



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
<i>U.S. ECONOMIC TRENDS</i>.....	4
<i>ECONOMIC DEVELOPMENTS IN SELECTED MAJOR TRADING PARTNERS</i>	17
Section 2: Intensified Evaluation of Major Trading Partners	38
<i>KEY CRITERIA</i>	39
<i>SUMMARY OF FINDINGS</i>	43
<i>TRANSPARENCY OF FOREIGN EXCHANGE POLICIES AND PRACTICES</i>.....	44
Glossary of Key Terms in the Report.....	46

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

The global economy continues to show strength and is poised to make a soft landing. The IMF projects global growth of 3.3% in 2024 on a Q4 over Q4 basis, and high frequency measures of production and prevailing business conditions suggest global economic activity remains solid. As the world's largest economy, America's strong economic performance is serving as a key engine for resilient global growth. Global headline inflation has declined from a peak of 7.3% in September 2022 to 2.4% in July 2024. Declining inflation reflects lower food and energy prices, and generally lower goods prices as monetary tightening has eased price pressures. Most economies are on track to return inflation to central bank targets by next year. Labor markets across the world's largest economies remain robust and, across the G20, unemployment rates remain at, or very close to, their lowest rate since the onset of the pandemic. The risks to the global economic outlook have become more balanced on net over the past year, though Russia's war against Ukraine and the risk of wider conflict in the Middle East continue to be a risk to the outlook with the possibility of volatility among critical commodity prices and increased energy and food insecurity.

Global current account imbalances continued to narrow from their recent highs, driven largely by reduced current account surpluses in oil exporting economies among other factors. Yet, the moderation of commodity prices over the past few years has played a large part in narrowing imbalances, suggesting the decline is likely cyclical rather than structural. Among major U.S. trading partners, the very large surpluses of Germany, Japan, Korea, Ireland, the Netherlands, Switzerland, Taiwan, Singapore, and Vietnam have each remained significant as a share of GDP over the four quarters through June 2024. In China, domestic demand seems sluggish and exports strong, risking a return of larger imbalances and export-focused growth in the world's second largest economy. Meanwhile, the U.S. current account deficit as a share of GDP narrowed to 3.4% over this period, down from 3.5% of GDP in the four quarters one year prior.

The nominal trade-weighted dollar strengthened 4.0% over the four quarters through June 2024 as foreign currency movements continued to reflect multiple factors: mixed developments regarding inflation, the likelihood of a soft landing for the global economy, and the expected path of monetary policy in the United States and across other major economies. The dollar appreciated broadly over this period against advanced economy and emerging market economy currencies, strengthening by 3.0% and 5.0%, respectively. More recently, the dollar eased, weakening by 2.4% between end-June and end-September, as market expectations of accommodative monetary policy came into view, but then strengthened again on stronger economic data. Most of the dollar depreciation during this time reflected the strengthening of the euro, yen, and renminbi; the dollar weakened by 4.3% against advanced economy currencies and 0.6% against emerging market currencies. However, it has appreciated 2.9% during October, strengthening 3.5% and 2.3% against advanced economy and emerging market currencies, respectively.

Among major U.S. trading partners, most foreign exchange (FX) interventions continue to be in the form of selling dollars, actions that strengthen their respective currencies and

weaken the dollar. Thus, it is not a surprise that in the four quarters through June 2024, 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.

The Biden Administration believes that a market determined exchange rate reflecting economic fundamentals is the appropriate arrangement for the dollar. 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. The Administration urges trading partners to continue upholding these commitments, including if depreciation pressures affecting their currencies reverse and become appreciation pressure.

Treasury Analysis under the 1988 and 2015 Legislation

This Report assesses developments in international economic and exchange rate policies over the four quarters through June 2024. 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.

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 partners³ against the thresholds Treasury has established for the three criteria in the 2015 Act:

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.

³ Based on total bilateral trade in goods and services (i.e., imports plus exports).

- (1) A significant bilateral trade surplus with the United States is a goods and services trade surplus that is at least \$15 billion.⁴
- (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.⁵

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 June 2024, 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 two of the three criteria from the 2015 Act. **In this Report, the Monitoring List comprises China, Japan, Korea, Taiwan, Singapore, Vietnam, and Germany. All except Korea were on the Monitoring List in the June 2024 Report.**

In this Report, Japan, Korea, Taiwan, Vietnam, and Germany all meet the criteria for having a significant bilateral trade surplus with the United States and a material current account surplus, and Singapore meets the criteria for engaging in persistent, one-sided foreign

⁴ This threshold is measured in current 2024 dollars and can be adjusted to reflect inflation or growth in the dollar value of global trade.

⁵ 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.

exchange intervention and having a material current account surplus. Malaysia met one criterion in the last Report and in this Report. It has therefore been removed from the Monitoring List in this Report.

China's failure to publish foreign exchange 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 June 2024 and, where quarterly and/or monthly data are available, through end-September 2024. Total goods and services traded between the United States and the economies covered amounted to more than \$5.4 trillion in the four quarters through June 2024, about 78% of all U.S. trade during that period.

U.S. Economic Trends

Economic Performance in 2024 H1

Following very strong growth of 3.8 percent at an annualized rate over the latter half of 2023, real GDP grew 2.3 percent during the first half of this year. Of the four major components of GDP (private domestic final purchases, public final purchases, net

international demand, and private inventory growth), all but net exports contributed to the expansion in the first half of 2024.

Growth of private domestic final purchases (PDFP)—that is, personal consumption expenditures (PCE), business fixed investment, and residential investment—continued at a strong pace in the first half of 2024, contributing 2.4 percentage points to total GDP growth after adding 2.6 percentage points in the latter half of last year.

Personal consumption growth added 1.6 percentage points to topline growth in early 2024. Private investment also supported GDP growth in the first half of 2024. The positive contribution from business fixed investment doubled from 0.3 percentage points in the second half of 2023 to 0.6 percentage points in this year's first half, as equipment investment turned positive and the positive contributions from intellectual property products held steady. Meanwhile residential investment added a similar, positive amount to growth. Buoyed by more construction of new single-family homes, residential investment added 0.2 percentage points to growth.

Among the remaining three components of real GDP, total government consumption and investment growth slowed, adding 0.4 percentage points to growth in the first half of 2024, after adding 0.8 percentage points in the latter half of last year. Net international demand continued to fall with nominal net exports declining \$115.7.0 billion, after slipping slightly in the second half of last year. Net exports posed a very slight drag on growth in the second half of 2023 and subtracted 0.8 percentage points from growth in the first half of this year. Meanwhile, the contribution from private inventories was relatively stable, contributing 0.3 percentage points to growth after a 0.4 percentage point addition during last year's second half. The buildup largely reflected nonautomotive retail inventories.

On balance, labor markets remained relatively strong in the first half of 2024, with solid job creation, gains in participation, and unemployment rates near historical lows. The economy created an average of 207,000 jobs per month during the first half of 2024, very close to the average of 213,000 per month during the latter half of 2023. Although payroll job creation has slowed well below the gains of 300,000 or more seen in the previous two years, previous outsized gains may have been elevated in part by faster population growth—which has since eased. The unemployment rate (U-3) stood at 3.7% in December 2023 but had risen to 4.1% by June—still low by historical standards. Labor force participation rates—both total and prime-age—have improved this year after declining late last year, with prime-age participation climbing to its highest level since early 2002. Employer demand for labor has eased to more normal levels. In June 2024, there were 1.16 job vacancies per unemployed worker, down from 1.42 vacancies in December 2023.

Inflation resumed a downward trend during the first half of this year. After a peak rate of 9.1% in June 2022, 12-month CPI inflation declined to 3.4% by December 2023 and to 3.0% by June 2024. Lower food price inflation helped drive the improvement at the headline level. Over the year ending in June 2024, food prices rose 2.2%, slowing from a 2.7% pace over the year ending December 2023. By contrast, energy prices flipped from a drag on inflation to a contributor in the first half of 2024, rising 1.0% on a 12-month basis through

June 2024 after declining by 2.0 % over the year ending December 2023. Uncertainty persisted over the geopolitical situations in the Middle East and other regions, the adequacy of crude oil production, and the likelihood of higher global demand. Twelve-month core CPI inflation (which excludes food and energy) declined from 3.9% in December 2023 to 3.3% in June 2024 (half the peak rate of 6.6% reached in September 2022). Shelter price inflation also declined but remained elevated. Goods prices experienced deflation, however. PCE inflation, the Federal Reserve's preferred measure, continued to moderate towards the 2% target, and stood at 2.5% for headline inflation and 2.6% for core for the 12 months ending in June 2024.

Economic Developments Since June 2024

The U.S. economy's strength and resilience has improved in certain ways since June 2024, even with the moderating pace of job creation. In the third quarter of 2024, real GDP growth was 2.8% at an annual rate. Headline growth reflected robust household consumption as well as solid business fixed investment, but residential investment was a drag on growth in the third quarter. Combined, PDFP accounted for 2.7 percentage points of topline GDP growth—or 0.3 percentage points more than in the first half of 2024. Public sector spending and investment contributed another 0.9 percentage points. However, the trade deficit continued to widen, and net exports subtracted 0.6 percentage points. In addition, the pace of private inventory build slowed, which deducted another 0.2 percentage points from GDP growth in the third quarter.

Labor markets have remained healthy on balance, even as job creation has slowed in recent months. Since June 2024, employers have added an average of 114,000 jobs per month, less than the 207,000 in the first half of 2024. However, the pace of average job growth was pulled down by a particularly weak report in October, in which labor market strikes—and hurricanes, though the impact was not quantified—reduced job growth to a scant 12,000. Over the three months ending in September (prior to October's one-off factors), the average monthly gain was 148,000, a still-solid pace of job growth that should be adequate to maintain a healthy supply and demand balance in labor markets given recent reductions in the pace of immigration. Meanwhile, the unemployment rate increased to 4.3% in July but has since returned to June's 4.1% rate as of October, and labor supply has improved among the working age population, even as the headline labor force participation rate in October was 62.6%, matching the rate in June. The prime-age LFPR climbed to a 23-year high in July before easing to 83.5% in October, just 0.2 percentage points below June's rate. Slowing employment growth contributed to better balance in labor markets: as of September, there were 1.16 job openings per unemployed worker—down slightly from 1.19 vacancies in June.

Inflation has eased further since June 2024. Over the twelve months ending in September, year-over-year CPI inflation was 2.4%, or 0.6 percentage points lower than June's pace. Lower energy prices helped curb headline inflation; although food price inflation accelerated slightly, it remained near pre-pandemic norms. Core CPI inflation registered 3.3% through September, matching June's 12-month rate, underpinned by strong price growth in core non-housing services as well as continued shelter inflation. The headline

PCE price index slowed to 2.1% over the year through September, just 0.1 percentage points above the Federal Reserve's inflation target.

The Federal Open Market Committee (FOMC) began loosening monetary policy in September 2024. After maintaining the federal funds rate target range at 5.25-5.5% since mid-2023, the FOMC reduced the target range by 50 basis points to 4.75-5.0% at the September 17-18 meeting. According to the meeting's Summary of Economic Projections, the median participant of the FOMC expected the range for the target rate to decrease to 4.5-4.75% by the end of 2024.

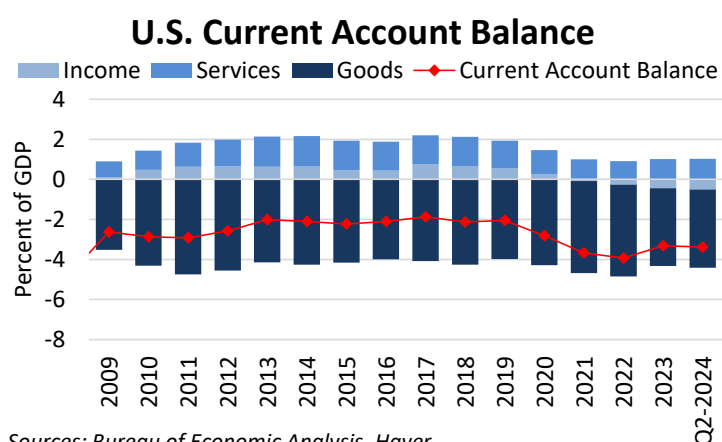
Federal Finances in Fiscal Year FY 2024

In FY 2024, the deficit increased \$138 billion to \$1.83 trillion (6.4% of GDP) as an increase in outlays more than offset rising receipts. Outlays rose by \$617 billion to \$6.75 trillion (23.4% of GDP) in FY 2024, partly reflecting increased net interest payments on the federal debt, a sharp drop in proprietary receipts by the Department of Education, and higher spending on Social Security and Medicare due to demographic aging. Meanwhile, total federal receipts jumped by \$479 billion to \$4.92 trillion (17.1% of GDP) in FY 2024. The rise in receipts was partly due to strong labor markets (which pushed up individual income tax withholdings and social insurance receipts), capital gains realizations, and the payment of some delayed taxes from FY 2023 (such as from those impacted by natural disasters).

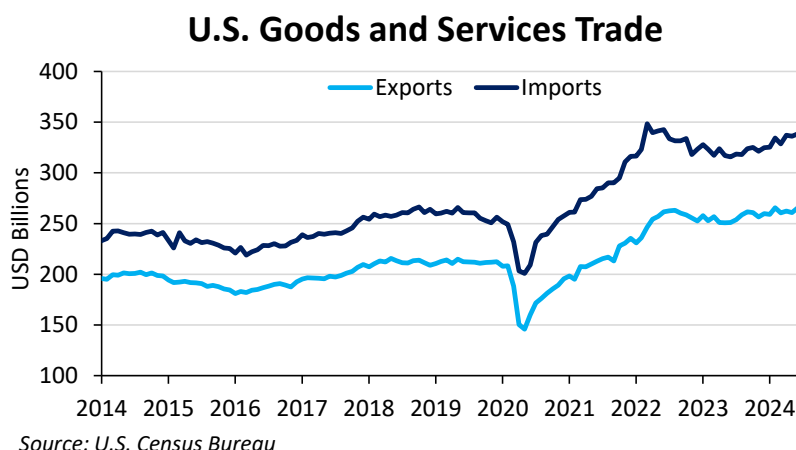
In June 2023, the Treasury's borrowing limit was suspended until 2025. At the end of September 2024, gross federal debt stood at \$35.5 trillion (123.0% of GDP) while debt held by the public was \$28.3 trillion (98.2% of GDP).

U.S. Current Account and Trade Balances

The U.S. current account deficit increased by \$30.1 billion to \$950.2 billion in the four quarters through June 2024. However, as a share of GDP, the deficit was 3.4%, down from 3.5% in the four quarters through June 2023. The widening of the deficit in nominal terms was driven by an increase in the goods deficit along with a large decrease in the primary income surplus, which offset a widening of the services surplus. The deficit in goods widened as increasing imports outpaced increasing exports. The services surplus increase was driven in large part by an increase in transportation services and travel. The primary income surplus continued its downward trend since 2019, declining \$57 billion in the four quarters through June 2024.



The U.S. trade deficit was \$806 billion, or 2.9% of GDP, over the four quarters through June 2024, compared to \$824 billion, or 3.1% of GDP, over the four quarters through June 2023. Overall, the goods deficit increased by around \$16.8 billion in the four quarters through June 2024. The services surplus increased by \$33.7 billion.



U.S. trade growth has begun to recover, increasing on a year-over-year basis in each month of 2024 after turning negative in April 2023. Goods imports from Mexico, South Korea, Vietnam, and Taiwan, which more than offset a small decline in imports from China, have driven the recent uptick in trade growth between the first half of 2024 and the first half of 2023. This follows similar trade patterns globally where goods trade growth was strong in the first two quarters of 2024.

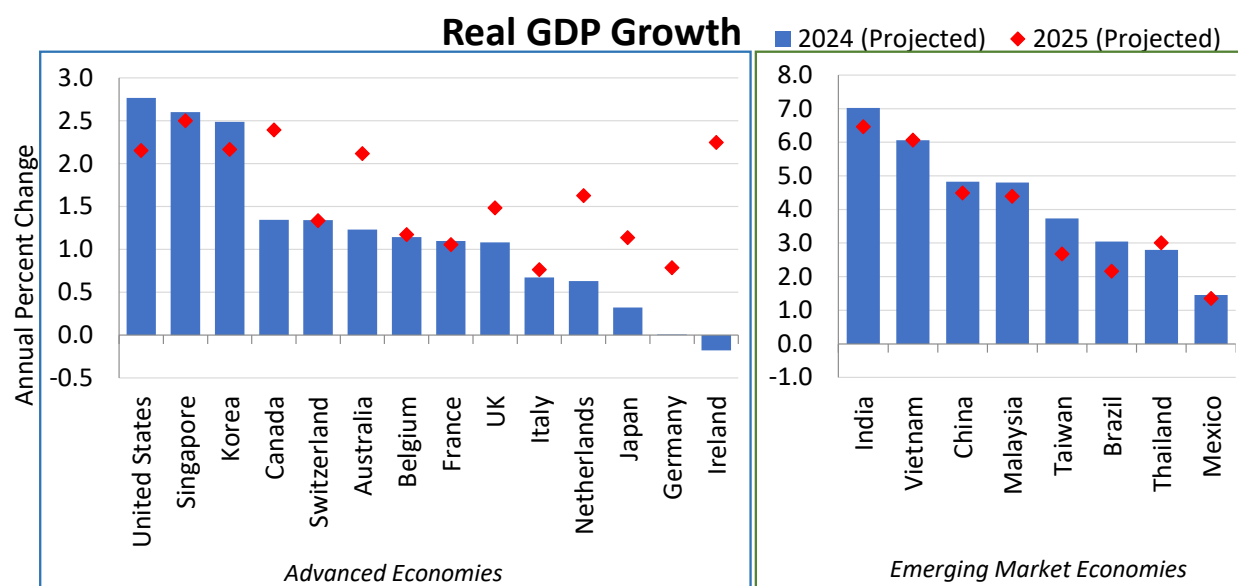
At the end of June 2024, the U.S. net international investment position (NIIP) marked a net liability position of about \$22.5 trillion (80.1% of GDP), widening by \$4.3 trillion from end-June 2023. This widening far exceeded the net borrowing implied by the current account deficit in this period (\$950 billion) as valuation effects were quite sizable. The value of U.S.-owned foreign assets was \$36.0 trillion, up \$2.7 trillion from end-June 2023. The value of foreign-owned U.S. assets stood at \$58.5 trillion, up \$6.9 trillion from one year earlier. The increase in the value of foreign-owned U.S. assets was driven by large increases in the categories of direct investment assets in equity and portfolio investments in equity & investment fund shares, which increased a combined \$5.6 trillion in June 2024 from one year earlier, outpacing a rise in the value of U.S.-owned foreign assets of the same categories of \$2.3 trillion over this period. In the four quarters ending June 2024, the S&P 500 index rose 22.7%, while the Dow Jones index for rest of world stock markets rose by a lesser amount, 8.0%; lower price increases of U.S.-owned assets abroad than those of foreign-owned assets in the United States contributed to the U.S. net position becoming more negative. The nominal trade-weighted U.S. dollar appreciated by 4.0%. The stronger dollar in the four quarters through June 2024 meant U.S. foreign assets denominated in foreign currency lost value in dollar terms, while U.S. liabilities are primarily in dollars and their dollar value does not change as significantly with exchange rate fluctuations. These valuation changes, combined with the current account deficit, contributed to a more negative overall net international investment position.

International Economic Trends

The global economy continues to show strength and is poised to make a soft landing. The IMF projects global growth of 3.3% in 2024 on a Q4 over Q4 basis, and high frequency measures of production and prevailing business conditions suggest global economic

activity remains solid. As the world's largest economy, America's strong economic performance is serving as a key engine for resilient global growth. Global headline inflation (excluding the large outliers of Turkey, Argentina, Zimbabwe and Sudan) has declined from a peak of 7.3% in September 2022 to 2.4% in July 2024. Declining inflation reflects lower food, energy, and generally lower goods prices as monetary tightening has eased price pressures. Most economies are on track to return inflation to central bank targets by next year. Labor markets across the world's largest economies remain robust and, across the G20, unemployment rates remain at, or very close to, their lowest rate since the onset of the pandemic. 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 to critical commodity prices, which increased energy and food insecurity and exacerbated inflation.

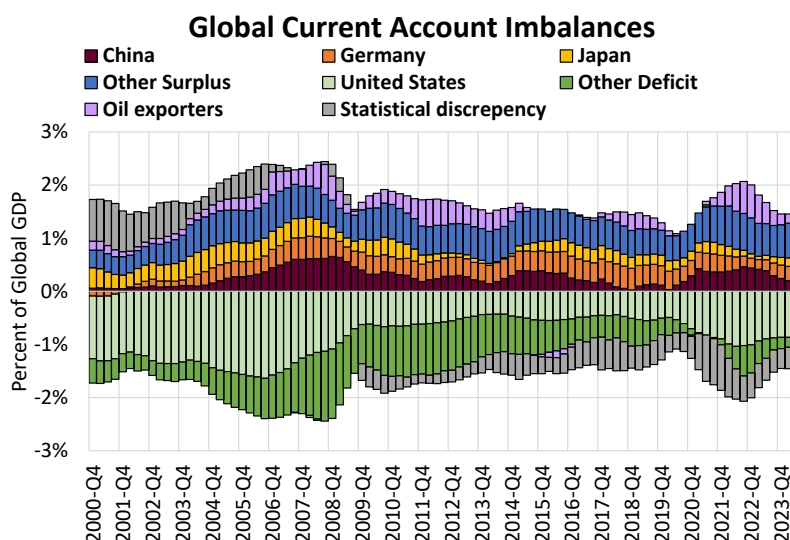
Looking forward, the IMF projects year-over-year global growth to slow from 3.2% to 3.1% over the next five years. While the weaker outlook relative to recent decades is largely driven by lower projected growth in emerging Asia and lower population growth around much of the world, the more symmetrical 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. The IMF expects U.S. growth to moderate by end-2025 from its fast growth in 2024, and while many European countries are expected to see higher growth, advanced economy growth is expected to slow down. Growth in Emerging Asia is expected to remain rapid, but slower than in recent decades.



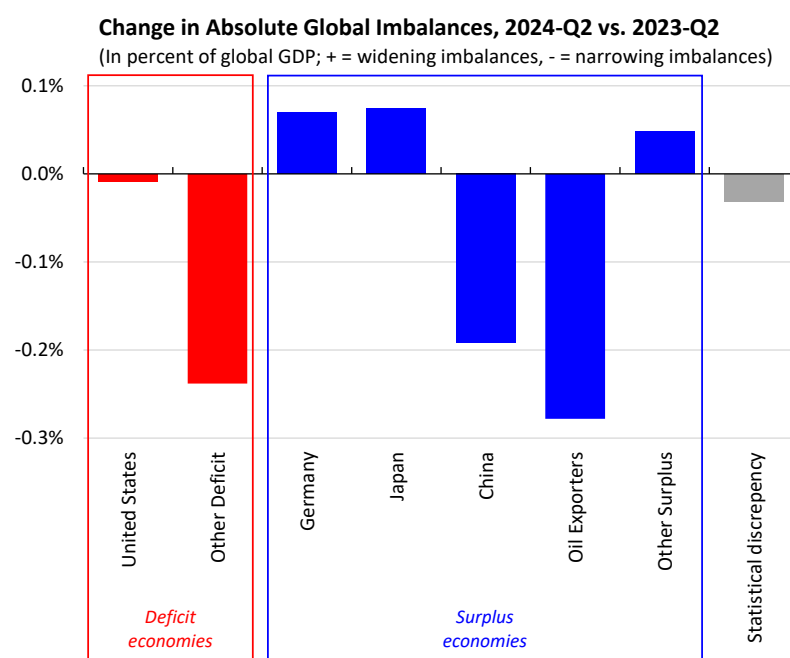
Source: IMF World Economic Outlook October 2024.

Global Imbalances

Aggregate external imbalances⁶ continued to narrow from their post-pandemic highs, though several factors complicate assessing the durability of this reduction. Reduced current account surpluses in oil exporting economies continued to play a substantial role over the four quarters through June. This suggests the moderation of commodity prices over the past few years has played a large part in narrowing imbalances rather than a structural decline. China's reported current account surplus narrowed over this time by 0.2% of global GDP, but any assessment of the scale of China's imbalances continues to be complicated by the anomalies in China's current account data.⁷ Additionally, the slight narrowing of the aggregate statistical discrepancy – essentially, a missing or undermeasured deficit – in part likely reflects changes in China's net errors and omissions during this period, which swung to a surplus



Sources: IMF WEO, Haver



Sources: IMF WEO, Haver

⁶ Measured as the sum of the absolute values of current account deficits and surpluses.

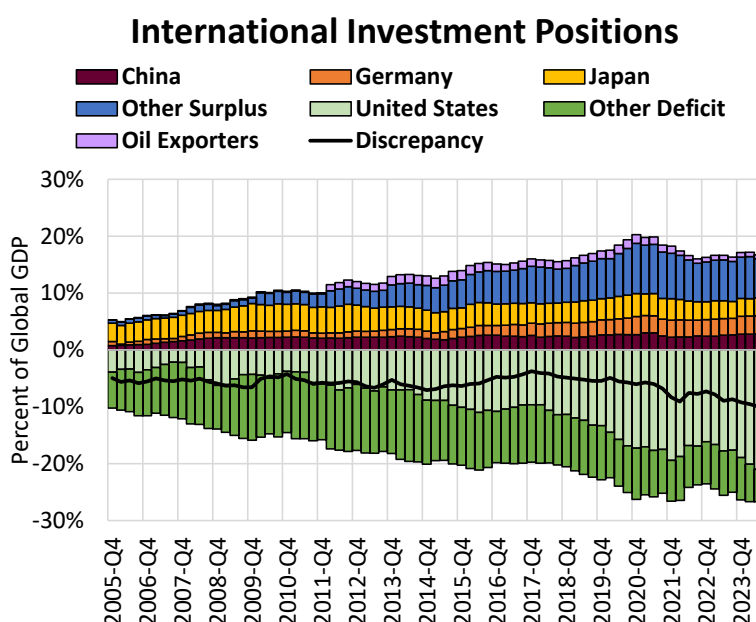
⁷ Treasury's use of trade data from the State Administration of Foreign Exchange (SAFE) in this Report is not meant to imply that these data are more accurate but is instead motivated by these data's consistency with other components of the balance of payments. Refer to Box 1 in the June 2024 FX Report for more details on the divergence between the goods balance reported in SAFE's balance of payments data and that reported in China's Customs data, which has continued to increase and reached an all-time high in the second quarter of 2024. SAFE reports that it changed the source data used as the basis for their estimate of China's goods balance in 2022, which has likely contributed to this divergence. Treasury does not have sufficient information at this time to assess whether this change has increased the accuracy of China's reported current account balance.

over these four quarters for the first time since 2012. Other surplus and other deficit countries both shrank as well such that, in total, surpluses as a share of global GDP fell from 1.7% to 1.4% over four quarters through June 2024 and deficits narrowed by about 0.2%. Uneven growth and differing policy priorities could widen imbalances again and, as noted below, there are concerning signals from China in this regard. 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.

Total NIIP surpluses and deficits have remained relatively flat over the last few years. That said, many countries have seen substantial changes. Among major U.S. trading partners, the change in the NIIP over the four quarters through June 2024 broadly continued to reflect valuation effects. Notably, in the cases of Singapore and the Netherlands, 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, Brazil, Mexico, France, the UK, 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.

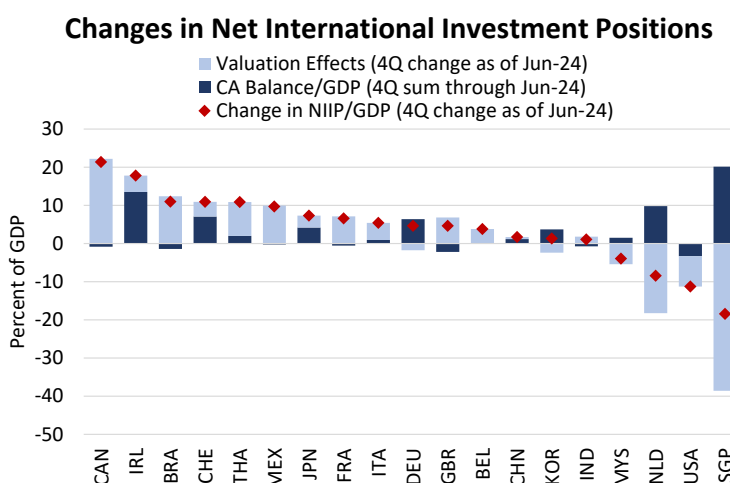
Capital Flows to Emerging Market Economies

Net capital flows to emerging market economies were mixed over the four quarters through June 2024. Total net outflows (FDI, portfolio investment, and other investment) across emerging markets over the course of the four quarters continued



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).

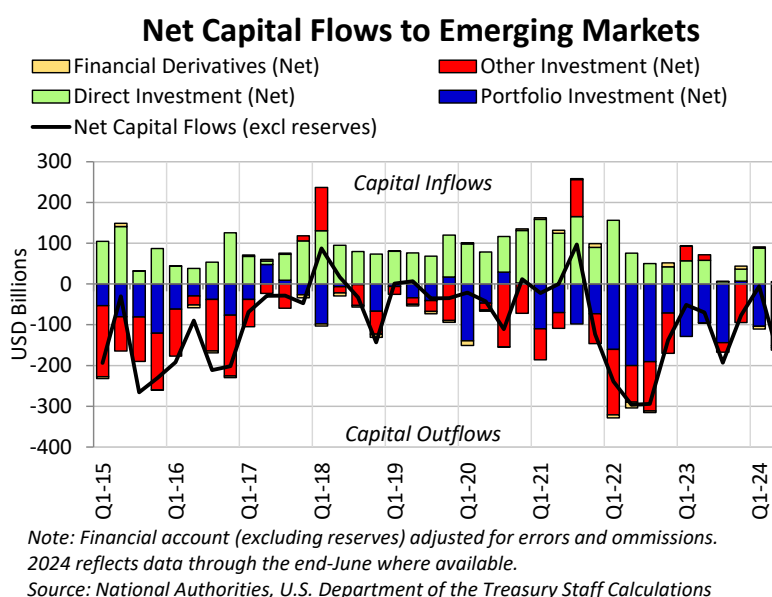


Sources: Haver, IMF, National Authorities

to narrow from one year prior but remained elevated at \$382 billion (relative to \$448 billion over the same period one year prior). During this period, net outflows from emerging markets of portfolio and other investment totaled \$502 billion, narrowing roughly \$153 billion relative to the same period one year prior.⁸ Combined nonresident flows remained positive over the four quarters through June 2024 and continued to gradually climb from their trough in early 2023, but remained outpaced by outflows from residents.⁹ These total net outflows partly reflect lower net inflows of FDI to China as well as higher net outflows of other investment from Russia and China over the course of this period. Excluding China and Russia, net outflows of FDI, portfolio investment, and other investment from emerging markets have narrowed to \$54 billion over the four quarters through June 2024, though they remain slightly elevated from full-year 2023 levels.

Quarterly net capital flows over the four quarters through June 2024 reflected competing forces across the different types of flows. Total capital outflows picked up in the third quarter of 2023 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 of the year, net outflows narrowed considerably in part due to

lower resident outflows of FDI and higher nonresident portfolio inflows. Alongside an appreciating U.S. dollar during the first quarter of 2024, outflows of portfolio investment from residents increased dramatically to \$201 billion, their highest quarterly nominal amount on record, and were partially offset by robust inflows of portfolio investment from nonresidents. During this time resident outflows of other investment narrowed, leading to a resumption of net inflows, while large resident outflows of FDI were more than offset by buoyant nonresident inflows. Similar dynamics persisted in the second quarter of 2024. While resident outflows of portfolio investment narrowed, nonresident inflows also fell, leading to a larger quarterly portfolio outflow on a net basis. In a similar manner, resident outflows of FDI narrowed while nonresident inflows fell substantially, leaving quarterly net FDI flows negative for the first time in more than 20 years. Meanwhile, net inflows of other investment remained relatively stable over the quarter.



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.

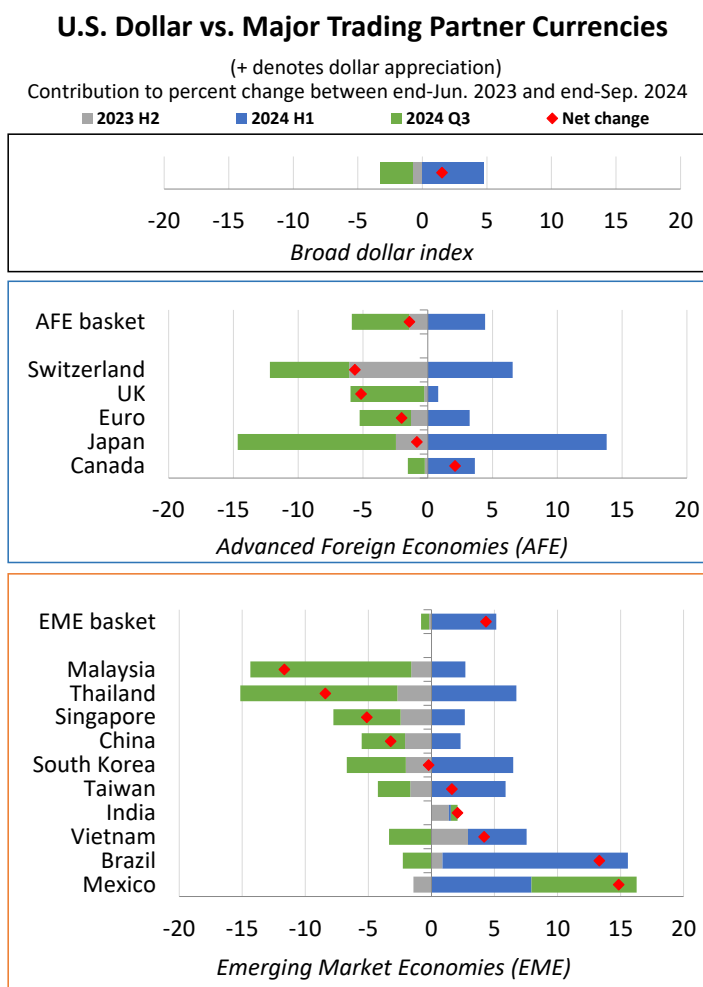
⁹ These sustained net outflows from residents can reflect both short-term cyclical factors such as changes in global risk appetite as well as long-term, structural characteristics including reduced investment home bias, increased sophistication of domestic investments, and increased access to international markets.

Higher frequency data (from sources beyond quarterly balance of payments data) suggest that, since end-June 2024, nonresident portfolio flows to emerging markets remained resilient, especially portfolio debt inflows to emerging markets excluding China, despite a brief episode of financial market volatility in early August. Additionally, these data suggest nonresident portfolio equity inflows to China surged to record levels in September as Chinese authorities announced a raft of economic and financial market support measures.

Foreign Exchange Markets¹⁰

The nominal trade-weighted dollar strengthened 4.0% over the four quarters through June 2024 as foreign currency movements continued to reflect multiple factors: mixed developments regarding inflation, the likelihood of a soft landing for the global economy, and the expected path of monetary policy in the United States and across other major economies. The dollar appreciated broadly over this period against advanced economy and emerging market economy currencies, strengthening by 3.0% and 5.0%, respectively.

The dollar weakened by 0.8% over the second half of 2023, easing 1.4% against advanced economy currencies and weakening by 0.2% against emerging market currencies. This trend reversed in the first half of 2024 as the dollar rebounded, appreciating by 4.8% 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. During this time, the dollar



Sources: FRB, Haver

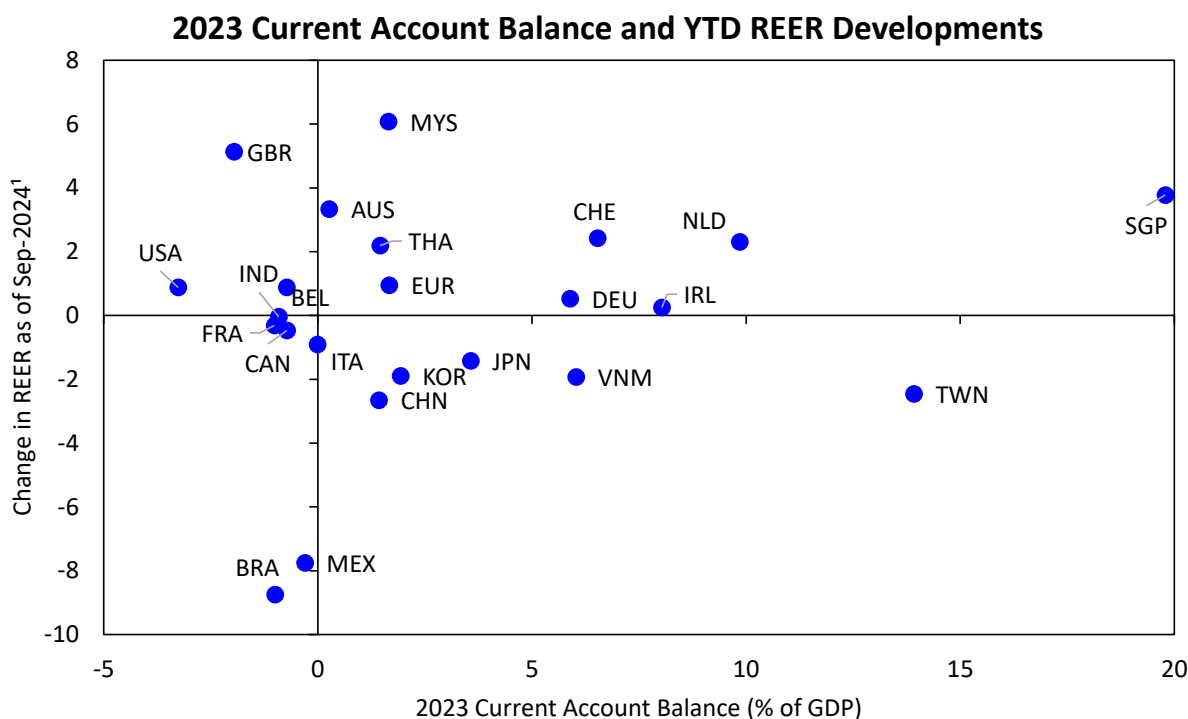
¹⁰ Unless otherwise noted, this Report quotes exchange rate movements using end-of-period data. Bilateral movements against the dollar and the nominal effective dollar index are calculated using daily frequency or end-of-period monthly data from the Federal Reserve Board. Movements in the real effective 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.

strengthened against all major trading partners. Most notably, the dollar appreciated significantly against the Japanese yen and the Brazilian real, strengthening by 14.2% against the yen and 14.6% against the real. Among other trading partners, the dollar also appreciated by 8.1% against the Mexican peso, 7.0% against the Swiss franc, and 6.9% against the Thai baht.

Since end-June, the dollar has eased as economic data releases continued to point to a soft landing in the United States and market expectations of accommodative monetary policy came into view. Between end-June and end-September, the dollar weakened by 2.4%. Most of the dollar depreciation during this time reflected the recent strengthening of the euro, yen, and renminbi; the dollar weakened by 4.3% against advanced economy currencies and 0.6% against emerging market currencies. Over the course of October, however, the dollar appreciated by 2.9%, strengthening by 3.5% and 2.3% against advanced economy and emerging market economy currencies, respectively, leaving the dollar 5.3% stronger since end-2023.

On a real effective basis, the dollar appreciated 1.4% from end-2023 to end-September 2024, and remains 15.3% above its 20-year average. Adjustments for relative inflation have contributed minimally to year-over-year monthly real effective exchange rate movements thus far in 2024, so nominal effective exchange rate movements primarily explain the strength of the real dollar. In its most recent assessment from July 2024, the IMF continued to judge the dollar to be overvalued by 5.8% on a real effective exchange rate basis in 2023, consistent with its assessment that the U.S. external position was broadly in line with the level implied by medium-term fundamentals and desirable policies during this period.

Real effective exchange rates across several economies have moved over the course of the first nine months of 2024, with some current account surplus economies' currencies moving in the direction of easing imbalances. Most economies with surpluses exceeding 5% of GDP in 2023 have seen real exchange rates appreciate thus far in 2024, with Switzerland, Netherlands, and Singapore's real exchange rates strengthening by upwards of 2%. In contrast, real exchange rates among several major trading partners with sizable current account surpluses (such as Taiwan, Vietnam, and Japan) have depreciated over the course 2024, shifting relative prices in a direction making it likely they will run even larger surpluses. Some countries that had current account deficits in 2023 have seen continued real appreciation in 2024 (the United States and the United Kingdom), while others have seen mild real depreciation over this period. Notably, Brazil and Mexico have experienced sizable real depreciations.



Sources: National authorities; BIS REER Indices, JP Morgan, FRB.
 1/Change between 2023 average REER and end-September 2024.

Foreign Exchange Reserves

Global foreign currency reserves remained at roughly \$12.3 trillion over the four quarters through end-June 2024, an increase of roughly \$290 billion from one year prior. Data on the stock of global foreign exchange reserves, the currency composition of global reserves, new Treasury International Capital (TIC) data on valuation changes for foreign holdings of U.S. Treasuries, and assumptions regarding the asset composition of foreign exchange reserve assets (see footnote 23 on p. 40 for more details on Treasury's methodology for estimating foreign exchange intervention), suggest this increase was driven predominantly by an estimated \$262 billion in foreign exchange purchases. Valuation effects contributed modestly to the increase in holdings (\$29 billion), as estimated interest income totaled \$161 billion, offsetting \$132 billion of exchange rate-related losses from the effects of euro and yen weakness in the third quarter of 2023 and the first half of 2024.¹¹ The most recent and available quarterly balance of payments data, which isolate flows of reserve assets from valuation effects, suggest the increase in foreign exchange reserves was due to an accumulation of FX assets of \$117 billion while total valuation effects (both exchange rate and price changes) increased reserve positions by \$174 billion over the same time period. 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.

¹¹ Given that reserves are reported in dollars, when the dollar strengthens against other currencies held as reserves, the dollar value of those non-dollar reserves falls.

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	3,222.4	29.4	18%	236%	106%
Japan	1,100.7	-25.4	27%	36%	..
Switzerland	791.6	-16.6	86%	75%	..
India	572.9	44.9	16%	432%	176%
Taiwan	573.3	8.5	74%	313%	..
Korea	388.4	-8.8	21%	274%	..
Singapore	357.6	40.4	69%	28%	..
Brazil	325.6	13.0	15%	352%	130%
Thailand	200.2	3.8	39%	300%	209%
Mexico	197.7	13.9	10%	316%	117%
UK	102.2	-3.9	3%	1%	..
Malaysia	103.9	2.1	26%	87%	115%
Vietnam	84.1	-5.1	19%	291%	..
Canada	95.0	8.5	4%	8%	..
France	28.7	1.3	1%	1%	..
Italy	49.6	2.0	2%	5%	..
Australia	37.6	0.7	2%	9%	..
Germany	37.6	0.7	1%	2%	..
Belgium	8.1	-1.7	1%	1%	..
Netherlands	6.1	-0.3	1%	1%	..
Ireland	5.1	-0.4	1%	0%	..
United States	35.2	-1.4	0%	0%	..
World	12,333.8	290.2	n.a.	n.a.	..

Foreign exchange reserves as of end-June 2024.

GDP calculated as sum of rolling 4Q GDP through Q2-2024.

Short-term debt consists of gross external debt with original maturity of one year or less, as of the end of Q2-2024; Vietnam as of Q2-2023.

** 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.*

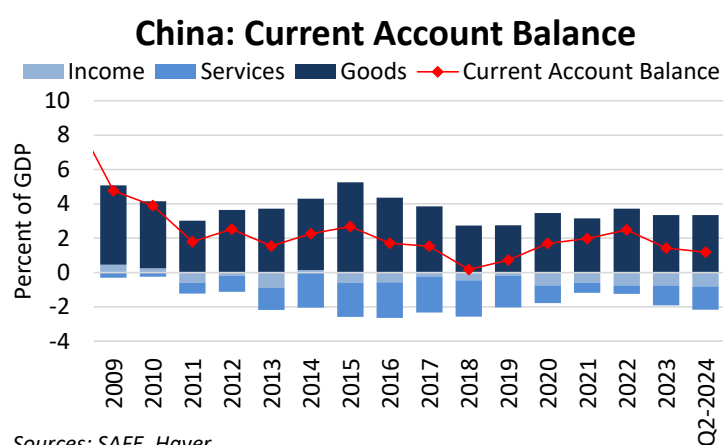
Sources: National Authorities, World Bank, IMF, BIS.

Economic Developments in Selected Major Trading Partners

China

China's macroeconomic outlook has continued to deteriorate this year, weighed down by weak domestic demand. Consumption growth has decelerated amid slowing household income growth and weak consumer confidence. Property sector weakness continues to drag on growth significantly and exacerbate local government fiscal strains. Investment growth is increasingly reliant on manufacturing investment amid a continued contraction in real estate investment. The authorities have recently responded with a number of new economic and financial market support measures, including cuts to policy rates and reserve requirements, measures to stabilize the property sector, and new swap and relending facilities to boost capital markets. The authorities have also previewed more fiscal support, though they have not yet announced the size of a fiscal package. According to the Ministry of Finance, China plans to use fiscal tools to support local governments' finances, including supporting purchases of excess housing stocks, and to recapitalize six large state-owned commercial banks. Absent further measures to support consumption, a combination of weak domestic demand, a renewed emphasis on manufacturing investment, and continued non-market policies and practices could exacerbate industrial overcapacity in certain sectors, with negative spillovers for China's trading partners, including workers and firms in the United States.

According to China's balance of payments data, China's current account surplus narrowed to 1.2% of GDP over the four quarters through June 2024 from 2.2% in the same period through June 2023. Balance of payments data report a fall in the goods trade surplus to 3.3% of GDP over the reporting period from 3.6% in the four quarters through June 2023. In contrast, China's customs data show a much larger goods trade surplus that only marginally declined to 4.8% of GDP from 4.9% during this same period. Using the customs data, China's current account surplus would be 2.7% of GDP.¹² Over the reporting period, China's services trade deficit widened substantially to 1.4% of GDP from 0.8%, reflecting a continued recovery of outbound travel. Meanwhile, China's income deficit widened to 0.8% of GDP from 0.5% during this period, as residents' reported investment income fell despite a significant increase in interest rates in most advanced economies.



¹² As explained in footnote 7, 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.

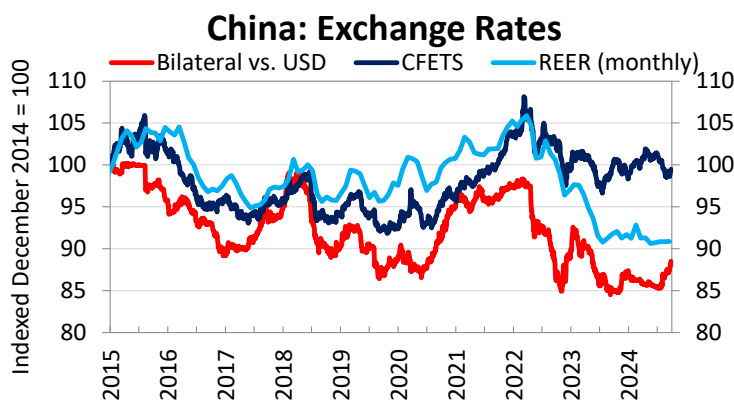
Despite the small decline in China's trade surplus in value terms during this time, in volume terms the trade surplus meaningfully expanded – with export volumes increasing by 9.3% while import volumes increased by just 2.2% – amid a decline in China's export prices. This trend accelerated in the third quarter of this year, with export volumes increasing by 12.4% year-over-year while imports grew by just 0.6%. Partially as a result of weak domestic demand, China has increasingly relied on foreign demand to drive growth this year, with net exports contributing an unusually high share (43%) of real growth in the third quarter. Thus, while the reported current account surplus is not material, the rapidly growing export volumes amid falling prices will likely have large impacts on China's trading partners.

China's bilateral trade surplus with the United States remains the largest of any U.S. trading partner. China's bilateral goods and services trade surplus with the United States fell to \$247 billion during the four quarters through June 2024, down from \$293 billion in the prior four quarters. The bilateral goods surplus fell to \$277 billion from \$313 during this same period, 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 \$30 billion in the year through June, widening from a deficit of \$20 billion during the previous four quarters.

China's financial account deficit expanded to \$261 billion over the four quarters through June 2024 from \$244 billion during the previous four quarters. Despite the relative stability in China's overall financial deficit, there were large shifts in the components of these capital flows during this period. China's portfolio investment deficit narrowed to \$29 billion from \$192 billion during the previous four quarters, as large nonresident purchases of onshore debt securities more than offset an increase in residents' investment in foreign equities. During the same period, China's direct investment deficit widened to a record-high \$205 billion from \$120 billion, primarily reflecting a continued decline in nonresident FDI inflows. Meanwhile, other investment flows swung from a surplus of \$71 billion to a deficit of \$18 billion as Chinese banks increased their lending to nonresidents. China recorded a net errors and omissions surplus of \$15 billion during the four quarters through June 2024, in sharp contrast with the large undocumented capital outflows China recorded between 2012 and 2022.¹³ It remains unclear whether the reversal 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.

¹³ Between 2012 and 2022, China's average annual net errors and omissions deficit was \$139 billion.

The RMB depreciated by 0.3% against the dollar and appreciated by 2.4% against the People's Bank of China's (PBOC's) China Foreign Exchange Trade System (CFETS) nominal basket in the first ten months of 2024.¹⁴ Meanwhile, the real effective exchange rate weakened by 0.9% in the first nine months of the year (the latest available data) due to continued low inflation in China relative to its major trading partners, which follows a 12.9% depreciation in China's real effective exchange rate over the previous two years. This year through late July, the RMB weakened by as much as 2.4% against the dollar despite PBOC measures aimed at slowing the pace of bilateral depreciation (discussed below). Starting in late July, as the broad dollar began to weaken, the RMB began to appreciate sharply against the dollar, a trend that accelerated in late September amid announcements of macroeconomic policy support. However, this trend reversed in October against the backdrop of a rapidly strengthening broad dollar.

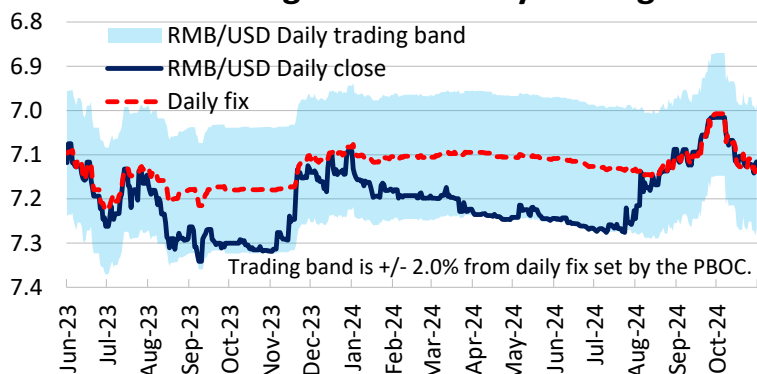


Sources: CFETS, FRB, BIS

China provides very limited transparency regarding 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 $\pm 2\%$. 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).

Over the year through July 2024, the PBOC used the daily fix to manage the exchange rate during periods of elevated depreciation pressures. As mentioned in the June 2024 Report, starting in July 2023, the PBOC consistently set the daily fix at a level substantially stronger than market forecasts. This deviation reached a record high last November at the peak of

Onshore Trading Band vs. Daily Closing Rate



Source: CFETS

¹⁴ The CFETS RMB index is a trade-weighted basket of 24 currencies published by the PBOC.

depreciation pressures, and subsequently set a new record in April 2024 amid a resurgence of depreciation pressures. The gap between official daily fix and market forecasts remained large until July, when RMB appreciation pressures appeared to make additional PBOC efforts unnecessary. The PBOC has not offered an official explanation or published a change in methodology to explain the record deviations between the daily fix and the prior day's closing rate.

In addition to the authorities' use of the daily fix, press reports citing market sources continue to identify state-owned Chinese banks acting to resist RMB weakness, with some reports directly tying this behavior to instructions from Chinese authorities.¹⁵ These actions include increasing dollar sales for RMB in the onshore and offshore markets, reducing dollar purchases, and cutting interest rates on dollar-denominated deposits. Moreover, as explained in Box 1 below, press reports indicate that these banks have funded their dollar sales at least in part through foreign-exchange swaps, a practice that makes this activity more difficult to monitor. 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.¹⁶

Box 1: Chinese Banks' FX Sales and FX Swap Activity

In recent months, press reports have cited an increase in activities by Chinese state-owned banks to resist RMB depreciation pressures. Specifically, these reports suggest that over the past year, Chinese state-owned banks may have borrowed dollars using FX swaps to fund spot dollar sales, with the objective of resisting depreciation pressures on the RMB. In the twelve months through July 2024, banks' net FX settlement, a broad proxy measure for FX intervention, recorded the largest net sales of foreign currency for RMB since the 2015 and 2016 period of financial market stress and capital flight. There are additional trends in economic data consistent with these press reports, as detailed below. If these reports are accurate, this activity would result in a short-dollar forward position for the Chinese state-owned banks. It is unclear whether state-owned banks may have conducted additional trades, including potentially with the PBOC, that would effectively hedge this risk. Treasury urges the Chinese authorities to provide greater clarity on state-owned banks' activities and objectives in the onshore foreign exchange market.

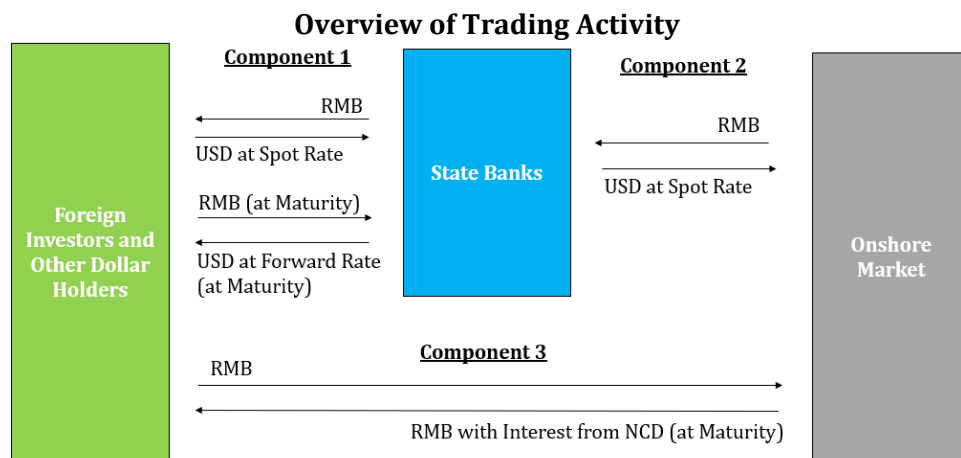
Step-by-Step Reported Swap Activity and FX Transactions

- 1. Chinese banks conduct RMB-dollar FX swap transactions with foreign investors and other dollar liquidity providers.** These banks receive dollars in exchange for RMB at the current spot exchange rate and agreed to return the dollars at a predetermined forward rate at maturity. These swaps are reportedly concentrated at three-month to one-year tenors.

¹⁵ 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.

¹⁶ "China Steps Up Yuan Defence with Bond Limit Guidance." *Reuters*, August 25, 2023.

2. **Chinese banks sell dollars in the spot market for RMB.** These RMB purchases have the effect of dampening RMB depreciation pressures.
3. **Foreign investors use RMB from FX swaps to invest in onshore assets.** Market participants lending dollars to Chinese banks via FX swaps in Step 1 receive RMB. These market participants have reportedly primarily invested these RMB in onshore debt securities, particularly negotiable certificates of deposits (NCDs) issued by Chinese banks.¹⁷



Data Consistent with These Press Reports

China's economic data has been consistent with this activity occurring on a large scale from end-July 2023 through July 2024:

- ***Chinese banks' use of certain FX swaps surged.*** Turnover of 3- to 12-month FX swaps in China's interbank market doubled from around \$150 billion to over \$300 billion per month, while Chinese banks' FX borrowing from non-bank clients via swaps increased even more sharply, particularly in 2024. This abrupt change in market behavior is consistent with a large-scale effort by state-owned banks to use FX swaps as funding sources for FX sales to dampen RMB depreciation pressures.
- ***Chinese banks made large spot FX sales without commensurate balance sheet changes.*** Chinese banks sold \$226 billion on a net basis to their non-bank clients in the onshore spot market. During this same period, Chinese banks' net foreign assets – a proxy for their on-balance-sheet net FX position – declined by only \$19 billion. This is consistent with banks funding these sales using FX swaps, which tend to be off-balance-sheet instruments.

¹⁷ See "China's \$100 Billion Short Against Dollar Enriches Hedge Funds," *Bloomberg*, 5 September 2024; Cheng Leng and Arjun Neil Alim, "Foreigners are Piling into China's Free Money Trade. How Long Can it Last?" *Financial Times*, September 24, 2024.

- ***Onshore and offshore RMB forward rates diverged.*** Through this period, the forward price of RMB onshore remained markedly stronger than the forward price of RMB offshore, representing the largest and most persistent onshore/offshore deviation since the 2015/2016 stress period. Because forwards comprise one leg of FX swaps, this divergence could reflect in part an increase in demand for dollar funding via FX swaps.
- ***Nonresident inflows into the onshore debt market surged.*** China experienced large nonresident portfolio debt inflows totaling \$166 billion over this period, in sharp contrast with the previous year. Foreign holdings of NCDs increased more than four-fold, rising from \$36 billion to \$150 billion. Most NCDs' maturities align with those of the FX swaps that have seen the largest increases in turnover. In August, foreign inflows into NCDs abated as depreciation pressure on the RMB diminished, providing further evidence that these flows were in response to the trading opportunities created by Chinese banks' FX swap and spot market activity.

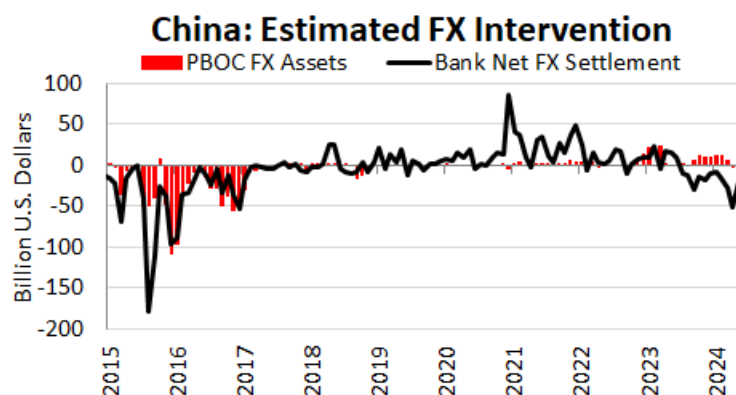
Risks for Chinese Banks

The transactions laid out in the steps above would result in Chinese banks maintaining a (potentially significant) short-dollar forward position that may have led to further losses if RMB depreciation pressures pushed the RMB-dollar exchange rate weaker than the agreed rate of the forward leg of the swap. (The banks would also gain if the RMB appreciated beyond the agreed rate of the forward leg of the swap.) It is unclear whether Chinese banks undertook additional trades to reduce the FX risk created by these transactions.

The PBOC could theoretically offset the short dollar position of the banks by offering a long-dollar forward position. Any forward transactions by the PBOC with a maturity under one year should be recorded in the International Reserves and Foreign Currency Liquidity (IRFCL) template, but current data continue to consistently show that the PBOC has no short-term FX-forward position.

In the second half of 2023, the authorities also implemented regulatory and administrative measures to counteract RMB depreciation pressures. These measures include adjusting macroprudential regulations to ease restrictions on resident firms raising funds from nonresidents, lowering the foreign currency required reserve ratio to loosen foreign exchange liquidity conditions, and increasing regulatory scrutiny of dollar purchases by domestic firms.

China's headline foreign exchange reserves increased by \$29 billion to \$3.2 trillion over the four quarters through June 2024. China remains an outlier among the economies covered in this Report in not publicly disclosing or credibly conveying its foreign exchange market intervention, which forces Treasury staff to estimate China's intervention in the foreign exchange market through



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

two proxy measures. The first proxy measure, monthly changes in the PBOC's foreign exchange assets booked at historical cost, increased by \$58 billion during the four quarters through June 2024. In the second quarter of 2024, amid elevated depreciation pressures, the PBOC's reported foreign exchange assets declined by \$11 billion.¹⁸ Meanwhile, the second proxy measure, net foreign exchange settlement — which includes the activities of China's state-owned banks — recorded net foreign exchange sales, adjusted for changes in outstanding forwards, of \$267 billion during this period, with net sales of \$120 billion in the second quarter of 2024 alone. As noted in previous Reports, the divergence between these two proxy measures may indicate that monthly changes in the PBOC's foreign exchange assets do not fully capture China's intervention methods and highlights the need for China to improve transparency regarding its foreign exchange intervention activities. Greater transparency in exchange rate management would reduce the risk of policy miscommunication and associated market volatility.

China's economy continues to be characterized by significant imbalances, with a persistently high savings rate and an increasing reliance on external demand to drive growth. Despite these imbalances, the authorities have so far provided inadequate support for household consumption while doubling down on supply-side measures aimed at supporting certain priority industries. It is increasingly urgent that the authorities recommit to macroeconomic rebalancing, which would make China's growth model more sustainable and reduce the negative spillovers of China's policies on its trading partners. 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. 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 also recommit to market-oriented reforms aimed at reducing factor misallocation, including limiting the role of SOEs and lowering barriers to firm entry and exit. Since late September there have been a

¹⁸ During the fourth quarter of 2024, balance of payments statistics show \$48 billion in reserve sales, the largest quarterly reserve drain since 2016. The cause of the continued discrepancy between the PBOC's reported FX assets and reserve transactions reported in the balance of payments data remains unclear.

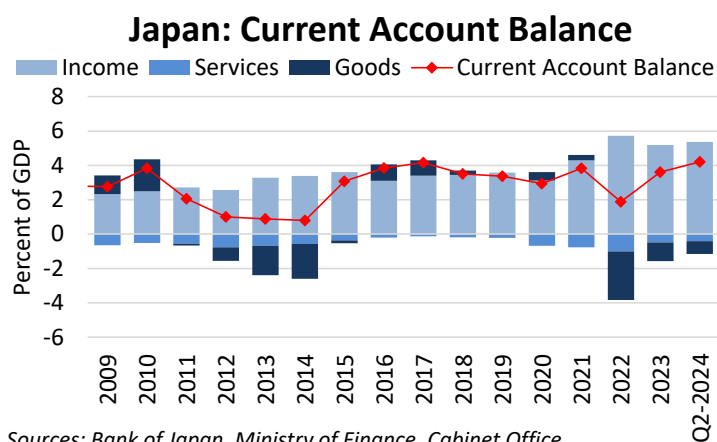
number of announcements regarding the use of both fiscal and monetary policy tools to increase demand. It will be important that the implementation and level of ambition of these policies meet the challenge and do not simply aim at increased growth, but increased domestic demand.

Japan

Japan's real GDP grew by 0.1% in the four quarters ending in June 2024, easing from 1.7% over the same period one year prior as the economy consolidated its post-pandemic recovery. Growth over this period reflected the continued strength in services exports and steady private investment, although temporary supply disruptions hampered the automotive sector while higher inflation and the depreciation of the yen continued to drag on private consumption. The IMF expects the return of positive real wage growth over the second half of 2024 to improve consumer confidence, underpinning its annual GDP forecast of 1.8% in 2024 on a Q4 over Q4 basis.

The Bank of Japan (BoJ) began raising its policy rate in 2024 amid expectations that inflation will sustainably meet the Bank's target over the medium term. Japan's core inflation metric (consumer price index less fresh food) has stayed above the BoJ's 2% target since March 2022, with momentum backed by a second consecutive year of strong nominal wage increases during the annual *shunto* negotiations, structural tightness in labor supply, and companies' growing comfort with raising prices. In March 2024, the BoJ formally exited its Negative Interest Rate Policy, discontinued Yield Curve Control, and scaled back its purchases of assets, including ending its purchases of Exchange-Traded Funds and Japanese Real Estate Investment Trusts. The BoJ further adjusted its stance in July by raising the policy rate to 0.25% and announcing a quarterly plan for reducing its monthly purchases of Japanese Government Bonds (JGBs) through March 2026, such that the BoJ's assets – valued at 126% of GDP in June 2024 – would begin to gradually decline. The BoJ stated that its tapering of JGB purchases may shrink its balance sheet by about 8% by March 2026 based on the expected maturities of existing holdings. BoJ leadership have also signaled in public statements that policy rate hikes will continue so long as the Bank's baseline outlook for inflation remains on course.

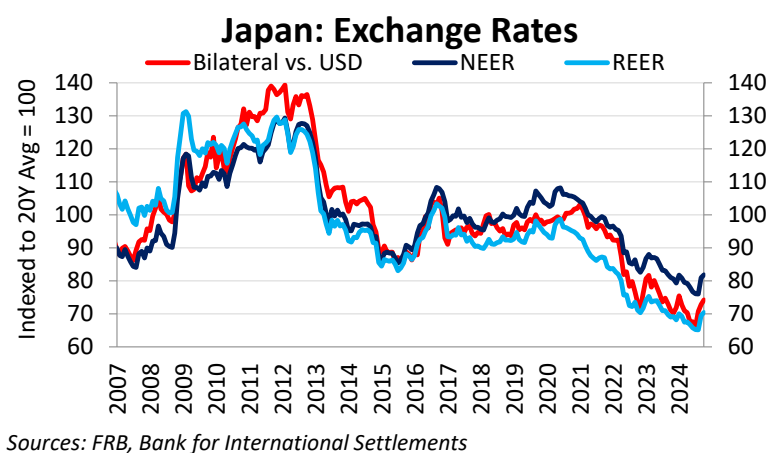
Japan's current account surplus widened further to 4.2% of GDP in the four quarters through June 2024 from 2.0% in the same period through June 2023, as the goods and services deficit narrowed and income from Japan's overseas assets rose further. The goods trade deficit narrowed to 0.7% of GDP in the four quarters through June 2024 from a 2.6% deficit in June 2023, as the overall cost of energy



imports moderated, and exports remained resilient. The services deficit, meanwhile, has narrowed further to 0.4% of GDP in the four quarters through June 2024 from a 0.9% deficit in the same period through June 2023 as tourist arrivals surpassed the pre-pandemic peak of 2.7 million monthly tourist arrivals by March 2024. Japan's goods and services trade surplus with the United States was \$65.6 billion in the four quarters through June 2024, an increase of 1.1%, or \$0.7 billion, compared to the same period in 2023.

Japan's substantial net foreign income balance continues to keep the current account balance in surplus, reflecting Japan's decades of foreign asset accumulation. Net primary income flows were 6.0% of GDP in the four quarters through June 2024, reflecting foreign profits and dividends and higher portfolio investment returns buoyed by the weaker yen. Income outflows are at a modest level for a country of Japan's size and development due, in part, to Japan's low stock of inward FDI. Based on net flows from the headline financial account, Japan experienced net capital outflows of 3.5% of GDP over the four quarters ending June 2024, an expansion from 2.3% during the same period in 2023. A surge in direct investment outflows from residents in the first half of 2024 was partially offset by Japanese investors' net sales of overseas portfolio equities and the authorities' dollar sales to support the yen in the second quarter.

The yen has faced depreciation pressure through most of 2024 and touched a 38-year low of nearly ¥162 per dollar on July 3. While the yen strengthened against the dollar between July and September, it slid further in October, leaving it 7.5% weaker on net over the first ten months of 2024. On a real effective basis, the yen depreciated 7.1% between end-2023 and end-July 2024, adding to the 5.5% depreciation in 2023, and reaching a 50-year low. The real effective exchange rate appreciated sharply after July, leaving the real effective yen 0.6% stronger on net for the year through end-September.



The yen's broader depreciation throughout most of 2024 has coincided with wide interest rate differentials between the United States and Japan resulting from their divergent monetary policies. The yen's 7.5% appreciation against the dollar between July 29 and end-September in part reflects an abrupt shift in market expectations for U.S.-Japan interest rate differentials since the release of softer U.S. economic data in July. The latter, combined with the yen's appreciation, came alongside an unwinding of yen-funded carry trades and a sharp sell-off of U.S. and Japanese equities on August 5. However, the market turbulence quickly reversed in the ensuing days.

The Ministry of Finance (MoF) intervened over three episodes since April 2024 to strengthen the yen, its first such actions since three interventions in September and October 2022 also to shore up the value of the yen. MoF disclosed that it had sold dollars equating to ¥9.8 trillion (\$62 billion) in two separate interventions on April 29 and May 1. MoF intervened once again in July selling another ¥5.5 trillion (\$35 billion) on July 11 & 12.

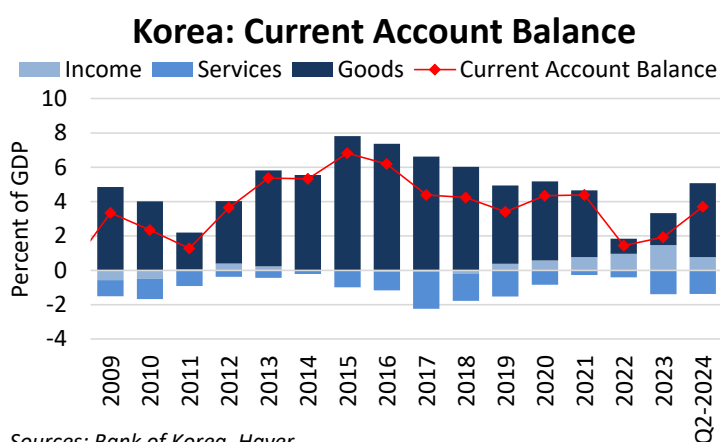
Japan is transparent with respect to foreign exchange operations, regularly publishing its foreign exchange interventions each month. Treasury's firm expectation is that in large, freely traded exchange markets, intervention should be reserved only for very exceptional circumstances with appropriate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

Korea

Korea's economy rebounded over the course of the last year with real GDP growing by 2.3% over the four quarters through June 2024. Korea's economic growth drivers have shifted considerably since its last inclusion in the June 2023 Report. During that Report's review period – the four quarters through December 2022 – private consumption contributed 2 percentage points to overall growth of 2.7%, while contributions to growth from net exports were marginal. In contrast, these dynamics have now reversed. Over the four quarters through June 2024, net exports have contributed 2.9 percentage points, while contributions to growth from private consumption have fallen to just 0.4%. The IMF projects growth to be 2.0% on a Q4 over Q4 basis in 2024, marginally below the central bank's expectation of 2.1%. The central bank implemented a 25 basis point cut in its policy rate at its October meeting bringing it to 3.25%.

Korea's current account surplus expanded considerably over the four quarters ending in June 2024, reaching 3.7% of GDP from 0.2% of GDP for the same period a year prior. The rise was driven primarily by an increase in Korea's goods surplus due to strong external demand for Korea's technology-related products. Moderating energy prices and the rebound in technology-related exports have

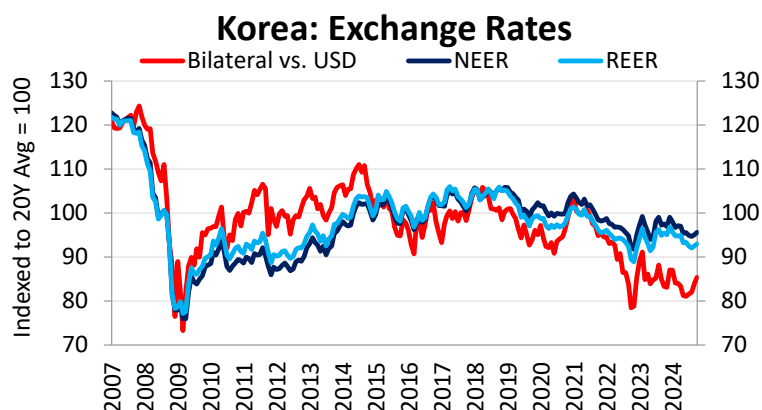
led to a recovery in Korea's terms of trade. Korea's primary income continues to be supported by investment income from abroad, exceeding pre-pandemic norms due in part to a 2023 tax reform that encouraged corporations to repatriate earnings. Korea's bilateral goods and services trade surplus with the United States increased to \$50 billion, up from \$38 billion for the same period the year prior.



The Korean won depreciated over the four quarters through June 2024 on a bilateral and trade weighted basis, weakening 4.3% against the dollar and 3.3% on a real effective basis.

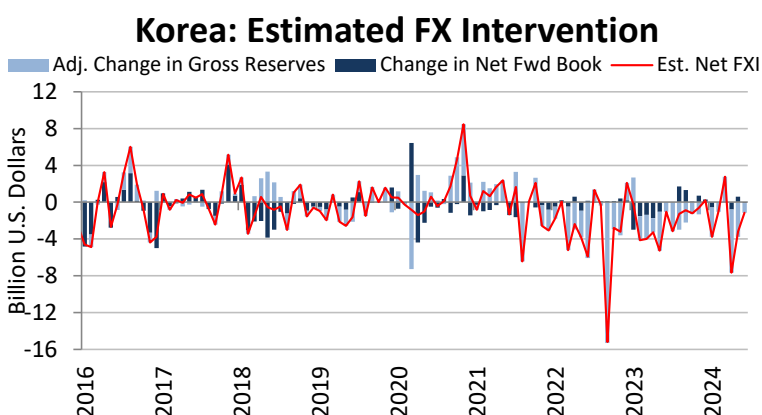
Depreciation pressures were most acute during the first seven months of 2024 but subsequently eased, with the won appreciating 5.3% from end-July to end-September.

Korea's national pension fund's total foreign asset holdings increased by around \$80 billion over the four quarters ending in June 2024, from \$372 billion to \$453 billion, likely driven by robust returns on the global equity portfolio and, to a lesser extent, steadily increasing allocation to global equity, fixed income, and alternative assets.



Sources: FRB, Bank for International Settlements

Korea reported net foreign exchange sales of \$9 billion (0.5% of GDP) over the four quarters ending in June 2024 as Korean officials intervened to curb the won's depreciation amid the strengthening of the U.S. dollar. Korean authorities reported net sales in the third quarter of 2023 and the first half of 2024 with sales most acute in the second quarter of 2024 as the won and other regional



Sources: Bank of Korea, U.S. Treasury estimates

currencies faced increased depreciation pressures during this period. Korea publicly reports its foreign exchange intervention on a quarterly basis.¹⁹ Korea should limit currency intervention to only exceptional circumstances of disorderly foreign exchange market conditions. In 2024, the authorities implemented FX market reform measures; these include expanded trading hours, allowing the direct participation of foreign financial institutions in the onshore interbank FX market, and developing FX market infrastructure. Korea maintains ample foreign exchange reserves at \$388 billion as of June 2024, an \$8.8 billion decrease from June 2023.

Growth thus far in 2024 creates space for the Korean authorities to confront structural imbalances and support productivity growth going forward. Reforms to bring corporate

¹⁹ Treasury estimates are monthly and are based on interest-adjusted changes in foreign currency reserves from monthly balance of payments statistics as well as changes in the central bank's forward position. Treasury estimated \$21 billion in estimated net foreign exchange sales through the four quarters ending in June 2024.

governance and foreign participation in capital and foreign exchange markets closer to advanced country norms would help secure economic opportunity and productivity increases for Korean workers. Progress on other structural reforms such as encouraging broad-based participation in the labor market, strengthening social safety net programs, decreasing administrative burdens on businesses, pension reform, and reducing non-tariff trade burdens could raise domestic demand, support a more balanced economy, and help to address external imbalances.

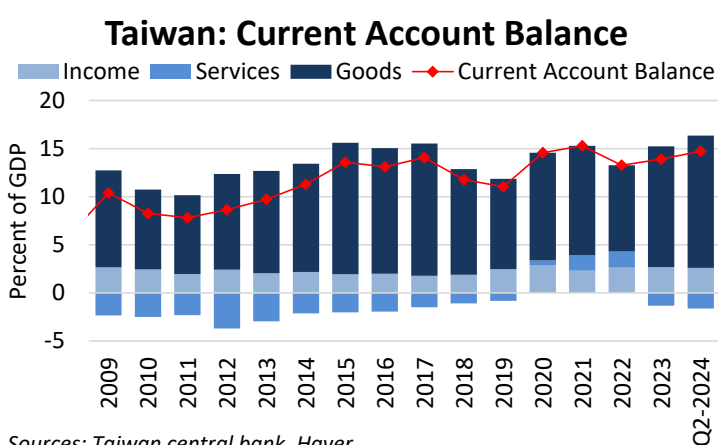
Taiwan

Taiwan's real GDP grew by 5.1% over the four quarters through June 2024, up from 1.4% for the same period in 2023. Growth over the reporting period was driven primarily by an increase in exports, with robust contributions from private consumption and a recent rebound in investment. Though net exports declined slightly following three consecutive quarters of robust growth, analysts expect a return to growth amid strong demand for technology-related products.

The Central Bank of China (CBC) raised the policy rate by 12.5 basis points to 2.0% in March 2024, as the CBC noted risks of rising inflation expectations amid relatively higher inflation since 2021 and in advance of a proposed electricity tariff hike. Headline inflation remained somewhat elevated through June 2024 at 2.4% on a year-over-year basis, while the CBC's preferred measure of core inflation has remained more subdued at 1.8%. The CBC stated in its most recent monetary policy decision that it forecasts full-year headline inflation for 2024 to moderate to 2.2%, and that core CPI will remain roughly stable at 1.9%. Broad money growth, as measured by M2, reached 6.2% in June 2024, but has since moderated into the CBC's reference range of 2.5% to 6.5% in July and August.

Taiwan's current account surplus increased to \$114 billion (14.7% of GDP) for the four quarters ending in June 2024, up from \$88 billion (11.9% of GDP) for the same period in 2023. The increase in the current account surplus was driven primarily by Taiwan's robust goods trade surplus of \$106 billion (13.7% of GDP) for the four quarters ending in June 2024, up from \$67 billion (9.1% of GDP) for the

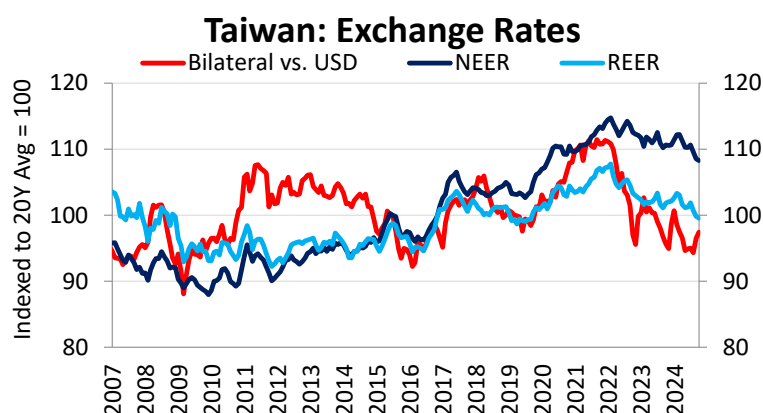
same period in 2023. The larger trade balance reflected an increase in goods exports, particularly in semiconductors and electronics, fueled by artificial intelligence and other high-tech applications, with semiconductor-related exports growing by 10.4% during the reporting period. Taiwan's goods imports remained soft through the reporting period, driven primarily by a 17% decline in capital goods. Meanwhile, Taiwan's services deficit



increased to \$12 billion (1.6% of GDP), up from a negligible balance for the same period in 2023.

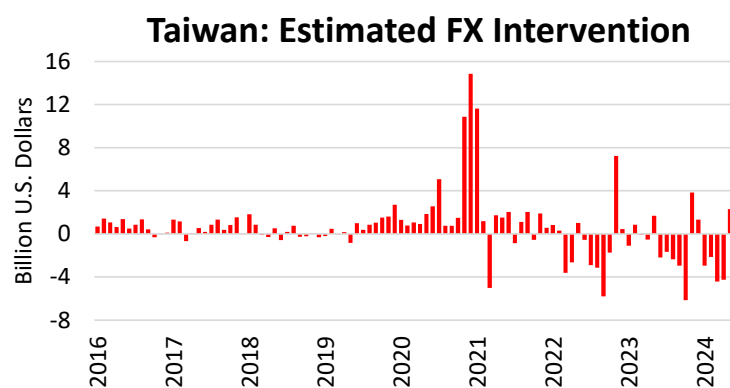
Taiwan recorded a \$57 billion goods and services trade surplus with the United States in the four quarters ending June 2024, up from \$48 billion for the same period in 2023. The bilateral trade surplus was primarily composed of goods trade and was driven by semiconductors and electronic goods exports. Meanwhile, Taiwan recorded a small bilateral services trade deficit of \$124 million through the four quarters ending in June 2024.

The New Taiwan Dollar (TWD) weakened modestly over the four quarters through June 2024, depreciating 4.0% against the U.S. dollar and 1.4% on a real effective basis. The TWD's year to date weakening against the dollar through September of 3.3% may have been somewhat mitigated by foreign investor equity inflows amid enthusiasm for Taiwanese equities as part of a broader tech rebound.



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 \$11 billion (1.4% of GDP) in net foreign exchange sales over the four quarters through June 2024, with \$1.9 billion in sales occurring in the second half of



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

2023 and \$9.1 billion in sales in the first half of 2024. The intervention appears aimed to offset and slow depreciation pressures on the TWD. Treasury estimates that these sales occurred from end-June to end-October in 2023 and January to April 2024, as the U.S. dollar appreciated and TWD depreciation pressures were most acute during these periods. Treasury estimates that these sales were partially offset by purchases in the last two months of 2023 and May 2024 as the U.S. dollar weakened and the TWD began to appreciate. Overall, the central bank's headline reserves increased from \$565 billion in June 2023 to \$573 billion in June 2024, 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. The authorities should 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.

Singapore

Real GDP has picked up in 2024 after slowing to 1.1% in 2023 amid weak external demand. Year-over-year output grew by 3.0% and 2.9% in the first and second quarters of 2024, respectively, consistent with the authorities' expectations that real GDP growth will return to its potential rate of between 2-3% this year owing to a recovery in financial services, air travel and tourism, 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 relative to 2023 on the expectation that, when complemented by a tight monetary policy stance, economic growth will revert to potential output growth, which the IMF estimates to be around 2.5%. The 2024 budget introduced a series of measures to strengthen social support, including targeted support to vulnerable households and firms to mitigate pressures from high costs of living and doing business. The budget also seeks to facilitate labor force upskilling and bolster 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 (discussed in more detail below), tightened 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 Singapore dollar nominal effective exchange rate (S\$NEER) appreciation since its October 2022 meeting, citing broadly balanced risks to the 2024 growth and inflation outlooks.²⁰ Between end-October 2022 and end-September 2024, the S\$NEER appreciated by 3.6%. Headline and core inflation continued to moderate with headline inflation registering 2.1% year-over-year in August, down from 3.7% at the end of 2023. Meanwhile, core inflation fell to 2.7% year-over-year in August, down from 3.3% at the end of 2023. Despite the decline, inflation remains somewhat sticky and well above the roughly 1.5% annual average that prevailed the previous decade. MAS does not maintain an explicit inflation target but has noted that a rate of core inflation just under 2%, which is close to its historical mean, is consistent with overall price stability.

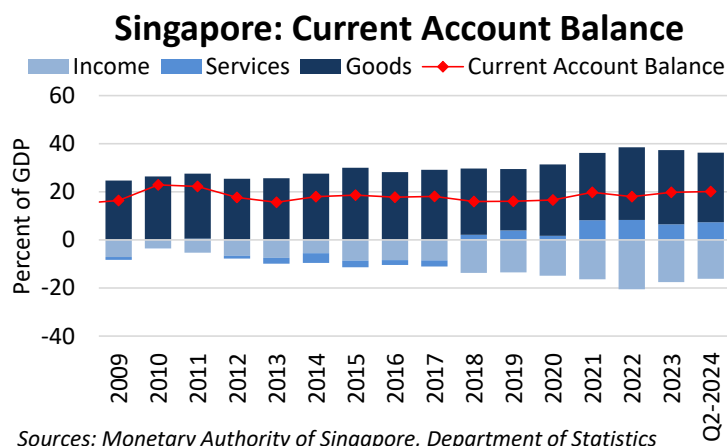
²⁰ MAS does not disclose precise details of its monetary policy, including the specific target rate of appreciation. However, in their monetary policy statements, the authorities will announce whether they have increased or decreased the slope of the policy band, changed the width of the policy band, or recentered the level of the policy band's midpoint.

Singapore continues to record extremely large current account surpluses. Over the four quarters through June 2024, the surplus stood at 20.1% of GDP, driven by the goods surplus (29.0% of GDP) and a relatively smaller services surplus (7.3%), 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. These goods and services surpluses were partially offset by an income deficit of 16.2% of GDP, reflecting large outflows that include repatriation of profits earned on Singapore's large FDI stock.

In 2024, 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 162% of GDP as of end-June 2024, among the highest in the world. As noted above, despite a large current account surplus through the first half of 2024, Singapore's net international investment position shrank due to sizable valuation losses.

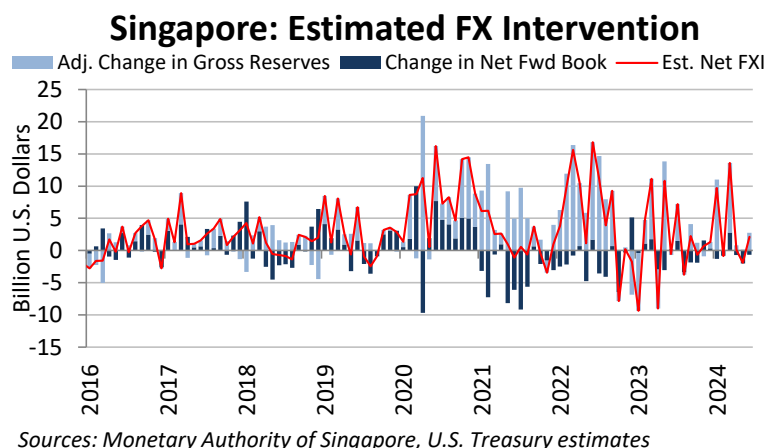
Singapore has historically run bilateral trade deficits with the United States in both goods and services trade, which for the four quarters ending in June 2024 totaled \$31 billion. Key Singaporean services imports from the United States include research and development, intellectual property, and professional 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 S\$NEER against a trade-weighted basket of currencies.

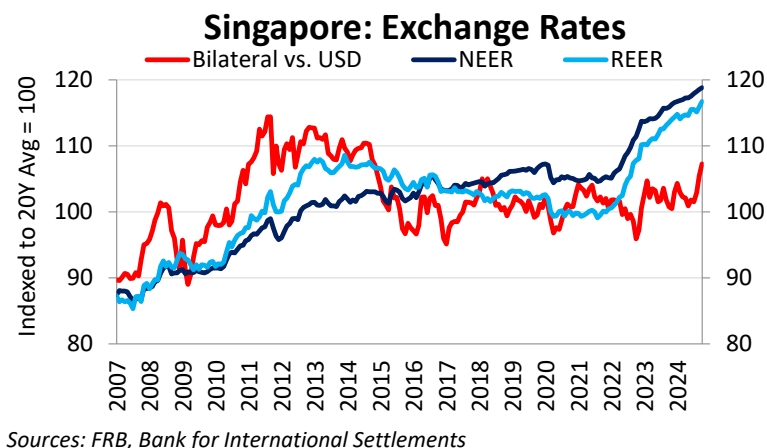
MAS maintains that this targeting is appropriate because Singapore's inflation rate is more heavily influenced by the exchange rate than by the interest rate, given its status as a small, open economy with large gross trade flows. The primary mode of intervention is the purchase or sale of U.S. dollars

against the Singapore dollar, since this is the most liquid currency pair in the basket. Over the four quarters through June 2024, net purchases of foreign currency totaled \$49 billion, equivalent to 9.4% of GDP. According to Treasury estimates, net purchases were largely concentrated in the third quarter of 2023 and the first quarter of 2024.



Official foreign exchange reserves totaled \$358 billion (69% of GDP) at end-June 2024. 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 1.8% and 1.7% on a nominal effective and real effective basis, respectively, over the first nine months of 2024. At the same time, the Singapore dollar has appreciated 2.8% against the U.S. dollar.



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 to address medium- and long-term fiscal challenges associated with meeting the needs of Singapore's rapidly aging population could durably strengthen domestic consumption, diminish precautionary saving incentives, and help address Singapore's chronic external imbalances. Public spending to strengthen support for involuntary unemployment could also help reduce precautionary savings and support stronger domestic consumption spending. These steps, coupled with higher public investment—which could help catalyze private investment spending—will reduce the

savings investment gap and Singapore’s chronic current account surpluses over the medium- to long-term. Additional initiatives could include (1) reducing mandatory pension contribution rates to give households greater control over pension assets; and (2) allowing for additional appreciation of the nominal and the real effective exchange rate over the medium term, consistent with economic fundamentals.

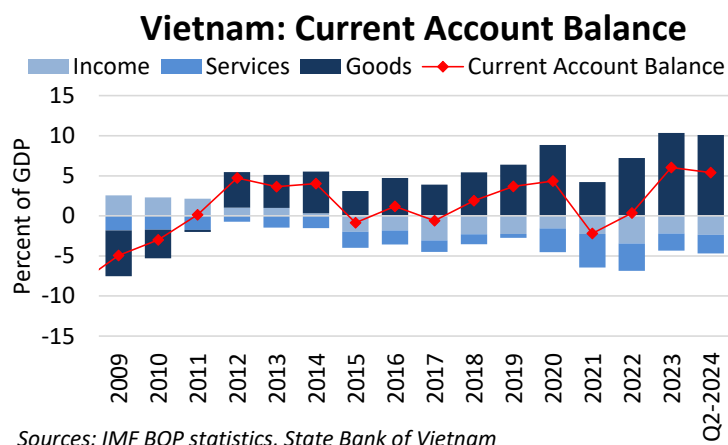
Vietnam

Economic growth in Vietnam over the four quarters through end-June 2024 rose to 7.1%, up from 4.3% over the four quarters ending in June 2023. Activity accelerated on increased demand for Vietnamese exports among key trading partners, which boosted industrial production and investment. Over the reporting period, goods exports amounted to \$380 billion, up 8% from the previous four quarters. The IMF forecasts 6.1% annual growth on an annual basis in 2024.

Following a rebound in economic activity over the second half of 2023, the government of Vietnam has signaled a desire to consolidate fiscal policy. The planned budget deficit is roughly one percentage point lower this year at 3.6% of GDP, down from the 4.4% of GDP target in 2023. Notably, in recent years, actual budget execution has fallen short of spending plans. Despite the turn toward deficit spending in 2023 after recording a small surplus in 2022, public debt as a share of GDP remained around 34% as nominal growth outpaced rising nominal debt.

The State Bank of Vietnam (SBV) has maintained its benchmark interest rate following a total of 150 basis points cuts in the first half of 2023 to support economic activity. Headline inflation more than doubled from 2.1% in July 2023 to 4.3% in June 2024, primarily driven by elevated global rice and oil prices, but remains below the 4.5% upper-end of the target approved by the National Assembly. Core inflation has continued to steadily decline, since peaking at a record high of 5.2% year-over-year in January 2023, and was 2.5% year-over-year in August.

Vietnam’s current account surplus stood at 5.0% of GDP over the four quarters through June 2024. The current account continues to record large quarterly surpluses, after registering deficits in 2021 and 2022 when COVID-related production constraints weighed on export earnings, and elevated commodity prices drove import prices higher. The goods trade balance increased 8.6% over the report period on recovering overseas demand for factory goods. The current account surplus has also been supported by increased remittances even as net services income



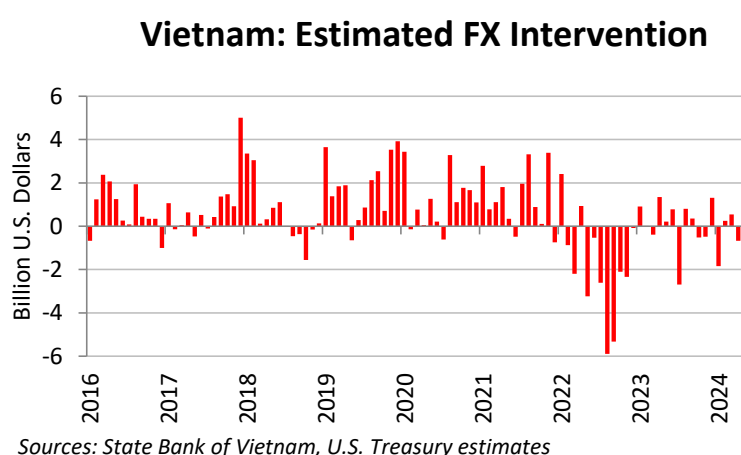
remains below pre-pandemic levels and corporate profit repatriation has slightly increased.

Vietnam's bilateral trade surplus with the United States has expanded dramatically over the past six years, primarily driven by growth in goods trade, led by electronics and machinery. The bilateral goods and services surplus was \$111.7 billion over the four quarters through June 2024. Over the same period, the bilateral goods trade surplus was \$113.3 billion, \$7 billion higher 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 June 2024, that services deficit was \$1.6 billion.

Vietnam does not publish data on its foreign exchange intervention. The authorities have conveyed credibly to Treasury that net sales of foreign exchange from July 2023 to June 2024 were 1.5% of GDP.

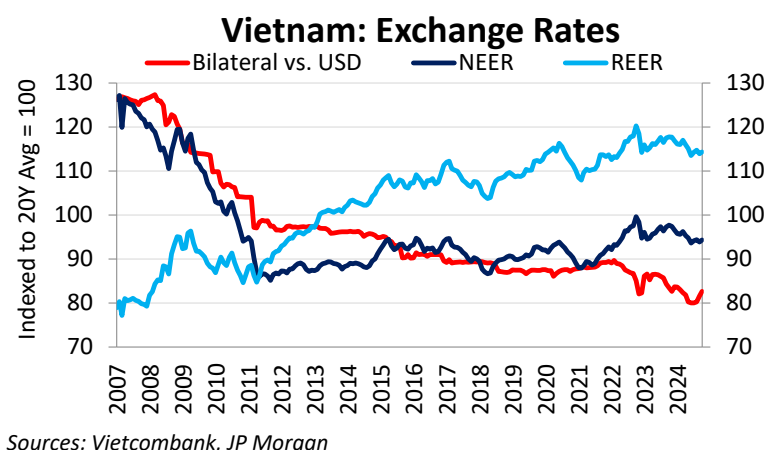
That figure is equivalent to about \$6 billion. Treasury assesses that Vietnam engaged in net sales of foreign exchange this year (intervention that would strengthen the Vietnamese

currency) amid depreciation pressure on the dong that largely reflected U.S. and global macroeconomic developments. While the SBV did not raise its benchmark interest rate during this period, it tightly managed liquidity and raised rates for its short-term bills to further support the dong. According to the latest available public data, foreign exchange reserves stood at \$84 billion as of May 2024. 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.



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. The dong spot rate against the dollar depreciated 7.0% over the four quarters through June 2024. The dong

also weakened against the dollar more than most other currencies in the region. The currency depreciated by 3.3% on a nominal effective basis and 2.8% on a real effective basis. In its most recent Article IV consultation, the IMF again welcomed Vietnam's steps towards increased exchange rate flexibility and encouraged more efforts in this direction.



The Euro Area

The euro area returned to growth in 2024 and the recovery is likely to continue, though at a slow pace. Economic activity has been weak since the second half of 2022, with growth at 0.1% on a Q4 over Q4 basis for 2023 and 0.6% for the four quarters through June 2024. 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. This contributes to continued divergences between services- and manufacturing-oriented economies, with growth driven largely by some southern European countries like Spain, while Germany is projected to act as a net drag on the bloc's growth rate. The IMF expects euro area growth to pick up to a moderate 1.2% in 2024 on a Q4 over Q4 basis.

The euro area's fiscal deficits remain elevated above pre-pandemic levels, with the coming months testing the efficacy of the reformed fiscal rules for member states, which aim to put downward pressure on both deficit levels and debt-to-GDP ratios in the coming years. Countries have taken steps to unwind Covid-era and energy crisis support measures, but high interest payments and EU budget rules will continue to place pressure on governments to reduce fiscal deficits. 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.

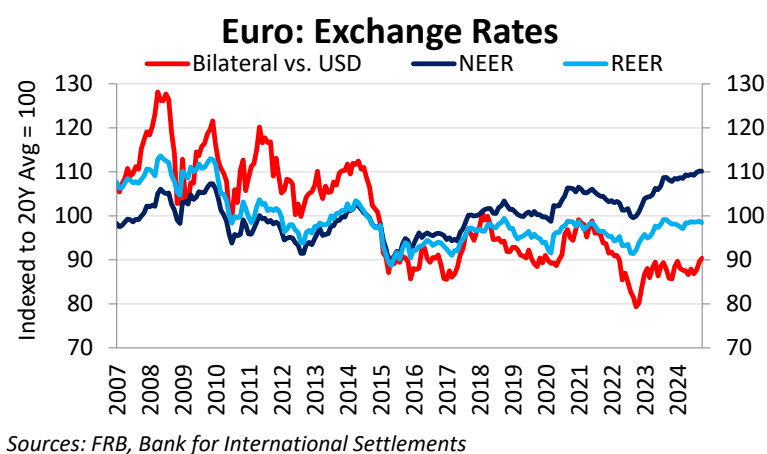
Disinflation progress continues, but at a more gradual pace than anticipated. Headline inflation has been below 3% year-over-year since October 2023, and dropped to 1.7% in September 2024, the closest it has been to the ECB's inflation target since 2021. Even as overall labor pressures moderate, rising wages sustained headline inflation. Core inflation has proven stickier, with services inflation remaining the largest driver. As of September

2024, the European Central Bank (ECB) staff's baseline scenario projected headline inflation of 2.5% in 2024 and 2.2% in 2025.

The ECB shifted into a more accommodative monetary policy stance in 2024 following 450 basis points of consecutive hikes since July 2022 to counter inflation. Three 25bps cuts, in June, September, and October brought the deposit rate down to 3.25%. Looking ahead, markets expect another 25bps cut at the ECB's December monetary policy meeting. Despite the relaxation in its policy stance, the ECB's most recent bank lending survey, released on July 16, shows firms' net loan demand continues to decline, although by less than in the previous quarter, as the real economy continues to reflect the high interest rate environment. The ECB's balance sheet policy has mirrored its rate increases over the past two years, with the ECB gradually reducing holdings under its Pandemic Emergency Purchase Program (PEPP) and Asset Purchase Program (APP).

The euro area maintained a current account surplus, reaching 2.5% of over the four quarters through June 2024 on the back of a significant decline in import prices. The IMF expects the euro area's current account surplus to increase to 2.6% of GDP in 2024 before falling slightly to 2.4% of GDP in 2025 and 2.3% in 2026. In its July 2024 External Sector Report, the IMF assessed that the euro area's external position in 2023 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 continue to hold true.

The euro has largely recovered from the two-decade low against the dollar reached in September 2022, appreciating against the dollar by 3.4% during 2023. Though the euro slightly retraced its earlier gains in the first half of 2024, the euro rebounded during the third quarter, leaving the euro 0.8% stronger between end-2023 and end-September 2024. In real effective terms, the euro appreciated by 0.5% over the first nine months of 2024. The ECB publishes its foreign exchange intervention and has not intervened in foreign exchange markets since 2011.



Germany

The German economy exhibited significant weakness last year, with 2023 real GDP contracting by 0.2% on a Q4 over Q4 basis, compared to the eurozone's 0.1% expansion over the same period. The IMF expects the economy to grow just 0.3% in 2024 on a Q4 over Q4 basis; real GDP grew 0.2% quarter-over-quarter in the first quarter of 2024 and contracted by 0.3% quarter-over-quarter in the second quarter of the year. Private

consumption, capital formation, and rebounding exports have yet to materialize as the expected primary drivers of economic activity, and all three components acted as a drag on growth in the second quarter. Sentiment surveys highlight exceptionally high macroeconomic and policy uncertainty for both consumers and businesses.

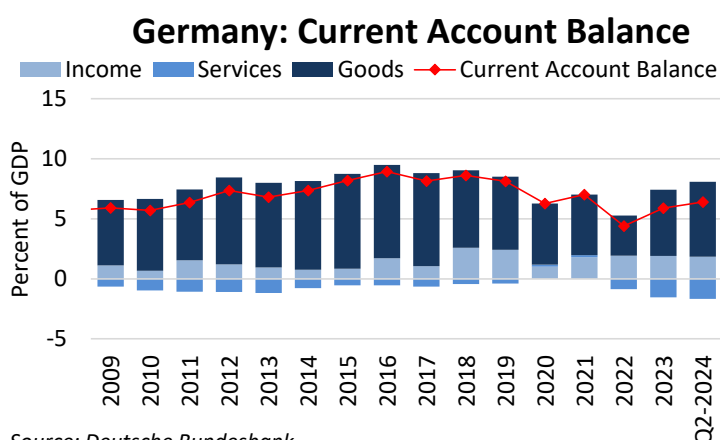
Due in part to the reimposition of Germany's constitutional debt brake in 2024, fiscal policy continues to fail to address Germany's structural challenges and weak growth outlook. Relative to 2024, the 2025 draft budget proposes a modest fiscal consolidation of approximately €8.3 billion in spending (0.2% of GDP), with additional cuts likely necessary during parliamentary negotiations to comply with the debt brake. Moreover, it is currently unclear how the government will sustain its commitments to increased defense and investment spending over the medium-term with such limited fiscal space. In line with EU fiscal rules, the government's medium-term financial plan aims for the debt-to-GDP ratio to fall from 63.8% in 2024 to 59% by 2028.

The monetary policy environment has weighed on interest-sensitive sectors such as construction, capital goods, and automotives, but weakening inflationary pressures across the euro area should provide further scope for easing while also complementing Germany's domestic recovery. Price growth for food, energy, and other core goods has normalized, despite real wage growth peaking at 5% year-over-year in March 2024. Headline harmonized consumer price inflation has decreased over the course of 2024, growing only 1.8% year-over-year in September 2024. However, core inflation remains stickier, printing at 3% year-over-year in the same month, with services expected to be the primary driver of inflation for the remainder of this year.

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 nearly three percentage points to 4.4% of GDP over the course of the year.

German industry, which historically has benefited from

cheap energy inputs, was disproportionately affected by elevated energy prices following Russia's invasion of Ukraine. Muted external demand from key trading partners also dampened domestic industrial production and factory orders. While the current account surplus has increased slightly to 6.4% of GDP over the four quarters through June 2024, this was mostly driven by a continued fall in imports rather than a resurgence in external demand for German exports. According to the Federal Statistical Office, in the first six months of 2024, German exports decreased by 1.6% year-over-year, while imports fell by 6.2% over the same period.



Germany's bilateral trade surplus with the United States reached \$88.1 billion over the four quarters through June 2024. Moreover, the United States remains one of Germany's most important trading partners, with total trade in goods and services between the two countries hitting \$324 billion over the same period. Machinery, chemicals, and energy products continue to dominate bilateral trade flows, and these trends are likely to persist due to Russia's war against Ukraine as well as strong external demand from the United States.

As the gradual recovery in economic activity continues, the German government will need to address rising spending needs as well as structural challenges related to productivity and labor market dynamics. Despite recent increases in investment spending, the IMF expects that gross public investment will only account for 2.9% of GDP in 2024, before plateauing at 2.7% of GDP in 2027. The IMF notes that Germany will need to increase public investment by at least 0.2% of GDP each year to meet climate-change mitigation targets. 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. In order to support growth and external rebalancing, additional policy tools should be deployed to help Germany meet its green energy and climate targets while diminishing 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 June 2024, unless otherwise noted) are provided in Table 1 (p. 16) and Table 2 (p. 41).

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 June 2024. This includes all U.S. trading partners whose bilateral goods and services surplus with the United States in the four quarters through June 2024 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 June 2024.²¹ 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 criterion for the four quarters through June 2024. 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 helpful for comparison with past Reports that focused on goods trade.

²¹ 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.

Criterion (2) – Material current account surplus:

Treasury assesses current account surpluses of at least 3% of GDP to be “material” for the purposes of enhanced analysis. Highlighted in red in column 2a of Table 2 are the nine economies that met this criterion over the four quarters through June 2024. 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.²² Columns 1a and 1c in Table 2 provide Treasury’s assessment of this criterion.²³ Highlighted in red in these columns is the one economy (Singapore) that met this criterion over the four quarters through June 2024. In economies where foreign exchange interventions are not published, Treasury uses estimates of net purchases of foreign currency as a proxy for intervention.

²² 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.

²³ 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	-0.8	0.0	-18	31
Mexico	0.4	7	No	-0.2	-2.8	-5	159
China	0.3 — -1.5 *	58 — -267	Yes	1.2 **	-0.9	211	247
Germany	0.0	0	No	6.4	-1.0	296	88
United Kingdom	0.0	0	No	-2.2	-0.5	-77	-15
Japan	-1.5	-62	No	4.2	0.3	169	66
Korea	-0.5	-9	No	3.7	-1.7	69	50
Ireland	0.0	0	No	13.5	4.0	74	13
India	-0.5	-17	No	-0.7	-1.1	-27	45
Netherlands	0.0	0	No	9.8	0.7	117	-71
Taiwan	-1.4	-11	No	14.7	-1.1	114	57
Switzerland	-7.4	-68	No	7.1	4.3	65	0
France	0.0	0	No	-0.7	-0.2	-21	17
Singapore	9.4	49	Yes	20.1	1.9	104	-31
Vietnam	-1.5 ***	-6	No	5.4	4.3	24	112
Italy	0.0	0	No	1.0	-3.0	23	47
Brazil	0.0	-1	No	-1.4	0.1	-32	-25
Australia	-0.2	-3	No	-0.7	-3.6	-12	-34
Thailand	-0.5 ***	-3	No	2.0	1.2	10	40
Malaysia	-2.2 ***	-9	No	1.5	-3.2	6	23
Memo: Euro Area	0.0	0	No	2.5	-0.3	401	114

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" in the June 2024 Report for more details. For consistency with other data in the Report, official balance of payments data are reported here. Using customs data, China's current account surplus would be 2.7% of GDP.

*** Authorities do not publish FX intervention. Authorities have conveyed bilaterally to Treasury the size of net FX purchases during the four quarters ending June 2024.

Table 3. Major Foreign Trading Partners - Expanded Trade Data

	USD Bil., Trailing 4Q						% of GDP, Trailing 4Q					
	Total Trade with United States			Trade Surplus with United States			Total Trade with United States			Trade Surplus with United States		
	Goods and Services (1a)	Goods (1b)	Services (1c)	Goods and Services (2a)	Goods (2b)	Services (2c)	Goods and Services (3a)	Goods (3b)	Services (3c)	Goods and Services (4a)	Goods (4b)	Services (4c)
Canada	910	768	142	31	64	-33	41.7	35.2	6.5	1.4	2.9	-1.5
Mexico	910	817	93	159	160	-1	47.8	42.9	4.9	8.4	8.4	0.0
China	640	568	72	247	277	-30	3.6	3.2	0.4	1.4	1.6	-0.2
Germany	324	236	88	88	84	4	7.0	5.1	1.9	1.9	1.8	0.1
United Kingdom	318	140	178	-15	-9	-6	9.2	4.1	5.2	-0.4	-0.3	-0.2
Japan	311	227	84	66	72	-6	7.7	5.6	2.1	1.6	1.8	-0.2
Korea	235	194	42	50	60	-10	12.6	10.4	2.2	2.7	3.2	-0.5
Ireland	219	105	114	13	72	-60	39.9	19.2	20.7	2.3	13.2	-10.9
India	202	127	75	45	45	0	5.6	3.5	2.1	1.2	1.2	0.0
Netherlands	176	123	53	-71	-49	-22	14.8	10.3	4.5	-6.0	-4.1	-1.9
Taiwan	164	139	25	57	57	0	21.2	17.9	3.3	7.3	7.3	0.0
Switzerland	156	75	82	0	20	-19	17.1	8.2	8.9	0.0	2.1	-2.1
France	155	103	53	17	15	3	5.0	3.3	1.7	0.6	0.5	0.1
Singapore	140	89	51	-31	-4	-27	27.1	17.2	9.9	-6.0	-0.8	-5.2
Vietnam	139	134	5	112	113	-2	31.7	30.7	1.1	25.6	26.0	-0.4
Italy	133	107	26	47	44	3	5.8	4.7	1.1	2.1	1.9	0.1
Brazil	122	87	35	-25	-4	-21	5.5	3.9	1.6	-1.1	-0.2	-0.9
Australia	85	49	35	-34	-19	-15	4.8	2.8	2.0	-2.0	-1.1	-0.9
Thailand	82	75	6	40	41	-1	16.0	14.8	1.2	8.0	8.1	-0.1
Malaysia	76	70	7	23	24	-1	19.0	17.4	1.6	5.6	6.0	-0.3
Belgium	72	60	12	-10	-9	0	11.2	9.4	1.9	-1.5	-1.4	0.0
Memo: Euro Area	1264	853	411	114	187	-73	7.9	5.3	2.6	0.7	1.2	-0.5

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 June 2024, based on the most recent available data. **In total, seven economies—China, Japan, Korea, Taiwan, 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 June 2024, 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 significant bilateral trade surplus) in this Report. Japan had met two criteria in every Report from the April 2016 Report through the June 2022 Report, and again in the June 2024 Report, having a material current account surplus and a significant bilateral trade surplus with the United States.
- Korea meets two criteria (material current account surplus and significant bilateral trade surplus). Korea had previously met one criterion, having a significant bilateral trade surplus with the United States, since the June 2023 Report.
- Taiwan has 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.
- 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 exceeded two of the three criteria over the four quarters through June 2024, having a material current account surplus and a significant bilateral trade surplus with the United States. It had previously exceeded those two criteria in the June 2024 Report. Prior to the June 2024 Report, it had met one criterion under the 2015 Act in every Report since the June 2022 Report (significant bilateral trade surplus),
- 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.

It is critical going forward 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.

Transparency of Foreign Exchange Policies and Practices

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

There have been no significant changes since Treasury published this table in the November 2023 Report. Treasury will continue to press its major trading partners to make significant strides in enhancing the transparency of currency practices.

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

	Foreign Exchange Reserves Data			Intervention			
	Headline Reserves: Frequency /Lag	Derivative Position in IRFCL#	Currency Composition	Publish a Stated Objective	Disclose Intervention	Frequency	Lag
USA	Weekly/1 day	Yes	Public	Yes	Yes	As it happens*	None
ECB	Monthly/2 weeks	Yes	COFER ²⁴	No	Yes	As it happens*	None
UK	Monthly/3-7 days	Yes	COFER	Yes	Yes	As it happens*	None
Japan	Monthly/1 week	Yes	COFER	Yes	Yes	Monthly	2 days
Canada	Monthly/1 week	Yes	Public	Yes	Yes	As it happens*	None
Switzerland	Monthly/1 week	Yes	Public	Yes	Yes	Quarterly	3 months
Australia	Monthly/1 week	Yes	Public	Yes	Yes	Annually ²⁵	4 months
Brazil	Daily/1 day	Yes	Public	Yes	Yes	Daily	5 days

²⁴ "COFER" means the country provides the data confidentially to the IMF through its Composition of Foreign Exchange Reserves (COFER) database.

²⁵ Australia publishes daily foreign exchange intervention one time per year in October. Australia has not intervened in foreign exchange markets since November 2008.

Mexico	Weekly/4 days	Yes	Public	Yes	Yes	Monthly	6 days
India	Weekly/7 days	Yes	COFER	Yes	Yes	Monthly	2 months
China	Monthly/1 week	? ²⁶	COFER	No	No		
Taiwan	Monthly/1 week	Yes	No	Yes	Yes	Semi-annually	3 months
Korea	Monthly/1 week	Yes	COFER	Yes	Yes	Quarterly	3 months
Singapore	Monthly/1 week	Yes	COFER	Yes	Yes	Semi-annually	3 months
Thailand	Weekly/1 week	Yes	No	Yes	Yes ²⁷	Semi-annually	3 months
Malaysia	Biweekly/1 week	Yes	No	Yes	Yes ²⁸	Semi-annually	3 months
Vietnam	Monthly/2-3 months	No	No	Yes	Yes ²⁹	Semi-annually	3 months

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

* Intervention is published officially in certain reports on a regular basis but in practice intervention is announced on the day it takes place.

²⁶ Treasury staff have questions about the consistency of China's reported derivatives position.

²⁷ Thailand discloses its foreign exchange intervention to Treasury with consent to publish in the FX Report.

²⁸ Malaysia discloses its foreign exchange intervention to Treasury with consent to publish in the FX Report.

²⁹ Vietnam discloses its foreign exchange intervention to Treasury with consent to publish in the FX Report.

Glossary of Key Terms in the Report

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

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

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