REPORT TO CONGRESS

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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Contents

Executive Summary 1
Section 1: Global Economic and External Developments 4
U.S. ECONOMIC TRENDS 5
ECONOMIC DEVELOPMENTS IN SELECTED MAJOR TRADING PARTNERS 19
Section 2: Intensified Evaluation of Major Trading Partners 40
KEY CRITERIA 40
SUMMARY OF FINDINGS 45
Glossary of Key Terms in the Report 47

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.[1]

[1] 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

Global economic growth in 2023 was stronger than many had forecast and projections for 2024 have been revised up. The IMF estimates global growth was 3.2% in 2023, outperforming its own projection of 2.9% as of April 2023 (measured on a Q4 over Q4 basis). The upward revision was in large part due to stronger than projected growth in the United States; in April 2023 the IMF projected U.S. growth in 2023 to be 1.0 percent while it came in at a robust 3.1 percent (Q4 over Q4 basis). Many emerging market and developing economies have fared better than expected thanks in part to improved terms of trade for some, proactive monetary policy, and a healthy build-up of external buffers. The IMF projects global growth to remain steady in 2024, before slowing slightly to 3.1% in 2025. The risks to the global economic outlook have become more balanced on net over the past year, though Russia's war against Ukraine continues to weigh on the outlook after introducing volatility among critical commodity prices, which increased energy and food insecurity and exacerbated inflation.

Global current account imbalances have started to narrow from their recent highs, driven largely by reduced current account surpluses in oil exporting economies. This suggests the moderation of commodity prices over the course of 2023 played a large part in narrowing imbalances, meaning the decline is likely cyclical rather than structural. Among major U.S. trading partners, the very large surpluses of Germany, Japan, Ireland, the Netherlands, Switzerland, Taiwan, Singapore, and Vietnam have each remained significant as a share of GDP over the four quarters through December 2023. Meanwhile, the U.S. current account deficit narrowed to 3.0% of GDP in 2023, down from 3.8% of GDP in the four quarters through December 2022.

The nominal trade-weighted dollar weakened 2.2% in 2023 as foreign currency movements continued to reflect mixed influences regarding global inflation, the expected pace of monetary policy tightening, and the likelihood of a soft landing for the global economy. The dollar depreciated broadly over this period against advanced economy and emerging market economy currencies, weakening by 2.5% and 1.9%, respectively. More recently, the dollar has rebounded between end-December and end-April, appreciating 3.9%. While the dollar has strengthened against all major trading partners in the first four months of 2024, dollar appreciation has been more pronounced against advanced economy currencies.

Most interventions by major U.S. trading partners continue to be in the form of selling dollars, actions that strengthen their currency and weaken the dollar. Thus, it is not a surprise that in the four quarters through December 2023, no trading partner was found to have manipulated 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. A number of major trading partners have excessively large current account surpluses as discussed above, suggesting imbalances in demand and supply across major economies, but currency manipulation was not a driving force of those surpluses during this period.

It is worth noting that a few trading partners that ran current account surpluses did purchase foreign currency (Singapore, Vietnam, and potentially China) on net over these four quarters, but they too did not meet the standard for preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. In the case of China, which does not disclose foreign exchange intervention data, one of Treasury's proxies for foreign exchange intervention indicates modest net purchases of foreign exchange in 2023, while another indicates net sales, amid signs throughout much of the year that the authorities were acting to resist the depreciation of the renminbi. In the case of Vietnam, foreign exchange purchases were also modest and were undertaken to reaccumulate some of the more than $20 billion reserves sold in 2022. While structural factors, such as population aging and Singapore's status as a financial center contribute to Singapore's current account surplus, the Report emphasizes that policy reforms that durably strengthen domestic consumption, diminish precautionary saving incentives, and transfer wealth to households would help address Singapore's chronic external imbalances.

The Biden Administration believes that a market determined exchange rate reflecting economic fundamentals is the appropriate arrangement for the dollar. When major economies face different stresses, and accordingly pursue different policies, this will typically be reflected in currency movements. Treasury monitors currency movements and their impact around the world, while recognizing that a range of approaches to manage consequences by developing and emerging economies may be warranted in certain circumstances. Treasury is also vigilant in responding to strains that these movements can present, whether it means a need for help from multilaterals, debt restructuring, or other responses. The Administration strongly opposes attempts by the United States' trading partners to artificially manipulate currency values to gain unfair advantage over American workers. Treasury continues to press other economies to uphold the exchange rate commitments they have made in the G-20, the G-7, and at the IMF. All G-7 members have committed to market-determined exchange rates, with intervention reserved for combatting excess volatility and communicated to other G7 partners. All G-20 members have agreed that strong fundamentals and sound policies are essential to the stability of the international monetary system and not to target our exchange rates for competitive purposes.[2] All IMF members are required to avoid manipulating their exchange rates to gain an unfair competitive advantage over other members.

Treasury Analysis under the 1988 and 2015 Legislation

This Report assesses developments in international economic and exchange rate policies over the four quarters through December 2023. 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 2 of this Report.

[2] For a list of further commitments, see the April 2021 Report on Macroeconomic and Exchange Rate Policies of Major Trading Partners. Available at: https://home.treasury.gov/system/files/206/April_2021_FX_Report_FINAL.pdf.

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. 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.

In this Report, Treasury has reviewed the 20 largest U.S. trading partners[3] against the thresholds Treasury has established for the three criteria in the 2015 Act:

(1) A significant bilateral trade surplus with the United States is a goods and services trade surplus that is at least $15 billion.
(2) A material current account surplus is one that is at least 3% of GDP.
(3) Persistent, one-sided intervention occurs when net purchases of foreign currency are conducted repeatedly, in at least 8 out of 12 months, and these net purchases total at least 2% of an economy's GDP over a 12-month period.[4]

In this Report, in accordance with the 1988 Act, Treasury has also evaluated whether trading partners have manipulated 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.

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. Section 2 provides further discussion of the distinctions between the 1988 Act and the 2015 Act.

Treasury Conclusions Related to the 2015 Act

In this Report, Treasury finds that no major trading partner met all three criteria under the 2015 Act during the four quarters ending December 2023, such that no major trading partner requires enhanced analysis.

Treasury Assessments of Major Trading Partners

Treasury has also established 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 their performance, such that they no longer meet 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

[3] Based on total bilateral trade in goods and services (i.e., imports plus exports).
[4] These quantitative thresholds for the scale and persistence of intervention are considered *sufficient* on their own 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.

two of the three criteria from the 2015 Act. **In this Report, the Monitoring List comprises China, Japan, Taiwan, Malaysia, Singapore, Vietnam, and Germany. All except Japan were on the Monitoring List in the November 2023 Report.**

In this Report, Japan, Taiwan, Vietnam, and Germany all meet the criteria for having a significant bilateral surplus and a material current account surplus, and Singapore meets the criteria for engaging in persistent, one-sided foreign exchange intervention and having a material current account surplus. Malaysia met two criteria in the last Report, but only the significant bilateral surplus criterion in this Report. It will remain on the Monitoring List until it meets fewer than two criteria for two Reports in a row.

China's failure to publish foreign exchange (FX) intervention and broader lack of transparency around key features of its exchange rate mechanism continues to make it an outlier among major economies and warrants Treasury's close monitoring. It remains on the Monitoring List for this reason as well as due to its outsized trade imbalance with the United States.

Treasury Conclusions Related to the 1988 Act

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 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 2015 Act criteria), but also currency developments, exchange rate practices, foreign exchange reserve coverage, capital controls, and monetary policy.

Treasury continues to carefully track the foreign exchange and macroeconomic policies of U.S. trading partners under the requirements of both the 1988 Act and the 2015 Act, and to review the appropriate metrics for assessing how policies contribute to currency misalignments and global imbalances. The Administration has strongly advocated for our major trading partners to carefully calibrate policy tools to support strong, sustainable, and balanced global growth. Treasury also continues to stress how important it is for all economies to publish data related to external balances, foreign exchange reserves, and intervention in a timely and transparent fashion.

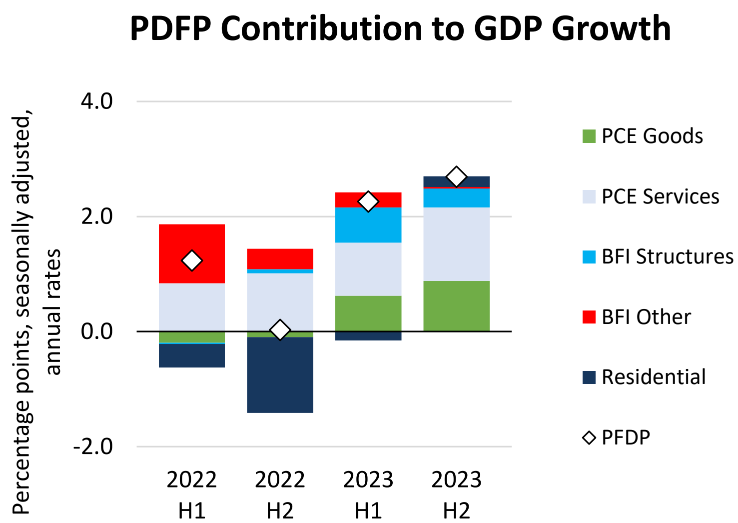
Section 1: Global Economic and External Developments

This Report covers economic, trade, and exchange rate developments in the United States, the global economy, and the 20 largest trading partners of the United States for the four quarters through December 2023 and, where quarterly and/or monthly data are available, through end-April 2024. Total goods and services trade of the economies covered with the United States amounted to more than $5.3 trillion in the four quarters through December 2023, about 78% of all U.S. trade during that period.

U.S. Economic Trends

Economic Performance in 2023 H2

Real GDP growth increased during the second half of 2023, building on an already-solid pace in the first half of last year. Real GDP grew 4.1% at an annualized pace in the second half of last year, following a 2.2% advance in 2023's first half. Of the four major components of GDP (private domestic final purchases, public final purchases, net international demand, and private inventory growth), each contributed to growth in the second half of 2023.

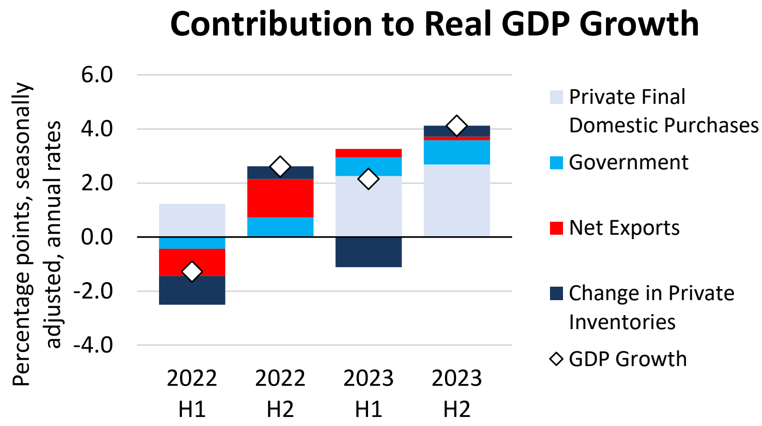


Source: Bureau of Economic Analysis.

Notably, growth of private domestic final purchases —that is, personal consumption expenditures (PCE), business fixed investment, and residential investment—increased in the second half of 2023, contributing 2.7 percentage points to total GDP growth and building on a 2.3 percentage point addition during the first half of last year. The larger contribution in the second half of last year largely reflected stronger personal consumption growth and the reversal of residential investment from being a drag on growth to a slight positive. The contribution from business fixed investment was positive but smaller in the second half of the year.

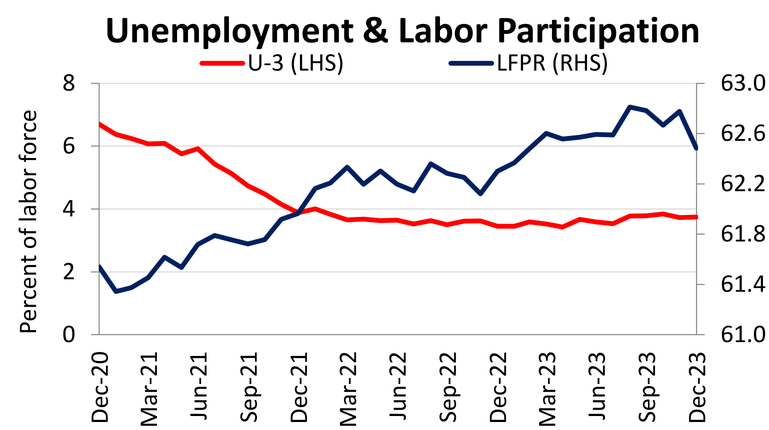
Real PCE growth reflected faster growth among both goods and services consumption. By contrast, the contribution to growth from business fixed investment in the second half of 2023 was much smaller, decreasing by over half to 0.4 percentage points as equipment investment turned modestly negative and structures investment slowed by more than half. The contribution from business investment in intellectual property products held steady. Residential investment added to growth, contributing 0.2 percentage points to growth, after a decline of that amount during the first half of the year. The return of net positive investment in the residential sector largely reflected more construction of new single-family homes.

Among the remaining three drivers of real GDP, total government consumption and investment continued to make a substantial contribution to growth, adding 0.9 percentage points to growth in the latter half of 2023, following additions of 0.7 percentage points in the last year's first half as well as the latter half of 2022. However, the support from net international demand waned further in the second half of 2023; the net export deficit declined by $10 billion, after narrowing $37 billion in the first half of last year, adding just 0.1 percentage points to GDP growth after contributing 0.3 percentage points during the first half of the year. Meanwhile, the contribution from private inventories turned positive during the second half of 2023: the change in private inventories contributed 0.4 percentage points to growth, after posting a 1.1 percentage point drag on growth during last year's first half. The inventory buildup was largely sourced in retail motor vehicle inventories.



Source: Bureau of Economic Analysis.

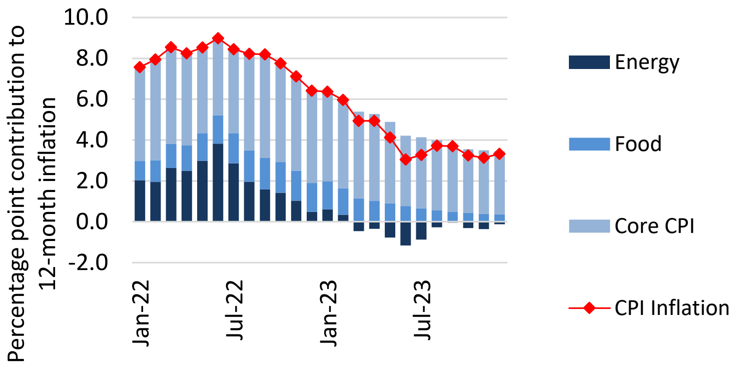
Labor markets remained relatively strong in the second half of 2023, but some easing was evident. The pace of payroll job creation slowed but remained sufficient to accommodate most estimates of the break-even pace needed to accommodate population growth. The economy created an average of 213,000 jobs per month during the latter half of 2023, down from an average of 289,000 payroll jobs per month during the first half. The unemployment rate (U-3) touched a 54-year low of 3.4% last year in January 2023 (and again in April) but rose to 3.6% by June. By December, the U-3 had edged up further to 3.7%. Although labor force participation rates—both total and prime-age—decreased in the second half of 2023, employer demand for labor also eased modestly. In December 2023, there were 1.4 job vacancies per unemployed worker, down from 1.5 vacancies in June 2023.



Source: Bureau of Labor Statistics.

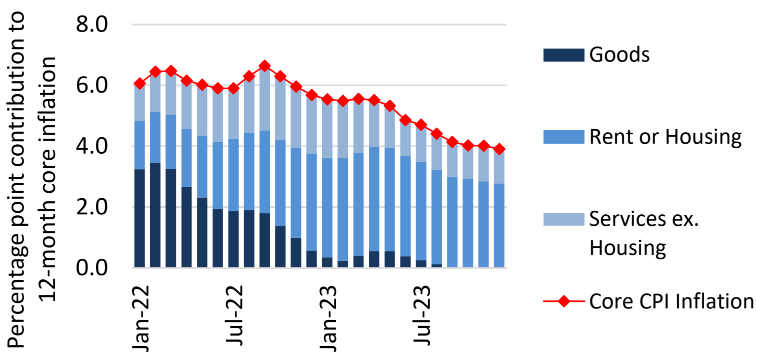
While 12-month CPI inflation has declined from a peak rate of 9.1% in June 2022, it picked up moderately from 3.0% over the year-ending in June 2023 to 3.4% over the year through December 2023. The step up was largely driven by smaller decreases in energy goods and services prices on year-over-year bases. Over the year ending in June 2023, energy prices were down 16.7%, but just 2.0% lower over the year ending in December. Geopolitical uncertainty (particularly in the Middle East), crude oil production cuts by OPEC+, and expectations of stronger global demand for oil all helped to abate energy price deflation. Moreover, core CPI (which excludes food and energy) disinflation was substantial, owing to the decline in shelter price inflation and more modest readings in services prices. From a peak of 6.6% over the year through September 2022, core CPI eased to 4.8% over the 12 months through June 2023, then slowed further to 3.9% over the year through December 2023. PCE inflation, the Federal Reserve's preferred measure, has been lower, at 2.6% for headline inflation and 2.9% for core for the 12 months ending in December 2023.

CPI Inflation Decomposition



Source: Bureau of Labor Statistics.

Core CPI Inflation Decomposition



Source: Bureau of Labor Statistics.

Economic Developments Since December 2023

The U.S. economy has proven resilient and strong in recent quarters. In the first quarter of 2024, real GDP growth slowed to 1.3% at an annual rate. Although growth was below trend, the slowdown was largely due to two components that do not reflect domestic macroeconomic fundamentals: net exports and the change in private inventories. By contrast, household consumption, business fixed investment, and residential investment maintained solid paces of growth and, added a combined, added 2.4 percentage points to topline GDP growth—just 0.4 percentage points less than in the second half of 2023.

Labor markets remained healthy in the first 5 months of 2024: strong employment gains have accompanied low unemployment rates and high labor force participation. From January through May, employers added an average of 248,000 jobs, up from 213,000 in the final half of 2023. Meanwhile, the unemployment rate was 4.0 percent in May its 30th consecutive month at or below 4 percent. Labor supply is holding at a high level: since December 2023, the overall LFPR has held steady at 62.5% as of May while the prime-age LFPR increased by 0.4 percentage points to 83.6%, reaching a 22-year high. Meanwhile, labor demand as measured by job openings or vacancies per unemployed worker eased during the first quarter: as of March, there were 1.24 job openings per unemployed worker—significantly down from the high of 2.03 vacancies.

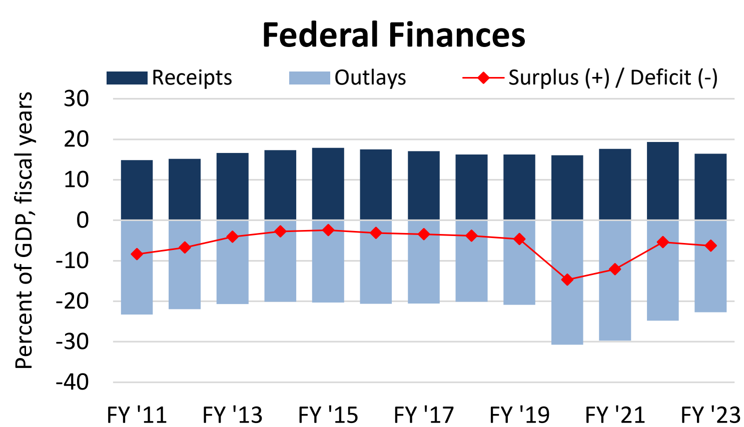
Although inflation has eased significantly since its mid-2022 peak—as of April, CPI inflation was down 5.7 percentage points from June 2022—it remains above the Federal Reserve's target. Over the twelve months ending in April, year-over-year CPI inflation was 3.4%, unchanged from December's pace. The pause in disinflation was driven by two forces: rising energy prices and stronger price growth in core non-housing services—particularly medical care services and motor vehicle insurance. By contrast, food price inflation slowed further, rent of housing prices continued to ease, and core goods prices deflated. Nonetheless, although inflation remains higher than is consistent with the Federal Reserve's target, forecasters expect it to moderate throughout 2024 as rents and other critical price pressures stabilize.

Monetary policy was little changed in early 2024. In the first two meetings of 2024, the Federal Open Markets Committee (FOMC) maintained the federal funds rate at 5.25–5.50%, unchanged since mid-2023. As of early June, futures markets have priced in roughly a 50% chance of two rates cut by year-end 2024.

Federal Finances in Fiscal Year 2023 and FY 2024 to Date

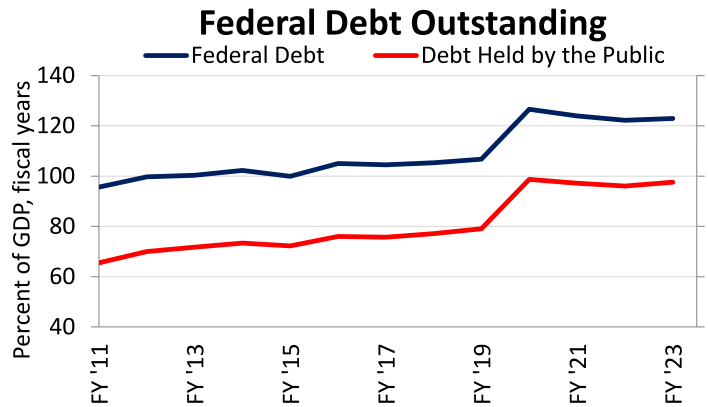
In FY 2023, the deficit increased $320 billion to $1.70 trillion, equal to 6.3% of GDP as lower receipts outweighed decreased spending. Receipts shrank by $457 billion FY 2023, reflecting in part lower capital gains realizations and lower deposits of Federal Reserve earnings. Outlays decreased by $137 billion in FY 2023, partly reflecting the rescission of planned student loan forgiveness and the expiration of the expanded Child Tax Credit, among other provisions. By contrast, outlays for national defense, Social Security, Medicare, and net interest all had large increases.

So far in FY 2024, federal finances have improved relative to the comparable period in FY 2023. Since September 2023, the cumulative deficit was $855 billion through April, or roughly $70 billion lower than the comparable period last fiscal year. Federal outlays were $208 billion (5.8%) higher relative to the first seven months of FY 2023, largely driven by higher net interest expenses and



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

national defense outlays. However, federal receipts more than compensated for the increase in outlays, as economic tailwinds (employment growth and high corporate profits) boosted revenues. Total federal receipts were up by $278 billion (10.3%) in FY2024 to date relative to the comparable period in FY 2023.

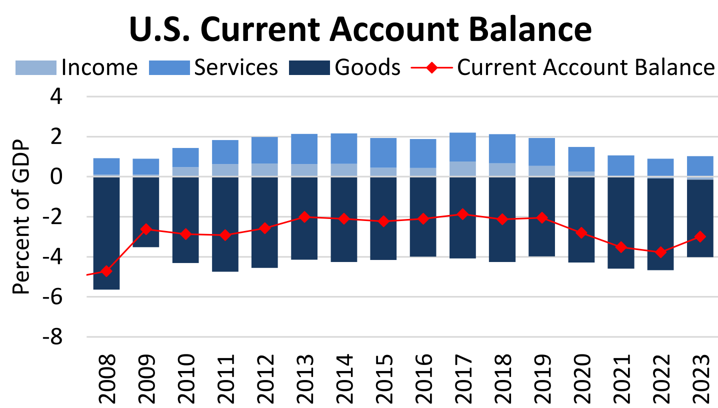


Sources: U.S. Treasury; Bureau of Economic Analysis.

In June 2023, the Treasury's borrowing limit was suspended until 2025. At the end of May 2024, gross federal debt stood at $34.7 trillion while debt held by the public was $27.6 trillion.

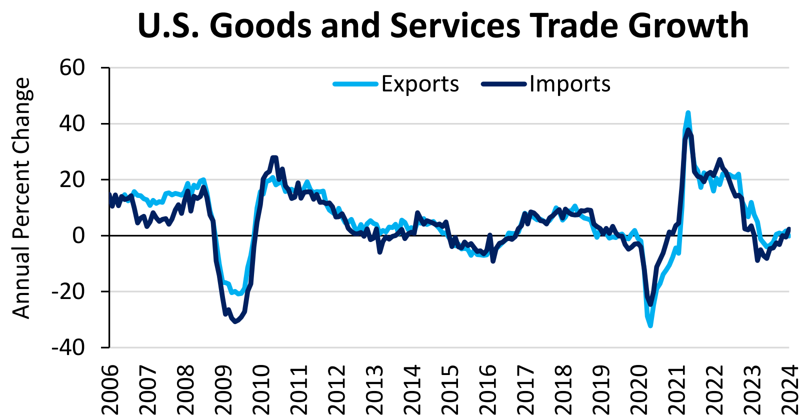
U.S. Current Account and Trade Balances

The U.S. current account deficit decreased by $152.8 billion to $818.8 billion in the four quarters through December 2023. The deficit was 3.0% of GDP over the same period, down from 3.8% in the four quarters though December 2022. The narrowing of the deficit was driven by an increase in the services surplus combined with an even larger decline in the goods deficit. The services surplus increase was driven in large part by an increase in transportation services. The deficit in goods narrowed as declining imports more than offset declining exports. From 2013 to 2019, the headline U.S. current account deficit had been quite stable, around 2-2.5% of GDP. The reduction in the current account deficit over the four quarters of this Report follows three years of growing current account deficits from 2019-2022.



Sources: Bureau of Economic Analysis, Haver

The U.S. trade deficit declined by $171 billion in the four quarters through December 2023, compared to the four quarters through December 2022, to 2.9% of GDP. Overall, the goods deficit declined by around $123.4 billion in the four quarters through December 2023. The services surplus increased by $48 billion. Overall trade growth had been decreasing since peaking in the first quarter of 2022. It turned negative in April 2023 before resuming positive growth in November. Weak trade growth is likely due to a moderation in trade following the large bounce back in 2021 from the pandemic-related collapse in global trade and potentially some rebalancing in consumption from goods to services, which are less heavily traded than goods.



At the end of December 2023, the U.S. net international investment position (NIIP) marked a net liability position of about $19.8 trillion (72.2% of GDP), widening by $3.6 trillion from end-December 2022. The value of U.S.-owned foreign assets was $34.6 trillion, up $2.9 trillion from end-2022. The value of foreign-owned U.S. assets stood at $54.3 trillion, up $6.5 trillion from one year earlier. In 2023, the S&P 500 index rose 24.2%, while the Dow Jones index for world stock markets except the United States rose by a lesser amount, 12.8%; The fact that prices of U.S. owned assets abroad went up by less than foreign owned assets in the United States meant the U.S. net position became more negative. The nominal trade-weighted U.S. dollar depreciated by 2.2%. The weaker dollar in 2023 meant U.S. foreign assets denominated in foreign currency gained value in dollar terms, while U.S. liabilities are primarily in dollars and their value does not change as significantly with foreign currency fluctuations. On net, price changes made the net position more negative by $2.9 trillion while exchange rate changes lifted the U.S. net position by $482 billion. These combined valuation changes combined with the current account deficit to generate a more negative overall net international investment position.

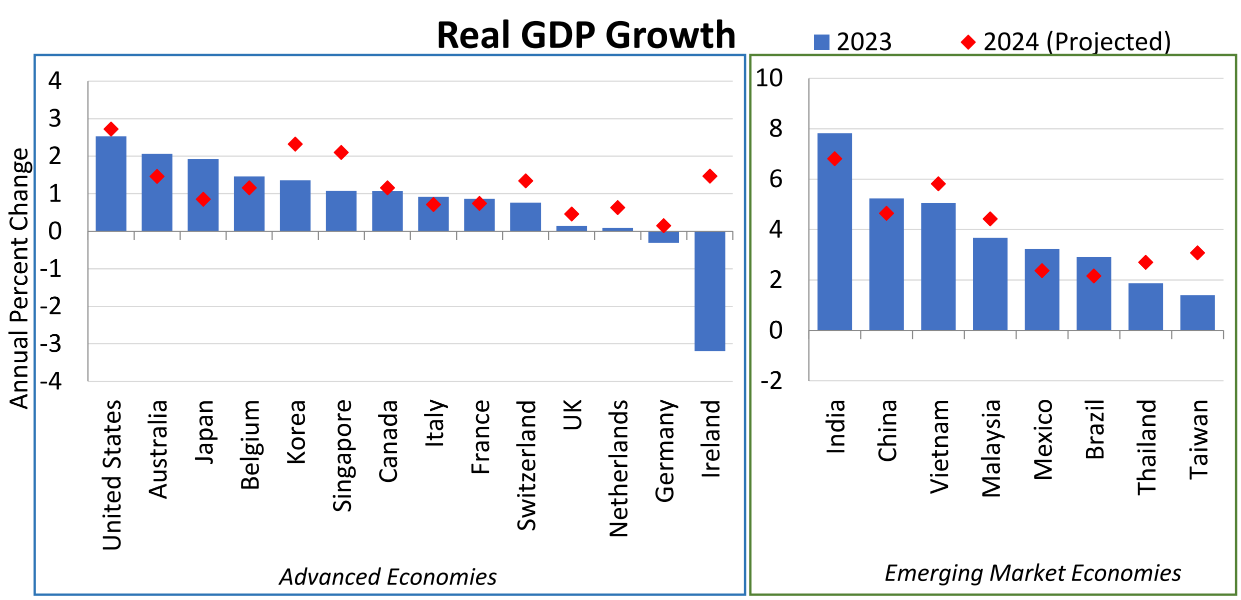
International Economic Trends

Global economic growth in 2023 was stronger than many had forecast and projections for 2024 have been revised up. The IMF estimates global growth was 3.2% in 2023, outperforming its own projection of 2.9% as of April 2023 (measured on a Q4 over Q4 basis). The upward revision was in large part due to stronger than projected growth in the United States; in April 2023 the IMF projected U.S. growth in 2023 to be 1.0 percent while it came in at 3.1 percent (Q4 over Q4 basis). Many emerging market and developing economies (EMDEs) have fared better than expected thanks in part to improved terms of trade for some, proactive monetary policy, and a healthy build-up of external buffers. The IMF projects global growth to remain steady in 2024, before slowing slightly to 3.1% in

2025. The risks to the global economic outlook have become more balanced over the past year though Russia's war against Ukraine continues to weigh on the outlook after introducing volatility among critical commodity prices, which increased energy and food insecurity and exacerbated inflation.

The IMF expects global headline inflation to decline from an estimated 6.8 percent in 2023 to 5.9 percent in 2024 and 4.5 percent in 2025. These forecasts for both 2024 and 2025 were revised upward (0.1pp) from January, mainly on account of upside revisions in a few EMDEs. The IMF expects inflation to return to central bank targets faster in advanced economies than in EMDEs and for most economies to reach targets by 2025. Declining inflation in 2024 reflects lower core inflation from tight monetary policy and a softening in labor markets.

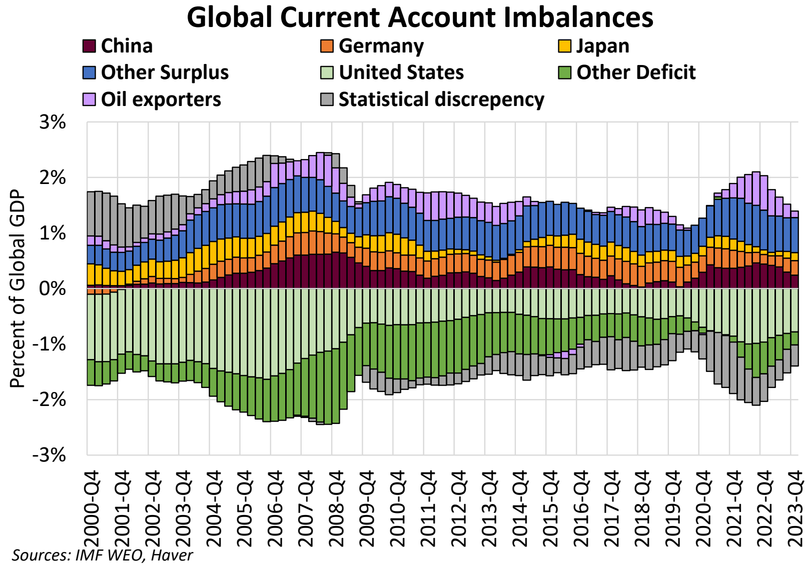
Looking forward, the IMF projects global growth to be around 3% per year over the next five years, a lower medium-term projection than in recent decades. While the weaker outlook is largely driven by lower projected growth in emerging Asia and lower population growth around much of the world, the more symmetrical balance of risk to the global outlook underscores the vital opportunity many countries have to push forward policies that improve longer term growth prospects and sustainability.



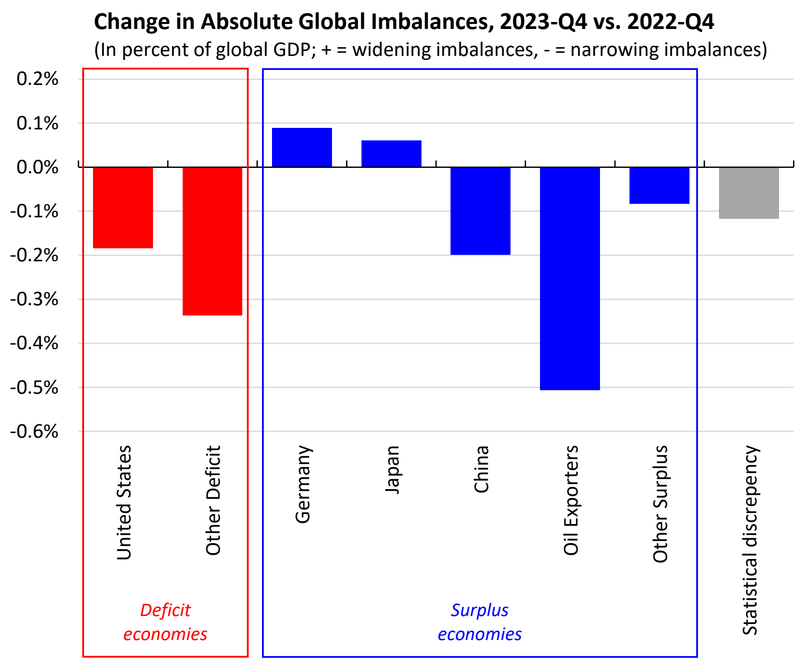
Source: IMF World Economic Outlook April 2024.

Global Imbalances

Global current account imbalances[5] were broadly stable in the few years prior to the pandemic before widening through late-2022. The efforts to contain the COVID-19 pandemic and its negative economic effects led to extraordinary policy responses that contributed significantly to global imbalances. Historically high energy and commodity prices, resulting from Russia's war against Ukraine, boosted the external positions of commodity exporters in 2022 while weakening those of importers. Aggregate external imbalances have started to narrow from their recent highs. Reduced current account surpluses in oil exporting economies has played a sizable role over the course of 2023. This suggests the moderation of commodity prices over the course of 2023 played a large part in narrowing imbalances rather than a structural decline. Moreover, uneven growth and differing policy priorities could widen imbalances again. Therefore, policies should be oriented toward bolstering growth and resilience over the medium term but in a way that does not lead to worsening external and internal imbalances.



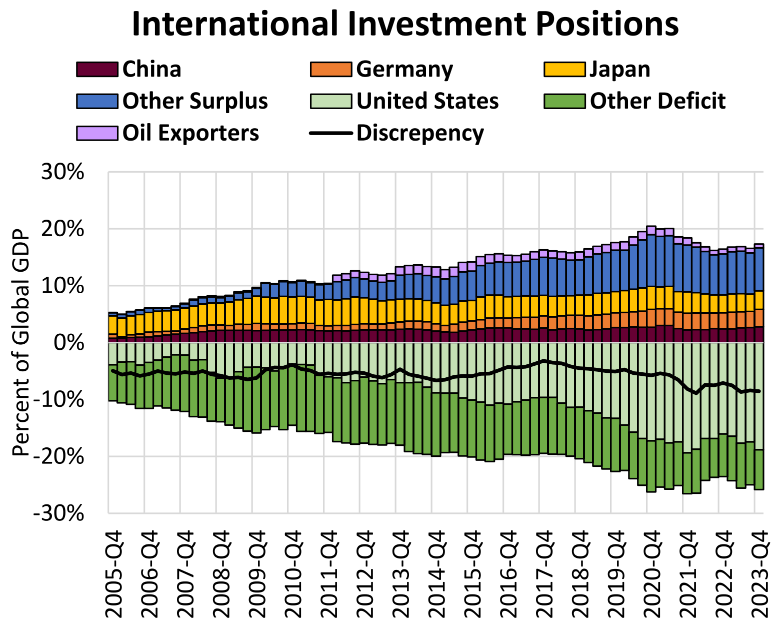
Sources: IMF WEO, Haver



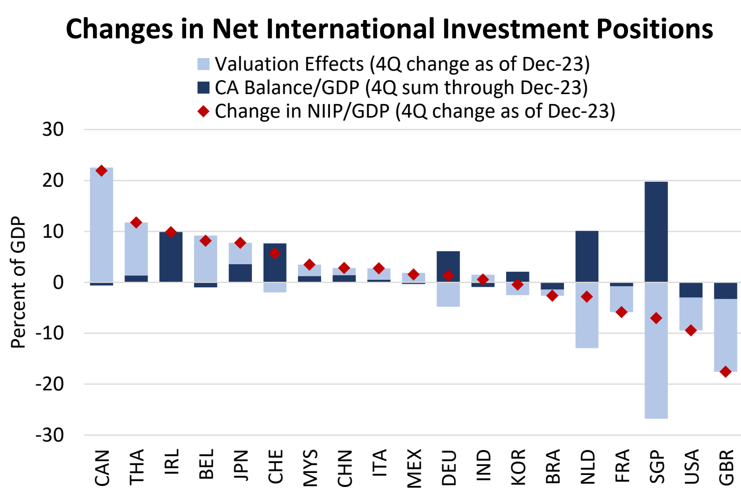
Sources: IMF WEO, Haver

[5] Measured as the sum of the absolute values of current account deficits and surpluses.

On an aggregate basis, NIIPs have remained relatively flat over the last few years despite the recent reduction in current account balances in many countries. Among major U.S. trading partners, the change in the NIIP over the four quarters through December 2023 broadly continued to reflect valuation effects. Notably, in the case of the Netherlands and Singapore, these valuation changes led to decreased net foreign asset positions as a share of GDP despite large current account surpluses. Conversely, the NIIP as a share of GDP increased in Canada, Belgium, Mexico, and India despite their current account deficits. More generally, as asset and liability positions continue to be large as a share of GDP, when asset prices and exchange rates move considerably, valuation changes can overwhelm annual financial flows.



Note: Discrepancy between aggregate creditor and debtor positions reflect any missing country-level data, as well as the global statistical discrepancy. Negative discrepancy values suggest missing data predominantly correspond to net debtor countries.
Sources: IMF, Central Bank of China (Taiwan).



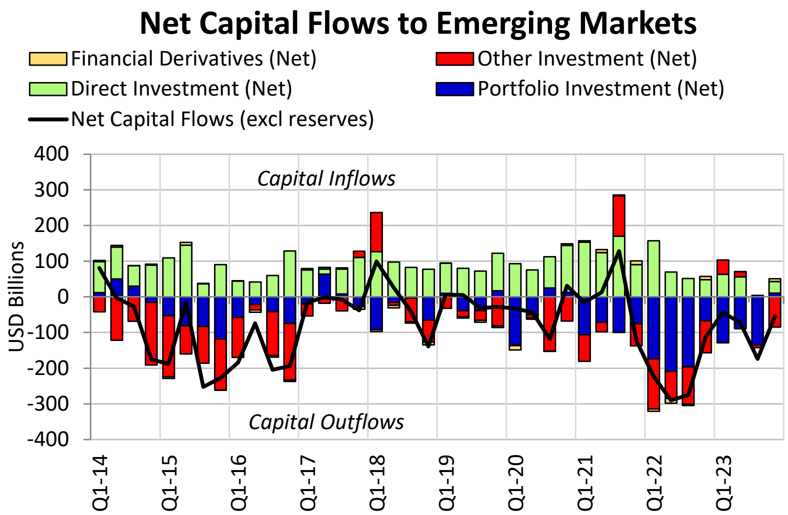
Sources: Haver, IMF, National Authorities

Capital Flows to Emerging Market Economies

A number of competing pressures weighed on net capital flows to emerging market economies over the four quarters through December 2023. Total net outflows (FDI, portfolio investment, and other investment) across emerging markets continued narrowing to $225 billion over the course of the four quarters (relative to $731 billion over the same period in 2022).[6] Combined nonresident net flows remained relatively stable and positive over the four quarters through December, suggesting that foreign investor demand for emerging market economy assets remained broadly buoyant, but was outweighed by sustained, net outflows from

[6] Notably, net outflows from Russia equaled $54 billion over the four quarters through December 2023.

residents.[7] During this period, net outflows from emerging markets of portfolio and other investment decreased to $380 billion, narrowing roughly $677 billion relative to the same period one year prior.[8] However, these total outflows largely reflect concentrated net outflows from China and, to a lesser extent, Russia over the course of 2023, masking the dynamics of flows among other emerging market economies. Excluding China and Russia, net outflows of FDI, portfolio investment, and other investment from emerging markets have reversed over the course of the year, with total net flows rebounding from outflows of $250 billion in 2022 to inflows of $31 billion in 2023.



Note: Financial account (excluding reserves) adjusted for errors and ommissions. 2023 reflects data through the end-December where available.
Source: National Authorities, U.S. Department of the Treasury Staff Calculations

Net capital flows were largely driven by portfolio and other investment flows over the four quarters through December 2023. During the first quarter of 2023, net portfolio outflows rose to $128 billion amid signs of banking sector stress in the United States and Europe, wherein increased resident outflows outweighed buoyant nonresident inflows. Resident outflows slowed in the second quarter of the year and net portfolio outflows narrowed to $89 billion even as the pace of emerging market central bank tightening began to ease. Total capital outflows picked up again in the third quarter as nonresident portfolio flows turned negative, resident outflows of other investment accelerated, and net FDI inflows collapsed. Amid signs of easing global financial conditions in the fourth quarter, net outflows narrowed considerably in part due to decelerating resident outflows of FDI and accelerating nonresident portfolio inflows,

Notably, net capital flows (FDI, portfolio, and other investment) into China remained under pressure over the four quarters through December, with net outflows totaling $202 billion amid continuing outflows from residents throughout the year, alongside outflows from nonresidents in the second and third quarters. Moreover, net flows of FDI into China have remained weak since mid-2022, with net FDI outflows totaling $143 billion over the course of 2023.

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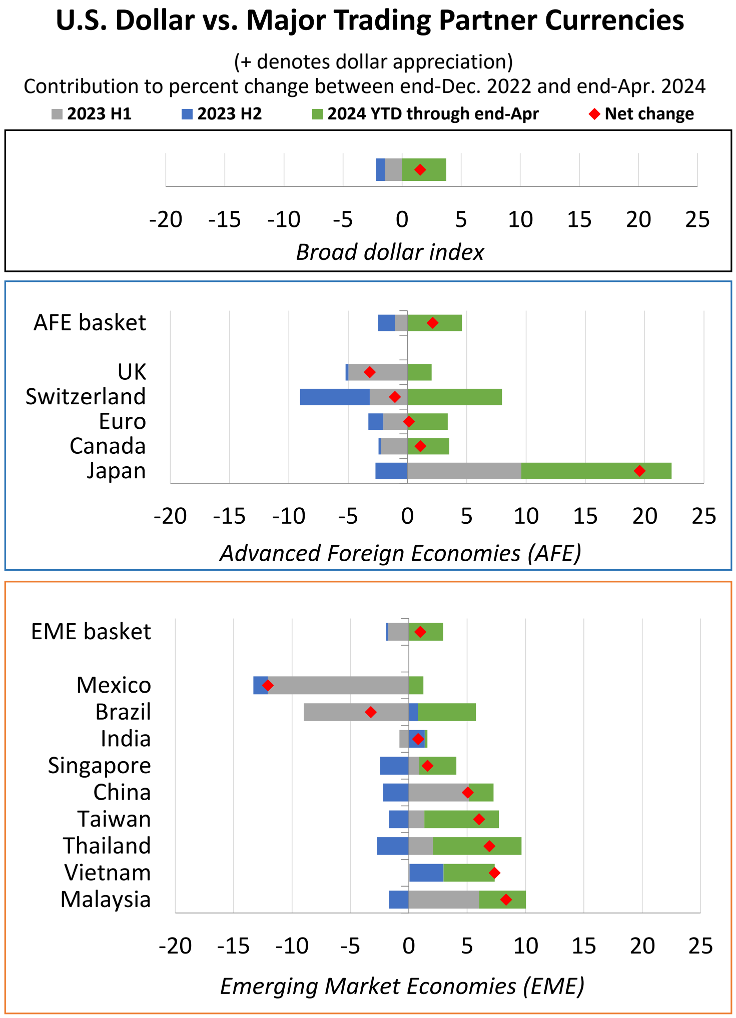
[7] These sustained net outflows from residents can reflect both short-term cyclical factors such as changes in global risk appetite as well as long-term, structural characteristics including reduced investment home bias, increased sophistication of domestic investments, and increased access to international markets.
[8] In the case of several emerging markets, substantial monetary policy tightening over the course of 2023 may have helped to lessen the severity of net capital outflows.

Higher frequency data (from sources beyond quarterly balance of payments data) suggest that, since end-December, nonresident portfolio flows to emerging markets remained firm in early 2024 despite a gradual tightening in emerging market financial conditions as flows to China normalize and debt flows across other emerging markets remain buoyant.

Foreign Exchange Markets[9]

The nominal trade-weighted dollar weakened 2.2% from end-2022 to end-2023 as foreign currency movements continued to reflect mixed influences regarding global inflation, the expected pace of monetary policy tightening, and the likelihood of a soft landing for the global economy. The dollar depreciated broadly over this period against advanced economy and emerging market economy currencies, weakening by 2.5% and 1.9%, respectively. With bouts of financial market stress in early 2023, and amid further market expectations of easing financial conditions, the dollar weakened over the first half of 2023, depreciating by 1.4%. During this time, dollar performance was mixed across major trading partners' currencies. The dollar weakened most notably against the Mexican peso and the Brazilian real, depreciating by 12.1% against the peso and 9.0% against the real. Meanwhile, the dollar appreciated against the yen by 9.6%, the Malaysian ringgit by 6.0%, and the Chinese renminbi by 5.1%. The dollar continued to weaken over the course of the second half of 2023 by 0.8%, primarily against advanced economy currencies.



Sources: FRB, Haver

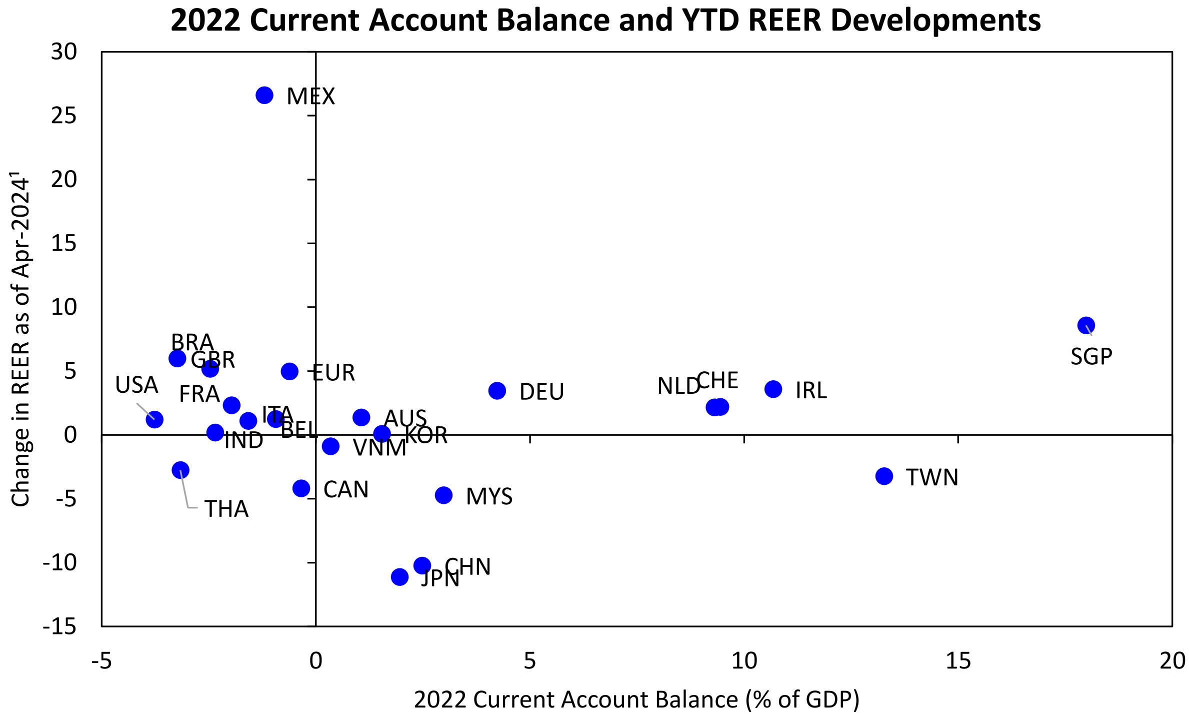
[9] Unless otherwise noted, this Report quotes exchange rate movements using end-of-period data. Bilateral movements against the dollar and the nominal effective dollar index are calculated using daily frequency or end-of-period monthly data from the Federal Reserve Board. Movements in the real effective 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.

More recently, the dollar has rebounded between end-December and end-April, appreciating 3.9% amid signs of more persistent-than-expected inflation in the United States in the first months of 2024 and changing expectations of the path of monetary policy. While the dollar has strengthened against all major trading partners in the first four months of 2024, dollar appreciation has been more pronounced against advanced economy currencies.

Against the backdrop of more pronounced dollar appreciation in recent months, several major trading partners intervened in foreign exchange markets to stem the pace of depreciation of their currencies against the dollar. Over April and May 2024, Japanese authorities intervened for the first time since October 2022, purchasing yen and selling dollars, which strengthens the value of the yen. Brazil has also intervened in 2024, also in the direction to strengthen the real.

On a real effective basis, the dollar appreciated 0.4% from end-2022 to end-April 2024, and remains 16.6% above its 20-year average. In its most recent assessment from July 2023, the IMF continued to judge the dollar to be overvalued on a real effective exchange rate basis.

Real effective exchange rates across several economies have moved over the course of 2023 and in the first four months of 2024, but generally not in the direction of easing current account imbalances. The bulk of countries that had current account deficits in 2022 have seen either little movement in real exchange rates in 2023 and early 2024 (like the United States) or have continued to appreciate by a fair amount (like Brazil and Mexico). In contrast, while some surplus countries have seen appreciations, the real exchange rates of a number of major trading partners with sizable current account surpluses have depreciated over the course of 2023 and into 2024, shifting relative prices in a direction making it likely they will run even larger surpluses.



Sources: National authorities; BIS REER Indices, JP Morgan, FRB.
1/Change between 2022 average REER and end-April 2024.

Foreign Exchange Reserves

Global foreign currency reserves reached $12.3 trillion over the four quarters through end-December 2023, an increase of roughly $415 billion relative to end-2022. Data on the stock of global foreign exchange reserves, the currency composition of global reserves, and assumptions regarding the asset composition of foreign exchange reserve assets (see footnote 22 on p. 41 for more details on Treasury's methodology for estimating foreign exchange intervention), suggest this increase was driven predominantly by the $85 billion valuation effects resulting from exchange rate movements over this period, particularly in the last quarter of 2023, and an estimated interest income of $464 billion. This estimation approach implies that global net sales of $136 billion partially offset this increase.

However, balance of payments data, which isolate flows of reserve assets from valuation effects, and more refined estimates of global flows that incorporate new Treasury International Capital (TIC) data on valuation changes for foreign holdings of U.S. Treasuries, paint a different picture. The most recent and available quarterly balance of payments data suggest the increase in foreign exchange reserves was due to an accumulation of FX assets of $53 billion while total valuation effects (both exchange rate and price changes) increased reserve positions by $360 billion over the same time period. The refined estimates of global FX reserve flows incorporating TIC data suggest net purchases of $128 billion and total valuation effects of $286 billion. The discrepancy between these methodologies highlights the sensitivity of estimates to assumptions about the asset and currency composition of reserves, particularly when interest rates are elevated or exhibit higher volatility, and further underscores the importance of transparent and timely data on foreign exchange interventions globally.

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. Reserves in most of these economies are more than sufficient to cover short-term external liabilities and anticipated import costs. Moreover, the most recent IMF assessments of adequacy based on composite metrics across most emerging market economies for 2023 also suggest reserves are broadly adequate. For economies where reserves are substantially/significantly below adequate levels, authorities should rebuild precautionary buffers gradually over the medium term in a manner that does not exacerbate global imbalances and is consistent with necessary macroeconomic adjustment.

Table 1: Foreign Exchange Reserves

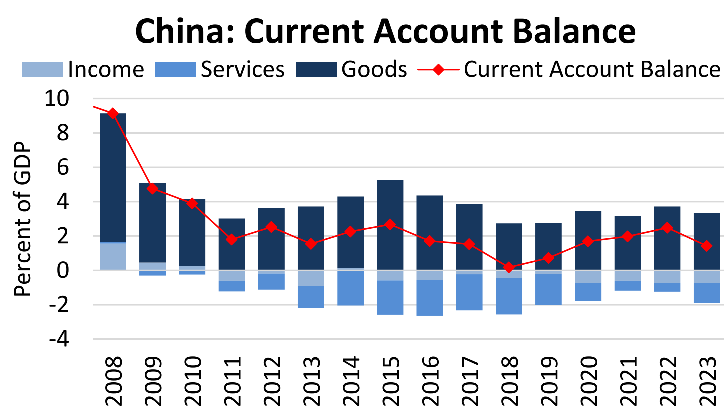
	FX Reserves (USD Bns)	1Y Δ FX Reserves (USD Bns)	FX Reserves (% of GDP)	FX Reserves (% of ST debt)	FX Reserves (% of IMF ARA Metric)*
China	3,238.0	110.3	18%	252%	106%
Japan	1,170.4	62.2	28%	36%	..
Switzerland	780.0	-68.5	88%	71%	..
India	551.2	53.2	16%	436%	176%
Taiwan	570.6	15.7	76%	298%	..
Korea	395.6	-3.4	23%	290%	..
Singapore	336.8	57.0	67%	26%	..
Brazil	323.1	29.2	15%	401%	130%
Thailand	201.6	6.0	39%	297%	209%
Mexico	186.9	12.1	10%	311%	117%
UK	108.8	-1.5	3%	2%	..
Malaysia	103.7	-1.6	26%	92%	115%
Vietnam	88.1	3.4	21%	239%	..
Canada	89.9	10.2	4%	7%	..
France	29.6	-23.2	1%	1%	..
Italy	48.9	2.3	2%	4%	..
Australia	40.9	2.4	2%	10%	..
Germany	36.9	0.2	1%	1%	..
Belgium	8.2	-2.9	1%	1%	..
Netherlands	6.1	0.9	1%	1%	..
Ireland	5.2	-0.3	1%	0%	..
United States	37.3	0.1	0%	0%	..
World	12,327.1	414.8	n.a.	n.a.	..

Foreign exchange reserves as of end-December 2023.
GDP caluclated as sum of rolling 4Q GDP through Q4-2023.
Short-term debt consists of gross external debt with original maturity of one year or less, as of the end of Q4-2023; Vietnam as of Q4-2022.
** IMF Assessing Reserve Adequacy Metric, a composite measure of reserve adequacy, as of end-2023. 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.*
Sources: National Authorities, World Bank, IMF, BIS.

Economic Developments in Selected Major Trading Partners

China

In 2023, China's economy partially recovered from pandemic-related shocks, with real GDP growth on a Q4 over Q4 basis increasing to 5.2% from 2.9% in the previous year. Consumption (both household and government) was the most significant growth driver, reflecting slower investment growth amid a sustained property sector downturn, softer external demand, and a temporary rebound in domestic demand following the end of China's "zero-Covid" policy. However, the consumption recovery is fragile, with consumer confidence near multi-decade lows and household income growth below its pre-pandemic trend. Weakness in the property sector continues to be a significant drag on growth and exacerbates local government fiscal strains, both of which pose risks to financial stability. In part due to the property sector downturn, an increasing share of China's investment has shifted to the manufacturing sector. This shift, combined with China's very high savings rate and non-market policies and practices, could exacerbate industrial overcapacity in some sectors, with negative spillovers for China's trading partners, including workers and firms in the United States. In response to the deteriorating outlook, the authorities have signaled their intention to ease their macroeconomic policy stance through targeted measures to stimulate housing demand, incremental adjustments to monetary policy, and more central government bond issuance, including issuance of ultra long-term special treasury bonds.



Sources: SAFE, Haver

According to China's balance of payments data, China's current account surplus narrowed to 1.4% of GDP in 2023 from 2.5% in 2022 (*See Box 1 for more details)*. China's goods trade surplus fell to 3.3% of GDP last year from 3.7% the prior year, in part reflecting weaker external demand.[10] China's manufacturing trade surplus has been rising rapidly and is now nearly 2% of global GDP. A continued rapid increase would be disruptive for China's trade partners. The services trade deficit widened substantially to 1.2% of GDP in 2023 from 0.5% in 2022 amid an easing of restrictions on outbound travel. China's income deficit remained unchanged at 0.7% of GDP in 2023, with residents' reported investment income falling despite a significant increase in interest rates in most advanced economies.

[10] 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.

Box 1: Anomalies in China's Current Account Data

In recent years, China's balance of payments data published by SAFE have exhibited anomalies in at least two components of the current account: 1) the trade surplus shown in the balance of payments data is far lower than the surplus shown in China's customs data and the level implied by data from China's trading partners, and 2) Chinese residents' investment income has declined despite an increase in interest rates abroad. The result of both of these anomalies is a lower reported current account surplus, and their emergence has coincided with a dramatic fall in net errors and omissions. Treasury cannot currently assess with high confidence the causes of these anomalies, but seeks to highlight their potential impact on the current account balance reported by the world's second largest economy. Treasury encourages the Chinese authorities to provide greater clarity on these issues.

1. Trade in Goods

Over the past three years, there has been a substantial divergence in China's goods trade balance reported in China's customs data, which is published by the General Administration of Customs (GACC), and the trade balance reported in China's balance of payments data, published by SAFE. While there are methodological reasons why these two data series should not match precisely, such discrepancies have typically led to small and predictable differences. In 2023, however, the customs-reported trade balance was nearly $230 billion (1.3% of GDP) higher than the balance of payments goods balance, significantly higher than the $7 billion historical average gap between the two datasets (from 2000-2024). China's GACC data show a much larger goods trade surplus of 4.6% of GDP in 2023, down only marginally from 4.7% of GDP in 2022. The GACC customs data also mirror an estimate of China's trade surplus derived from trading partners. Treasury's use of SAFE data 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. If one were to combine the higher goods balance shown in the customs data with the other components of the current account shown in the balance of payments data, it would imply a Chinese current account surplus of 2.7% of GDP, not 1.4%.

SAFE has publicly suggested in their 2022 Balance of Payments Report that these differences derive in part from multinational corporations increasing use of "factory-less manufacturing" within comprehensive bonded zones, a type of special trade zone. Factory-less manufacturing occurs when foreign firms outsource the manufacture of goods to Chinese firms but retain a degree of control over the production process and ownership of the associated intellectual property. Conceptually, a shift to greater factory-less manufacturing could create discrepancies as changes in the ownership of goods, recorded in the balance of payments, may differ from their physical cross-border movements, recorded in the customs data. However, it is not clear what trends would drive these differences to expand over the last three years. China should provide further quantitative evidence to clarify and validate SAFE's qualitative explanation.

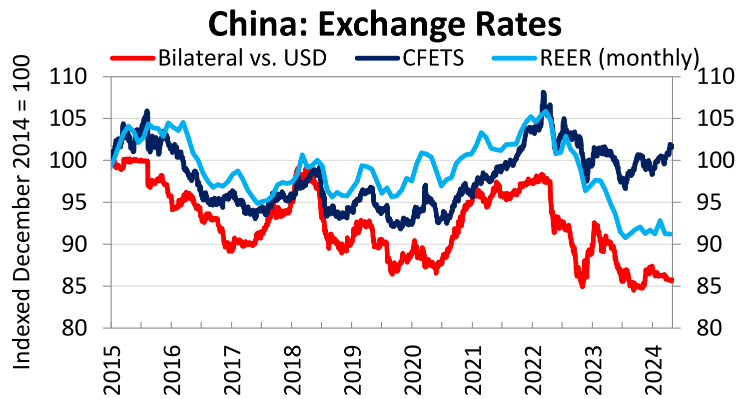
2. Investment Income

Separately, China's income balance – which is dominated by investment income – has performed counterintuitively amid the sharp rise in interest rates in most advanced economies. Chinese residents' reported investment income from claims on nonresidents declined from $307 billion in 2021 to $246 billion in 2022 and then fell to $213 billion in 2023. During this same period, the overall stock of China's reported claims on nonresidents and the approximate share of these claims that are interest-bearing debt claims rather than equity assets remained relatively stable, while interest rates in in most developed markets increased significantly. Partially as a result of the unexpected fall in China's investment income receipts, China's overall income deficit (netting out income payments to nonresidents) has expanded in recent years, and this wider deficit has lowered China's reported current account surplus. In contrast with guidelines laid out in the IMF's Balance of Payments Manual and International Investment Position Manual (BPM6), China does not decompose investment income into income derived from each functional asset category (e.g., direct investment, portfolio investment, other investment, and reserve assets), which could help to explain the cause of this trend.

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 fell to $254 billion in 2023, down from $368 billion in the previous year. The bilateral goods surplus fell to $279 billion in 2023 from $382 billion in 2022, reflecting both a reduction in overall U.S. imports and a reduction in the share of U.S. imports from China. China ran a bilateral services trade deficit with the United States of $26 billion in 2023, widening from a deficit of $15 billion in 2022.

China's financial account deficit narrowed to $210 billion in 2023 from $257 billion in 2022, largely reflecting a substantial narrowing of China's portfolio investment deficit to $63 billion last year from $289 billion in the previous year. This shift was primarily the result of a resumption of nonresident inflows into the onshore bond market and a moderation of residents' investment in foreign bonds. Partially offsetting these trends, China's direct investment deficit widened to a record-high $143 billion in 2023 from $20 billion in 2022 as net nonresident FDI inflows continued to decline. A net errors and omissions deficit of $38 billion suggests continued undocumented capital outflows not captured within the conventional components of the financial account, in line with previous years, although the scale of these outflows has significantly moderated. It is unclear whether the decline of China's net errors and omissions deficit is due to a slowdown in undocumented capital outflows or a change in the authorities' methodological approach.

The RMB depreciated by 2.9% against the dollar and 1.3% against the People's Bank of China's (PBOC's) China Foreign Exchange Trade System (CFETS) nominal basket in 2023.[11] The real effective exchange rate weakened by a more substantial 5.4% last year, a result of lower inflation in China relative to its major trading partners. The RMB's depreciation in 2023 follows substantial depreciation in the previous year, when the currency weakened by 7.7% against the dollar and by 7.9% on a real effective basis. The RMB weakened against the dollar and the CFETS basket in the first half of 2023 amid China's deteriorating growth outlook and widening interest rate differentials with most advanced economies. Starting in August 2023, when depreciation pressures resumed amid broad dollar strength, the RMB weakened against the dollar but subsequently stabilized around 7.3 per dollar until early November as the authorities took actions to resist bilateral depreciation (discussed below), leading the RMB to strengthen against the CFETS basket. In 2024, dollar strength and RMB depreciation pressures returned, and the authorities have again employed tools to resist depreciation.

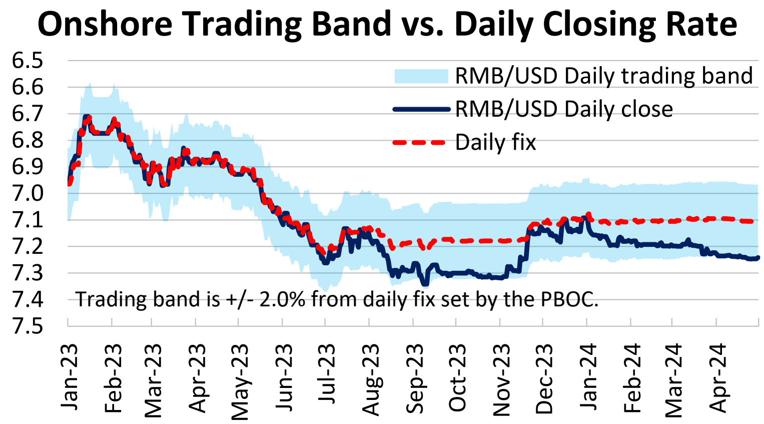


Sources: CFETS, FRB, BIS

China provides very limited transparency regarding key features of its exchange rate mechanism, including the policy objectives of its exchange rate management regime and its activities in the offshore RMB market. The PBOC manages the RMB through a range of tools including setting the central parity rate (the "daily fix") around which the RMB is permitted to trade within a band of ±2%. Chinese authorities directly intervene in foreign exchange markets as well as influence the timing and volume of spot and derivative market sales and purchases by China's state-owned banks, the interest rates of RMB-denominated assets that trade offshore, and the conversion of foreign exchange proceeds by state-owned enterprises (SOEs).

[11] The CFETS RMB index is a trade-weighted basket of 24 currencies published by the PBOC.

Since mid-2023, the PBOC appears to have used the daily fix to overtly manage the exchange rate during periods of elevated depreciation pressures, continuing a practice employed in 2022. Starting in July 2023, the PBOC consistently set the daily fix at a level substantially stronger than market forecasts of the next day's fix.[12] This gap reached a record high in early November 2023 at the peak of depreciation pressures, and subsequently set a new record in April 2024 amid a resurgence of strong depreciation pressures. 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. In addition to this signaling, authorities can use the daily fix to mechanically limit the extent to which the RMB can weaken in onshore markets by setting the fix close to 2% stronger than the previous day's closing rate. Over the past year, as the onshore rate approached the levels of 7.2 and 7.3 per dollar, there were two extended periods in which the PBOC made only negligible changes to the daily fix, which effectively prevented the onshore spot rate from weakening against the dollar.



Source: CFETS

Moreover, press reports over the past year cited market sources identifying state-owned Chinese banks acting to resist RMB weakness, with some reports directly tying this behavior to instructions from Chinese authorities.[13] These actions include increasing dollar sales for RMB in the onshore and offshore spot and forward markets, reducing dollar purchases, and cutting interest rates on dollar-denominated deposits. Chinese state-owned banks have also taken various actions to constrain RMB liquidity and increase short-term RMB interest rates in the offshore market, which helps to support the currency.[14]

Authorities also implemented regulatory and administrative measures last year to counteract RMB depreciation pressures. As described in the November 2023 Report, these measures include adjusting macroprudential regulations to ease restrictions on resident firms raising funds from nonresidents, and lowering the foreign currency required reserve ratio to loosen foreign exchange liquidity conditions. Additionally, starting in September,

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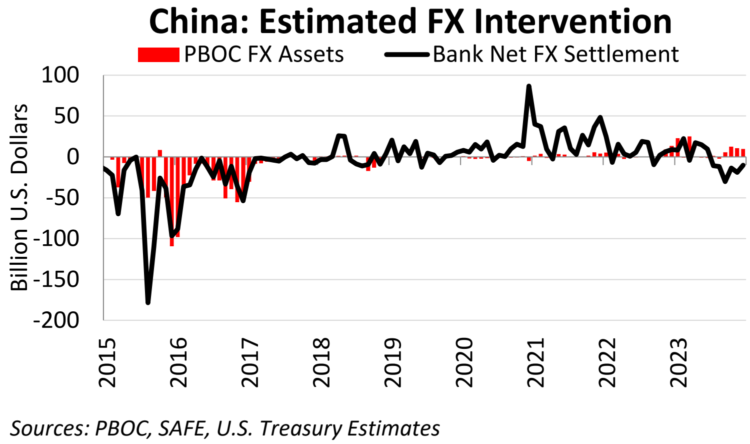
[12] Market forecasts generally rely on the PBOC's official guidance to forecast the next day's fix. According to this guidance, the daily fix is based on a trimmed weighted average of quotes received from market-making banks, which are supposed to base their quotes on the previous day's closing rate plus an adjustment factor to offset overnight changes in the RMB's value against a currency basket. Between 2017 and 2020, the PBOC instructed banks to also consider an undefined "counter-cyclical adjustment factor" (CCAF) when submitting quotes to counter ostensibly procyclical market behavior. The PBOC eliminated the CCAF in October 2020.
[13] *See, for example,* "How China Talked Markets Out of a Run on the Yuan, *Reuters*, January 1, 2024; or "China Told State Banks to Escalate Yuan Intervention," *Bloomberg*, August 17, 2023.
[14] "China Steps Up Yuan Defence with Bond Limit Guidance." *Reuters,* August 25, 2023.

the PBOC reportedly began to increase regulatory scrutiny of dollar purchases by domestic firms.[15]



Sources: PBOC, SAFE, U.S. Treasury Estimates

China's headline foreign exchange reserves increased by $110 billion in 2023, ending the year at $3.2 trillion. China is an outlier among the economies covered in this Report in not disclosing its foreign exchange market intervention, which forces Treasury staff to estimate China's intervention in the foreign exchange market through two proxy measures. The PBOC's foreign exchange assets booked at historical cost, the first proxy measure, increased by $82 billion in 2023. More than half of this increase occurred in the first quarter of the year, when the RMB generally faced pressures to appreciate. Meanwhile, net foreign exchange settlement data — another proxy measure that includes the activities of China's state-owned banks — recorded net foreign exchange sales, adjusted for changes in outstanding forwards, of $27 billion last year, with $95 billion in net sales in the second half of the year. These represent the most significant foreign exchange sales by China's banking sector since 2017. As noted in previous Treasury FX Reports, the divergence between these two proxy measures could be an indication that monthly changes in the PBOC's foreign exchange assets are not adequately capturing the full range of China's intervention methods.[16] Overall, these developments highlight the need for China to improve transparency regarding its foreign exchange intervention activities. Greater transparency in exchange rate management would also be in China's own interest by reducing the risk of policy miscommunication and associated market volatility.

To reduce economic imbalances, global spillovers, and risks to financial stability, China should pursue macroeconomic rebalancing to increase both household income and consumption as a share of GDP. There are concerning signs that the Chinese authorities are instead doubling down on manufacturing investment. Persistent macroeconomic imbalances, combined with extensive non-market policies and practices could lead to negative economic spillovers and potentially worsen existing industrial overcapacity in sectors that benefit from state support. China should prioritize measures that support household disposable income and consumer confidence through both direct fiscal support and structural reforms, including improvements to the social safety net and continued liberalization of the household registration (*hukou*) system. These measures do not

[15] "China's Central Bank to Scrutinize Bulk Dollar Purchases." *Reuters,* September 11, 2023.
[16] The internal consistency of China's reserve statistics appears to have declined in recent years. For example, China's balance of payments statistics show $43 billion in reserve sales in the third quarter of 2023 (the largest sales since 2016), but the PBOC's balance sheet shows an accumulation of $5 billion of FX assets during this period.

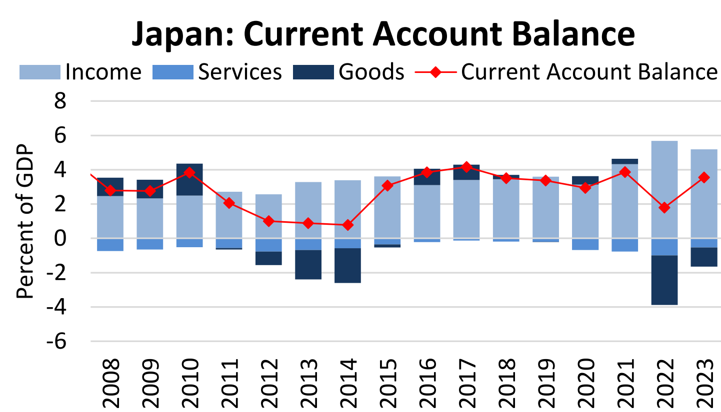
necessitate short-term stimulus, but rather represent longer-term shifts in the primary drivers of growth from manufacturing to the services sector and from investment in manufacturing and public infrastructure towards household consumption. Near-term measures to support the property sector's transition to a more sustainable size should be carefully calibrated to mitigate moral hazard and contain adverse macro-financial spillovers while the authorities enhance insolvency and resolution procedures. The authorities should respond to declining returns from China's traditional growth drivers by recommitting to market-oriented reforms aimed at reducing factor misallocation, including limiting the role of SOEs, refraining from excessive resource allocation to sectors preferred by policymakers, and lowering barriers to firm entry and exit to support productivity growth.

Japan

Japan's economic growth rebounded in 2023 to 1.3% from 0.5% in 2022 on a Q4 over Q4 basis, driven by strong growth in inbound tourism with post-pandemic reopening of the economy, and net exports. However, private consumption growth has slowed amid higher inflation and a weak yen, which have eroded the purchasing power of households. The IMF forecasts annual GDP growth of 0.9% in 2024 and 1.0% in 2025. A slowdown in global growth, a deterioration in terms of trade from higher commodities prices, and a weaker-than-expected uptick in private consumption are key downside risks.

Sticky core inflation and evidence of stronger wage growth have prompted the Bank of Japan (BoJ) to begin unwinding its highly accommodative monetary policies. Japan's core inflation metric (consumer price index less fresh food) has stayed above the BoJ's 2% target since March 2022, while the 2024 spring wage negotiations resulted in the highest preliminary base wage increase in 30 years. In 2023, the BoJ twice relaxed its Yield Curve Control (YCC) regime and in March 2024 formally exited its Negative Interest Rate Policy, discontinued YCC, and scaled back its purchases of assets, including ending its purchases of Exchange-Traded Funds and Japanese Real Estate Investment Trusts. While the BoJ's policy board is considering a reduction in Japanese Government Bond (JGB) reinvestment purchases and the BoJ's balance sheet, the BoJ is overall expected to maintain an accommodative stance and has pledged to continue monthly purchases of JGBs.

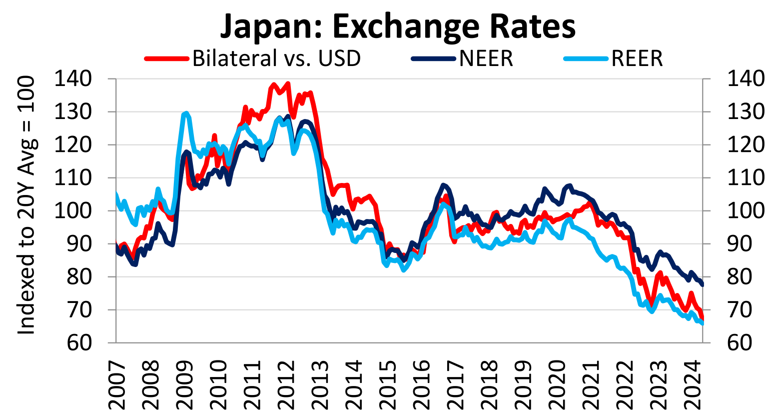
Japan's current account surplus widened to 3.5% of GDP in 2023 from 1.8% in 2022 as the goods and services deficit narrowed, reflecting moderately lower crude oil prices and the sharp recovery of foreign tourist arrivals. The goods trade deficit narrowed to 1.1% of GDP in 2023 from a 2.9% deficit in the previous year, as the overall cost of energy imports moderated.



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

The services deficit, meanwhile, reverted to the 10-year average of 0.5% of GDP from a 1.0% deficit in 2022 due to the relaxation of COVID-19-related inbound travel restrictions. Japan's goods and services trade surplus with the United States was $62.4 billion in 2023, down 11%, or $7.9 billion, compared to 2022.

Japan's substantial net foreign income balance continues to keep the current account balance in surplus. Net primary income flows were 5.9% of GDP in 2023, reflecting repatriation of foreign profits and dividends and higher portfolio investment returns buoyed by the weak yen. Income outflows are at a modest level for a country of Japan's size and development, reflecting, in part, Japan's low stock of inward FDI. Japan experienced net capital outflows of 3.9% of GDP over 2023, an expansion from 1.1% in 2022 that was driven by a jump in outbound direct and portfolio investment. Gross portfolio inflows also surged, reflecting improvements in Japanese corporate profits and equity market sentiment.



Sources: FRB, Bank for International Settlements

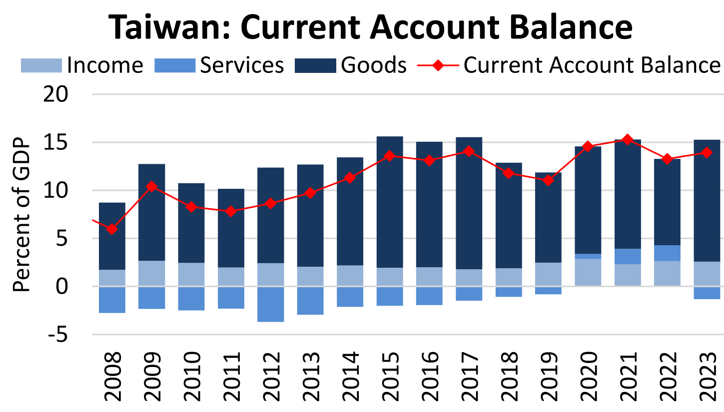
The yen depreciated more than 6% against the U.S. dollar in 2023 and has depreciated nearly 11% in 2024 as of end-April. On a real effective basis, the yen depreciated 5.5% in 2023, adding to the 11.5% depreciation in 2022, and currently sits at a 50-year low. The depreciation is consistent with the wide interest rate differentials between the United States and Japan resulting from their divergent monetary policies. Over April and May 2024, Japanese authorities intervened for the first time since October 2022, purchasing yen and selling dollars, which strengthened the value of the yen.

Treasury's expectation is that in large, freely traded exchange markets, intervention should be reserved only for very exceptional circumstances with appropriate prior consultations. Japan is transparent with respect to foreign exchange operations, regularly publishing its foreign exchange interventions each month.

Taiwan

Taiwan's real GDP grew by 4.8% on a Q4 over Q4 basis, down from -0.7% for the same period in 2022. Growth over the reporting period was driven primarily by private consumption, due in part to strong employment and increasing consumer confidence. Net exports provided a boost to growth in the second half of 2023 amid robust demand for technology-related products, reversing the trend from the previous reporting period. Meanwhile, the CBC's rate hikes in 2022 and early 2023 weighed on investment growth throughout 2023. Following its March 2024 policy meeting, the Central Bank of China (CBC) revised Taiwan's 2024 annual growth rate up from 3.1% to 3.2%.

The CBC unexpectedly raised its policy rate by 12.5 basis points to 2.0% at its March 2024 policy meeting, as the CBC noted in meeting minutes that the government's decision to raise electricity prices by an average of 11% starting on April 1 could cause an upward shift in inflation expectations. Overall, headline CPI in December 2023 rose 2.7% compared to the previous year, while the CBC's preferred measure of core inflation rose 2.4%, with both measures remaining slightly elevated compared to pre-pandemic norms. The CBC anticipates that both headline and core inflation will moderate over the course of 2024, to 2.2% and 2.0%, respectively. The CBC maintains a medium-term monitoring range for annual CPI growth between 0% to 2%, along with a reference range of 2.5% to 6.5% for M2 growth. Higher energy prices, driven in part by the government's increase in electricity prices and anticipated higher commodity prices are expected to be an important factor in Taiwan's inflation outlook.

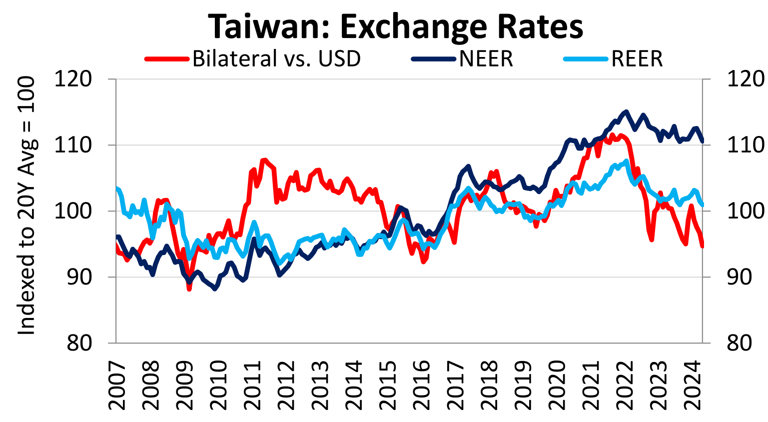


Sources: Taiwan central bank, Haver

Taiwan's current account surplus increased to $105 billion (13.9% of GDP) for the four quarters ending in December 2023, up from $101 billion (13.3% of GDP) for the same period in 2022. The increase in the current account surplus was driven primarily by a strong rebound in Taiwan's goods trade surplus to $96 billion (12.7% of GDP) for the four quarters ending in December 2023, up from $68 billion (9.0% of GDP) for the same period in 2022. The larger trade balance reflected an increase in goods exports driven in part by an acceleration in global semiconductor and electronics demand, fueled by artificial intelligence and other high-tech applications. Meanwhile, Taiwan's goods imports decreased throughout the reporting period, in part due to a large base effect from 2022 as imports returned to pre-pandemic levels and weaker capital expenditure as technology-related investment slowed from 2022 highs. Meanwhile, Taiwan's services balance transitioned from a pandemic-impacted surplus of $12.6 billion (1.7% of GDP) in 2022 to a modest deficit of $10 billion (1.3% of GDP) in 2023, in line with pre-2020 norms.

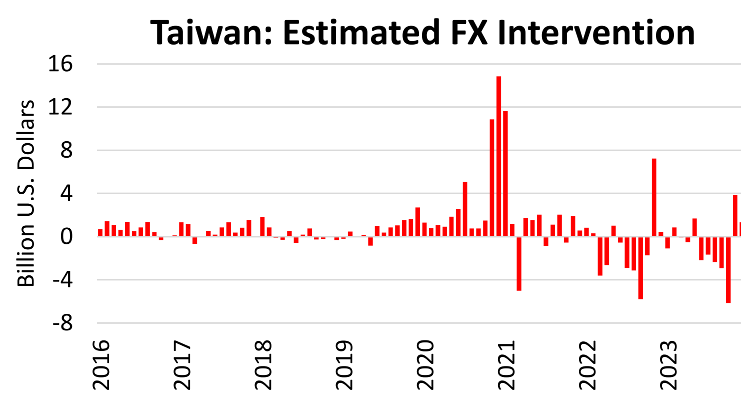
Taiwan recorded a $48.1 billion goods and services trade surplus with the United States in the four quarters ending December 2023, down slightly from $51.0 billion a year prior. The bilateral trade surplus was primarily composed of goods trade and was driven by semiconductors and electronic goods exports. Meanwhile, Taiwan recorded a small bilateral services trade surplus of $164 million through the four quarters ending in December 2023, a decreased surplus from the previous four quarters.

The New Taiwan Dollar (TWD) modestly strengthened over the four quarters through December 2023, appreciating 0.4% against the U.S. dollar and 0.3% on a real effective basis. TWD movements are largely driven by U.S. and global macroeconomic trends. The TWD modestly weakened throughout much of the year, but investor enthusiasm for Taiwanese equities amidst a broader tech rebound contributed to a strengthening in the TWD in the final quarter of the year.



Sources: FRB, Bank for International Settlements

The stated policy of the central bank is to maintain a "managed float" exchange rate, in principle determined by market forces but with flexibility "to maintain an orderly foreign exchange market". The central bank publicly disclosed $2.8 billion (0.4% of GDP) in net foreign exchange sales over the four quarters through December 2023, with $0.9 billion in sales in the first half of 2023 and $1.9 billion in sales occurring in the second half of 2023. The intervention appears aimed to offset and slow depreciation pressures on the TWD. Treasury estimates that the majority of these sales occurred from June to October in 2023 as the U.S. dollar appreciated and was likely concentrated in the spot market. Treasury estimates that these sales were partially offset by purchases in November and December as the U.S. dollar weakened and the TWD began to appreciate, with purchases being driven primarily by increases in the net forward book. Overall, the central bank's headline reserves increased from $555 billion in December 2022 to $571 billion in December 2023, primarily due to investment returns amidst elevated global interest rates. Taiwan publishes its data on foreign exchange intervention on a semi-annual basis, with a three-month lag.



Sources: Taiwan central bank, U.S. Treasury estimates

Taiwanese authorities should deploy a careful mix of policies that better insulate the economy from external shocks and address structural issues to reduce external sector imbalances. The authorities should also closely monitor non-bank financial sector risks, including foreign exchange risks. Foreign exchange intervention should be limited and allow currency movements in line with economic fundamentals.

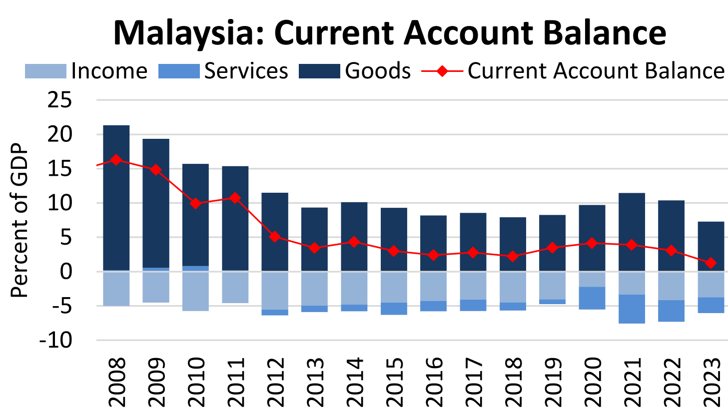
Malaysia

Malaysia's growth slowed from a robust 7.5% in 2022 (on a Q4 over Q4 basis) amid a strong post-pandemic recovery, to 3.1% in 2023, due to weaker external demand from China and other trading partners. Growth was sustained by private consumption, supported by a strong labor market, with an unemployment rate of 3.3% in December 2023. Malaysia's central bank, Bank Negara Malaysia (BNM), expects growth to improve modestly this year to between 4.0% to 5.0% due to a recovery in exports.

Malaysia is in the midst of a multiyear fiscal consolidation as it attempts to mobilize additional revenue and better target its subsidies. The fiscal deficit was 5% of GDP in 2023, down from 5.5% in 2022. The 2024 budget aims to bring the deficit down further, to 4.3% of GDP, through lower spending on subsidies and development expenditures, as well as some modest new tax measures. Malaysia's revenue-to-GDP ratio has fallen in recent years, from 15% in 2012 to 12% in 2022, well below the average of its upper-middle income peers, due in part to the elimination of its goods and services tax in 2018. General government debt was 67.3% of GDP in 2023, with federal government debt totaling 64.3% of GDP, just below the 65% of GDP debt limit.

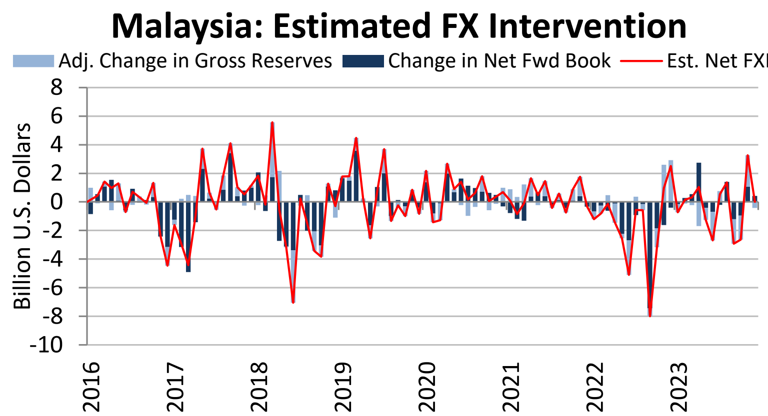
Inflation pressures have been muted, in part reflecting the effects of consumer subsidies for key goods and services such as motor fuel. Headline inflation and core inflation averaged 2.5% and 3% in 2023, respectively, roughly unchanged from 2022. BNM raised its key policy rate—the overnight policy rate (OPR)—by 125 basis points between May 2022 and May 2023, returning the OPR to its long-term pre-pandemic level of 3.0%. BNM has maintained this rate over the first quarter of 2024, which it assesses remains supportive of growth.

Malaysia's current account surplus has been declining since 2020, when it reached 4.2% of GDP. The surplus declined from 3.0% of GDP in 2022 to 1.3% of GDP through the four quarters ending December 2023. Over the same period, Malaysia's goods surplus narrowed more than two percentage points to 7.3% of GDP, down from 10.4% due to the economic slowdown among some of its trading partners, including China, as well as lower demand for electrical and electronic products, and lower oil and gas exports. Meanwhile, Malaysia's services deficit narrowed to 2.3% of GDP over the four quarters ending December 2023, down from 3.1% at end-2022 as



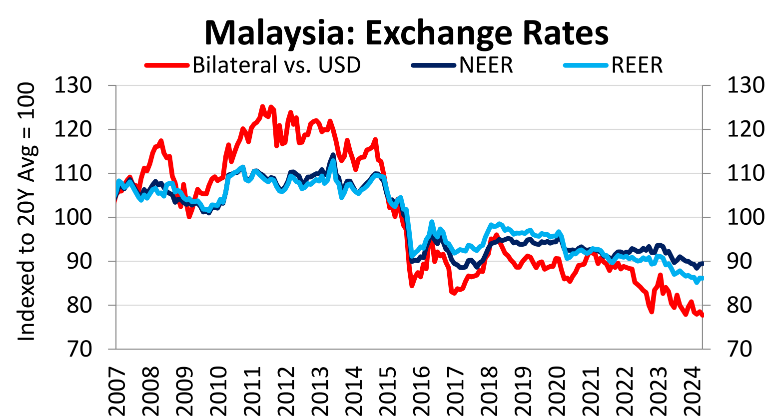
Source: Department of Statistics Malaysia tourism services continued to recover. The income deficit narrowed to 3.7% of GDP from a deficit of 4.2% of GDP one year prior, largely reflecting a drop in direct investment income.

Malaysia's goods and services trade surplus with the United States fell to $25 billion for the four quarters through December 2023. Malaysia and the United States have strong supply chain linkages in key industries, particularly electronics and related parts. Conversely, Malaysia engages in relatively limited bilateral services trade with the United States—about $6.4 billion in gross bilateral services trade flows in the four quarters through December 2023. On net, Malaysia recorded a bilateral services deficit with the U.S. of roughly $1.7 billion over the same period.



Sources: Bank Negara Malaysia, U.S. Treasury estimates

Treasury assesses that Malaysia has demonstrated a track record of engaging in two-sided intervention in the foreign exchange market, consistent with the BNM's stated policy of ensuring orderly market conditions for the ringgit and smoothing excess volatility, not targeting or advocating any specific exchange rate level. Malaysia does not publish data on its foreign exchange intervention; however, the authorities have conveyed credibly to Treasury that net sales of foreign exchange over the four quarters through December were $9.0 billion or 2.3% of GDP. Foreign exchange reserves stood at $103.7 billion at end-December 2023, down slightly from $105.3 billion compared to a year prior. Reserves remain broadly adequate according to standard adequacy metrics, including that of the IMF.



Sources: FRB, Bank for International Settlements

On net, the ringgit depreciated 4.1% against the U.S. dollar over the four quarters through December 2023. Over the same period, the ringgit depreciated 4.4% on a nominal effective basis and 5.4% on a real effective basis. The ringgit reached a 26-year low of 4.8 MYR/USD in February 2024, a level last seen during the Asian Financial Crisis. The ringgit's recent depreciation against the dollar reflects multiple factors, such as interest rate differentials, as well as the decline of the renminbi, with which the ringgit has recently been correlated.

To support Malaysia's external rebalancing the government should continue to invest in public services and improving the scale and coverage of the social protection system. The authorities' structural policy agenda, with its focus on raising wages and ensuring retirement income security, should help in this regard. Likewise, the government should pursue targeted public investments including planned investments to support Malaysia's energy transition. Such initiatives would support external rebalancing and help foster growth. Malaysia should continue to reduce broad, untargeted subsidies, which would also support rebalancing efforts. Lastly, the government should continue to allow the exchange rate to move in line with economic fundamentals and limit foreign exchange intervention to circumstances of disorderly market conditions, while avoiding excessive accumulation of reserves.

Singapore

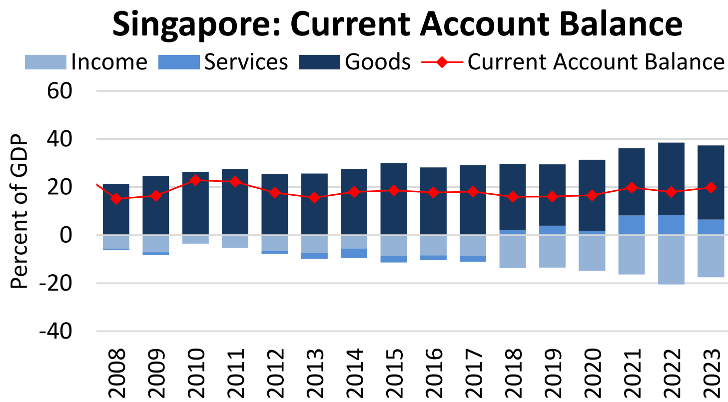
In 2023 Singapore's GDP growth on a Q4 over Q4 basis was 2.1%, down slightly from 2.4% for the four quarters ending in Q4 2022. The authorities expect real GDP growth will register between 1 and 3% this year owing to a recovery in financial services and manufacturing, notably in electric and electronic goods.

Singapore's fiscal year 2024 budget (April 2024-March 2025) aims to maintain a neutral fiscal stance, with a targeted budget surplus of 0.1% of GDP, on the expectation that economic growth will revert toward its potential, which the IMF estimates to be around 2.5%. The 2024 budget introduced a series of measures to strengthen social support, especially to protect against cost-of-living shocks and to facilitate upskilling, as well as investments to support Singapore's green transition. The government maintains that fiscal restraint is needed to hold government expenditures below 20% of GDP, which in turn allows it to keep the tax burden low.

The Monetary Authority of Singapore (MAS), which uses an exchange-rate based regime for implementing monetary policy, tightened monetary policy five times between October 2021 and October 2022 by letting the Singapore dollar appreciate against a basket of currencies. MAS has maintained the rate of nominal effective exchange rate (NEER) appreciation since its October 2022 meeting, citing broadly balanced risks to the 2024 growth and inflation outlooks.[17] Between November 2022 and December 2023, S$NEER appreciation averaged 0.2% per month on a month-over-month basis. Throughout 2023, headline and core inflation steadily declined. Headline inflation registered 3.7% year-on-year in December, down from 6.5% at the end of 2022. Meanwhile, core inflation fell to 3.3% year-on-year, down from 5.1% at the end of 2022. Despite the decline, inflation remains elevated, well above the roughly 1.5% annual average that prevailed the previous decade. MAS does not maintain an explicit inflation target but notes that core inflation just under 2%, which is close to its historical mean, is consistent with overall price stability.

[17] MAS does not disclose precise details of its monetary policy, including the specific target rate of appreciation. However, in their monetary policy statements, the authorities will announce whether they have increased or decreased the slope of the policy band, changed the width of the policy band, or recentered the level of the policy band's midpoint.

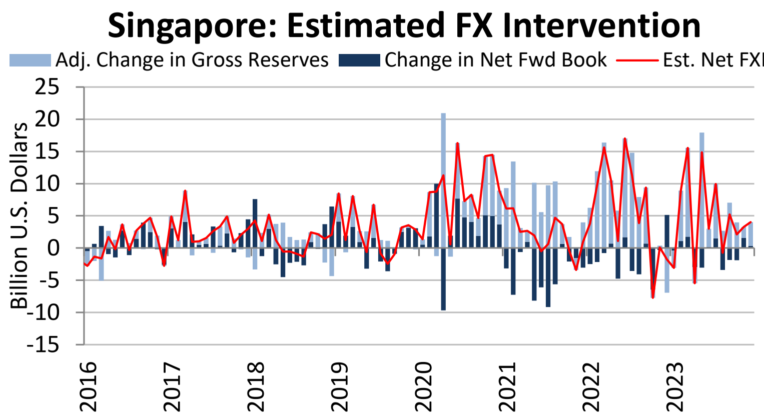
Singapore continues to record extremely large current account surpluses. In 2023, the surplus registered nearly 20% of GDP, driven by the goods surplus (30.9% of GDP) and a relatively smaller services surplus (6.5%), albeit one that has been growing for the past several years. The rising services surplus generally reflects steady increases in financial services exports, as Singapore continues to develop as a regional financial center, particularly in areas such as asset management, wealth management, and insurance. Transport services exports have also contributed to the growing services surplus; however, after rising sharply in 2021 and 2022—mainly due to supply chain disruptions and associated increases in shipping costs—they declined somewhat in 2023 amidst a global freight slump. These goods and services surpluses were partially offset by an income deficit of 17.6% of GDP, reflecting high outbound payments given Singapore's large FDI stock. In 2023, the IMF once again assessed Singapore's external position to be substantially stronger than warranted by economic fundamentals and desirable policies. Their assessment has remained unchanged since 2012. Singapore's persistent current account surpluses have led to the accumulation of an outsized net international investment position, which stood at around 171% of GDP as of end-December 2023, among the highest in the world. As noted above, despite a large current account surplus in 2023, Singapore's net international investment position shrank due to sizable valuation losses.



Sources: Monetary Authority of Singapore, Department of Statistics

Singapore and the U.S. have a strong trade relationship, supported by the United States-Singapore Free Trade Agreement, which went into effect in 2004. Singapore has historically run bilateral trade deficits with the United States in both goods and services trade, which for the four quarters ending in December 2023 totaled $2.1 billion and $26.1 billion, respectively, for a total trade deficit of $28.2 billion. Key Singaporean services imports from the United States include research and development, intellectual property, and professional and management services. The Singapore goods deficit with the United States 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.

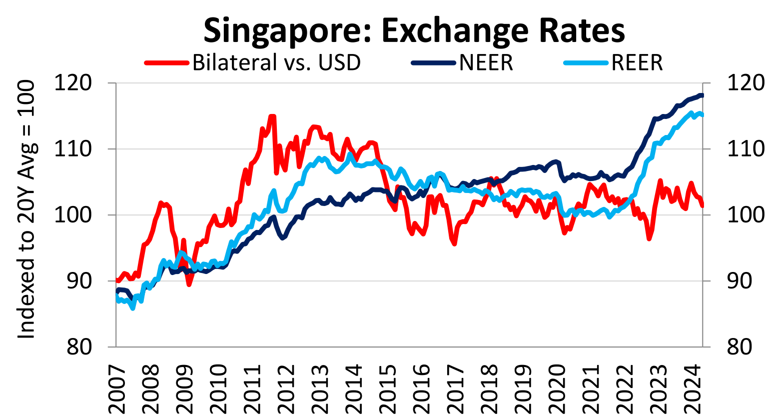
MAS' monetary policy targets the Singapore dollar's nominal exchange rate (S$NEER) against a trade-weighted basket of currencies. MAS maintains that this targeting is appropriate because Singapore's inflation rate is more heavily influenced by the exchange rate than by the interest rate, given its status as a small, open economy with large gross trade flows. The primary mode of intervention is the purchase or sale of U.S. dollars against the Singapore dollar, since this is the most liquid currency pair in the basket. Over the four quarters through December 2023, net purchases of foreign currency totaled $35.8 billion, equivalent to 7.1% of GDP. According to Treasury estimates, net purchases were relatively consistent across all four quarters of 2023, with increased purchases in the first quarter. Treasury assesses that Singapore meets the foreign exchange intervention criterion given its exceptionally large magnitude and lack of monthly transparency on intervention. Singapore was an outlier amongst all other major trading partners on the Monitoring List in its use of intervention to slow appreciation.



Sources: Monetary Authority of Singapore, U.S. Treasury estimates

Official foreign exchange reserves totaled $337 billion (67% of GDP) at end-December 2023. In addition to the reserves held by MAS, Singapore's government also has access to substantial official foreign assets managed by GIC and another sovereign wealth fund, Temasek.

As MAS has targeted S$NEER appreciation, the Singapore dollar appreciated by 2.7% and 4.1% on a nominal effective and real effective basis, respectively, over the four quarters through December 2023. At the same time, the Singapore dollar has appreciated 1.6% against the U.S. dollar. The relative performance of the bilateral exchange rate against the U.S. dollar versus the NEER reflects the U.S. dollar weakening against the Singapore dollar less than the currencies of several of Singapore's other major trading partners during this period.



Sources: FRB, Bank for International Settlements

Singapore's conservative fiscal posture and relatively modest social spending contribute to excess domestic savings and to Singapore's chronic external imbalances, leading to one of the largest net foreign asset positions in the world. The sizable intervention slowing appreciation, while part of a monetary policy framework, likely also contributes to the outsized current account surplus. Policy reforms that durably strengthen domestic consumption, diminish precautionary saving incentives, and transfer wealth to households would help address Singapore's chronic external imbalances. The government could further reduce its imbalances through greater investments in healthcare and climate-resilient infrastructure. Recent government initiatives to augment spending on Singapore's green transition is a welcome step in this direction, but more is required to materially reduce imbalances. Additional initiatives could include: reducing mandatory pension contribution rates to give households greater control over pension assets; and critically, allowing for additional appreciation of the nominal and the real effective exchange rate over the medium term, consistent with economic fundamentals.

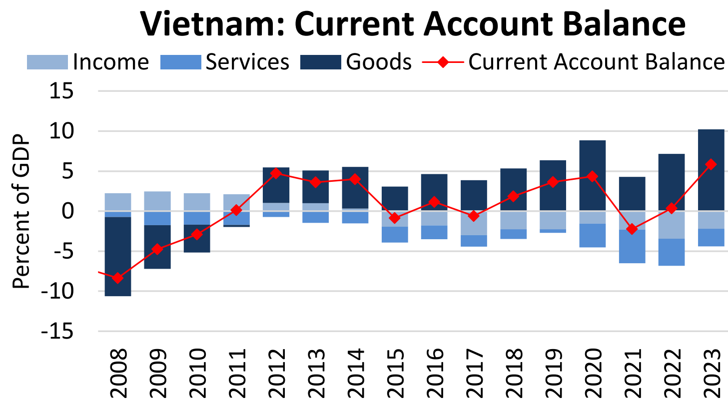
Vietnam

Economic growth in Vietnam ticked up in 2023 on a Q4 over Q4 basis, rising to 6.7% from 6.0% in 2022. After slow global growth weighed on economic activity in the first half of last year, activity in the second half accelerated on increased demand for Vietnamese exports among key partners that boosted industrial production and investment. For the year, goods exports amounted to $353.8 billion, down 4.8% from 2022. The IMF forecasts 5.8% annual growth on a year over year basis in 2024 due to strengthening external demand.

The authorities have responded to flagging growth with additional fiscal support. The government recorded a 1.6% of GDP fiscal deficit in 2023, following the 0.3% of GDP surplus in 2022, driven by higher public sector wages and investment as well as tax cuts and deferrals. Despite the turn toward deficit spending, public debt as a share of GDP fell modestly to 34% as growth outpaced rising nominal debt.

In contrast to regional peers, the State Bank of Vietnam (SBV) cut benchmark interest rates in the first half of 2023 by a total of 150 basis points to support economic activity as inflation more than halved from 4.7% in January to 2% in June. In the second half of the year, headline inflation rebounded to 3.6% year-on-year in December reflecting higher fuel prices. Headline inflation remains below the 4.5% target approved by the National Assembly. Core inflation has continued to steadily decline since peaking at a record high 5.2% year-on-year last January and was 3.0% year-on-year in December.

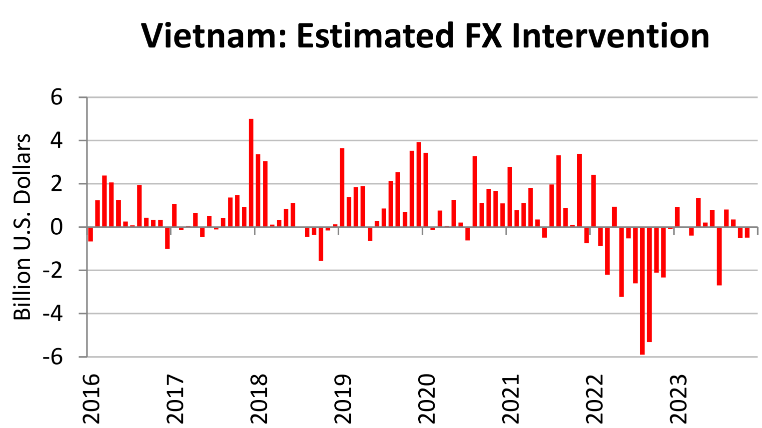
Vietnam's current account balance stood at 5.8% of GDP over the four quarters through December 2023. The current account has swung back into substantial surplus, after registering deficits in 2021 and 2022 when COVID-related production constraints weighed on export earnings and elevated commodity prices drove import prices higher. While goods exports were lower in 2023 than the year prior, the trade balance has increased due to a slower recovery in imports as factories have adjusted to reduced orders from overseas. The current account surplus has also been supported by a recovery in inward tourism, increased remittances, and reduced corporate profit repatriation.



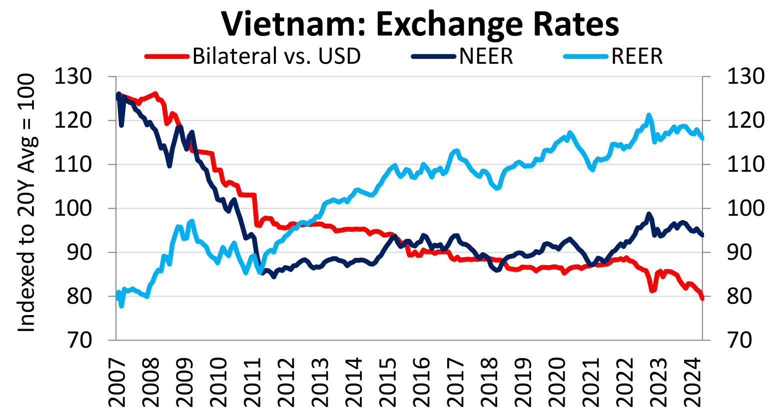
Sources: IMF BOP statistics, State Bank of Vietnam

Vietnam's bilateral trade surplus with the United States has expanded dramatically over the past five years, primarily driven by growth in goods trade, led by electronics and machinery, though this growth has leveled off. The bilateral goods and services surplus was $103 billion over the four quarters through December 2023. Over the same period, the bilateral goods trade surplus was $104.6 billion, more than $11 billion lower than the level from the previous four quarters. Vietnam continues to have the third-largest goods surplus with the United States. Vietnam has modest bilateral services trade with the United States and has long run a small bilateral services trade deficit. In the four quarters through December 2023, that services deficit was $1.7 billion.

Vietnam does not publish data on its foreign exchange intervention. The authorities have conveyed credibly to Treasury that net purchases of foreign exchange in the four quarters through December 2023 were 1.5% of GDP. That figure is equivalent to about $7 billion. This amount of intervention was below the 2% of GDP threshold that marks persistent one-sided intervention. In addition, based on information from the authorities, Vietnam also did not intervene persistently across the year enough to trigger this criterion. Despite significant depreciation pressure on the dong later in the year that largely reflected U.S. and global macroeconomic developments, Treasury assesses that Vietnam engaged in moderate net purchases of foreign exchange in early 2023 to reaccumulate some of the more than $20



Sources: State Bank of Vietnam, U.S. Treasury estimates billion reserves sold in 2022. According to the latest available public data, foreign exchange reserves stood at $88 billion as of November 2023. Reserves remain below the lower range the IMF considers adequate based on its reserve adequacy metric for fixed exchange rate regimes, but broadly adequate if assessed on the basis of the IMF's reserve adequacy metric for floating exchange rate regimes.



Sources: Vietcombank, JP Morgan

Since January 2016, the SBV's exchange rate policy has been to allow the dong to float within a fixed trading band against the U.S. dollar relative to the central reference rate. The central reference rate is reset daily based on the movements of a basket of currencies, among other factors. In 2023, the dong spot rate depreciated 2.9% year-on-year against the dollar. Meanwhile the dong was relatively flat against other currencies in the region. The currency weakened modestly by 0.3% on a nominal effective basis but appreciated 0.2% on a real effective basis. In its most recent Article IV consultation, the IMF welcomed Vietnam's steps towards increased exchange rate flexibility and encouraged more efforts in this direction.

Pursuant to the 2015 Act, Treasury conducted enhanced analysis of Vietnam in its December 2020, April 2021, and December 2021 FX Reports. In early 2021, Treasury commenced enhanced bilateral engagement with Vietnam in accordance with the 2015 Act.[18] As a result of discussions through the enhanced engagement process, Treasury and the SBV reached agreement in July 2021 to address Treasury's concerns about Vietnam's currency practices. The SBV has publicly emphasized its commitment to modernizing and enhancing the transparency of Vietnam's monetary policy and exchange rate management framework, without using exchange rate policy to gain an unfair competitive advantage. Treasury remains satisfied with the progress made by Vietnam and will continue to engage closely with the SBV on currency issues.

The Euro Area

The euro area entered 2024 with very low growth momentum and elevated core inflation as it contends with the ongoing economic impact of Russia's war against Ukraine. Economic activity has been weak since the second half of 2022, with 2023 growth at 0.1%

[18] *Report to Congress: Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States*, U.S. Department of the Treasury, Office of International Affairs, pp. 48-55 (Dec. 2020), available at https://home.treasury.gov/system/files/206/December-2020-FX-Report-FINAL.pdf, and *Report to Congress: Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States*, U.S. Department of the Treasury, Office of International Affairs, pp. 47-50 (Apr. 2021), available at https://home.treasury.gov/system/files/206/April_2021_FX_Report_FINAL.pdf.

on a Q4 over Q4 basis. While the services sector is showing nascent signs of recovery, the manufacturing sector remains challenged by structurally higher energy prices, financing costs, and weak domestic demand. The IMF expects euro area growth to pick up to a moderate 1.4% in 2024 on a Q4 over Q4 basis, with growth driven largely by some southern European countries while Germany, France, and Italy are projected to act as net drags on the bloc's growth rate.

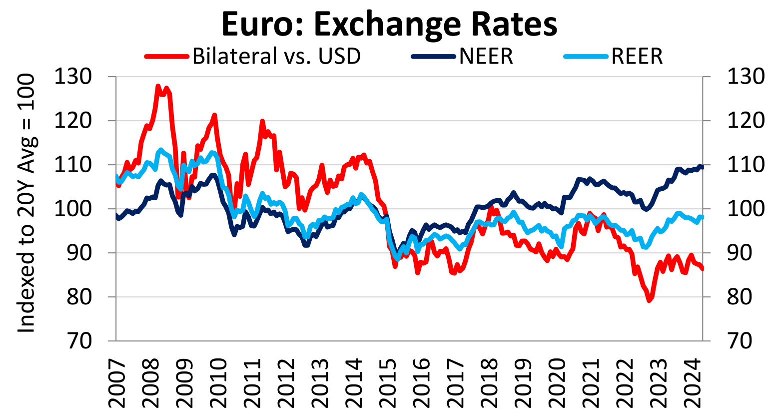
The euro area's aggregate fiscal policy posture remained supportive in 2023. Russia's war against Ukraine increased anticipated outlays in 2022-23, as governments attempted to shield consumers and businesses from adverse spillovers, accelerate the drive toward energy independence, and bolster defense spending. Looking ahead, the IMF projects some fiscal consolidation in 2024, in line with the European Commission's (EC) 2024 budget guidance which encourages member states to return to a path of debt and deficit consolidation. This annual guidance is complemented by the European Union's revised fiscal rules for member states, which should put downward pressure on debt-to-GDP ratios across the euro area in the coming years.

Headline inflation has come down substantially from its peak of 10.6% year-on-year reached in October 2022, as Russia's war against Ukraine compounded price pressures. While core inflation has come down more gradually, headline inflation has been below 3% year-on-year since October 2023, printing at just 2.4% year-on-year in April 2024 as energy prices shifted to disinflation and food price pressures receded. As of March 2024, the European Central Bank (ECB) staff's baseline scenario projected headline inflation of 2.3% in 2024 and 2.0% in 2025.

To counter inflation, the ECB has pursued 450 basis points of consecutive hikes since July 2022 to reach the highest policy rate in ECB history, at 4.0%. As indicated by the ECB's most recent bank lending survey released on April 9, the ECB's restrictive stance continues to feed through into the real economy through declining loan demand from firms. The ECB's balance sheet policy has mirrored its rate increases over the past two years, with the ECB now gradually reducing holdings under its Pandemic Emergency Purchase Program (PEPP) and Asset Purchase Program (APP). Looking ahead, the ECB's Governing Council referenced reducing the current level of monetary policy restriction in its April 11 monetary policy statement.

The euro area returned to a current account surplus of 1.8% in 2023, a quick reversal of the energy price-driven deficit of -0.6% of GDP in 2022. The IMF expects the euro area's current account surplus to stabilize at a more typical 2.3% of GDP in 2024-25. In its July 2023 External Sector Report, the IMF assessed that the euro area's external position in 2022 was broadly in line with the level implied by medium-term fundamentals and desirable policies, though staff assessed that the policy recommendations to address typical external imbalances emanating from certain member states—which appear to be resurfacing as the current account surplus returns—continue to hold true.

The euro has largely recovered from the two-decade low against the dollar reached in September 2022. While the euro appreciated against the dollar by 3.4% during 2023, it has since retraced most of that movement over the course of 2024. In real effective terms the euro appreciated 2.3% over the four quarters through December 2023. The ECB publishes its foreign exchange intervention and has not intervened in foreign exchange markets since 2011.



Sources: FRB, Bank for International Settlements

Germany

Germany's economy exhibited significant weakness last year, with 2023 real GDP contracting by 0.2% on a Q4 over Q4 basis relative to the euro area's 0.1% expansion. While the IMF expects a modest recovery of 0.2% growth in 2024, the country's structural challenges will continue to be a drag on output and sentiment. Tight financial conditions and fiscal consolidation may hold back growth in 2024.

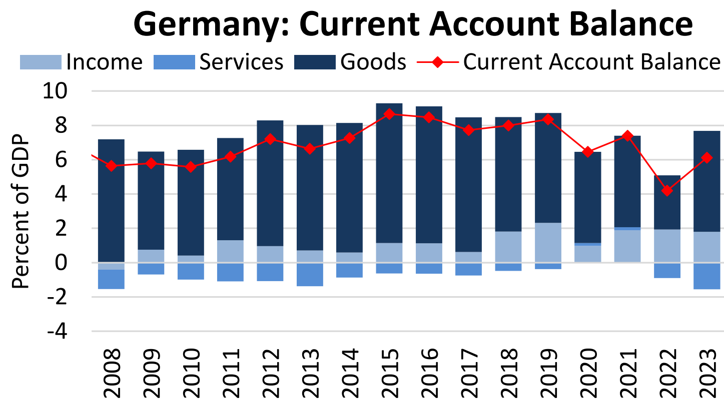
Following a landmark constitutional court ruling that limited the use of multi-year, off-budget special funds, the German government was forced to implement additional savings and revenue-generating measures. The 2024 budget is now the first to adhere to the debt-brake rule since 2019.[19] Due to the phasing out of temporary support mechanisms, the Bundesbank estimates that the fiscal deficit will shrink from 2% of GDP in 2023 to 1.3% of GDP in 2024. Compliance with the debt-brake rule also further limits the government's ability to address underinvestment, a shrinking workforce, and faltering productivity growth.

Both headline and core inflation decelerated on a year-over-year basis over the course of 2023, largely due to tightened financial conditions as well as easing energy and food prices. In April 2024, harmonized headline CPI grew 2.2%.

Germany's bilateral trade surplus with the United States has more than doubled since the creation of the euro. During the four quarters through December 2023, Germany's bilateral goods and services surplus hit $86 billion.

[19] The constitutional debt brake limits the annual structural deficit to 0.35 percent of nominal GDP.

Germany has run a large current account surplus for well over a decade as production levels are consistently above domestic absorption. In 2022, the country experienced the largest contraction in its current account surplus since reunification, falling by more than three percentage points to 4.2% of GDP. German industry, which historically has benefited from cheap energy inputs, was disproportionately affected by elevated energy prices following Russia's invasion of Ukraine. While the current account surplus recovered slightly to 6.1% of GDP in 2023, this was mostly driven by a continued fall in imports rather than a resurgence in external demand for German exports. In March 2024, the Federal Statistical Office provisionally reported that exports increased by 1.2% from one year earlier while imports dropped by 3.0%.



Source: Deutsche Bundesbank

With a gradual recovery in economic activity, the German government now needs to address chronic underinvestment in the green transition, housing and labor markets, infrastructure, and productivity. Gross public investment as a percentage of GDP has averaged approximately 2.5% between 2018 and 2022; however, this barely offsets depreciation, with overall net public investment remaining close to zero over the past two decades. Prior to the pandemic, Germany's approved budgets called for fiscal balance, but stronger-than-forecasted revenues and under-execution of spending and investment plans resulted in fiscal surpluses averaging 1.3% of GDP between 2014 and 2019. Treasury recognizes the fiscal constraints imposed by Germany's constitutional debt brake as well as the government's significant contributions to Ukraine. However, to support growth and external rebalancing, fiscal tools should be deployed to help Germany meet its green energy and climate targets and to diminish excess saving.

Section 2: Intensified Evaluation of Major Trading Partners

The 1988 Act requires the Secretary of the Treasury to 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 adjustment 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.

The 2015 Act requires the Secretary of the Treasury to provide semiannual reports on the macroeconomic and foreign exchange rate policies of the major trading partners of the United States. Section 701 of the 2015 Act requires that Treasury undertake an enhanced analysis of macroeconomic and exchange rate policies for each major trading partner "that has— (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." Additionally, the 2015 Act requires the President, through the Secretary of the Treasury, to "commence enhanced bilateral engagement with each country for which an enhanced analysis" is included in the report. The Act also provides for the possible imposition of penalties if, on or after one year of the commencement of enhanced bilateral engagement, the Secretary determines that a country "has failed to adopt appropriate policies to correct the undervaluation and surpluses" that triggered the enhanced analysis and enhanced bilateral engagement.

Key Criteria

Pursuant to Section 701 of the 2015 Act, this section of the Report seeks to identify any major trading partner of the United States that has: (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. Required data for the period of review (the four quarters through December 2023, unless otherwise noted) are provided in Table 1 (p. 18) and Table 2 (p. 43).

As noted earlier, Treasury reviews developments in the 20 largest trading partners of the United States, along with other trading partners that remain on the Monitoring List over the period of review. These economies accounted for about 78% of U.S. trade in goods and services over the four quarters through December 2023. This includes all U.S. trading partners whose bilateral goods and services surplus with the United States in the four quarters through December 2023 exceeded $15 billion.

The results of Treasury's latest assessment pursuant to Section 701 of the 2015 Act are discussed below.

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

Column 3 in Table 2 provides the bilateral goods and services trade balances for the United States' 20 largest trading partners for the four quarters through December 2023.[20] China has the largest trade surplus with the United States by far, after which the sizes of the bilateral trade surpluses decline notably. 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 are the 13 major trading partners that have a bilateral surplus that met this threshold for the four quarters through December 2023. Table 3 provides additional contextual information on total and bilateral trade, including individual goods and services trade balances, with these trading partners. Because the Report now incorporates services trade, Table 3, which provides disaggregated goods and services trade data, will be essential for comparison with past Reports that focused on goods trade.

Criterion (2) – Material current account surplus:

Treasury assesses current account surpluses of at least 3% of GDP. Highlighted in red in column 2a of Table 2 are the eight economies that met this threshold over the four quarters through December 2023. 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.[21] Columns 1a and 1c in Table 2 provide Treasury's assessment of this criterion.[22] 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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[20] Although this Report does not treat the euro area itself as a major trading partner for the purposes of the 2015 Act—this Report assesses euro area countries individually—data for the euro area are presented in Table 2 and elsewhere in this Report both for comparative and contextual purposes, and because policies of the ECB, which holds responsibility for monetary policy for the euro area, will be assessed as the monetary authority of individual euro area countries.

[21] 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.

[22] 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 2. Major Foreign Trading Partners Evaluation Criteria

	FX Intervention			Current Account			Bilateral Trade
	Net Purchases (% of GDP, Trailing 4Q) (1a)	Net Purchases (USD Bil., Trailing 4Q) (1b)	Net Purchases 8 of 12 Months† (1c)	Balance (% of GDP, Trailing 4Q) (2a)	3 Year Change in Balance (% of GDP) (2b)	Balance (USD Bil., Trailing 4Q) (2c)	Goods and Services Surplus with United States (USD Bil., Trailing 4Q) (3)
Canada	0.0	0	No	-0.6	1.4	-13	**40**
Mexico	0.4	7	No	-0.3	-2.7	-6	**153**
China	0.5 — -0.1 *	82 — -27	Yes	1.4 **	-0.3	253	**254**
Germany	0.0	0	No	**6.1**	-0.4	273	**86**
United Kingdom	0.0	0	No	-3.3	-0.4	-110	-16
Japan	0.0	0	No	**3.6**	0.6	151	**62**
Korea	-0.6	-10	No	2.1	-2.5	35	**41**
Ireland	0.0	0	No	**9.9**	16.0	54	5
India	0.2	8	Yes	-0.9	-2.2	-32	**50**
Netherlands	0.0	0	No	**10.1**	5.0	113	-57
Switzerland	-16.7	-148	No	**7.7**	7.3	68	0
France	0.0	0	No	-0.8	0.8	-23	**16**
Taiwan	-0.4	-3	No	**13.9**	-0.6	105	**48**
Singapore	**7.1**	36	No ****	**19.8**	3.2	99	-28
Vietnam	1.5 ***	7	No	**5.8**	1.5	25	**103**
Italy	0.0	0	No	0.5	-3.4	12	**46**
Brazil	0.6	13	No	-1.4	0.5	-31	-23
Australia	-0.1	-1	No	1.2	-1.0	21	-32
Thailand	-0.6 ***	-3	No	1.4	-2.8	7	**40**
Belgium	0.0	0	No	-1.0	-2.4	-6	-16
Malaysia	-2.3 ***	-9	No	1.3	-2.9	5	**25**
Memo: Euro Area	0.0	0	No	1.6	0.0	254	**107**

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.

† 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.

* China does not publish FX intervention, forcing Treasury staff to estimate 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 the PBOC's foreign exchange assets data, intervention was persistent. Based on 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" for more details. For consistency with other data in the Report, official balance of payments data are reported here.

*** Authorities do not publish FX intervention. Authorities have conveyed bilaterally to Treasury the size of net FX purchases during the four quarters ending December 2023.

**** Authorities have conveyed bilaterally to Treasury the extent of persistence of net FX purchases during the four quarters ending December 2023, but public data on intervention are not clear on timing. Treasury assesses that Singapore meets the foreign exchange intervention criterion given its exceptionally large magnitude and lack of transparency on timing of intervention.

Table 3. Major Foreign Trading Partners - Expanded Trade Data

	USD Bil., Trailing 4Q						% of GDP, Trailing 4Q					
	Total Trade			Trade Surplus with United States			Total Trade			Trade Surplus with United States		
	Goods and Services (1a)	Goods (1b)	Services (1c)	Goods and Services (2a)	Goods (2b)	Services (2c)	Goods and Services (3a)	Goods (3b)	Services (3c)	Goods and Services (4a)	Goods (4b)	Services (4c)
Canada	904	774	130	40	68	-28	42.2	36.2	6.1	1.9	3.2	-1.3
Mexico	884	799	85	153	152	1	49.3	44.6	4.8	8.6	8.5	0.1
China	641	575	66	254	279	-26	3.6	3.2	0.4	1.4	1.6	-0.1
Germany	322	236	86	86	83	3	7.2	5.3	1.9	1.9	1.9	0.1
United Kingdom	305	138	167	-16	-10	-6	9.1	4.1	5.0	-0.5	-0.3	-0.2
Japan	303	224	79	62	71	-9	7.2	5.3	1.9	1.5	1.7	-0.2
Korea	220	181	39	41	51	-10	12.9	10.6	2.3	2.4	3.0	-0.6
Ireland	209	99	109	5	65	-60	38.2	18.2	20.0	1.0	12.0	-11.0
India	190	124	66	50	44	6	5.4	3.6	1.9	1.4	1.3	0.2
Netherlands	165	121	44	-57	-44	-13	14.7	10.8	3.9	-5.1	-3.9	-1.2
Switzerland	163	80	83	0	24	-25	18.4	9.0	9.4	-0.1	2.7	-2.8
France	152	102	50	16	13	3	5.0	3.4	1.7	0.5	0.4	0.1
Taiwan	151	128	23	48	48	0	20.0	16.9	3.1	6.4	6.4	0.0
Singapore	132	83	49	-28	-2	-26	26.3	16.5	9.8	-5.6	-0.4	-5.2
Vietnam	129	124	4	103	105	-2	29.9	28.9	1.0	24.0	24.4	-0.4
Italy	126	102	24	46	44	2	5.6	4.5	1.1	2.0	1.9	0.1
Brazil	115	84	31	-23	-6	-18	5.3	3.9	1.4	-1.1	-0.3	-0.8
Australia	83	50	34	-32	-18	-14	4.8	2.9	1.9	-1.8	-1.0	-0.8
Thailand	78	72	6	40	41	0	15.1	14.0	1.1	7.8	7.9	-0.1
Belgium	74	62	12	-16	-16	0	11.7	9.8	1.9	-2.5	-2.5	0.0
Malaysia	72	66	6	25	27	-2	18.0	16.4	1.6	6.3	6.7	-0.4
Memo: Euro Area	1230	844	386	107	175	-69	7.9	5.4	2.5	0.7	1.1	-0.4

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

Summary of Findings

Pursuant to the 2015 Act, Treasury finds that no trading partner met all three criteria for enhanced analysis in the current review period of the four quarters through December 2023, based on the most recent available data. **In total, seven economies—China, Japan, Taiwan, Malaysia, Singapore, Vietnam, and Germany—constitute Treasury's Monitoring List.**

With respect to the economies covered in this Report:

- China has met at least one of the three criteria in every Report since the October 2016 Report. For the four quarters ending December 2023, China meets one of the three criteria (significant bilateral trade surplus) and remains on the Monitoring List due to the size of the bilateral surplus with the United States and its lack of transparency on intervention data.
- Japan meets two criteria (material current account surplus and bilateral surplus) in this Report. Japan had previously met one criterion, having a significant bilateral trade surplus with the United States, in the November 2023 Report. Japan had met two criteria in every Report from the April 2016 Report through the June 2022 Report, having a material current account surplus and a significant bilateral trade surplus with the United States.
- Taiwan met two of the three criteria since the June 2022 Report and continues to meet two of the three criteria in this Report, having a significant bilateral trade surplus with the United States and material current account surplus over the reporting period.
- Malaysia had previously met two of the three criteria since the June 2023 Report, having a material current account surplus and a significant bilateral trade surplus with the United States. For the four quarters ending December 2023, Malaysia met one of the three criteria, having a significant bilateral trade surplus with the United States. It remains on the Monitoring List until it meets fewer than two criteria for two Reports in a row.
- Singapore has met two of the three criteria since the May 2019 Report, having a material current account surplus and engaged in persistent, one-sided intervention in the foreign exchange market. It meets these same criteria in this Report.
- Vietnam, which had met one criterion under the 2015 Act in every Report since the June 2022 Report (significant bilateral trade surplus), exceeded two of the three criteria over the four quarters through December 2023, having a material current account surplus and a significant bilateral trade surplus with the United States.
- Germany has met two of the three criteria in every Report since the April 2016 Report, having a material current account surplus and a significant bilateral trade surplus with the United States. It meets these same criteria in this Report.

Treasury will closely monitor and assess the economic trends and foreign exchange policies of each of these economies.

In this Report, Treasury has 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, foreign exchange reserve coverage, capital controls, and monetary policy.

As the global economy regains momentum, it is critical that key economies adopt policies that allow for a narrowing of excessive surpluses and deficits. Governments should bolster domestic-led rather than externally supported growth. This would establish a firmer foundation for strong, balanced growth across the global economy.

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 being 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.