsetting the large trade surplus, Ireland maintains a sizeable deficit on primary income, which registered 32% of GDP over the reporting period driven by income paid on direct investment in Ireland.

Ireland's bilateral goods and services trade surplus with the United States reached \$68 billion during the Report period. Pharmaceutical products and organic chemicals comprise about 80% of U.S. imports from Ireland between July 2024 and June 2025. The U.S. market represents 67%, on average, of Ireland's pharmaceutical exports. Relatedly, Ireland was the largest single-country source of U.S. pharmaceutical imports, representing 28% of total pharmaceutical imports in 2024.

Ireland's financial account is also characterized by significant volatility due to the financing operations and investment activities of MNEs. Ireland's financial account stayed relatively flat over the four quarters through June 2025, with total net outflows reaching 12.4% of GDP. Portfolio investment outflows were the key driver. Notably, in 2024, investment in the United States comprised almost 43% of the stock of Ireland's portfolio investment abroad. Direct investment into Ireland has been weaker post-pandemic and were negative over the reporting period, as was Ireland's direct investment abroad.

## ***Switzerland***

*Switzerland's high current account surplus has decreased in recent years but remains elevated due to its persistently large goods trade surplus. Switzerland's bilateral trade surplus with the United States has grown, driven by gold exports and to a lesser extent an increase in exports of pharmaceutical products. Despite continued Swiss National Bank (SNB) monetary easing, the Swiss franc continues to appreciate on a nominal and real effective basis, erasing losses over the course of 2024. Switzerland publishes intervention data on a quarterly basis with a quarterly lag.*

## ***Growth and Macroeconomic Policies***

Low growth in its European trading partners weighed on economic activity in Switzerland in 2024 with real GDP growth registering at 1.4% before accelerating in the first half of 2025. This was supported by 2.5% growth year-over-year in the first quarter driven by a surge in safe haven-related trading of non-monetary gold and to a lesser extent exports to the United States being pulled forward to avoid tariffs. Otherwise, growth momentum has remained moderate, slowing to 1.3 % year-over year in the second quarter and 0.5% in the third quarter. In October 2025, the IMF projected annual growth of just 0.9% for 2025. Switzerland has ample fiscal space with debt-to-GDP at 37%, declining from a peak of 43% in 2020. The IMF projects the federal government's deficit to remain broadly unchanged in 2025 vs. 2024 at 0.3% of GDP, as higher defense and social welfare spending is offset by other budget consolidation measures.

In its monetary policy meeting in September 2025, the Swiss National Bank (SNB) held its policy rate at 0.0%. This follows the SNB cutting its policy rate by 25 basis points for six consecutive meetings between March 2024 and June 2025. As of November 2025, headline inflation (0%) and core inflation (0.4%) are within the 0% to 2% range set by the SNB. In its recent communications, the SNB emphasized that it remains "willing to be active in

foreign exchange markets as necessary," to provide appropriate monetary conditions and ensure price stability per their monetary framework.

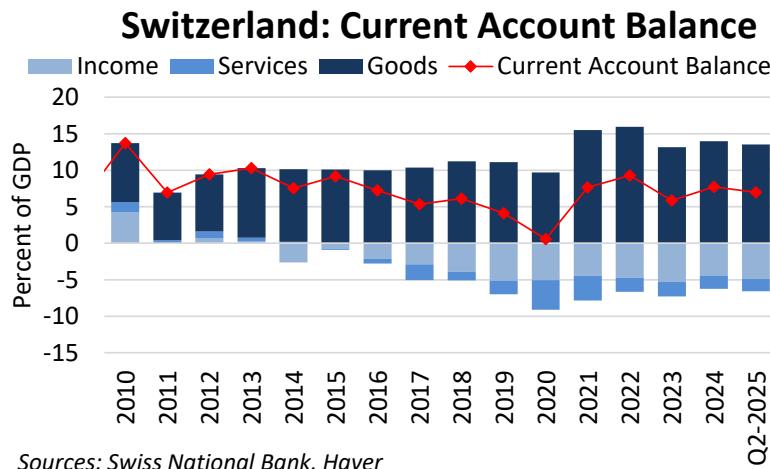
### *Balance of Payments Developments*

Switzerland had a current account surplus of 8.1% of GDP over the four quarters through June 2025. This reflects only a marginal decrease in the current account surplus from its peak of 8.7% of GDP in 2022. While commodity prices have normalized and Switzerland's merchanting (trading of commodities that never enter or leave Switzerland) surplus has decreased, the overall

Swiss trade balance remains strong and there have been marginal improvements in the primary income balance. Switzerland's status as a hub for multinationals has also sustained demand for intellectual property as well as financial and professional services in recent years and driven a sustained services trade deficit. However, as noted above, Switzerland's goods exports accelerated significantly at the beginning of the year on the back of haven-related non-monetary gold exports and some front loading of exports to avoid U.S. tariffs. With income accounts and services trade remaining largely stable, this increased the current account surplus sharply in the first quarter of 2025 to 12.3% of GDP before falling to 5.7% of GDP as gold flows reversed.

Switzerland's goods and services trade surplus with the United States increased to \$9 billion over the four quarters through December 2024 from \$2 billion in 2023 before jumping to \$46 billion in the four quarters ending June 2025. This increase was driven by the previously noted gold exports and to a lesser extent an increase in U.S. imports of pharmaceutical products in the first quarter of the year. In general, Switzerland's trade surplus with the United States increases during risk-off events like the COVID-19 pandemic and Russia's invasion of Ukraine because demand for physical gold delivery in the United States increases. This is a function of structural factors in the gold trade. Switzerland is home to major gold refineries, which supply one third of refined gold globally, while the United States accounts for a large share of gold holdings behind gold-backed financial instruments. To meet safe-haven demand during times of stress, U.S. issuers of gold-backed financial instruments increase their imports of refined gold from Switzerland. The United States is a net exporter of services to Switzerland, with a service surplus of \$30 billion over the four quarters through June 2025.

Switzerland's net financial account balance fell in 2024, largely reflecting a reversal in other investment inflows from nonresidents. The reversal of net other investment flows

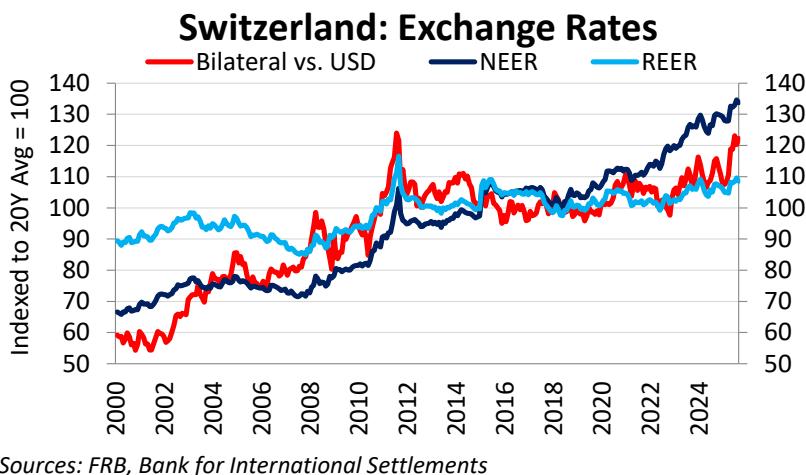


Sources: Swiss National Bank, Haver

reflects a normalization in cross-border bank flows following Credit Suisse's failure in 2023. The financial account balance rose in the first half of 2025 as resident inflows of portfolio investment outweighed modest other investment outflows from nonresidents.

### Exchange Rate Developments

Despite continued SNB monetary easing, the Swiss franc has appreciated 13.0% against the dollar over the first ten months of 2025, erasing its losses over the course of 2024 as safe haven flows surged in April and June. On a nominal effective basis, the franc's appreciation has been more muted at 4.5%, reflecting broad euro strength over this period. On a real effective basis, the Swiss franc has erased its 2024 depreciation of 1.6%, appreciating by 2.4% through October of 2025.



Sources: FRB, Bank for International Settlements

Treasury assesses that relative growth performance, a relatively tight fiscal stance, and continued income flows resulting from a large stock of central bank foreign assets have contributed significantly to Switzerland's external surpluses over the past several years. Switzerland's fiscal policy, in part because of its federal "debt brake" rule, skews towards tighter fiscal policy than warranted due to consistently conservative revenue forecasts and under-execution of expenditures. This creates less economic growth, complicates efforts to maintain positive inflation, and contributes to external surpluses. Other structural factors contributing to Switzerland's historically large current account surpluses include a large share of prime-aged savers and an aging population; a high household savings rate; relatively limited domestic investment opportunities; measurement issues; and a large positive net international investment position which raises the income balance. In its most recent assessment for 2024, the IMF assessed the Swiss franc was overvalued by 11.5% on a real effective basis.<sup>31</sup>

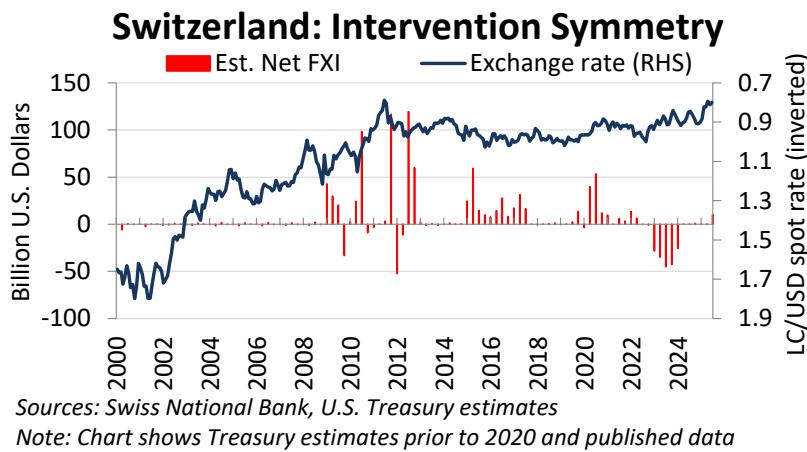
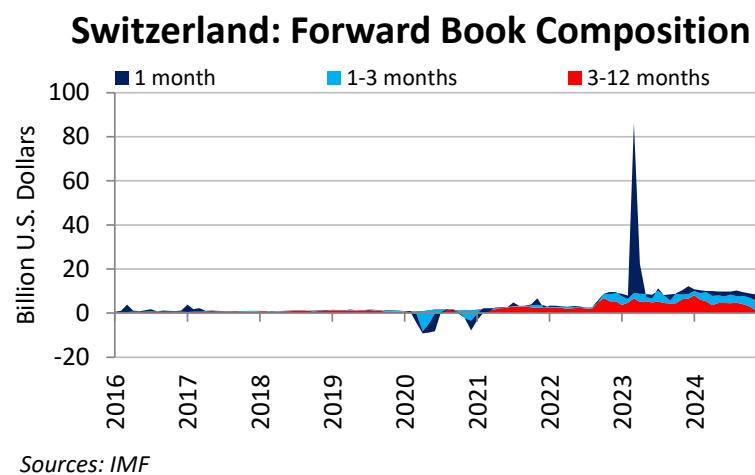
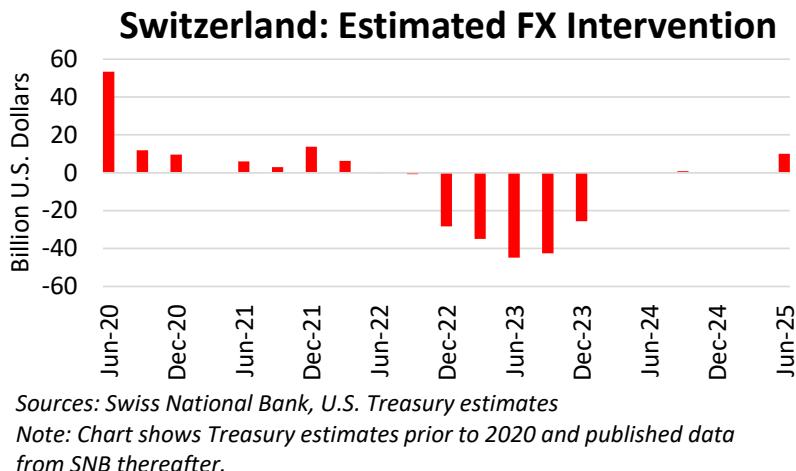
<sup>31</sup> The IMF cautioned that its latest assessment is subject to uncertainty due to complex measurement issues and data lags.

## Intervention Policy

The Swiss franc is a safe haven currency. In times of heightened risk, safe haven inflows can put considerable appreciation pressure on the franc, and sustained appreciation can have a major impact on domestic inflation. Over the four quarters through June 2025, foreign exchange intervention increased but remained relatively modest; cumulative foreign exchange net purchases by the SNB over this period amounted to \$7 billion (0.7% of GDP). Treasury estimates that roughly \$9.7 billion in purchases occurred in April, which coincided with a sharp appreciation of the franc due to safe haven flows. Switzerland is relatively transparent with respect to foreign exchange operations, publishing its foreign exchange operations quarterly with a one period lag.

The SNB's forward book composition has remained largely stable since the provision of short-term dollar liquidity surrounding the Credit Suisse failure in early 2023.

SNB has been a net purchaser of foreign exchange since it began large-scale interventions in FX markets in 2009 during the global financial crisis, largely to lean against periods of franc appreciation. These purchases were more sustained after SNB abandoned the Swiss franc's peg in 2015, monetary policy became constrained at the effective lower bound, and inflation remained



persistently below SNB's target range. SNB has supported the Swiss franc against depreciation pressures in more recent years, particularly from late 2022 through 2023 to dampen imported inflation due to rising energy prices. Treasury estimates total net purchases of about \$133 billion between 2016 and 2024.

#### *Capital Controls and Macroprudential Measures*

Switzerland has one of the most open financial accounts globally, with no capital flow measures in place. Responsibility for macroprudential measures is shared by the SNB and the Swiss Financial Market Supervisory Authority with a role for the Federal Council which must approve final decision on activating the economy-wide counter-cyclical capital buffers (CCyB). Currently, the economy-wide CCyB is set to zero. While sectoral macroprudential measures are in place, they are set to affect local lending conditions, not capital flows.

#### *Government Investment Vehicles*

Switzerland does not have a sovereign wealth fund or other government investment vehicles of sufficient size to invest abroad in a manner that could impact the exchange rate for competitive purposes.

## **Annex: Transparency of Foreign Exchange Policies and Practices**

There is broad consensus that economic policy transparency enhances the credibility of economic institutions and fosters a more efficient allocation of resources as information asymmetries are reduced. As part of this effort, Treasury monitors and provides its assessment of foreign exchange policy transparency in the semiannual *Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States* on a regular basis.

As discussed in the Executive Summary of this Report, Treasury held discussions and released joint statements with the relevant authorities of six major trading partners – Japan, Switzerland, Malaysia, Thailand, Korea, and Taiwan. The joint statements highlighted the importance of transparent exchange rate policies and practices, and trading partners with less robust disclosure regimes agreed to increasing the frequency and timeliness of their disclosure of reserves and foreign exchange intervention data. Treasury will continue to press its major trading partners to make significant strides in enhancing the transparency of currency practices.

**Table 4: Transparency of the United States and Its Major Trading Partner's Foreign Currency Regimes**

	Foreign Exchange Reserves Data			Intervention			
	Headline Reserves: Frequency /Lag	Derivative Position in IRFCL#	Currency Composition	Publish a Stated Objective	Disclose Intervention	Frequency	Lag
<b>USA</b>	Weekly/1 day	Yes	Public	Yes	Yes	As it happens*	None
<b>ECB</b>	Monthly/ 2 weeks	Yes	COFER <sup>32</sup>	No	Yes	As it happens*	None
<b>UK</b>	Monthly/ 3 business days	Yes	Public	Yes	Yes	As it happens*	None
<b>Japan</b>	Monthly/ 1 week	Yes	COFER	Yes	Yes	Monthly	2 days
<b>Canada</b>	Weekly/1 business day	Yes	Public	Yes	Yes	As it happens*	None
<b>Switzerland</b>	Monthly/ 1 week	Yes	Public	Yes	Yes	Quarterly	3 months
<b>Australia</b>	Monthly/ 1 week	Yes	Public	Yes	Yes	Annually <sup>33</sup>	4 months
<b>Brazil</b>	Daily/1 day	Yes	Public	Yes	Yes	Daily	5 days
<b>Mexico</b>	Weekly/4 days	Yes	Public	Yes	Yes	Monthly	6 days

<sup>32</sup> "COFER" means the country provides the data confidentially to the IMF through its Composition of Foreign Exchange Reserves (COFER) database.

<sup>33</sup> Australia publishes daily foreign exchange intervention one time per year in October. Australia has not intervened in foreign exchange markets since November 2008.

<b>India</b>	Weekly/7 days	Yes	COFER	Yes	Yes	Monthly	2 months
<b>China</b>	Monthly/ 1 week	? <sup>34</sup>	COFER	No	No		
<b>Taiwan</b>	Monthly/ 1 week	Yes	No	Yes	Yes	Quarterly	3 months
<b>Korea</b>	Monthly/ 1 week	Yes	COFER	Yes	Yes	Quarterly	3 months
<b>Singapore</b>	Monthly/ 1 week	Yes	COFER	Yes	Yes	Semi-annually	3 months
<b>Thailand</b>	Weekly/1 week	Yes	No	Yes	Yes <sup>35</sup>	Semi-annually	3 months
<b>Malaysia</b>	Biweekly/ 1 week	Yes	No	Yes	Yes <sup>36</sup>	Semi-annually	3 months
<b>Vietnam</b>	Monthly/ 2-3 months	No	No	Yes	Yes <sup>37</sup>	Semi-annually	3 months

# The IMF's International Reserves and Foreign Currency Liquidity Template.

\* Intervention is published officially in certain reports on a regular basis but in practice that intervention took is announced on the day it happened.

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<sup>34</sup> Treasury staff have questions about the consistency of China's reported derivatives position.

<sup>35</sup> Thailand discloses its foreign exchange intervention to Treasury with consent to publish in the FX Report.

<sup>36</sup> Malaysia discloses its foreign exchange intervention to Treasury with consent to publish in the FX Report.

<sup>37</sup> Vietnam discloses its foreign exchange intervention to Treasury with consent to publish in the FX Report.

## **Glossary of Key Terms in the Report**

**Exchange Rate** – The price at which one currency can be exchanged for another. Also referred to as the bilateral exchange rate.

**Exchange Rate Regime** – The manner or rules under which an economy manages the exchange rate of its currency, particularly the extent to which it intervenes in the foreign exchange market. Exchange rate regimes range from floating to pegged.

**Floating (Flexible) Exchange Rate** – An exchange rate regime under which the foreign exchange rate of a currency is fully determined by the market with intervention from the government or central bank used sparingly.

**Foreign Exchange Reserves** – Foreign assets held by the central bank that can be used to finance the balance of payments and for intervention in the exchange market. Foreign assets consist of gold, Special Drawing Rights (SDRs), and foreign currency (most of which is held in short-term government securities). The latter are used for intervention in the foreign exchange markets.

**Intervention** – The purchase or sale of an economy's currency in the foreign exchange market by a government entity (typically a central bank) in order to influence its exchange rate. Purchases involve the exchange of an economy's own currency for a foreign currency, increasing its foreign currency reserves. Sales involve the exchange of an economy's foreign currency reserves for its own currency, reducing foreign currency reserves. Interventions may be sterilized or unsterilized.

**Nominal Effective Exchange Rate (NEER)** – A measure of the overall value of an economy's currency relative to a set of other currencies. The effective exchange rate is an index calculated as a weighted average of bilateral exchange rates. The weight given to each economy's currency in the index typically reflects the amount of trade with that economy.

**Pegged (Fixed) Exchange Rate** – An exchange rate regime under which an economy maintains a set rate of exchange between its currency and another currency or a basket of currencies. Often the exchange rate is allowed to move within a narrow predetermined (although not always announced) band. Pegs are maintained through a variety of measures, including capital controls and intervention.

**Real Effective Exchange Rate (REER)** – A weighted average of bilateral exchange rates, expressed in price-adjusted terms. Unlike the nominal effective exchange rate, it is further adjusted for the effects of inflation in the countries concerned.

**Trade Weighted Exchange Rate** – See Nominal Effective Exchange Rate.