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

July 2026

Contents

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

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

The Trump administration is committed to pursuing economic and trade policies to spur an American revitalization marked by strong economic growth, the elimination of destructive trade deficits, and countering unfair trade practices. For decades, unfair currency practices abroad have contributed to the U.S. trade deficit and the hollowing out of U.S. manufacturing employment. When a trading partner engages excessively in foreign exchange market interventions or other actions to artificially lower the value or suppress appreciation of its currency, it imposes significant hardship on American workers and companies for its own gain. Treasury is committed to aggressively and vigilantly monitoring and combatting unfair currency practices. Treasury continues to assess whether the United States' trading partners are undertaking foreign exchange intervention and implementing non-market policies and practices to manipulate their currencies for unfair competitive advantage in trade to the detriment of American economic strength.

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

- The 1988 Act requires Treasury to consider whether any economy manipulates the rate of exchange between its currency and the U.S. dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. **In this Report, Treasury concludes that no major trading partner of the United States engaged in conduct of the kind described in Section 3004 of the 1988 Act during the official Report period.**

- Under the 2015 Act, Treasury is required to assess the macroeconomic and exchange rate policies of major trading partners of the United States for three specific criteria: (1) a significant bilateral trade surplus with the United States; (2) a material current account surplus; and (3) persistent, one-sided intervention in the foreign exchange market (see Section 1 for an elaboration of these criteria). **In this Report, Treasury finds that no major trading partner met all three criteria under the 2015 Act during the four quarters ending December 2025, such that no major trading partner requires enhanced analysis**.

Treasury maintains a Monitoring List of major trading partners, whose currency practices and macroeconomic policies merit close attention. When a major trading partner meets two of the three criteria in the 2015 Act, that trading partner is placed on the Monitoring List. Once on the Monitoring List, an economy will remain there for at least two consecutive Reports to help ensure that any improvement in its performance, such that it no longer meets two or more of the three criteria for enhanced analysis, is durable, rather than being due to temporary factors. **In this Report, the Monitoring List comprises China, Japan, Korea, Taiwan, Thailand, Singapore, Vietnam, Germany, Ireland, and Switzerland. All economies were on the Monitoring List in the January 2026 Report.** In this Report, Thailand, Singapore, and Switzerland met one criterion in the 2015 legislation and will be removed from the Monitoring List if they meet fewer than two criteria in the next reporting period. Section 3 provides Treasury's intensified evaluation of these economies.

While Treasury has not designated China as a currency manipulator in this Report, China continues to stand out among our major trading partners in its relative lack of transparency around its exchange rate policies and practices. This relative lack of transparency will not preclude Treasury from designating China if available evidence suggests that it is intervening through formal or informal channels to resist RMB appreciation in the future.

As noted previously, in support of the America First Trade Policy, Treasury has strengthened its analysis of trading partners' currency policies and practices. These analyses inform Treasury's assessments of currency manipulation under the 1988 Act and of intervention under the 2015 Act. Treasury will continue to undertake strengthened analysis of major trading partners, as detailed in the January 2026 Report, and will include a discussion of these issues in its intensified evaluation of economies in Section 3 when noteworthy developments arise.

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

Generally, the joint statements affirmed that:

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

expectation that intervention would be considered equally appropriate for addressing excessively volatile or disorderly depreciation or appreciation.

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

Section 1: Treasury's Analysis under the 1988 and 2015 Legislation

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

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

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

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

Under the 2015 Act, Treasury is required to assess the macroeconomic and exchange rate policies of major trading partners of the United States that have: (1) a significant bilateral trade surplus with the United States, (2) a material current account surplus, and (3) engaged in persistent one-sided intervention in the foreign exchange market. Treasury sets the benchmark and threshold for determining which countries are major trading partners, as well as the thresholds for the three specific criteria in the 2015 Act.

Key Criteria under the 2015 Act

As noted above and illustrated in Table 1 below, Treasury has reviewed the 20 largest U.S. trading partners[2] against the thresholds Treasury has established for the three criteria in the 2015 Act for the four quarters through December 2025:

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

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

Criterion (2) – Material current account surplus:

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

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

Treasury assesses net purchases of foreign currency, conducted repeatedly, in at least 8 out of 12 months, totaling at least 2% of an economy's GDP, to be persistent, one-sided intervention.[3] Columns 1a and 1c in Table 1 provide Treasury's assessment of this criterion.[4] In economies where foreign exchange interventions are not published, Treasury uses estimates of net purchases of foreign currency as a proxy for intervention.

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

[3] 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.

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

Table 1. Major Foreign Trading Partners Evaluation Criteria

	FX Intervention			Current Account			Bilateral Trade
	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)
Mexico	0.0	0	No	-0.5	0.5	-9	**189**
Canada	0.0	0	No	-0.9	-0.5	-22	**19**
China	-0.5 — 1.7 *	-105 — 323	No	**3.8** **	1.6	735	**169**
United Kingdom	0.0	0	No	-2.4	-0.4	-97	-39
Germany	0.0	0	No	**4.5**	0.3	228	**79**
Japan	0.0	0	No	**4.8**	2.9	215	**55**
Ireland	0.0	0	No	**8.2**	-0.6	59	**46**
Taiwan	0.8	8	No	**19.5**	6.3	180	**145**
Switzerland	0.6	6	Yes	**7.0**	-2.0	73	2
India	-1.1	-43	No	-0.4	2.0	-16	**63**
Korea	-1.5	-28	No	**6.6**	5.3	123	**45**
Vietnam	-0.2 ***	-1	No	**6.7**	6.4	33	**177**
Netherlands	0.0	0	No	**7.8**	1.0	105	-81
France	0.0	0	No	-0.3	1.1	-10	**21**
Italy	0.0	0	No	1.1	3.0	29	**36**
Singapore	-0.6	-4	No	**16.7**	-2.2	101	-33
Brazil	0.0	-1	No	-2.9	-0.8	-67	-41
Thailand	1.8 ***	10	Yes	2.8	6.2	16	**72**
Australia	0.2	4	Yes	-2.6	-2.9	-48	-19
Malaysia	1.3 ***	6	Yes	1.6	-1.5	8	**30**
Memo: Euro Area	0.0	0	No	1.7	1.9	315	**93**

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.

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

** Treasury is aware of statistical anomalies that may suggest that China's current account surplus is higher than what is reported in the official balance of payments data. See "Box 1: Anomalies in China's Current Account Data" in the June 2024 Report for more details. For consistency with other data in the Report, official balance of payments data are reported here. Using customs data, China's current account surplus would be 4.4% 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 December 2025.

Table 2. Major Foreign Trading Partners - Expanded Trade Data

	USD Bil., Trailing 4Q					
	Total Trade with United States			Trade Surplus with United States		
	Goods and Services (1a)	Goods (1b)	Services (1c)	Goods and Services (2a)	Goods (2b)	Services (2c)
Mexico	969	873	96	189	197	-8
Canada	869	719	150	19	47	-29
China	495	415	80	169	202	-33
United Kingdom	373	162	211	-39	-32	-6
Germany	337	239	97	79	73	6
Japan	326	228	98	55	64	-9
Ireland	286	153	133	46	114	-68
Taiwan	284	256	28	145	147	-2
Switzerland	282	178	105	2	34	-32
India	242	149	92	63	58	5
Korea	239	194	45	45	56	-11
Vietnam	215	209	6	177	178	-1
Netherlands	187	131	57	-81	-61	-21
France	180	118	62	21	18	3
Italy	150	118	32	36	31	5
Singapore	147	80	67	-33	-4	-30
Brazil	135	94	41	-41	-14	-26
Thailand	119	111	8	72	72	0
Australia	104	63	41	-19	-5	-14
Malaysia	95	89	6	30	31	-1
Memo: Euro Area	1432	942	491	93	190	-97

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

Summary of Findings

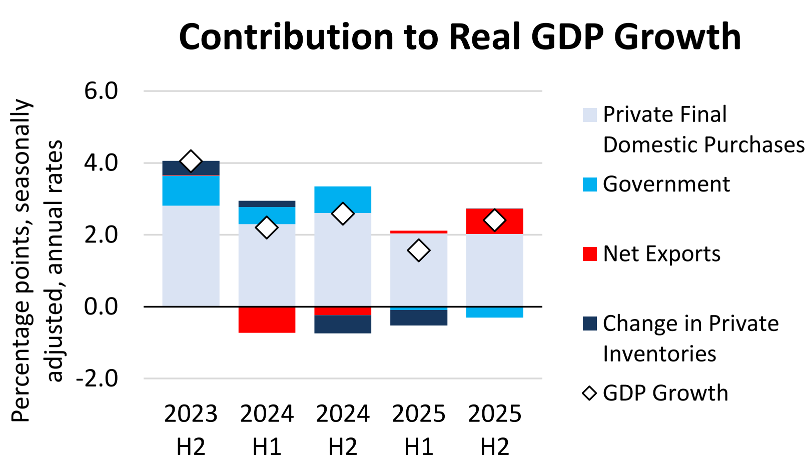
Pursuant to the 2015 Act, Treasury finds that no trading partner assessed in this Report met all three criteria for enhanced analysis in the current review period of the four quarters through December 2025, based on the most recent available data. Treasury maintains a Monitoring List of major trading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

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

Section 2: Global Economic and External Developments

U.S. Economic Trends During the Official Report Period

During the latter half of 2025, real GDP rose 2.4% at an annual rate, accelerating from 1.6% during the first half of 2025. The stronger pace reflected growth rates of 4.4% in the third quarter – the fastest quarterly pace in two years – and 0.5% in fourth quarter. Without the drag from the 43-day federal government shutdown, GDP growth would have been about three times higher in the fourth quarter according to the Bureau of Economic Analysis.

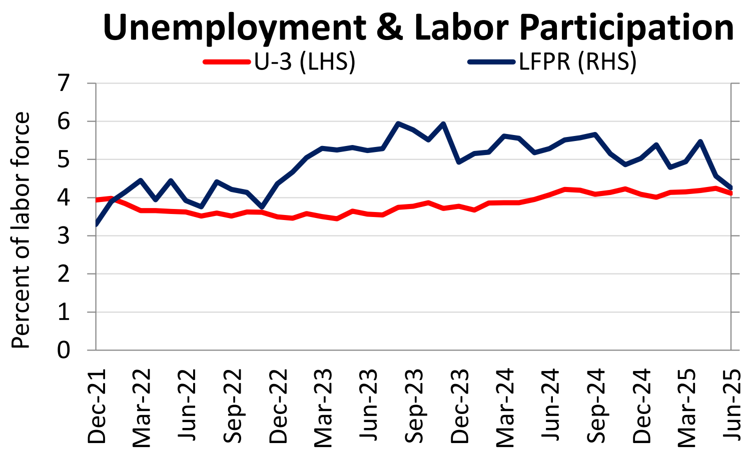


Source: Bureau of Economic Analysis.

Business investment was a key contributor to GDP growth throughout 2025. Business fixed investment growth was 2.8% at an annual rate in the second half of 2025, led by spending on intellectual property products (5.5%) and equipment (4.7%). On balance, investment in business structures continued to decline in the second half (-5.8%), though mining exploration switched from being a drag on growth to a neutral stance. On the household side, the growth rate of personal consumption expenditures nearly doubled to 2.7%, but residential investment continued to decline, and at a modestly faster pace of -

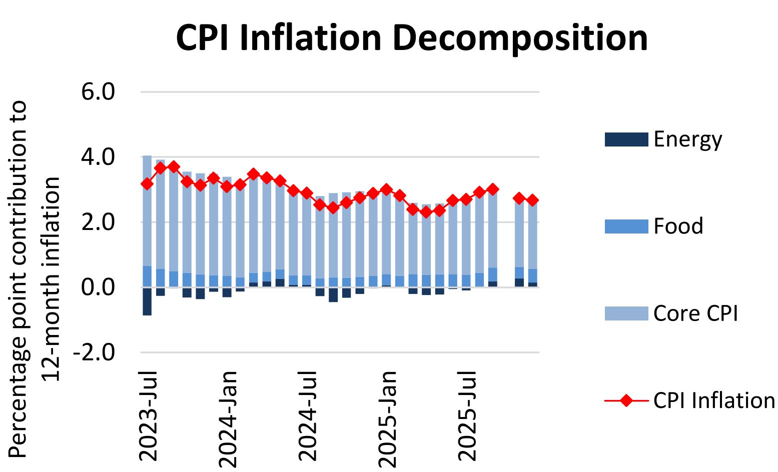
4.4%. In total, private domestic final purchases (PDFP)—which combines personal consumption expenditures, business fixed investment, and residential investment—added 2.0 percentage points to GDP growth.

On balance, the remaining components of GDP were a net positive. During the latter half of 2025, net exports added 0.7 percentage points to real GDP growth, the largest contribution from trade since 2022. Meanwhile, total government consumption and investment subtracted 0.3 percentage points from growth, and the change in private inventories was neutral.



Source: Bureau of Labor Statistics.

Labor market conditions were generally healthy throughout 2025, with supply and demand in balance. Unemployment rates remained in line with estimates of a full-employment economy, and labor participation was relatively stable. The pace of private-sector job creation accelerated during the second half of 2025, with the economy creating an average of 32,000 jobs per month, almost double the pace in the first half of the year. This pace of job growth was within the range of estimates of the breakeven pace of job growth, given demographic pressures and immigration enforcement. Indeed, the unemployment rate (U-3) held relatively steady between 4.3% and 4.5% throughout the last six months of the year. The overall labor force participation rate (LFPR) ticked up to 62.4% by December 2025 – despite declining participation among the elderly – reflecting the rising LFPR for prime-age (ages 25-54) workers that increased to 83.8% over the second half of 2025.



Source: Bureau of Labor Statistics.

After decreasing during the first half of 2025, inflation was generally stable-to-lower during the second half of the year. As of December 2025, 12-month CPI inflation was 2.7%, matching the yearly rate in June 2025. Twelve-month core CPI inflation (which excludes food and energy) slowed from 2.9% through June to 2.6% over the year ending in December. The Federal Reserve's preferred measure, PCE inflation, increased slightly during 2025's second half, reflecting its different methodology and component weighting. On a twelve-month basis through December 2025, headline PCE inflation was 2.9%, up from 2.6% in June 2025. Core PCE inflation inched up 0.1 percentage point to 3.0% in December 2025.

Economic Developments Since December 2025

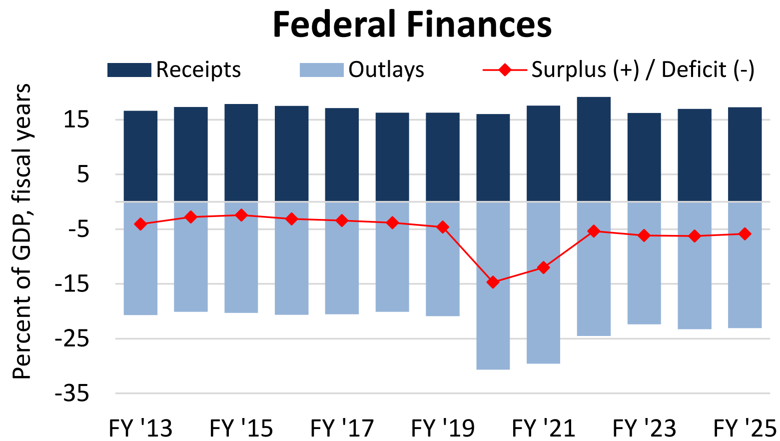
Real GDP growth remained solid during the first quarter of 2026, rising 2.0% at an annual rate as most components contributed to economic growth. Real PDFP rose 2.5% during the first quarter, picking up modestly from the 2.4% annualized pace during the second half of 2025. Personal consumption expenditures added 1.1 percentage points to GDP growth, while business fixed investment accelerated sharply, accounting for 1.4 percentage points of growth. Residential investment subtracted 0.3 percentage points from first quarter GDP growth. The public sector contributed 0.7 percentage points to growth, largely owing to the end of the longest federal government shutdown in history. In addition, a slower drawdown in private inventories boosted growth by 0.4 percentage points. Net exports were a 1.3 percentage point drag on growth, as imports grew faster than exports.

Labor market data have improved further since December, with labor supply remaining strong and labor demand picking up. Since December 2025, private-sector employers have added an average of 86,000 jobs per month, nearly triple the 32,000 average monthly pace during the second half of last year, and considerably above the 18,000 average during the first half of 2025. Meanwhile, the unemployment rate since December averaged 4.3%, or about 0.1 percentage points below the average in the second half of 2025. In addition to signs of firming labor demand, key measures of labor supply have been steady to higher since the second half of 2025. Although the average for the overall LFPR declined 0.4 percentage points to 62.0% – reflecting demographic aging – the average prime-age LFPR has increased by 0.2 percentage points to 83.9%, a high reading relative to the past 25 years. In supplementary labor data, the private hires rate rose to 3.9% at the end of the first quarter, and the private layoffs rate remained stable and low by historical standards.

Inflation year-to-date has largely reflected energy price pressures that have accompanied the conflict with Iran. Over the twelve months ending in April 2026, year-over-year CPI inflation was 3.8%, driven by a 17.9% increase in the energy price index. Core inflation increased slightly to 2.8% over the year ending in April, though this partly reflected higher airfares related to fuel prices. Core inflation also ticked higher due to an adjustment in April, which unwound the downward bias in housing inflation related to missing data around the federal government shutdown. Following the adjustment, year-over-year inflation for housing was 3.2%, slightly below the pre-pandemic average; alternative sources of rent price growth suggest further deceleration in 2026.

Federal Finances

The fiscal deficit as a share of GDP during the previous Administration ended as the largest in history outside of a war or recession at 6.3% of GDP in FY 2024. In FY 2025, which ended last September, the deficit narrowed to $1.77 trillion, equal to 5.8% of GDP, as an increase in receipts more than offset by rising outlays. Total federal receipts rose by $317 billion to $5.24 trillion (17.2% of GDP) in FY 2025. Meanwhile, outlays rose by $276 billion to $7.01 trillion (23.1% of GDP) in FY 2025, reflecting higher spending on Social Security, increased Medicare outlays, and higher net interest payments on the federal debt.

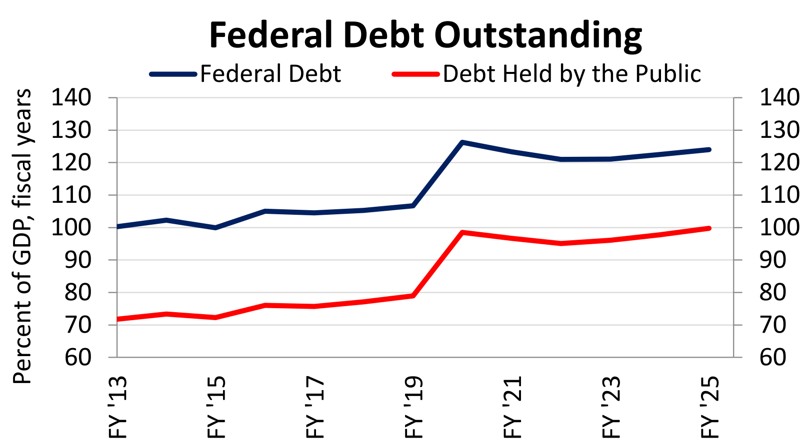


Sources: U.S. Treasury; Bureau of Economic Analysis.

From October 2025 to April 2026, the fiscal year-to-date federal deficit totaled $953.6 billion, down $95.2 billion from the first seven months of FY 2025. Total fiscal year-to-date receipts were $3.32 trillion, up 6.7% from the same period last fiscal year. Meanwhile, total outlays increased only 2.8% to $4.27 trillion.

The Treasury's borrowing limit was raised to $41.1 trillion with the passage of the One Big Beautiful Bill Act in July 2025. As of April 2026, gross federal debt stood at $39.0 trillion, while debt held by the public was $31.3 trillion.

The fiscal path this Administration inherited was unsustainable. This Administration is working to grow the economy, cut spending, and bring America back to a healthy fiscal path. The Administration achieved meaningful discretionary spending savings in FY 2026 and advanced pro-growth tax, trade, and deregulatory policies that are expected to grow the economy and increase revenues over time. The President's FY 2027 Budget proposes reductions to non-defense discretionary spending by 10 percent ($73 billion) in FY 2027 and by 2 percent in all years after 2027, while supporting critical national security investments. Pro-growth

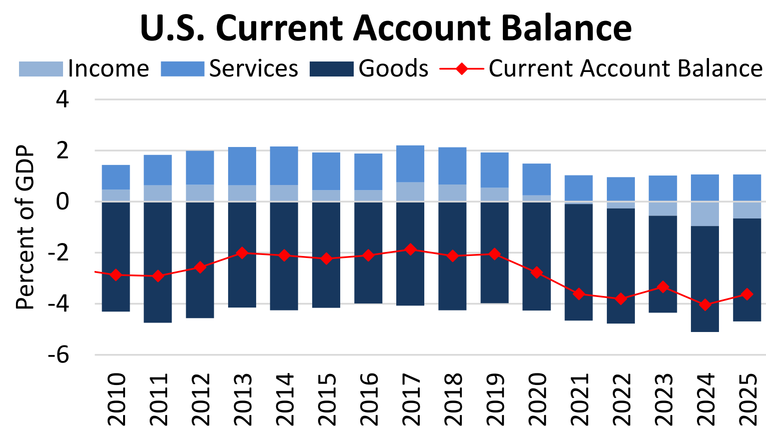


Sources: U.S. Treasury; Bureau of Economic Analysis.

policies narrow the fiscal gap, while reductions in spending will cut the deficit, free up capital for the private sector, and lead to enhanced growth. The Administration also announced a task force to eliminate fraud in March 2026, which will help address improper mandatory spending without impacting programmatic benefits. The Administration seeks Congress's collaboration to cut wasteful and unnecessary spending to bring down the federal deficit and advance pro-growth policies that benefit all Americans.

U.S. Current Account and Trade Balances

The U.S. current account deficit narrowed by $69.3 billion to $1.1 trillion (3.6% of GDP) in the four quarters through December 2025 relative to the four quarters though December 2024.



Sources: Bureau of Economic Analysis, Haver

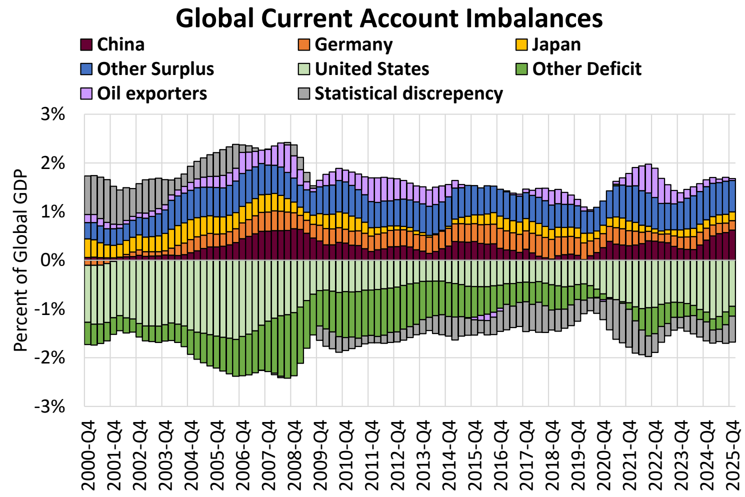
The narrowing of the current account deficit reflected expanded services trade balances (up $17.3 billion), balances on primary income (up $53.8 billion), and secondary income balances (up $23.6 billion). The goods trade deficit increased by $25.4 billion in the four quarters through December 2025 compared to the same period one year prior. Total U.S. exports grew 6.1% in the four quarters through December 2025 while imports grew 5.0%. Taken together, the total U.S. trade deficit (goods and services) increased by $8.2 billion in the four quarters through December 2025, compared to the four quarters through December 2024.

International Economic Trends

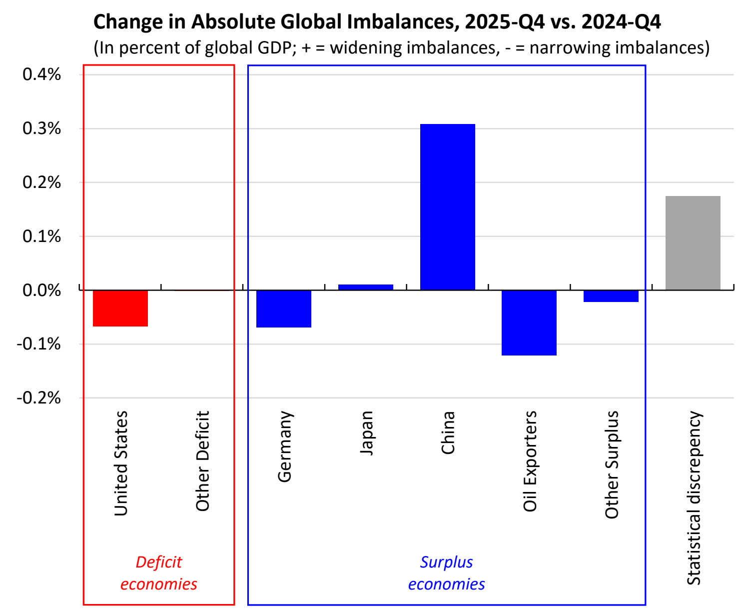
Global growth in 2025 proved resilient with most large economies outperforming the IMF's October 2025 projections which had been revised up from earlier estimates that year. That said, external demand represents an outsized share of global growth across major economies, perpetuating imbalances that hold back growth. The United States in its G-20 Presidency has brought the issue of global imbalances to the forefront of the Finance track and is undertaking work to identify policies that support strong, sustainable and balanced global growth.

Global External Imbalances, Capital Flows, and Foreign Exchange Developments[5]

Global current account imbalances[6] remained at elevated levels over the four quarters through December 2025, increasing slightly from one year prior. China's surplus continued to widen, increasing global imbalances by 0.3 percentage points of global GDP over this period, offsetting reductions in surpluses across other major trading partners. In its most recent External Sector Report, which assessed external positions in 2024, the IMF assessed current account surpluses remained higher than warranted by fundamentals in China, Singapore, the Netherlands, Germany, Malaysia, India, Mexico and the euro area.[7]



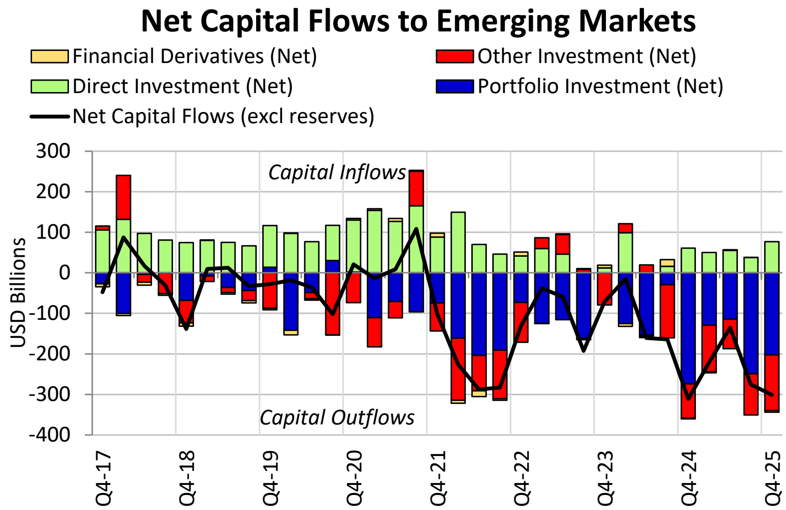
Sources: IMF WEO, Haver



Sources: IMF WEO, Haver

[5] 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.
[6] Measured as the sum of the absolute values of current account deficits and surpluses.
[7] https://www.imf.org/en/publications/esr/issues/2025/07/22/external-sector-report-2025.

Net capital flows to emerging market economies remained under pressure over the course of 2025, largely reflecting sustained capital outflow pressures on China. Over the four quarters through December 2025, net outflows of FDI, portfolio investment, and other investment from emerging market economies have totaled $901 billion. Outflows from emerging market economies over this period were concentrated in the second half of the year and continued to reflect rising net outflows from residents, while net inflows from nonresidents have remained subdued. Resident net outflows of FDI, portfolio, and other investment from China widened to $809 billion over this period, while net nonresident flows remained weak. In particular, net nonresident portfolio outflows rose in the third quarter of 2025 to $82 billion, the largest nominal quarterly outflow on record for China. Excluding China, outflows of capital from emerging market economies were more muted, totaling $105 billion over this period.



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

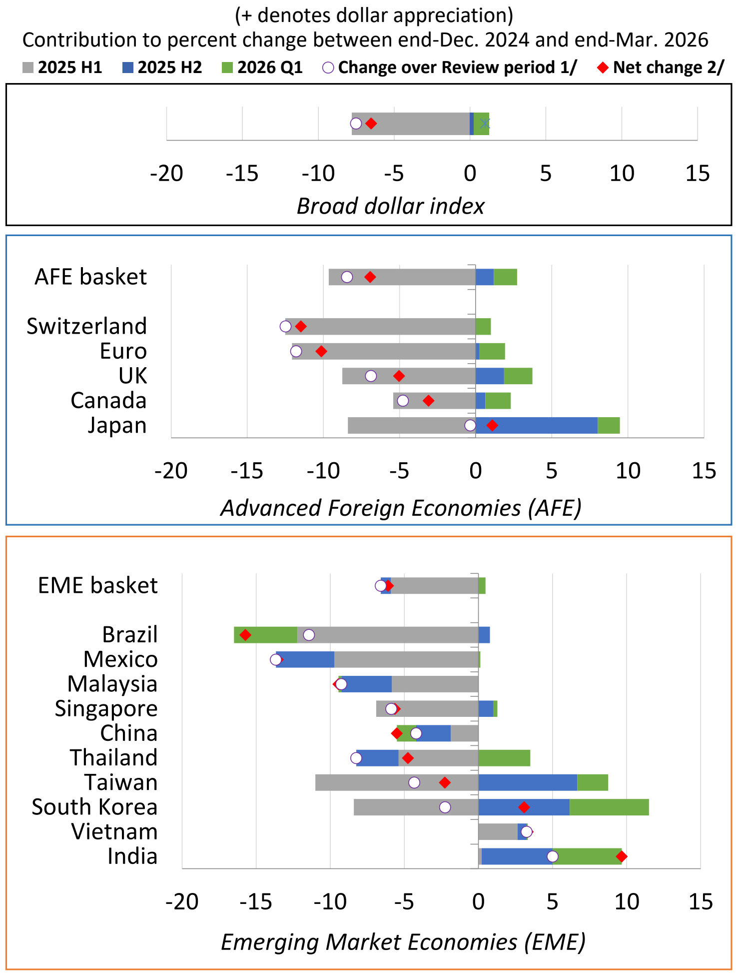
Higher frequency data (from sources beyond quarterly balance of payments data) suggest that, since end-2025, nonresident portfolio flows to emerging markets have been mixed and volatile. Net inflows to emerging market economies were particularly strong in January and February, followed by significant outflows in March.

Capital also flowed out of advanced economies, excluding the United States, on a net basis over the course of 2025, with net outflows of FDI, portfolio investment, and other investment totaling $683 billion, largely reflecting sustained net resident FDI outflows throughout the year as well as pronounced outflows of other investment in the fourth quarter. The United States continued to see robust net capital inflows of $1.2 trillion over the four quarters through 2025, driven largely by buoyant net inflows of portfolio investment.

The nominal trade-weighted dollar weakened 7.5% over the four quarters through December 2025, depreciating against advanced economy currencies by 8.4% and against emerging market economy currencies by 6.6%. During this period, the dollar depreciated significantly against the Swedish krona, Swiss franc, Brazilian real, euro, Danish krone, Norwegian krone, and Taiwanese dollar, each by at least 10%. Meanwhile, the dollar appreciated against the Vietnamese dong by 3% and the Hong Kong dollar by 1% over this period.

The broad dollar movements over this period reflect a range of factors. Foreign exchange markets continued to function smoothly over the course of 2025, and U.S. capital markets remained exceptionally deep and liquid, bolstered by robust foreign demand for U.S. assets, as discussed above.

U.S. Dollar vs. Major Trading Partner Currencies



1/ Change over the Review period corresponds to the percent change over the four quarters through December 2025.
2/ Net change corresponds to the percent change between December 2024 and March 2026.
Sources: FRB, Haver

On a real effective basis, the dollar depreciated 5.4% over the course of 2025 and had weakened by an additional 0.7% through end-March 2026, leaving it still 12% above its 20-year average. In its most recent assessment from April 2026, the IMF assessed the dollar to be overvalued by 10% on a real effective exchange rate basis in 2025, consistent with its assessment of the U.S. external position.

As of March 2026, among economies with surpluses exceeding 3% of GDP in 2025, China and Switzerland have seen real exchange rate appreciation in excess of 2% over the first three months of 2026. Conversely, Belgium and Brazil, which had current account deficits in 2025 have seen sizable real appreciation thus far in 2026. On the other hand, real exchange rates among several major trading partners with sizable current account surpluses have continued to depreciate thus far in 2026, especially for Taiwan, Korea, and Japan.

Global foreign currency reserves reached $13.1 trillion by December 2025, rising by $799 billion since December 2024. Treasury estimates foreign exchange purchases during this period of $95 billion, with only a handful of major U.S. trading partners purchasing foreign exchange reserves. Treasury estimates that gains due to valuation effects outpaced these estimated purchases ($703 billion), with estimated interest income totaling $262 billion and exchange rate-related gains totaling $441 billion. The gains from changes in exchange rates primarily reflect appreciations in the euro and, to a lesser extent, most other reserve currencies over the first half of 2025, while exchange rate-related changes were relatively minimal over the second half of the year. Treasury assesses that the economies covered in this Report continue to maintain broadly ample—or more than ample—foreign exchange reserves based on standard adequacy benchmarks.

Table 3: Foreign Exchange Reserves

	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	3,357.9	155.5	17%	255%	105%
Japan	1,180.5	88.2	27%	35%	..
Switzerland	914.7	106.6	87%	73%	..
India	552.9	5.4	14%	367%	111%
Taiwan	602.6	25.9	65%	271%	..
Korea	403.0	11.1	22%	225%	..
Singapore	397.0	39.0	66%	26%	..
Brazil	310.1	13.5	14%	276%	127%
Thailand	242.5	31.7	42%	342%	219%
Mexico	219.6	16.3	12%	353%	133%
UK	123.8	21.1	3%	2%	..
Malaysia	112.9	6.8	24%	77%	104%
Vietnam	83.6	2.4	17%	312%	..
Canada	98.4	4.5	4%	7%	..
France	33.4	3.8	1%	1%	..
Italy	52.6	2.7	2%	5%	..
Australia	45.0	5.4	2%	12%	..
Germany	37.4	2.1	1%	1%	..
Belgium	6.5	0.5	1%	1%	..
Netherlands	8.5	2.4	1%	1%	..
Ireland	4.8	-0.3	1%	0%	..
United States	38.6	3.8	0%	0%	..
World	13,148.4	798.7	n.a.	n.a.	..

Foreign exchange reserves as of end-December 2025.
GDP caluclated as sum of rolling 4Q GDP through Q4-2025.
Short-term debt consists of gross external debt with original maturity of one year or less, as of the end of Q4-2025; Vietnam as of Q3-2025.
** IMF Assessing Reserve Adequacy Metric, a composite measure of reserve adequacy, as of end-2025. China's reserves are compared to the IMF's capital controls-adjusted metric. The IMF assesses reserves between 100-150% of the ARA metric to be adequate. While the IMF usually reports gross international reserves as a share of the ARA metric, foreign currency reserves as a share of the ARA metric are presented here for comparability purposes.*
Sources: National Authorities, World Bank, IMF, BIS.

Section 3: Intensified Analysis of Major Trading Partners

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

Monitoring List any major U.S. trading partner that accounts for a large and disproportionate share of the overall U.S. trade deficit, even if that economy has not met two of the three criteria from the 2015 Act. **In this Report, the Monitoring List comprises China, Japan, Korea, Taiwan, Singapore, Thailand, Vietnam, Germany, Ireland, and Switzerland. All were on the Monitoring List in the January 2026 Report.** This section provides Treasury's intensified evaluation of these economies.

In this Report, each of these trading partners meet the criteria for having a significant bilateral surplus and a material current account surplus, except for Singapore and Switzerland, each of which met the material current account surplus criterion, and except for Thailand, which met the significant bilateral trade surplus criterion.

China

In 2025, China's current account surplus expanded to a record high, reflecting persistent and increasing internal and external imbalances. Despite these imbalances, authorities continue to emphasize a production and export-driven growth strategy, providing large-scale non-market support for domestic manufacturing. China continues to rely on a range of tools to manage the RMB, particularly the daily fix[8] and the more-opaque foreign exchange activities of China's state-owned banks. As RMB appreciation pressures re-emerged in mid-2025, the authorities appeared to have allowed modest RMB appreciation against the dollar while acting to tightly manage the pace of appreciation.

Growth and Macroeconomic Policies

China's economy grew 5.0% in 2025, in line with the official growth target. Economic growth was buoyed by external demand, declining imports, and fiscal stimulus while domestic investment and consumption weakened. China maintained an expansionary fiscal policy stance in 2025, with the total budget deficit widening to 9.6% of GDP to support infrastructure spending, manufacturing investment, and public services. Authorities also moderately eased monetary policy with a 50 bp cut to the reserve requirement ratio and a 10 bp cut to the policy rate. Monetary policy transmission remained limited: RMB loan growth slowed to 6.3% year-on-year in December, reported manufacturing fixed asset investment showed substantially lower growth (0.6% year-on-year) than in prior years outside of the pandemic, and inflation remained near-zero.

For 2026, China has set a lower real growth target of 4.5-5.0% but has urged provinces to exceed this range, if possible. The IMF projects China's growth rate to slow to 4.4% in 2026, reflecting the Fund's assessment of the mixed impact of U.S. tariffs on Chinese exports, domestic stimulus measures, and potential repercussions from the conflict with Iran. China's fiscal stimulus is expected to be more conservative in 2026, with authorities aiming to improve the composition and efficiency of spending. Even as the narrow fiscal official deficit remains unchanged, the IMF expects China's cyclically adjusted primary

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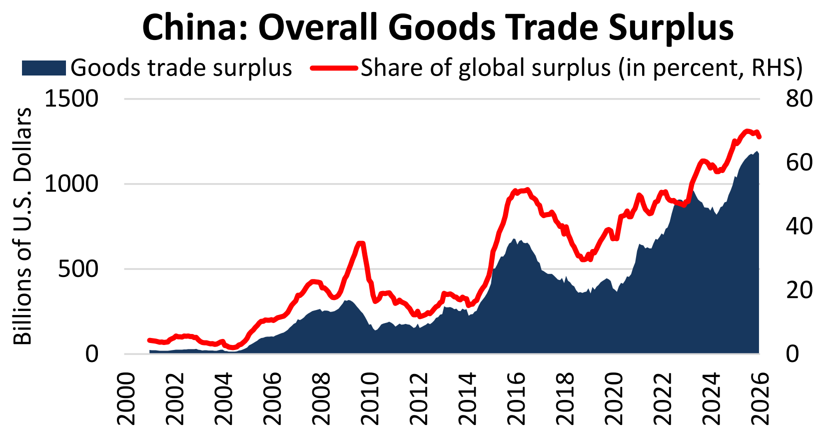
[8] The daily fix is the central parity rate around which the RMB is permitted to trade within a ±2% band.

balance to narrow from 7% to 6.8% of GDP in 2026. The People's Bank of China (PBOC) and the Ministry of Finance have indicated that they will use targeted monetary policy facilities and interest subsidies to incentivize lending to small and medium-sized technology firms, service suppliers, and households. Further reductions of the policy rate, if they occur, will likely be modest, given the concerns about potentially undermining already weak bank profitability amid historically low net interest margins. The producer price index (PPI) and the GDP deflator are expected to rise modestly amid higher prices for global commodities. However, lower levels of inflation in China relative to its trading partners would continue to weigh on China's real effective exchange rate.

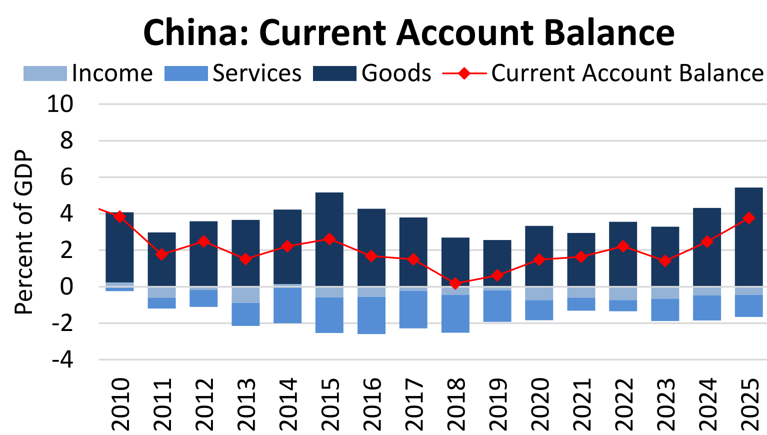
China's 15th Five-Year Plan (2026-2030) continues to emphasize a production and export-driven growth strategy, which will involve greater financial support to advanced technology sectors and related supply chains. While authorities committed in the Five-Year Plan to "notably increase" household consumption's share of GDP, they appear more focused on boosting the supply of high-quality goods and services than on addressing the key demand-side factors behind lower household spending. The IMF recommends that China implement expansionary fiscal policy focused on durably boosting household consumption, facilitating a more efficient property sector adjustment, and scaling back industrial policy support, which the IMF assesses could help ameliorate China's growing external balances.



Source: IMF

Balance of Payments Developments

According to China's balance of payments data, the current account surplus widened to 3.8% of GDP in 2025, up from 2.5% in 2024. The increase in the current account surplus was driven primarily by the goods trade balance, as exports rose $230 billion and imports fell $22 billion year-over-year. Balance of payments data recorded a surge in the goods trade surplus to 5.4% of GDP in



Sources: SAFE, Haver

2025, up from 4.3% of GDP in 2024.[9] China's customs data show an even larger goods trade surplus that rose to 6.1% of GDP in 2025 from 5.3% a year earlier. Using the customs data, China's current account surplus would have been 4.4% of GDP. Over the Report period, China's services deficit narrowed to 1.2% of GDP from 1.4% of GDP, reflecting a continued recovery in inbound tourism and subdued outbound tourism. Meanwhile, China's overall income deficit narrowed to 0.4% of GDP from 0.5%, driven by an increase in the secondary income surplus. China's primary income deficit modestly widened as reported investment income remained negative. China's subdued investment income since 2021 appears inconsistent with the global rise in interest rates. This underscores the need for authorities to publish higher-frequency and more detailed primary income flow data to align with international statistical standards.[10] Although authorities recently released a more detailed breakdown of investment income, the data is available only annually for 2025 and not for prior years, making it difficult to verify its consistency with global trends.

In 2025, China's bilateral goods and services surplus with the United States ranked third among U.S. trading partners, falling behind Mexico and Vietnam. China's bilateral goods and services trade surplus with the United States declined to $169 billion in 2025, a 35% contraction from 2024, driven by a sharp drop in the bilateral goods trade surplus to $202 billion in 2025 from $296 billion a year earlier. China ran a bilateral services trade deficit with the United States of $33 billion in 2025, unchanged from 2024.

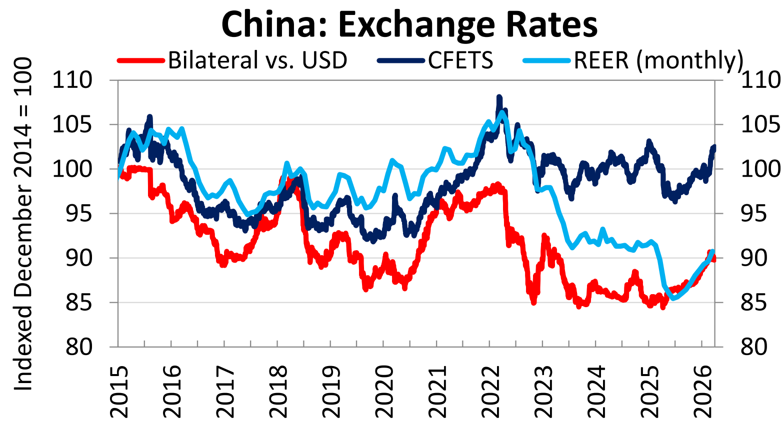
China's financial account deficit widened to $820 billion in 2025 from $524 billion a year earlier. The financial account deficit was driven by record-breaking outflows in portfolio and other investments as Chinese banks and corporates deployed the current account surplus abroad. China's portfolio investment deficit widened to $426 billion in 2025 from $179 billion in 2024, as Chinese residents net acquired overseas debt securities and equity, amid policy measures permitting larger outflows, while foreign investors net sold Chinese debt and modestly resumed onshore equity purchases. Meanwhile, the deficit in other investments widened to $293 billion in 2025 from $183 billion in 2024, driven by an increase in Chinese banks' offshore loans and, to a lesser extent, offshore deposits and trade credits. Over the Report period, China's FDI deficit narrowed to $77 billion from $150 billion as nonresidents' FDI inflows returned to a 3-year high alongside a continued moderation of residents' direct investments abroad. Net errors and omissions swung from a deficit of $1 billion in 2024 to a surplus of $38 billion in 2025, in contrast with the large undocumented outflows that China routinely recorded over the last decade.

[9] 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.

[10] In March 2026, SAFE published a breakdown of the investment income account in 2025, including income from direct investments and other investments in line with the Balance of Payments and International Investment Position Manual (BPM6). However, China still does not fully breakdown its investment income by portfolio, reserve, and other foreign assets. The data show China's reported FDI income payments (e.g., Chinese dividend payments to foreign companies) as the primary driver of the investment income deficit, while its earnings from non-FDI investment income recorded a small surplus of $80 billion.

Exchange Rate Developments

The RMB appreciated 4.4% against the U.S. dollar in 2025. The RMB faced acute depreciation pressures against the dollar in early 2025 amid continued interest rate differentials and trade policy volatility, depreciating to a low of 7.34 per dollar in April 2025. However, RMB sentiment stabilized following U.S.-China trade announcements in May 2025 and the subsequent economic and trade deal announced in November 2025. Since then, the RMB has been on an appreciating trend, strengthening to 6.99 per dollar by end-2025 and 6.83 per dollar by end-April 2026.



Sources: CFETS, FRB, BIS

Despite its nominal appreciation against the dollar, the RMB depreciated 3.4% against the China Foreign Exchange Trade System (CFETS) trade-weighted nominal basket in 2025 because it appreciated less against the dollar than many of China's trading partner currencies.[11] Nominal effective RMB depreciation coupled with continued weakness in domestic inflation relative to its trading partners led China's real effective exchange rate (REER) to depreciate 2.4% over the Report period, leaving China's REER 17% weaker than its peak in March 2022.

Treasury assesses that China's current account surplus is driven by significant domestic macroeconomic imbalances that generate spillovers to the rest of the world. These factors include domestic demand weakness coupled with non-market practices that lead to an overreliance on exports to drive growth. China's aging population, combined with an inadequate social safety net, has incentivized higher household precautionary savings, while financial repression has left households with few avenues to channel these savings, leading to correspondingly low household consumption. In recent years, local government fiscal strains have emerged amid the prolonged property sector downturn, further limiting fiscal space to boost domestic demand. Finally, China's continued focus on promoting key industries, coupled with insufficient domestic demand, has led to overcapacity in certain manufacturing sectors – which firms have sought to channel into exports.

In its most recent external sector assessment, the IMF assessed China's external position in 2025 to be stronger than the level implied by medium-term fundamentals and desirable policies. Consistent with this overall assessment, the IMF assessed the RMB to be

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

undervalued on a real effective basis in 2025 in the range of -12.1% to -20.7%, with a midpoint of -16.4%, widening from a midpoint of -8.4% in 2024.

Intervention Policy

China provides very limited transparency regarding both its exchange rate policy tools and the policy objectives of its exchange rate management regime. Treasury continues to monitor three key metrics to assess China's intervention policy: the daily fix, the PBOC's foreign exchange assets, and net foreign exchange settlement data. Treasury has also examined broader activities by state banks that could affect exchange rates, including swap-funded activities, rising net foreign assets, and reverse repo activities.

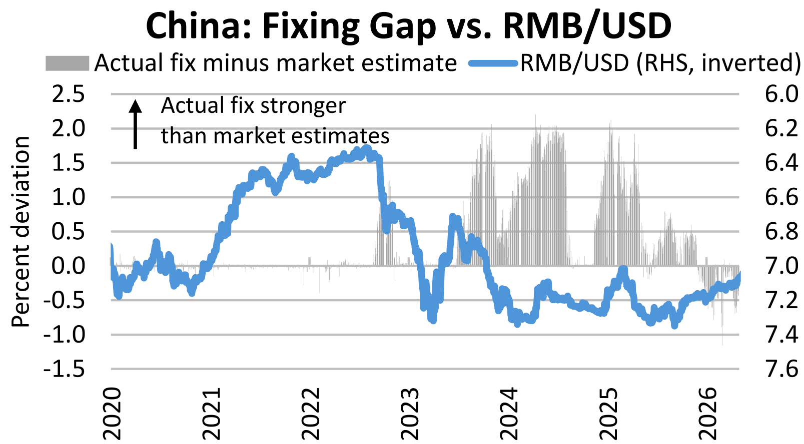
Over the Report period, China's exchange rate management appears primarily to have consisted of intervention to resist depreciation pressures from January to early May 2025, after which authorities shifted to allowing a gradual and managed pace of RMB appreciation against the dollar through end-2025 as trade tensions abated.

- *Key Metrics*

The daily fix is a key tool in China's exchange rate management. The daily fix serves as a clear policy signal from the PBOC on the anchor value of the yuan to guide daily trading. Between January 2025 and early May 2025, the PBOC consistently set the daily fix at a level substantially stronger than market forecasts, in line with efforts by authorities since mid-2023 to lean against depreciation pressures.[12] This gap remained large until the announcement of U.S.-China trade meetings appeared to reduce RMB depreciation pressures, after which the PBOC began to allow a gradual narrowing of the fixing gap while still maintaining a strengthening bias. This practice continued until end-November 2025, which market participants generally interpreted as a signal of authorities' tolerance for a gradual strengthening of the RMB.

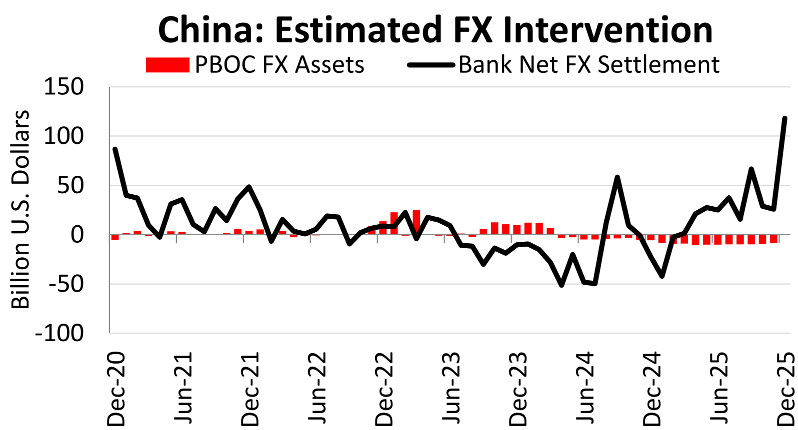
[12] Market forecasts generally rely on the PBOC's official guidance to forecast the next day's fix. According to this guidance, the daily fix is based on a trimmed weighted average of quotes received from market-making banks, which are supposed to base their quotes on the previous day's closing rate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

In December, following a Federal Reserve rate cut and strong onshore FX conversion by Chinese exporters, the RMB began facing appreciation pressures. In response, the PBOC began setting the daily fix weaker than market expectations. The PBOC's use of the daily fix in recent months –interpreted by many analysts as an effort to lean against rapid RMB appreciation pressures – marks a reversal from its previous use to counter depreciation. Recent fixing gaps have been considerably smaller in magnitude than those observed from 2023 to spring 2025.



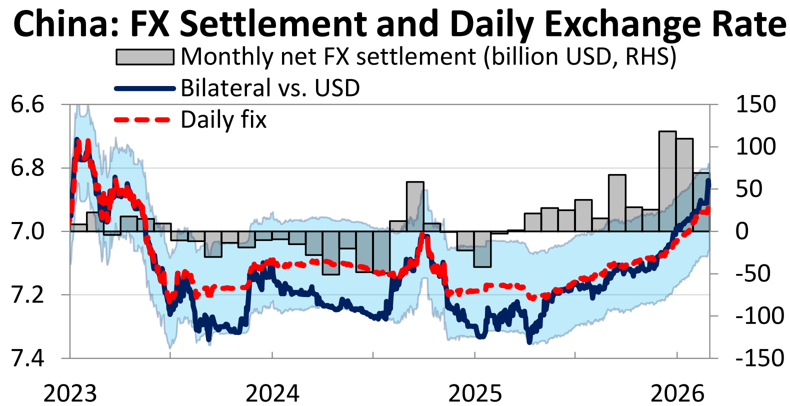
Source: Bloomberg

Chinese authorities also appear to directly intervene in foreign exchange markets and influence the timing and volume of foreign exchange sales and purchases by Chinese state-owned banks. China is the only economy covered in this Report that does not disclose its foreign exchange market intervention. To estimate China's intervention in the foreign exchange market, Treasury staff use two primary proxy measures. The first proxy measure — monthly changes in the PBOC's foreign exchange assets, booked at historical cost — showed consistent, moderate FX sales throughout the Report period, totaling $105 billion in 2025.



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

Meanwhile, the second proxy measure — net foreign exchange settlement data (adjusted for changes in outstanding forwards) that includes the activities of China's state-owned banks as well as the PBOC — indicated a total of $323 billion in net foreign exchange purchases in 2025. Notably, foreign exchange purchases were concentrated in the third quarter ($120 billion) and fourth quarter ($173 billion) of 2025. Press reports suggest that these purchases ramped up during periods of more acute RMB appreciation pressures.[13]



Trading band is +/- 2.0% from daily fix set by the PBOC.
Sources: CFETS, SAFE, U.S. Treasury estimates.

The divergence between the net FX settlement series and the PBOC's FX balance sheet may show the extent to which China's state-owned banks have increasingly become a vehicle for absorbing FX outflows and inflows. In December, banks' spot FX purchases surged to a monthly record of $100 billion, coinciding with a peak in exporters' FX settlement for goods trade and a turning point in which the RMB spot rate began trading stronger than the daily fix (an indication of intensifying appreciation pressures).

Over the Report period, banks appear to have recycled these dollar inflows into offshore portfolio and other investment outflows, as reflected in China's financial account data as well as the sharp rise in banks' net foreign asset[14] position. In 2025, the net foreign assets of deposit-taking banks (which include the five major state-owned banks) rose $367 billion – driven entirely by the increase in gross foreign assets – alongside reported net FX purchases of $323 billion.[15] In addition to deploying funds into foreign bonds and other investments (e.g., offshore loans, deposits, and trade credits), banks also increased interbank FX lending via reverse repos, which rose to $54 billion from $25 billion a year earlier.[16]

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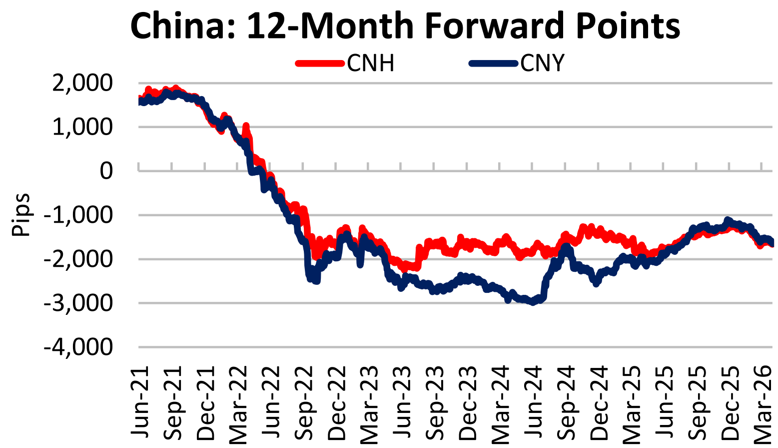
[13] See, for example, Bloomberg, "Yuan Pares Morning Gain as State Banks Bid for USD", December 1, 2025; and Reuters, "China state-owned banks soak up dollars to slow yuan gains", December 5, 2025.
[14] By definition, banks' net foreign assets are recorded on a balance of payments basis and thus include RMB-denominated claims on nonresidents.
[15] In addition to FX settlement, banks appear to have funded part of the increase in their foreign asset position from the rise in domestic FX deposits. In 2025, the trend in FX deposits appeared at least in part consistent with higher onshore USD deposit rates compared to CNY deposit rates, and with the surge in China's trade surplus that could incentivize greater firms' repatriation of dollars in the form of FX deposits onshore. Other possible explanations include an increase in RMB-denominated foreign assets by the state banks and the activities of policy banks, though Treasury staff cannot provide a confident assessment of these flows due to a lack of detail on the foreign asset data.
[16] A previous iteration of this Report treated this series as a flow rather than stock, which inadvertently inflated banks' reverse repo activities. The current Report correctly characterizes the scale of these activities using end-of-period stock data.

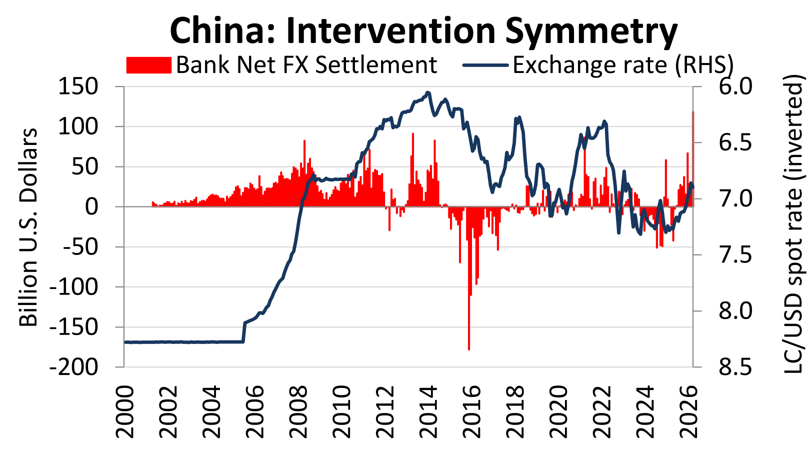
According to press reports, state-owned banks also appear to have channeled a portion of these spot dollar purchases off-balance sheet, including through the swap market.[17] This signals a reversal in banks' strategy over the last few years to lean against appreciation pressures, in which banks borrowed dollars via swaps to purchase RMB in the spot market. As RMB appreciation pressures have re-emerged, banks now are purchasing dollars in the spot market and supplying those dollars into the swaps market. This activity is reflected in the onshore 12-month USD/RMB forward rate, which largely closed its gap with the offshore rate by end-2025 and has, in recent months, remained broadly in line with the offshore rate.



Source: Bloomberg

Taken together, these developments indicate that state-owned banks may be increasingly intermediating China's external surplus—absorbing FX inflows onshore while deploying them into offshore assets—even as official sector data continue to show FX sales of $105 billion over the same period. These trends seen in settlement data and FX asset accumulation by state banks may also reflect to some extent commercial transactions as well as the timing of repatriation by exporters.

China's foreign exchange intervention since 2016 appears to have been broadly symmetrical, with the authorities acting to resist sharp swings in response to both depreciation and appreciation pressures. Treasury estimates – using forward-adjusted net FX settlement data – that the PBOC and Chinese state-owned banks accumulated a total of $348 billion in net FX purchases between 2016 and 2025, significantly lower than authorities' net FX purchases of $3.6 trillion between 2001 and 2014 when authorities were primarily conducting one-way intervention to resist RMB appreciation pressures.



Sources: FRB, SAFE, U.S. Treasury estimates

[17] See Bloomberg, "China's State Banks Shift Dollar-Swap Strategy as Yuan Gains", September 24, 2025, and Bloomberg, "Yuan Extends Weekly Gain to Inch Closer to 7 Level", December 19, 2025.

The relative lack of transparency around the PBOC's tools and their use requires Treasury to take into account both qualitative and quantitative factors in its assessment of China's foreign exchange intervention in the Report. Treasury will not hesitate to identify protracted, one-way intervention regardless of the limitations of existing proxy measures.

Capital Controls and Macroprudential Measures

China maintains various capital control and macroprudential measures that restrict both inbound and outbound capital flows, which authorities can loosen or tighten to support their balance of payment objectives.

Over the Report period, China took measures both to encourage capital inflows and to loosen controls on capital outflows. Authorities note these measures deepen foreign exchange markets and facilitate cross-border trade, investment, and financing, including in RMB. As discussed in the January 2026 FX Report, amid heavy RMB depreciation pressures in the first few months of 2025, the authorities raised the macroprudential parameter[18] from 1.50 to 1.75 to allow Chinese financial institutions and corporates to borrow more from abroad. As RMB appreciation pressures emerged in the second quarter of 2025, China expanded participation in the Southbound Bond Connect program (a channel for mainland Chinese investors to purchase bonds overseas via Hong Kong) to non-bank financial institutions and modestly raised the quota under the Qualified Domestic Institutional Investor (QDII) program by $3 billion to allow higher outbound investments in foreign securities.

Japan

In 2025, Japan's current account surplus increased marginally, reflecting a narrowing goods deficit and persistently high primary income balance from Japan's large stock of foreign assets. Over the Review period, Japan's goods and services trade surplus with the United States fell by 12% from one year prior after three years of a relatively stable bilateral balance. The Japanese yen remains at a multi-decade low both against the dollar and on a real effective basis, despite the Bank of Japan (BOJ) slowly raising the policy rate. Japan did not intervene in foreign exchange markets during the Report period and remains exceptionally transparent about its intervention activity, publishing monthly intervention in aggregate and detailed daily intervention once a quarter.

Growth and Macroeconomic Policies

Japan's economy grew 1.1% in 2025 on the back of rising domestic demand and business investment, improving from a 0.2% contraction the previous year. The IMF projects real

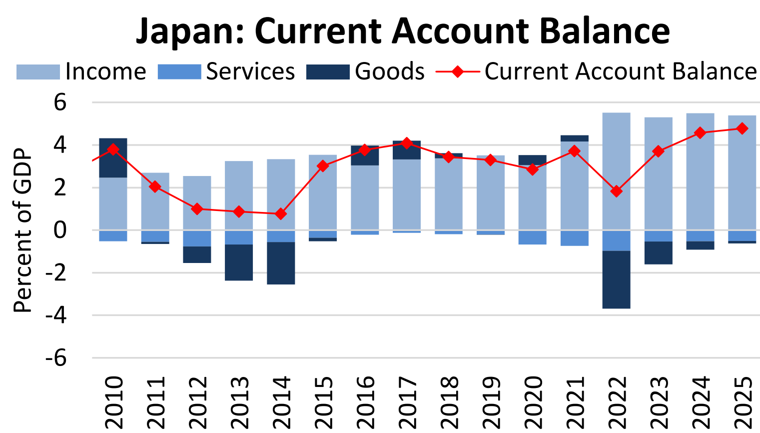
[18] Since 2018, China's cross-border capital control framework has used macroprudential measures to promote RMB exchange rate stability and orderly capital flows. The macroprudential parameter is set by authorities to govern the maximum amount of entities' cross-border financing (usually based on their capital or net assets), and can be adjusted under circumstances to address exchange rate and financial stability risks associated with capital flows.

GDP growth of 0.8% in 2026, as private investment strengthens and private consumption remains firm due to strong wage growth, despite expected monetary policy tightening and weakening external demand. Japan's general government fiscal deficit remained wide in the post-pandemic years, averaging 3.7% from 2021-2024, compared to 2.8% from 2017 to 2019. Fiscal policy began to consolidate in 2025, with the overall deficit narrowing to 1.1% of GDP as revenue outperformed.

The BOJ raised its policy rate in January and December 2025 as Japan continued its gradual monetary policy normalization. Headline CPI inflation re-accelerated to 3.2%, and core inflation remained above the BOJ's 2% target during the Report period. Although nominal wages have risen notably, inflation has strained household purchasing power. Additionally, the BOJ continued to reduce its total holdings of Japanese Government Bonds (JGBs). Monetary policy normalization would help anchor inflation expectations and reduce excessive exchange rate volatility.

Balance of Payments Developments

Japan's current account surplus edged up from 4.6% in 2024 to 4.8% of GDP in 2025, as a narrower goods deficit more than offset a slight decline in the still-large primary income surplus, which eased from 6.3% to 6.2% of GDP. Japan's goods trade deficit narrowed from 0.4% in 2024 to 0.1% of GDP in 2025, while the services deficit remained essentially unchanged at 0.5% of GDP.



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

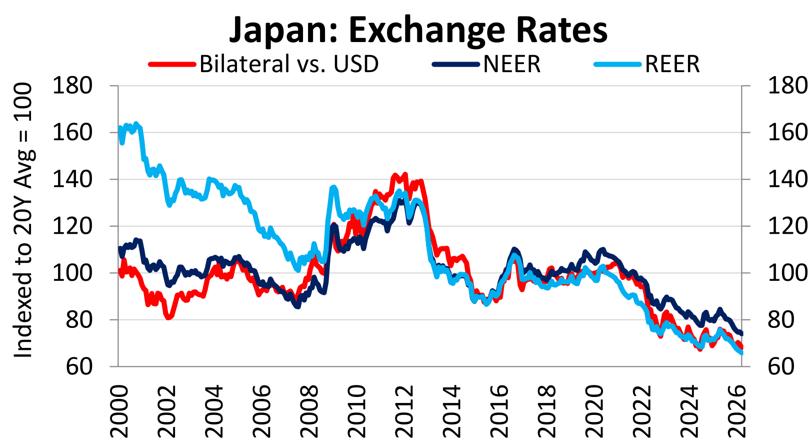
Japan ran a $55 billion goods and services trade surplus with the United States in 2025, down from $62 billion the previous year. Japan's bilateral goods trade surplus with the United States has been relatively stable over the past 15 years, averaging $56 billion per year, despite exchange rate fluctuations over that period. In 2025, Japan's goods trade surplus with the United States fell by $6 billion from a year earlier to $64 billion. Automotives and capital goods accounted for 75% of U.S. imports from Japan. Conversely, Japan's services deficit widened by $2 to $9 billion. This rebalancing occurred even as the yen weakened against the dollar over the course of the year.

In 2025, Japan ran a financial account deficit of 4.6%. Japan's financial account reflected outflows from Japan's large, internationally active institutional investors, households, and corporate conglomerates. In 2025, Japan recorded net portfolio inflows equivalent to 2.4% of GDP, owing to particularly strong foreign purchases of Japanese debt and equity in the second and fourth quarters amid Japanese equity market' outperformance. The United

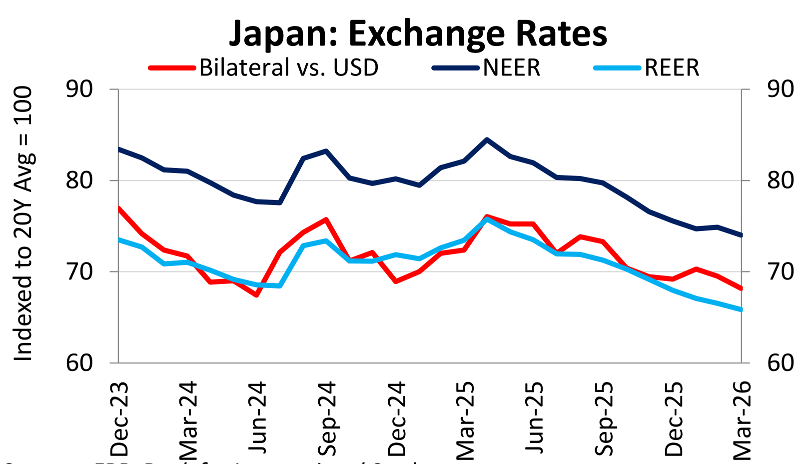
States received 84% of Japan's outbound portfolio investment. Outbound direct investment continued to account for most of Japan's net capital outflows in 2025, with such investment totaling 4.9% of GDP and inbound direct investment totaling 1.0%. During the Report period, 28% of Japan's net outbound direct investment went to the United States. Investment into American manufacturing rose 88% year on year, led by the steel and transport sectors.

Exchange Rate Developments

During the Report period, the yen ended nearly unchanged against the dollar, strengthening 0.4% on net in 2025. However, the yen experienced large intra-year swings. From end-2024 to end-April 2025, the yen appreciated by nearly 10% against the dollar, before softening and ending the year nearly flat against the dollar. Over the Report period, the yen depreciated 5.8% and 5.4% on a nominal and real effective basis, respectively. Consequently, the yen remains near multi-decade lows.



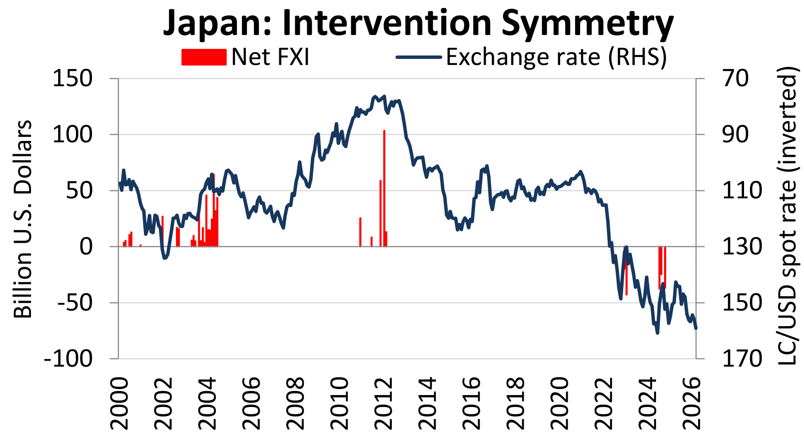
Sources: FRB, Bank for International Settlements



Sources: FRB, Bank for International Settlements

The extent of real effective depreciation and of bilateral depreciation against the dollar between end-2011 and end-April 2026 (both 51%) has resulted in substantial yen undervaluation. Indeed, yen weakness has persisted despite a narrowing of U.S.-Japan interest rate differentials. While global factors such as financial market volatility and oil prices have likely affected the yen, excess volatility in the yen is undesirable.

Intervention Policy



Sources: FRB, Ministry of Finance

Japan did not conduct official foreign exchange intervention during the Report period. As noted in Treasury's previous Reports, Japan is very transparent with respect to foreign exchange operations, publishing the total value of its foreign exchange interventions each month and the specific daily amounts and currencies used on a lagged quarterly basis. In recent years, MOF has cited excess volatility or speculative pressures as the rationale for actual or verbal interventions to support the yen. In December 2025, MOF expressed significant concern about "one-sided, rapid currency movements," with the government "watching for any excessive and disorderly moves with a high sense of urgency." Japanese authorities maintain that interventions are not targeting specific exchange rate levels. As outlined in the U.S.-Japan Finance Ministers' Joint Statement in September 2025, U.S. Treasury will continue its close consultations with the Japanese Ministry of Finance on macroeconomic and foreign exchange matters.

Government Investment Vehicles

Japan's Government Pension Investment Fund (GPIF) is one of the largest institutional investors in the world, with ¥295 trillion ($1.99 trillion) in assets under management as of September 2025. From December 2024 to September 2025, GPIF's reported holdings of foreign bonds and equities increased by ¥23 trillion ($155 billion) to ¥148 trillion ($997 billion). However, because GPIF classifies FX-hedged foreign bonds as domestic bonds, its total foreign bond holdings could be larger. The reported share of foreign securities in GPIF's portfolio rose by 1.6 percentage points to 50%, consistent with GPIF's stated objective of maintaining an even four-way split across its core asset classes.[19]

Japan Post Bank (JPB) operates as a commercial bank and institutional investor, with ¥227 trillion ($1.45 trillion) in total assets as of December 2025. JPB reports holdings of ¥93 trillion ($594 billion) in foreign securities, including approximately ¥7 trillion ($45 billion) in sovereign bonds and ¥70 trillion ($447 billion) in corporate bonds. JPB reported a ¥1 trillion ($6 billion) increase in its foreign holdings from 2024 to 2025 – a 3.1 percentage point increase in its portfolio allocation – which may reflect both valuation effects and greater investment overseas.

[19] Foreign stocks, foreign bonds, domestic stocks, and domestic bonds.

Korea

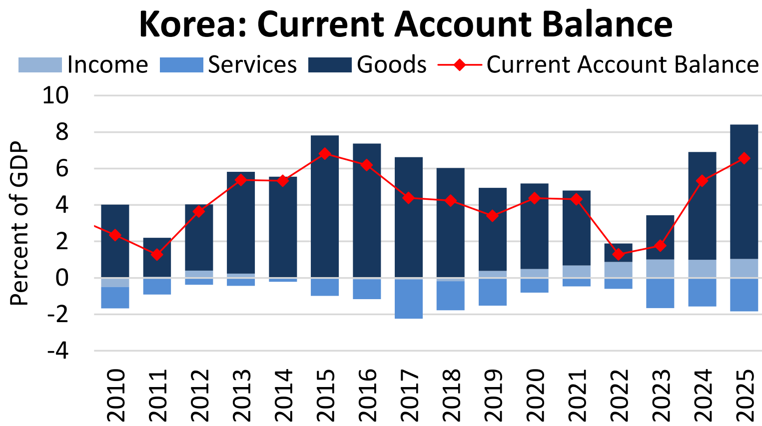
Korea's current account surplus further expanded in 2025, driven by technology exports, even as its bilateral trade surplus with the United States marginally decreased. Notwithstanding these large external surpluses, the Korean won has come under sustained depreciation pressure, and the authorities sold foreign exchange on net during the Report period, particularly in late 2025. The large National Pension Service (NPS) pension fund continued to buy foreign exchange to meet its overseas diversification objectives, with increased attention on its hedging practices. The authorities are making progress in reducing restrictions on foreign investor participation in onshore foreign exchange markets, which should help liquidity and price discovery in local markets over the medium-term. In its September 30, 2025 joint statement with the U.S. Department of the Treasury, the Korean Ministry of Economy and Finance committed to exchanging any foreign intervention operations on a monthly basis, and publishing publicly foreign exchange reserves data and forward positions according to the IMF's Data Template on International Reserves and Foreign Currency Liquidity on a monthly basis and the foreign currency composition of foreign exchange reserves on an annual basis.

Growth and Macroeconomic Policies

Korea's economy grew 1.0% in 2025, a deceleration from its 2.0% growth in 2024. Korea's growth in 2025 was driven by continued growth in exports and supported by modest growth in consumption. Fixed capital formation has weighed on growth for nine out of the ten quarters through end-2025. The IMF projects that growth will accelerate to 1.9% in 2026, roughly consistent with the Bank of Korea's (BOK's) projection of 2.0% for the year. To support growth, Korea enacted two supplemental budgets in 2025, contributing to a rise in general government gross debt to 52.3% in 2025 from 49.7% in 2024 per IMF estimates. Despite this uptick, the IMF notes that Korea maintains substantial fiscal space.

Headline inflation rose to 2.3% in December 2025 from 1.9% a year prior, slightly above the BOK's 2.0% target. The BOK began its easing cycle in October 2024, and has reduced rates four times, bringing the policy rate to 2.5% in May 2025 where it has remained since.

Balance of Payments Developments



Sources: Bank of Korea, Haver

Korea's current account surplus grew considerably during the Report period to 6.6% of GDP in 2025, up from 5.3% in 2024. This rise was driven almost entirely by goods trade, primarily semiconductors and other technology-related products, as income and services trade were largely unchanged. Korea's current account surplus now exceeds its five-year pre-pandemic average of 5.0% of GDP. Korea's primary income balance now makes up 1.5% of GDP, up from the more modest five-year average of 0.4% of GDP prior to 2020. The shift in primary income reflects the growing foreign asset position of Korean firms and rising earnings from abroad.

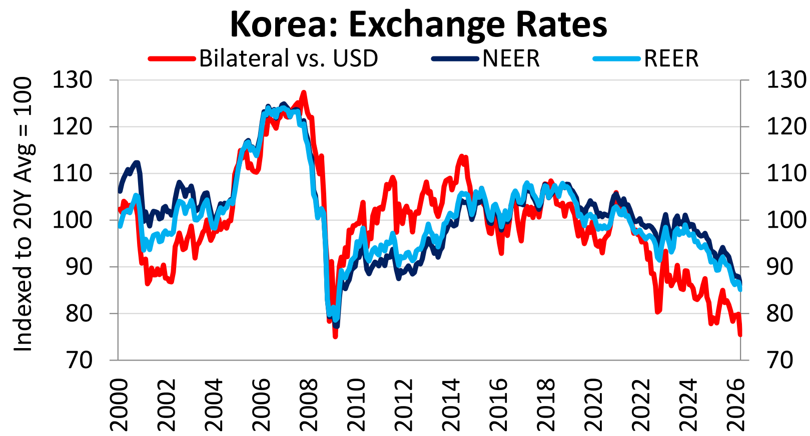
Korea's goods and services surplus with the United States fell in 2025 to $45 billion, from $54 billion in 2024 but remains at twice the levels seen a decade ago. U.S. imports from Korea fell over the course of the year, driven primarily by declining automobile imports.

Korea's financial account was volatile in 2025. Throughout the year, Korean general government accumulation of foreign equities reached $41 billion, a rapid increase from $8 billion in 2024. These flows, which include Korea's National Pension Service (NPS), were largely unhedged and contributed to won depreciation pressures. Outward equity investment by Korean non-bank financial institutions and households was an additional driver of depreciation pressures in 2025. These outflows more than doubled to $73 billion in 2025 from $34 billion in 2024, and were particularly acute in Q4 2025. Data from the Korea Securities Depository suggest that these flows stem from Korean retail investors purchasing over $30 billion in foreign equities in 2025 in a "unique phenomenon" according to the BOK.[20] In December 2025, the Korean authorities announced as series of measures to support FX and encourage Korean investors and corporates to repatriate their dollar holdings.[21]

[20] Bloomberg, Rhee Warns of Trendy 'Cool' Youth Bets Fueling Won's Weakness, November 27, 2025.
[21] These measures included tax cuts on retail holdings of foreign equities, reduced capital gains taxes for FX hedging, and lower taxes on dividend income for Korean corporates.
Tax Support Measures to Revitalize the Domestic Capital Market and Mitigate Structural Supply-Deman Imbalances in the FX Market, MOFE, December 24, 2025

Exchange Rate Developments

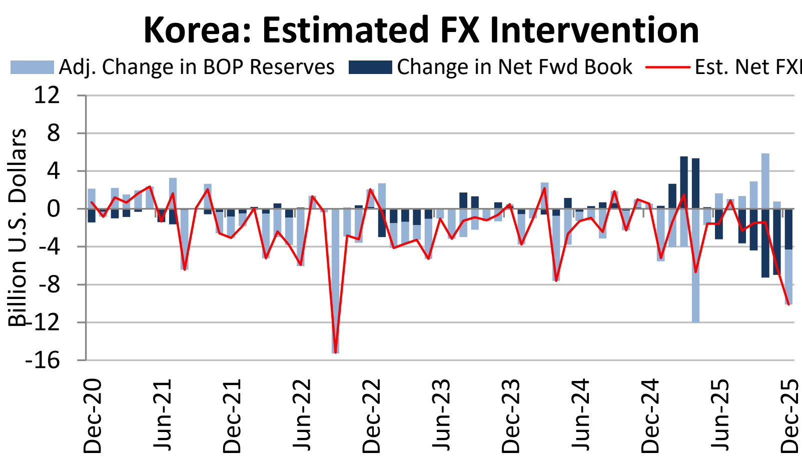
In 2025, the won appreciated 2.3% against the U.S. dollar but depreciated by 5.3% on a real effective basis. The bulk of the won's appreciation against the dollar occurred in the final trading sessions of the year, as the won strengthened 2.6% from 1,481 on December 23 to 1,445 on December 31 amid heavy reported intervention by the authorities. Depreciation pressures persisted, however. On January 14, 2026, Treasury stated that the recent depreciation pressures were not in line with Korea's strong economic fundamentals, and that excess volatility in the foreign exchange market is undesirable.[22]



Sources: FRB, Bank for International Settlements

Intervention Policy

The Korean authorities' foreign exchange intervention in the Report period appeared to focus on smoothing excess volatility amid depreciation pressure on the won. Korean authorities reported net sales of foreign exchange reserves of $28.0 billion in 2025, approximately 1.5% of GDP, $22.5 billion of which was in the fourth quarter.[23]

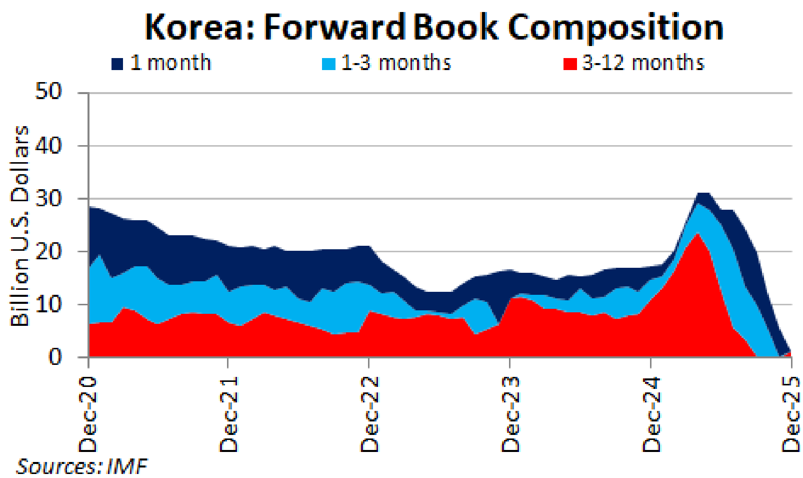


Sources: Bank of Korea, U.S. Treasury estimates

[22] https://home.treasury.gov/news/press-releases/sb0359.

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

The BOK's net long position in its forward book increased from $17 billion in December 2024 to $31 billion in May 2025, and then was nearly depleted in the seven remaining months of the Report period. It registered just $1.3 billion in December 2025. This may reflect a preference by the authorities to preserve levels of gross foreign exchange reserves, which increased modestly to $403 billion in 2025 from $392 billion in 2024.



Government Investment Vehicles

Korea maintains two prominent government investment vehicles: the NPS, which recycles domestic savings into foreign and domestic assets, and the Korea Investment Corporation, which is almost entirely funded through foreign currency and invests only in foreign assets. The NPS may have sold U.S. dollar assets, in addition to using its swap line with the BOK, to mitigate depreciation pressures on the won during this Report period.[24] Further, BOK Governor Rhee stated that the NPS needed to adopt greater "strategic ambiguity" to increase the effectiveness of its currency management framework.[25] In February 2026, Korea's Ministry of Health and Welfare announced that together with the BOK, MOFE, and NPS management that they would review and discuss NPS hedging practices, sources of foreign exchange financing, and a currency neutral evaluation criteria.[26]

Taiwan

Taiwan's extremely large current account surplus further increased during the Report period, driven primarily by elevated global demand for technology products. Taiwan's bilateral trade surplus with the United States also grew considerably, continuing the trend of the last five years. Taiwan's central bank made net purchases of foreign exchange over the Report period, with most occurring in May 2025 amid acute appreciation pressure on the Taiwan dollar (TWD). The TWD nonetheless appreciated 4.5% against the U.S. dollar over the Report period. In its November 14, 2025 joint statement with the U.S. Department of the Treasury under the auspices of the American Institute in Taiwan and the Taipei Economic and Cultural

[24] Bloomberg, Korea's National Pension Fund Sells Dollars to Support Won, December 9, 2025
[25] Bloomberg, BOK's Rhee Says NPS needs 'Strategic Ambiguity' in FX Strategy, December 15, 2025
[26] https://www.mohw.go.kr/board.es?mid=a10503010100&bid=0027&act=view&list_no=1488998&tag=&nPage=27

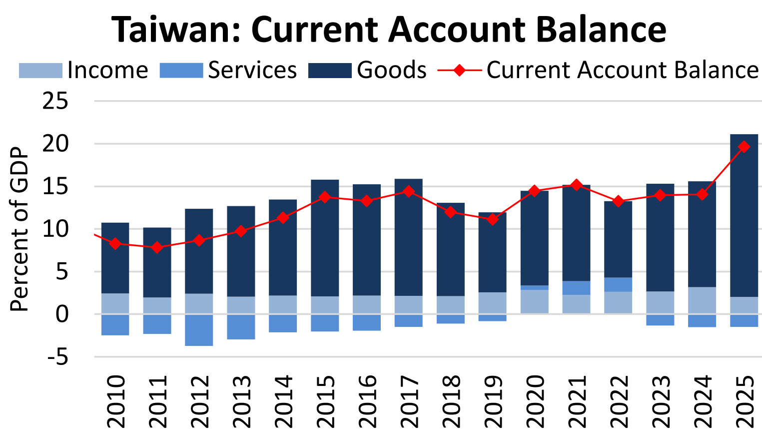
Representative Office in the United States, the Taiwan central bank committed to publicly disclose foreign exchange intervention on at least a quarterly basis with a quarterly lag.

Growth and Macroeconomic Policies

Taiwan's economic growth accelerated to 8.7% in 2025 – the fastest pace since 2010. Taiwan's central bank increased its growth forecast at each quarterly meeting, ultimately revising up its 2026 forecast to 7.3% from 3.7%, driven primarily by a surge in exports and continued strength in private fixed investment.

Taiwan's central bank has maintained its policy interest rate at 2.0% since the start of 2024, due to continued moderation in domestic inflation and elevated global trade uncertainty. Taiwan's headline inflation eased to 1.3% in December 2025, down from 2.1% one year prior. During the Report period, M2 growth slowed slightly to 5.2% in December 2025, down from 5.4% in December 2024, within the central bank's reference range of 2.5% to 6.5%.

Balance of Payments Developments



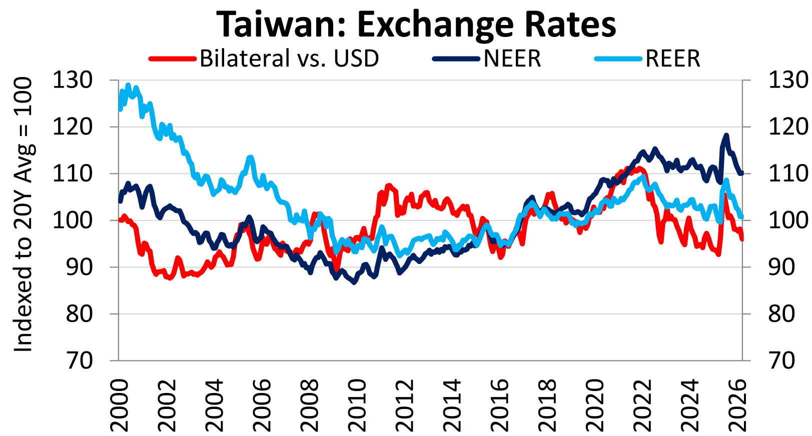
Sources: Taiwan Central Bank, Haver

Taiwan's current account surplus grew to 19.6% of GDP in 2025, compared to an already elevated 14.1% in 2024. This large current account surplus continues to be driven by goods trade, with the income surplus and services deficit mostly unchanged. Taiwan's goods and services surplus with the United States nearly doubled, increasing by $72 billion to $145 billion in 2025. The large increase in the bilateral trade imbalance was driven by robust U.S. demand for Taiwanese technology products and U.S. importers potentially frontrunning projected U.S. tariff increases.

Foreign direct investment net outflows increased to $34 billion in 2025, up from $21 billion in 2024 and nearly doubling from $18 billion in 2023. FDI net outflows surged in the second quarter of 2025 to a record of $16 billion driven by shifts in global supply chains as leading Taiwanese companies seek to diversify their production capabilities in the United States, Europe, Japan, and elsewhere. Net portfolio investment flows have been volatile, swinging from a net outflow of $32 billion in the first quarter, to a net inflow of $21 billion in the second quarter (the first net inward quarterly flow since 2008), and back to a net outflow of $30 billion in the fourth quarter.

Exchange Rate Developments

The TWD appreciated 4.5% against the U.S. dollar, and depreciated 0.3% on a real effective basis in 2025. Over the last ten years, the TWD has appreciated a modest 7% on a real effective basis. Consistent with the portfolio flow dynamics described above, appreciation pressures on the TWD were most acute in early May 2025, which Taiwan's central bank has publicly attributed to speculation, exporters repatriating foreign exchange, and outsized foreign equity inflows. These foreign equity inflows persisted in June 2025 and further increased in July 2025, even as the TWD depreciated about 2.4% against the U.S. dollar that month.



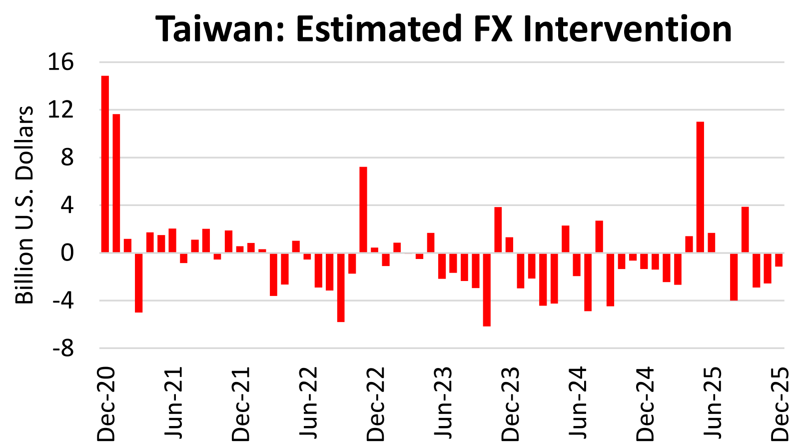
Sources: FRB, Bank for International Settlements

Treasury assesses that Taiwan's high domestic saving, driven by an aging population and a relatively tight fiscal stance, has contributed significantly to its external surpluses in recent years. These external surpluses have also been supported by income flows from its large stock of net foreign assets. Because Taiwan is not a member of the IMF, the IMF does not assess Taiwan's external position nor any misalignments of the TWD. However, private models, whether based on the current account, REER, or purchasing power parity (PPP), tend to show substantial undervaluation of the TWD.[27]

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

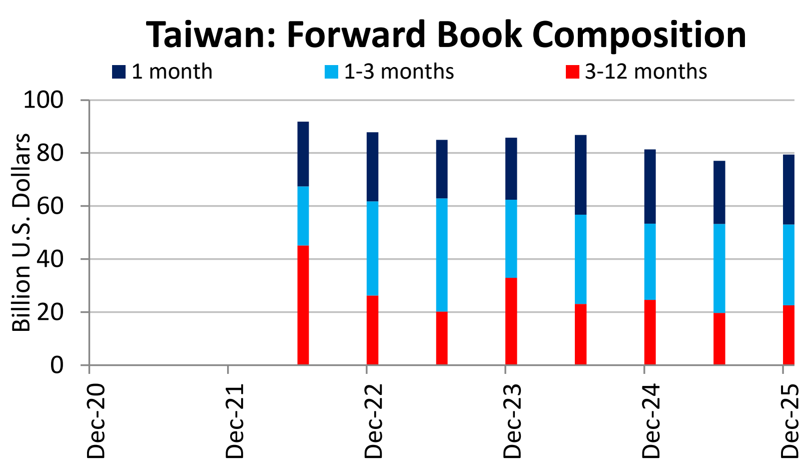
Intervention Policy

The Taiwan central bank's foreign exchange intervention appeared to focus on responding to strong appreciation pressures over the Report review period, particularly in May 2025. However, the central bank also engaged in smaller net sales of foreign exchange in other months and reported net purchases of foreign exchange of $7.7 billion in 2025, approximately 0.8% of GDP. Notably, Taiwan's reported purchases of $13.25 billion in the first half of 2025 totaled about 3.1% of its first-half GDP. The authorities' official disclosures are broadly consistent with Treasury estimates.



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

The central bank's forward book ticked up in 2025 to $79 billion from $77 billion in 2024. The central bank publishes aggregate forward book data on a monthly basis and more detailed compositional data using the International Reserves and Foreign Currency Liquidity template on a quarterly basis with a quarterly lag as of this Report cycle. The central bank's forward book is relatively balanced across the three reported durations with three-to-twelve-month forwards increasing to 35% in 2025, up from 26% in 2024. Consistent with previously mentioned intervention in May, the central bank's net long forward position increased by about $2.5 billion that month and peaked in July. As the TWD depreciated throughout the remainder of the year, the forward book correspondingly decreased.



Sources: Taiwan central bank

Capital Controls and Macroprudential Measures

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

- Taiwan does not allow deliverable offshore trading of the TWD or the holding of TWD accounts abroad.

- Taiwan limits the percentage a foreign investor can invest in a range of fixed income and over-the-counter financial products to 30% of their inflows. The authorities have also applied this limit to inverse ETFs; foreign investors could offset an ETF position with an inverse ETF position thereby leaving only currency exposure to speculate on the TWD. The authorities stepped up enforcement of these limits following the May exchange rate appreciation.

- The central bank's foreign exchange settlement management principles require foreign inflows to be directed towards domestic securities rather than held as TWD deposits, and the Financial Supervisory Commission (FSC) has reduced the limit on intraday sell orders for borrowed securities to 3%, from 30%. Together, these measures have suppressed onshore speculation on the TWD. The central bank has stated it would strengthen the targeted examinations of foreign exchange businesses to ensure compliance.

- The central bank is required to approve annual remittances exceeding $10 million for individuals and $100 million for juridical persons. The central bank can also review any nonresident foreign exchange transaction exceeding $100,000.

Taiwan's life insurance sector's assets have quadrupled from $279 billion in 2008 to $1.2 trillion in 2025 (131% of GDP). Taiwanese savers often channel their savings through life insurance policies, which have historically offered high rates of return relative to other investment vehicles available in Taiwan. The life insurance industry allocates about 60% of its portfolio to foreign assets, accounting for over $700 billion in foreign asset exposure according to Taiwan's Financial Supervisory Commission (FSC). Due to limited options for domestic investment, the life insurance industry has long accepted a measure of exchange rate risk to achieve higher returns through overseas investment. The industry hedges this risk primarily through a combination of non-deliverable forwards (NDFs) and currency swaps. In December 2025, the FSC adopted changes to accounting rules that allow life insurers to amortize foreign exchange-related gains and losses of certain foreign bonds in order to allow the life insurers to save on hedging costs, though potential lower hedging ratios could increase risk in Taiwan's life insurance sector.[28] These changes are discussed more in Box 1.

[28] The life insurers are to allocate the savings from hedging into reserve accounts to gradually build a stronger balance sheet buffer to offset potential future losses from appreciation of the TWD.

Box 1: Changes In Taiwan's Life Insurance Industry Regulatory Framework

Taiwan's Financial Supervisory Commission (FSC) revised its regulatory framework governing Taiwan's life insurance industry in December 2025. These revisions allow life insurers to amortize foreign exchange-related gains and losses of certain foreign bonds over the lifetime of the bond to save on hedging costs. The FSC's articulated rationale for these changes focused on the cost of hedging, which in the FSC's view undermines the industry's long-term financial health. At the same time, the FSC acknowledged that these rules depart from industry best practices.[29] Life insurers are expected to offset the savings from decreased hedging activity by gradually increasing long-term capital to absorb potential losses from foreign exchange volatility.[30]

This rule change also may contribute to reduced appreciation pressure on the TWD by limiting hedging activity and subsequent TWD demand. In February 2026, the FSC reported that the Taiwan life insurers hedge ratio fell to just 45%,[31] down from 60% in September 2025[32] and from 70% prior to the COVID-19 pandemic.

Thailand

Thailand's current account surplus expanded in 2025 to 2.8% of GDP from 2.2% in 2024, primarily reflecting a larger goods surplus and the continued shrinking of the services deficit to near balance. While tariff frontloading appears to have contributed to an increased goods surplus at the beginning of 2025, robust global demand for technology and artificial intelligence (AI) products drove strong growth in exports of electronics and electrical equipment throughout the year. The recovery in tourism, a key sector in Thailand's economy, slowed in 2025. The bilateral trade surplus with the United States expanded from the prior year, also reflecting strong demand for electronics and electrical equipment. During the Report period, the Thai baht appreciated 9.0% against the dollar. In its October 28, 2025 joint statement with the U.S. Department of the Treasury, the Bank of Thailand committed to publicly disclose foreign exchange intervention on at least a semiannual basis with a quarterly lag.

Growth and Macroeconomic Policies

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[29] See IAS 21 and the FSC's announcement proposing amendments to certain regulations, December 23, 2025.
https://www.fsc.gov.tw/en/home.jsp?id=54&parentpath=0,2&mcustomize=multimessage_view.jsp&dataserno=202601020001&dtable=News

[30] FSC Announcement on Lifers' FX Reserves
https://www.fsc.gov.tw/ch/home.jsp?id=96&parentpath=0,2&mcustomize=news_view.jsp&dataserno=202602120001&dtable=News

[31] Taiwan Insurers' Feb. Hedge Ratio at 45%; No Proxy Hedges Left
https://hyperlink.services.treasury.gov/agency.do?origin=https://blinks.bloomberg.com/news/stories/TCR9JXT96OSG

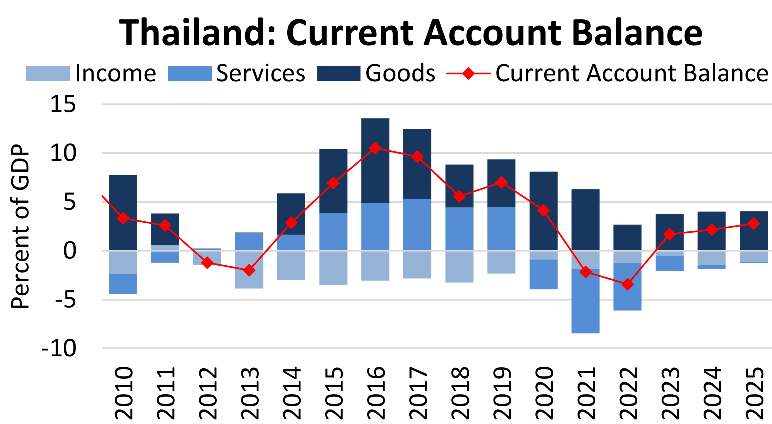
[32] Taiwan Life Insurers' Hedge Ratio Dropped to 60% in Sept. (1)
https://hyperlink.services.treasury.gov/agency.do?origin=https://blinks.bloomberg.com/news/stories/T6DOODKGCTH1

Thailand's real GDP growth of 2.4% in 2025 exceeded consensus expectations, although it decelerated from 2.9% in 2024 and lagged other large Southeast Asian economies. Structural issues (e.g., low investment) and a reliance on volatile external demand continue to keep the country in low-single-digit growth. As of April 2026, the IMF projected that growth would continue to slow to 1.5% in 2026 before rebounding to 2.1% in 2027.

Monetary policy remained accommodative to help support the economic recovery. Since the Band of Thailand (BOT) began its easing cycle in October 2024, it has cut the policy rate by a cumulative 150 bps through April 2026. Inflationary pressures continued to be weak throughout the Report period, with monthly headline CPI in negative territory since April 2025. The BOT has highlighted the importance of monitoring macro-financial developments and financial stability risks (given high household debt) from a low policy rate, while also noting some limited policy space for additional rate cuts.

Fiscal policy supported growth in a targeted manner. For example, fourth quarter private consumption benefitted from the government's "half-half plus co-payment" fiscal program that, up to a limit, covered half of a consumer's daily purchase of certain goods from local stores. Going forward, fiscal policy will likely remain constrained given that at year-end 2025 government public debt totaled 65%, near the country's 70% of GDP statutory limit.

Balance of Payments Developments



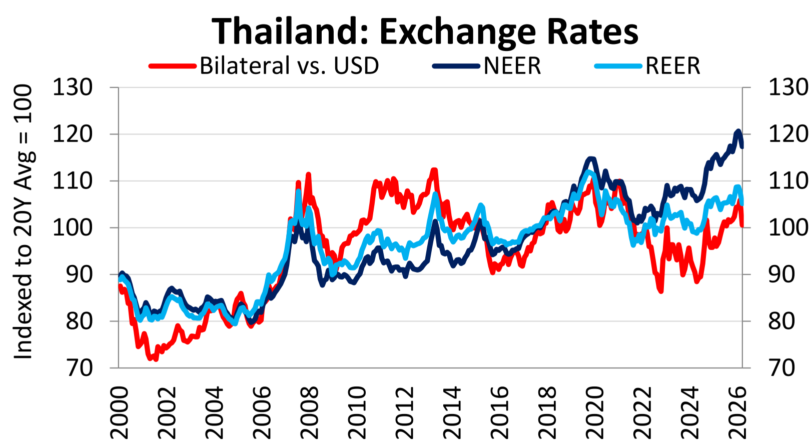
Sources: Bank of Thailand, National Economic & Social Development Board

Thailand's current account surplus rose roughly a half percentage point in 2025 to 2.8% of GDP from the prior year, but remains well below the roughly 5% to 10% of GDP levels recorded in the years preceding the pandemic. Over the past few years, a widening goods surplus was partially offset by a narrowing services deficit. Thailand's manufacturing sectors (e.g., automotive) continue to be challenged by China's excess industrial capacity, but in 2025 global demand for technology and AI-related goods (e.g., for data centers) supported a rebound in the country's trade surplus. At the same time, Thailand's export sectors source some machinery and electronic components from China for use in their own manufacturing processes. As for the services deficit, a weak and slow recovery in tourism has weighed on the net services balance, which was slightly negative in 2025. Chinese tourists have traditionally been Thailand's largest source of foreign tourist arrivals, but many of them chose to visit other destinations (e.g., Malaysia and Vietnam) in 2025 and contributed to an overall decline in tourism receipts during the Report period. In line with the prior year, a stable and modest income deficit moderately reduced the current account surplus in 2025.

Thailand's goods and services trade surplus with the United States (driven primarily by goods trade) continued to expand in 2025. The United States is by far Thailand's largest market with a 2025 bilateral goods surplus of $72 billion, up about 58% from the prior year. The strong annual growth appears to have partially reflected frontloading of exports in advance of U.S. tariffs, but also growth in electronic exports that continued in the second half of 2025. According to U.S. Bureau of Economic Analysis data, Thai exports of advanced technology products accounted for roughly 50% of goods exports to the United States.

Thailand remained a net exporter of capital in 2025, primarily reflecting continued net portfolio investment outflows that were partially offset by net foreign direct investment (FDI) inflows. Resident portfolio investment abroad has been the primary driver of net portfolio outflows and has grown over the past couple years, reflecting an important channel for risk diversification for Thai residents. During the Report period, net FDI inflows totaled about $10 billion, a record level over the past decade. The top five sources of FDI inflows in 2025 were China, Singapore, European Union, Japan, and the United States.

Exchange Rate Developments



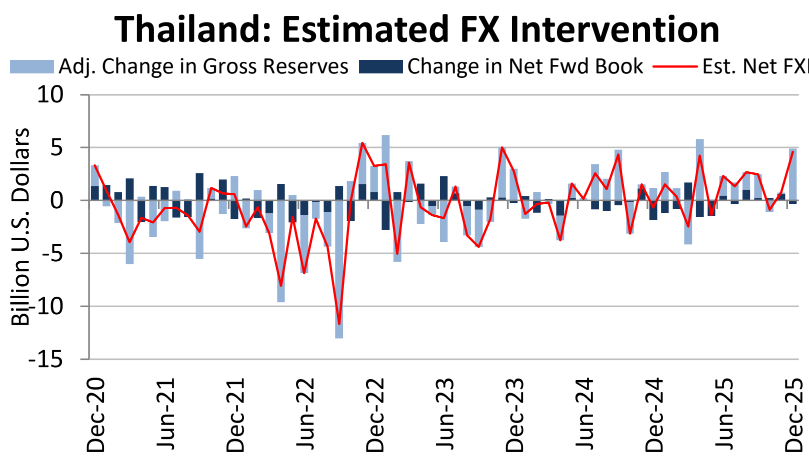
Sources: FRB, Bank for International Settlements

The Thai baht was one of the strongest-performing currencies across Southeast Asia, appreciating 9.0% in 2025. The BOT publicly attributed baht strength in 2025 to Thailand's current account surplus, broader U.S. dollar weakness, and an elevated correlation with rising gold prices. On a real effective basis, the baht appreciated 2.7% in 2025. REER appreciation was somewhat contained by higher inflation differentials with trade partners as Thailand faced modest deflation during the Report period. Ultimately, the real effective exchange rate remained in line with its 10-year average.

Treasury assesses that Thailand's demographic profile, low investment levels, and the composition of fiscal policy have contributed to its external surpluses. The country's aging population suggests a need for higher precautionary and retirement-related savings, both of which are amplified by gaps in the social protection system. The country has also suffered from weak domestic investment, the lowest as a percentage of GDP in the region, and public investment has not kept pace with the country's infrastructure needs. In turn, low investment activity has contributed to lower growth and import demand. Currently, public investment is further constrained as government public debt continues to climb near the country's 70% of GDP statutory limit. In its most recent assessment for 2025, the IMF assessed that the external position is moderately stronger than the level implied by medium-term fundamentals and desirable policies. Consistent with its current account assessment, the IMF assessed the baht to be undervalued by 2.8% on a real effective basis.

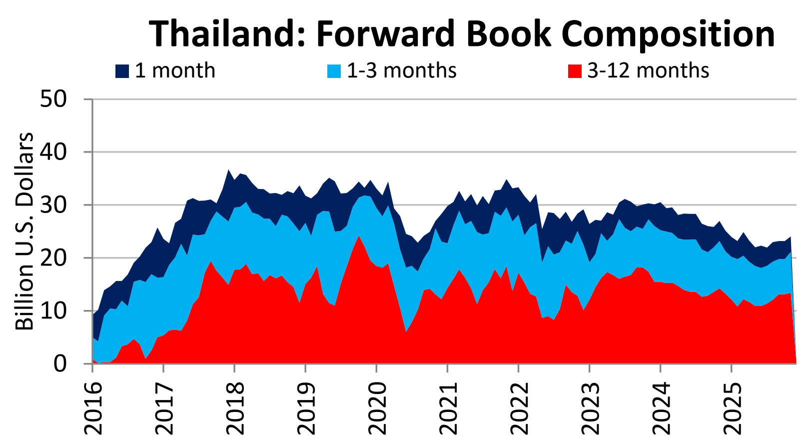
Intervention Policy

The Thai authorities' foreign exchange intervention appeared to focus on smoothing strong baht appreciation pressures over the Report period. Thai authorities reported net purchases in 2025 of $10 billion, which represented roughly 1.8% of GDP.



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

The BOT continued to reduce its net long forward position during the Report period, from $25.1 billion at year-end 2024 to $23.7 billion at year-end 2025. Net reductions in the first half of 2025 were partially offset by net forward purchases in the second half of 2025, when there were episodes of sharp baht appreciation against the dollar and the BOT could be expected to use currency swaps to sterilize its dollar purchases. Overall, there have been no notable changes in the composition of the forward book over the last several years.



Sources: IMF

Capital Controls and Macroprudential Measures

Thailand maintains a broadly open financial account for residents with no restrictions or approval requirements to hold foreign currency domestically or abroad, as well as minimal restrictions for investing abroad. For nonresidents, Thailand imposes end-of-day limits for domestic currency accounts—which absent an underlying domestic trade or investment activity, cannot exceed 200 million baht (roughly $6 million)—and has measures in place to manage baht speculation. Effective December 2025, the BOT introduced targeted modifications to its baht speculation measures in support of nonresident trade and investment activities. Measures include enabling nonresidents better access to baht loan borrowing and allowing onshore financial institutions to borrow baht from nonresidents. At the same time, the BOT prohibited onshore financial institutions from transacting in non-deliverable forwards against the baht with nonresidents. In separate January 2026 announcements, the BOT raised the threshold for mandatory repatriation of foreign earnings by residents from $1 million to $10 million and introduced various measures in Thailand's domestic gold market. For instance, BOT introduced daily trading limits for digital gold trading denominated in baht and financial institution reporting requirements for large digital gold transactions. Both the hike in the repatriation threshold and gold trading limits were meant to help stabilize the sharp baht appreciation pressures that persisted in 2025. Despite these changes, in recent years, it does not appear that Thailand has actively used capital control or macroprudential measures to gain a competitive advantage or resist exchange rate adjustment in line with macroeconomic fundamentals.

Singapore

Singapore continues to run an extremely large and persistent current account surplus, though it narrowed somewhat in the latest Review period. This deep external imbalance reflects in part longstanding policy settings that support high national saving. Singapore ran a bilateral trade deficit with the United States over the four quarters ending in December 2025, driven primarily by services imports. The Monetary Authority of Singapore (MAS) publishes semi-annual data on net purchases of foreign exchange, covering six months of aggregate net purchases, but does not provide a numerical figure when MAS is estimated to have made net sales; Treasury's assessment of intervention in the second half of 2025 therefore relies on Treasury staff estimates.

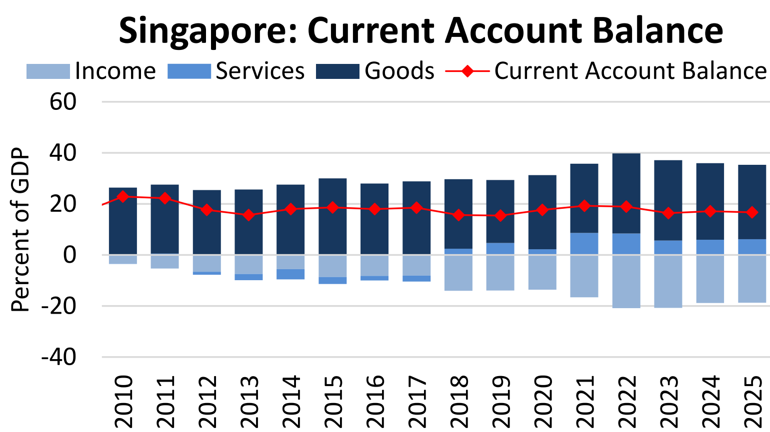
Growth and Macroeconomic Policies

Real GDP grew 5.0% in 2025, down from 5.3% in 2024. On an expenditure basis, growth was broad-based with net exports playing a leading role contributing roughly 2.4 percentage points. Domestic final demand contributed about 2.7 percentage points, led by gross fixed capital formation, which added 1.3 percentage points, and private consumption, which added 1.2 percentage points; government consumption added a further 0.2 percentage points. On the production side, growth was driven primarily by manufacturing, wholesale trade, and finance and insurance, with electronics and trade-related activity supported by strong AI-related demand. In February 2026, Singapore's Ministry of Trade and Industry projected 2026 growth of 2.0 to 4.0%, while the IMF's latest WEO projection is 3.5%.

Inflation slowed sharply in 2025: headline CPI inflation averaged 0.9% and core inflation 0.7% for the year. Inflation was low despite high growth given growth was mostly driven by exports; meanwhile subdued import costs including lower commodity prices, subsidies, and softness in some consumer-facing categories put downward pressure on prices. MAS, which uses an exchange rate-based monetary policy framework, eased policy in January and April 2025 by slightly reducing the rate of appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band. For the rest of the Report period, MAS maintained the prevailing rate of appreciation, with no change to the width or center of the band.

The IMF notes that Singapore maintains ample fiscal space. The government recorded an estimated FY2025 budget surplus of 2% of GDP, more than double the original estimate and reflecting stronger-than-expected economic growth and corresponding outperformance of corporate income tax and asset-related revenue collections. The government has budgeted a smaller surplus of 1% of GDP for FY2026, consistent with its constitutional balanced-budget rule across each term of government. Although gross public debt appears high — 166% of GDP at end-2025 — the government's large public financial assets leave Singapore in a large positive net asset position. Further, Singapore has no reported general government external debt, and the bulk of domestic government debt securities are issued for purposes other than financing current expenditure. Only a small share of gross debt is linked to fiscal needs, and even that financing is subject to a statutory borrowing cap and an annual interest-cost ceiling.

Balance of Payments Developments



Sources: Monetary Authority of Singapore, Department of Statistics

For nearly two decades, Singapore's current account surpluses have averaged nearly 19% of GDP. Over the four quarters ending in December 2025, the current account surplus was 16.7% of GDP, equivalent to $101 billion. While the surplus narrowed modestly as a share of GDP from 17.2% in 2024, the decline mainly reflects the outperformance of nominal GDP rather than any underlying weakening of the external position; in nominal terms, the 2025 surplus represents an all-time high. In 2025, the current account was supported by a goods surplus of 29.2% of GDP and a services surplus of 6.2% of GDP, which were partially offset by a primary income deficit of 16.9% of GDP. Goods exports were buoyed by stronger global electronics demand, including for integrated circuits and other components linked to AI-related investment lifting both manufacturing output and trade-related services. External surpluses have contributed to a very large net international investment position, which stood at roughly 179% of GDP at end-2025.

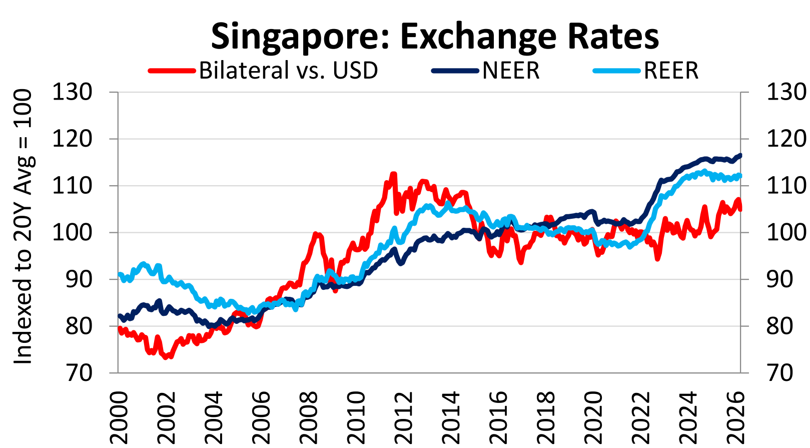
Singapore ran a bilateral goods and services trade deficit with the United States of $33 billion over the four quarters ending in December 2025, driven primarily by services imports. Bilateral balances are a less reliable measure of absorption of economic output when one partner is a major regional hub economy, and Singapore's role as a transshipment and services hub affects its bilateral trade balances with the United States and other partners.

The composition of Singapore's exports also continues to shift toward re-exports, consistent with the economy's deepening role as a regional transshipment and trade-intermediation hub. Treasury will continue to monitor trends given the implications for the interpretation of Singapore's bilateral balances with the United States and other partners.

The financial account registered a net outflow of 12.2% of GDP in 2025, compared with a net outflow of 12.5% of GDP in 2024. The nominal net outflow was slightly larger than in 2024, but it declined modestly as a share of GDP. The shift reflected smaller portfolio investment outflows, partly offset by higher other investment outflows and lower net direct investment inflows. Given Singapore's large gross cross-border financial flows, these compositional shifts can affect near-term foreign exchange pressures even when the headline financial-account balance changes little.

Exchange Rate Developments

MAS conducts monetary policy by managing the Singapore dollar nominal effective exchange rate within an undisclosed basket-band-crawl framework. In Singapore's small and highly open economy, MAS views the exchange rate as having a stronger influence on inflation than domestic interest rates. MAS does not disclose the currencies or weights in the basket, the band width, or the slope of the policy path, although it publishes the weekly average S$NEER on a monthly basis.



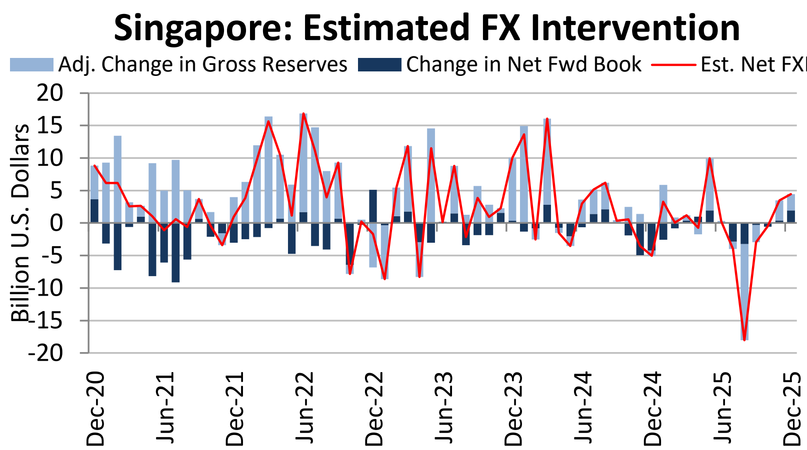
Sources: FRB, Bank for International Settlements

As noted above, MAS eased policy twice in early 2025 by reducing slightly the rate of appreciation of the S$NEER band, then maintained the prevailing rate of appreciation through end-March 2026. Over the four quarters through December 2025 the Singapore dollar (S$) appreciated by 0.3% on a nominal effective basis but depreciated by 0.4% on a real effective basis. Over the same period, the S$ appreciated by 6.2% against the U.S. dollar. The 2025 easing reflected a marked deceleration in price pressures relative to 2024. The decline in price pressures was broad-based across tradable and non-tradable categories, reflecting subdued imported costs — amplified by U.S. dollar weakness against most currencies in the S$NEER basket —

as well as moderating domestic cost pressures, soft consumer spending in some categories, and the impact of enhanced government subsidies. With inflation projected to normalize gradually over 2026 (MAS forecasts have revised up headline and core inflation to 1.0–2.0% for the year), MAS has held the prevailing rate of S$NEER appreciation since July 2025, and characterizes its current stance as appropriate to respond to risks in either direction.

Treasury assesses that relative growth performance, a comparatively tight fiscal stance, a large negative credit gap relative to the rest of the world, and continued income flows generated by Singapore's large stock of foreign assets have contributed materially to Singapore's sizable external surpluses in recent years. The IMF has continued to assess Singapore's external position as substantially stronger than warranted by medium-term fundamentals and desirable policies, linking the excess surpluses to factors including high savings, Singapore's status as a financial center, and the relatively tight fiscal position. Consistent with that assessment, the IMF estimated the Singapore dollar to be undervalued by 10.2% on a real effective basis in 2024, though that estimate is subject to wide uncertainty given Singapore's role as a global trade and financial center.

Intervention Policy



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

Over the four quarters through December 2025, Treasury estimates that Singapore recorded net sales of foreign currency of $4 billion, or 0.6% of GDP, a marked shift from net purchases in previous review periods. MAS publishes semester data on net purchases of foreign exchange but does not provide a numerical figure when MAS is estimated to have made net sales; Treasury's assessment of intervention in the second half of 2025 therefore relies on Treasury staff estimates rather than a published MAS figure.

Within the four-quarter review period, Treasury estimates that the shift to net sales was concentrated in the third quarter and most prominently in August 2025, when estimated net foreign exchange sales were approximately $18 billion; estimated operations in the rest of the second half were comparatively subdued. The estimate may also be affected by reserve management transactions or other official transfers that are not separately observable in public data.

MAS discloses intervention only semiannually and does not publish the timing, composition, or full sign of operations, the parameters of the basket-band-crawl regime, or the composition of the S$NEER basket. Treasury encourages MAS to enhance the transparency of its foreign exchange operations by publishing both net purchases and net sales of foreign exchange, at higher frequency and with sufficient detail to distinguish monetary-policy intervention from reserve-management transfers.

Government Investment Vehicles

Singapore's foreign asset position is managed primarily through MAS, the Government of Singapore Investment Corporation (GIC), Temasek Holdings, and Central Provident Fund Board (CPF)-related government securities. Recent updates relevant for reserve transparency include: GIC reported a 20-year annualized real rate of return of 3.8% for the period ending March 31, 2025; Temasek reported a net portfolio value of S$434 billion as of March 2025 and announced a reorganization, effective April 2026, into three wholly owned entities; and the FY2026 Net Investment Returns Contribution is estimated at S$28.5 billion. Since 2022, MAS has been authorized to transfer Official Foreign Reserves in excess of what it requires to conduct monetary policy and ensure financial stability to the government for longer-term investment via the issuance of Reserves Management Government Securities (RMGS).

Vietnam

Vietnam's current account surplus remained stable at approximately 6.7% of GDP in 2025; however, the goods surplus fell to 8.5% of GDP as export growth supported by robust global demand for technology and AI products was more than offset by stronger import growth in electronic components and industrial inputs. The same external demand dynamics supported Vietnam's record bilateral goods trade surplus with the United States, primarily reflecting export growth in computers and related components. At the same time, imports from China also surged to a record level primarily due to inbound shipments of electronics and capital equipment, reinforcing Vietnam's role as an important regional hub for assembly and shipment of goods. The Vietnamese dong faced continuing depreciation pressures, and authorities sold foreign exchange on net to support the dong. In its May 29, 2026 joint statement with the U.S. Department of the Treasury, the State Bank of Vietnam committed to publicly disclose net positive foreign exchange purchases (including spot and forward transactions) on at least an annual basis with a quarterly lag beginning in 2027.

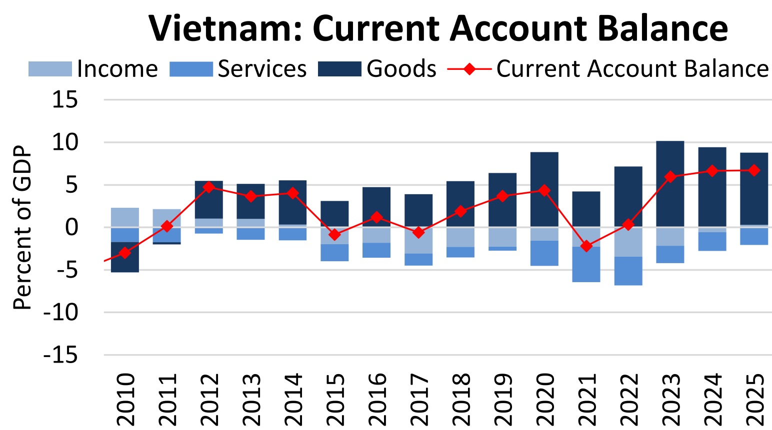
Growth and Macroeconomic Policies

Vietnam's economy grew 7.9% in 2025, exceeding consensus expectations and outperforming other Southeast Asian economies. Growth was driven by resilient export-led manufacturing activity, fiscal expansion, greater consumption due in part to continued rising wages, and strong credit growth. Investment (gross fixed capital formation) expanded from the prior year, and authorities aim to prioritize public investment in key infrastructure projects going forward. At the same time, the real estate sector continued to recover in 2025 following the downturn that began in 2022; however, highly indebted real estate developers remain a drag on the recovery and pose a financial stability concern. The IMF projects growth of 7.1% in 2026 and 6.7% in 2027.

Monetary policy remained accommodative. While the State Bank of Vietnam (SBV) has a main policy rate, it primarily relies on a range of more quantitative tools—such as the exchange rate as a nominal anchor and annual credit growth targets—to manage growth, inflation, and financial stability. SBV held its refinancing rate, the main policy rate, at 4.5%, which supported overall credit expansion of nearly 20% and marked the highest growth rate since 2017. At year-end 2025, Vietnam's credit-to-GDP ratio was roughly 145%. Despite the large expansion in credit, inflationary pressures were well contained in 2025 and averaged 3.3%, below the target range of 4.5% to 5.0%.

Balance of Payments Developments

Vietnam's current account surplus was 6.7% of GDP in 2025, roughly the same as the prior year. In 2025, goods exports grew 16.9% while goods imports grew 19.3%, edging the goods trade balance slightly lower as a percentage of GDP than in 2024. On a nominal basis, the services trade deficit remained essentially unchanged from the prior year and totaled 2.1% of GDP.

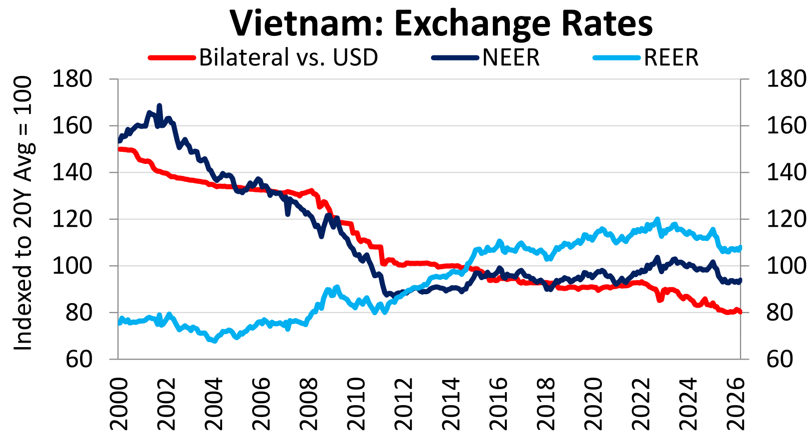


Sources: IMF BOP statistics, State Bank of Vietnam

Vietnam's bilateral trade surplus with the United States (which is almost entirely driven by goods trade) reached a record high at roughly $177 billion in 2025, up from roughly $122 billion the previous year, and primarily reflected growth in electronics, machinery, toys, and textiles. According to U.S. Bureau of Economic Analysis data, Vietnamese exports of Advanced Technology Products accounted for nearly half of the entire bilateral goods exports balance in 2025. Vietnam is an increasingly important assembly hub in regional production networks and much of the country's final assembly relies principally on imported content from China. Thus, while Vietnam's exports to the United States have grown 29% year-over-year, imports from China have grown the same amount reflecting a shift in origin of production.

Vietnam's balance of payment statistics continued to reflect a higher-than-usual degree of uncertainty given that the large negative net errors and omissions balance averaged more than 6% of GDP over the 2022-2024 period. This negative balance totaled roughly 5% of GDP in 2025 and was larger than net inward FDI and nearly two-thirds of net goods exports. Vietnam remains proactively engaged with the IMF to improve its economic statistics and address shortcomings by enhancing data collection and reducing data gaps.

Exchange Rate Developments

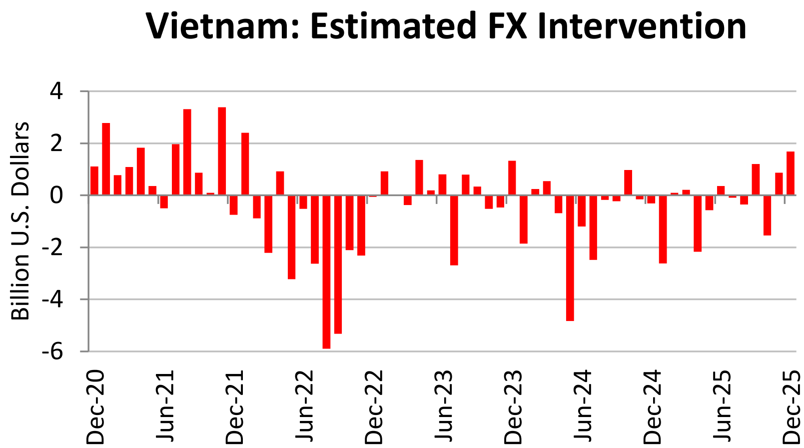


Sources: Vietcombank, JP Morgan, Citi

The Vietnamese dong was one of the few Asian currencies that depreciated against the dollar in 2025, weakening 3.2%. On a trade-weighted basis, the dong depreciated more sharply as the nominal effective and real effective exchange rates were weaker by 7.4% and 6.5%, respectively. Persistent depreciation pressures on the dong throughout 2025 were consistent with factors such as strong import growth (that slightly outpaced strong export growth), nonresident portfolio outflows, and resident other investment outflows into deposits held abroad (e.g., due to interest-rate differentials). Since early 2022, the dong has mostly faced depreciation pressure largely from interest rate differentials as major central banks embarked on a tightening cycle (and this pressure persists despite recent policy easing by some central banks). All the while, the SBV has maintained an accommodative monetary policy stance to support growth.

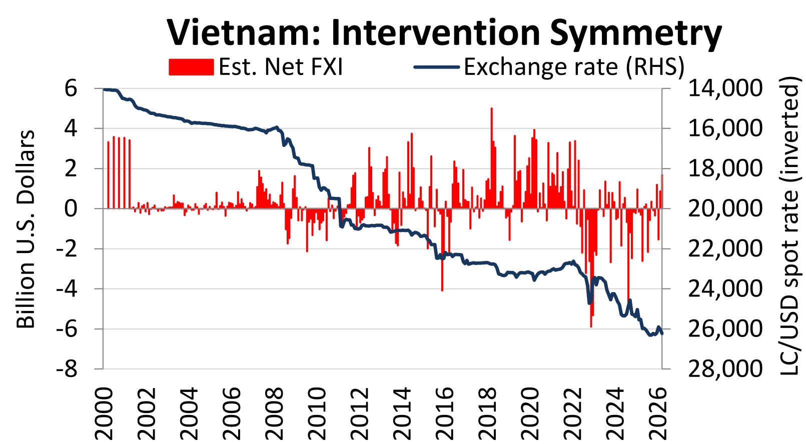
Treasury assesses that the composition and execution of Vietnam's fiscal policy and a relatively accommodative monetary stance have contributed to Vietnam's substantial external imbalances. While authorities aim to improve fiscal budget execution and capital spend efficiency, public investment is insufficient to meet large infrastructure needs. Social protection is also underfinanced and constrains consumption as households are incentivized to build precautionary savings. While the IMF's assessment of Vietnam's external position in 2025 is not yet available, in its assessment for 2024, the IMF assessed Vietnam's external position to be substantially stronger than warranted by fundamentals and desirable policies. Consistent with the current account assessment, the IMF estimated the dong was undervalued 12.9% on a real effective basis. The IMF particularly stresses uncertainty in its external assessment given data shortcomings in Vietnam.

Intervention Policy



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

Vietnam does not publish data on its spot or forward foreign exchange intervention. The authorities conveyed to Treasury that net sales of foreign exchange in 2025 were 0.2% of GDP, or equivalent to about $1 billion. SBV has generally conducted the bulk of its foreign exchange interventions via the spot market but in recent years occasionally used forwards to intervene, including over the Report period. However, Vietnam's domestic financial markets remain relatively shallow and SBV's sales of cancelable forward contracts in 2025 (to resist dong depreciation) were conducted with financial institutions that had negative foreign currency positions.



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

Since 2022, Vietnam's currency intervention has generally been in the direction of resisting dong depreciation, a reversal of Vietnam's posture of one-sided foreign currency purchases that prevailed over the 2016–2021 period. Beginning in 2022, the SBV has allowed a greater degree of two-way flexibility in the exchange rate by widening the trading band, which should facilitate a transition to a more modern framework for monetary and exchange rate policy.

On May 29, 2026, the U.S. Department of the Treasury and State Bank of Vietnam issued a joint statement which solidified close consultations on macroeconomic and foreign exchange matters and reaffirmed each party's commitment to avoid manipulating exchange rates to prevent effective balance of payments adjustment or to gain an unfair competitive advantage. In particular, the SBV committed to public disclosure of net positive foreign exchange purchases (including spot and forward transactions) on an annual basis, with a three-month lag beginning in 2027. The SBV also committed to public disclosure of foreign exchange reserves data and forward positions in alignment with the IMF's Data Template on International Reserves and Foreign Currency Liquidity, beginning in 2027.

The Euro Area

The euro area's persistent current account surplus declined in 2025, along with its trade surplus with the United States, but structural factors like persistently low domestic demand and high savings rates will continue to drive the euro area's export reliance and external imbalances. The euro area economy grew moderately in 2025 after two years of sluggish growth, with the outlook buoyed by planned fiscal stimulus driving domestic consumption and investment. However, recent global economic headwinds will likely increase fiscal pressure for many member states and depress sentiment, challenging growth momentum and external rebalancing in the medium term. Euro-area-wide structural reforms to improve productivity, reduce regulatory burdens, and strengthen the Single Market could help address imbalances by boosting investment while supporting growth.

Growth and Macroeconomic Policies

Euro area GDP growth accelerated to 1.4% in 2025, up 0.5 pp from 2024. Spillovers from the conflict with Iran and heightened global uncertainty are likely to weigh on growth in the near term. As of April 2026, the IMF projects real GDP growth will decelerate to 1.1% in 2026 on an annual basis as high energy prices and losses in consumer and investor confidence mute domestic demand and private consumption. Services-oriented economies within the euro area will continue to largely outpace growth in manufacturing-driven economies. Fiscal stimulus in the form of higher defense spending and Germany's fiscal package could mildly boost growth in the longer term, but these growth prospects depend on both European Commission and euro area member states' ability to balance increasing fiscal tradeoffs and undertake sustained, material efforts to remove structural constraints on the economy – including by deepening integration of the Single Market.

The euro area's national fiscal deficits remain above pre-pandemic averages of around 0.5% of GDP, with the euro area average deficit broadly stable at 2.9% in 2025 compared to 3.0% in 2024. Both the EU and some member states aim to use fiscal stimulus to bolster domestic demand and increase defense capabilities, but high debt burdens and interest rate payments will continue to inhibit many member states from fully taking these steps, particularly if compounded by fiscal pressures from temporary measures to control energy prices.

Disinflation progressed well in 2025, but surging energy prices are likely to drive upward pressure on inflation through 2026. Headline inflation reached 3.0% in April, its highest level since June 2024, after hovering near the European Central Bank's (ECB) 2% target in 2025. Energy price increases will likely have an amplified impact on the euro area as lower energy prices restrained headline inflation over the last year, helping to mute short-term food price spikes and persistent services inflation. Despite headline inflation pressures, core inflation continues to ease in line with expectations, declining slightly to

2.2% in April. Wage growth continues to show signs of moderation, which is likely to moderate services inflation, one of the largest contributors to core inflation. Despite the recent increases in inflation, the ECB held its deposit rate at 2.0% in April for the seventh consecutive meeting; the ECB previously made eight 25 basis point cuts, the last one in June 2025.   The ECB's most recent bank lending survey, released April 28, shows firms' net demand for loans declined slightly. Increased liquidity demands driven by higher energy prices helped partially offset the demand-dampening effects of lower business and consumer confidence and postponement of investments.

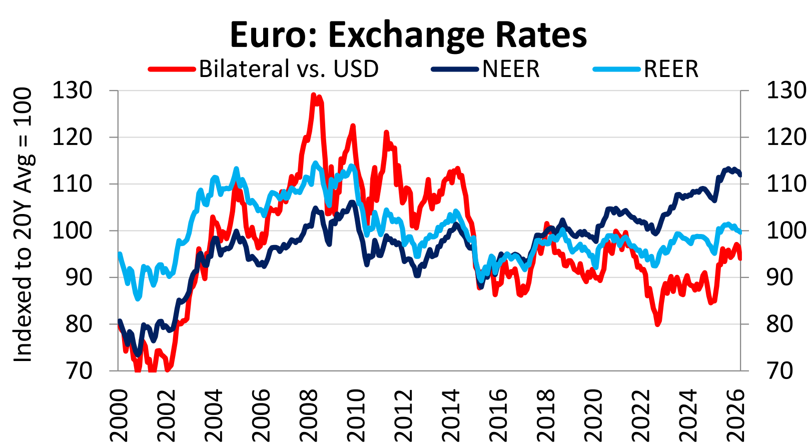
Balance of Payments Developments

The euro area current account surplus declined to 1.6% of GDP in the four quarters through December 2025, down from a 2.7% surplus for the same period in 2024. The decrease largely arose from a shift in the primary income balance from a surplus to a deficit and a shrinking services trade surplus, although a larger goods trade surplus partially offset the latter. As of April 2026, the IMF expects the current account surplus to shrink further to 1.3% of GDP on an annual basis in 2026. Net financial outflows narrowed from 3.0% of GDP in 2024 to net outflows of 1.9% in 2025, largely reflecting a narrowing of net other investment outflows.

The euro area is one of the United States' largest and most important trading partners. The euro area's bilateral goods and services trade surplus with the United States was $93 billion over the four quarters through December 2025. Machinery, chemicals and pharmaceuticals, energy products, and manufactured goods like aircraft and vehicles make up the majority of bilateral goods trade. Services trade is largely concentrated in the professional and management, intellectual property, and financial services sectors. After a spike in euro area goods exports to the United States as European firms sought to front-load their exports ahead of anticipated tariffs, the euro area goods trade surplus decline in the second half of 2025 to levels not seen since 2016.

Exchange Rate Developments

Following a weakening against the dollar in 2024, the euro rebounded in 2025, strengthening against the dollar by 13.4% in the four quarters through December 2025. The broad euro strength is similarly reflected in nominal effective terms, where the euro appreciated by 5.6% over the same period. In real effective terms, the euro appreciated by 4.5% in the four quarters



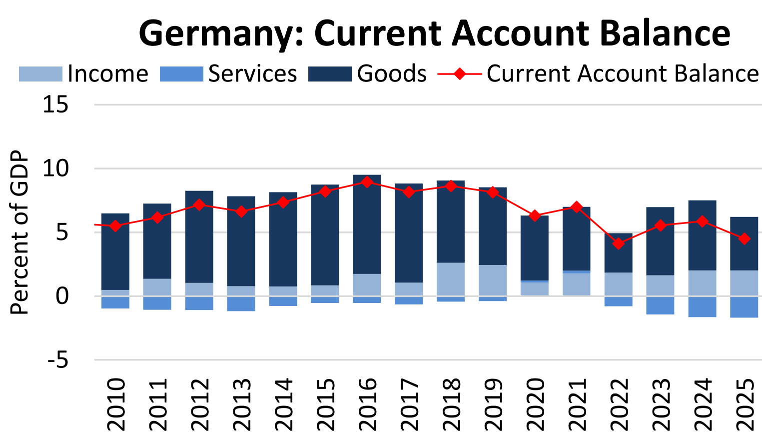
Sources: FRB, Bank for International Settlements through December 2025. The ECB publishes its foreign exchange intervention and has not intervened in foreign exchange markets since 2011.

Treasury continues to assess that structural and policy constraints, including persistent internal barriers within the Single Market and restrained fiscal policy, are suppressing domestic demand and growth, resulting in external surpluses. These factors weaken investment, keep imports low, and force the bloc to rely on foreign demand to drive growth. Shallow capital markets, regulatory hurdles, an aging population, and a high household savings rate similarly contribute to the euro area's large external surpluses. While the IMF's assessment of the euro area's external position in 2025 is not yet available the IMF found that the euro area's external position in 2024 was moderately stronger than the level implied by fundamentals, and similarly assessed the euro was undervalued by 3.1% on a real effective basis over the same period. This assessment masks substantial heterogeneity among member states.

Germany

Germany continues to run external surpluses due to structural economic factors such as demographic challenges, relatively shallow capital markets and a high household savings rate. In addition, Germany historically had a restrictive fiscal policy that produces weak domestic demand and relies on exports for growth. Recent attempts to provide economic stimulus through looser fiscal policy will be slow to realize and there is a risk such efforts will not lead to structural change in the German economy. In February 2026, the IMF assessed on a preliminary basis that Germany's external position in 2025 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.

Germany continues to run large current account surpluses though they are lower than in the years leading up to the pandemic. Germany's current account surplus declined to 4.5% in 2025, down from 5.9% in 2024. Weakness in Germany's exports markets contributed to an overall drop in Germany's goods trade surplus. The services deficit of 1.7% in 2025 was the widest in more than a decade and was largely driven by the continued post-pandemic rebound in outbound tourism by German residents. The income balance remained roughly unchanged at 2.0% of GDP during the Report period, higher than levels from one decade ago.



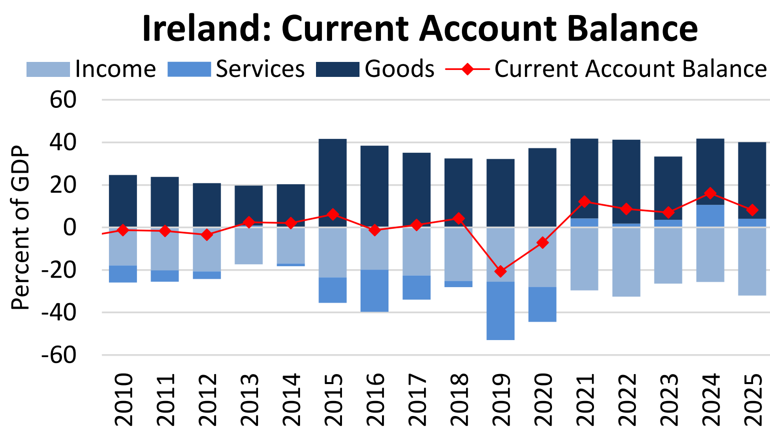
Source: Deutsche Bundesbank

The bilateral goods and services trade surplus with the United States fell from $87 billion to $79 billion during the Report period, with Germany's surplus in autos and auto parts accounting for one-fourth of Germany's total goods and services trade surplus with the United States. In 2025, the value of U.S. goods exports to Germany increased by $3 billion from one year prior as imports fell by $4 billion, reversing a post-2020 trend of rising goods trade surpluses with the United States.

The financial account surplus widened in 2025, reflecting widening net outflows of portfolio and other investment over the course of the year.

Ireland

Ireland's outsized external sector largely reflects the nature of its externally-oriented multinational enterprises (MNEs). Ireland's headline current account balance has been volatile over the past few years and remains elevated relative to the pre-pandemic era due to a combination of a higher goods trade surplus and the deficit in services trade moving into surplus. While the IMF's assessment of Ireland's external position in 2025 is not yet available, it found that the 2024 external position was moderately stronger than the level implied by medium-term fundamentals and desirable policies.



Source: Central Statistics Office Ireland

Following a record high in 2024, Ireland's current account surplus declined in 2025, though it remained elevated. Ireland's goods trade surplus increased significantly, in part due to some front-loading of exports to the United States in the first quarter of 2025. Overall in 2025, Ireland's goods and services trade surplus reached 40% of GDP, though its primary income deficit of 31% of GDP pulled the current account surplus down to 8.2% of GDP, lower than the 16.2% of GDP reached in 2024.

Mirroring the change in the current account, Ireland's financial account surplus fell to roughly 8% of GDP in 2025 from almost 17% in 2024, reflecting declining net outflows. After peaking in the second quarter of 2025, net FDI flows remained volatile, while net portfolio outflows moderated in the second half of the year due to buoyant nonresident inflows. Robust net other investment inflows in the second quarter also helped offset the net FDI and portfolio outflows over the course of the year.

The United States is Ireland's largest bilateral trade partner. Ireland's trade surplus with the United States expanded to $46 billion in 2025 from roughly $33 billion in 2024.

Pharmaceutical products and organic chemicals collectively represent about 81% of U.S. imports from Ireland, followed by optical, precision or medical instruments amounting to over 7% of imports. The U.S. market represents 67%, on average, of Ireland's pharmaceutical exports, underscoring the significance of the bilateral trade relationship for that sector.

Switzerland

Switzerland's high current account surplus has decreased in recent years but remains elevated due to its persistently large goods trade surplus. Switzerland's bilateral trade surplus with the United States decreased last year driven by a notable reversal in gold exports from Switzerland to the United States following tariff-related frontloading and haven buying early in the year and an increase in the U.S. services surplus. Despite continued Swiss National Bank (SNB) monetary easing, the Swiss franc continues to appreciate on a nominal and real effective basis.

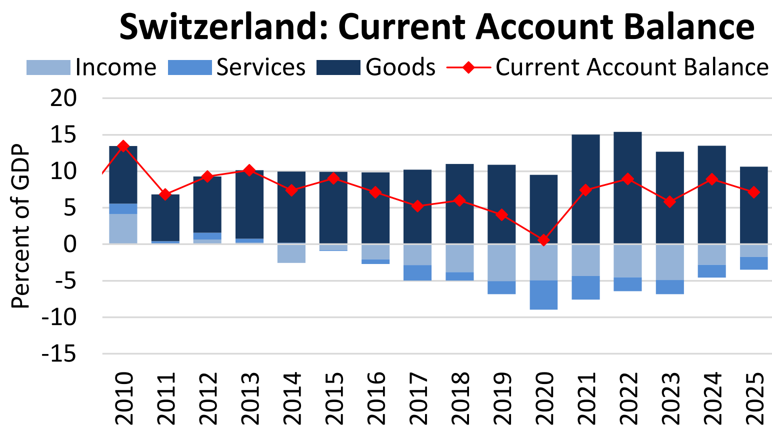
Growth and Macroeconomic Policies

Tariffs and continued low growth in its European trading partners weighed on economic activity in Switzerland in 2025 with real GDP growth registering at 1.3% and decelerating markedly beginning in the second quarter of the year. Real GDP growth of 2.4% year-over-year in the first quarter was driven by a surge in safe haven-related trading of non-monetary gold and to a lesser extent exports to the United States being pulled forward to avoid tariffs. Otherwise, growth momentum remained moderate, slowing to 1.5% year-over year in the second quarter, 0.6% in the third quarter and 0.5% in the fourth quarter. In April 2026, the IMF projected annual growth would remain unchanged at 1.3% for 2026. Private economic analysts assess the Swiss economy is well positioned to manage a potential energy price shock resulting from the conflict with Iran based on its relative energy independence. Switzerland is also expected to benefit from the normalization of trade flows following the framework trade agreement reached with the United States that set U.S. tariffs on most Swiss exports at 15%. Switzerland has ample fiscal space with debt-to-GDP at 38%, declining from a peak of 43% in 2020. According to data published by the Swiss authorities, the federal government recorded a fiscal surplus of 0.6% of GDP in 2025, which remained broadly unchanged compared to 2024 at 0.5% of GDP. In their annual budget review, the Swiss authorities noted that higher defense and social welfare spending will pressure the federal budget going forward, though offsetting measures such a planned one percentage point increase in the VAT should restore federal budget surpluses by 2028.

In its monetary policy meeting in March 2026, the Swiss National Bank (SNB) held its policy rate at 0.0% for a third consecutive meeting. This follows the SNB cutting its policy rate by 25 basis points for six consecutive meetings between March 2024 and June 2025. As of March 2026, headline inflation (0.3%) and core inflation (0.4%) were within the 0% to 2% range set by the SNB. The SNB also in March raised its near-term inflation outlook due to the conflict with Iran, forecasting average headline inflation of 0.5% in 2026. In its recent communications, the SNB emphasized that due to the conflict with Iran its "willingness to intervene in the foreign exchange market has increased," to counter a rapid and excessive appreciation of the Swiss franc that would jeopardize price stability.

Balance of Payments Developments

Switzerland had a current account surplus of 7.0% of GDP over the four quarters through December 2025. There was sharp movement in the current account over 2025 as the surplus fell from 12.3% of GDP in the first quarter to 5.7% of GDP as gold flows reversed. Overall, this reflects a modest decrease in the current account surplus from its peak of 9.0% of GDP in 2022. While commodity prices normalized through the end of December and Switzerland's merchanting (trading of commodities that never enter or leave Switzerland) surplus has decreased, the overall Swiss trade balance remains strong and the primary income deficit, which is currently driven by labor income, narrowed in 2025. Switzerland also runs a small but stable services trade deficit.



Sources: Swiss National Bank, Haver

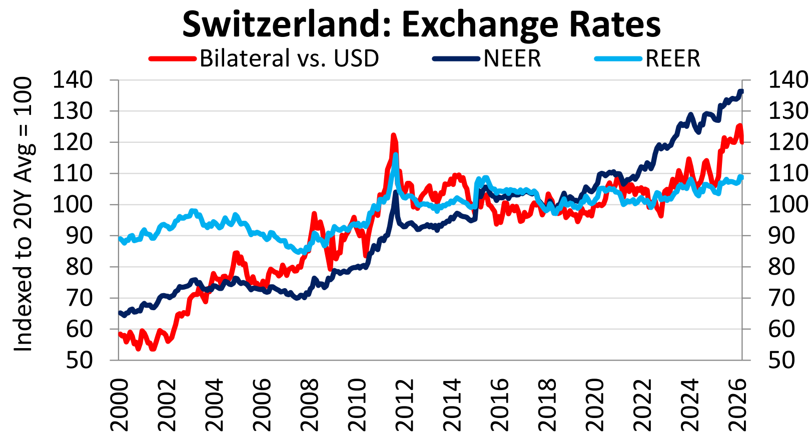
Switzerland's goods and services trade surplus with the United States decreased to $2 billion over the four quarters through December 2025 from $9 billion in 2024. This decrease was driven in part by the reversal in gold exports from Switzerland.[33] The improvement in the U.S. services surplus, which widened to $32 billion in 2025 from $30 billion in 2024 also contributed to the decrease in the overall balance.

Switzerland's net financial account balance rose in 2025, largely reflecting an increase in net cross-border banking flows. Over the course of the year, gross resident FDI flows abroad increased as the pace of nonresident FDI outflows slowed from one year prior, Meanwhile, net inflows of other investment from nonresidents decelerated over the year. Notably, in the fourth quarter, resident other investment flows surged to $32 billion and offset net outflows of nonresident other investment flows.

[33] See January 2026 Report for discussion of Swiss gold trade.

Exchange Rate Developments

Despite SNB monetary easing through June of last year, the Swiss franc appreciated 14.3% against the dollar in 2025 amid broad dollar weakness as other safe haven flows surged in April and June. On a nominal effective basis, the franc's appreciation has been more muted at 4.0%, reflecting broad euro strength over this period. On a real effective basis, the Swiss franc appreciated by 1.5% through December 2025.

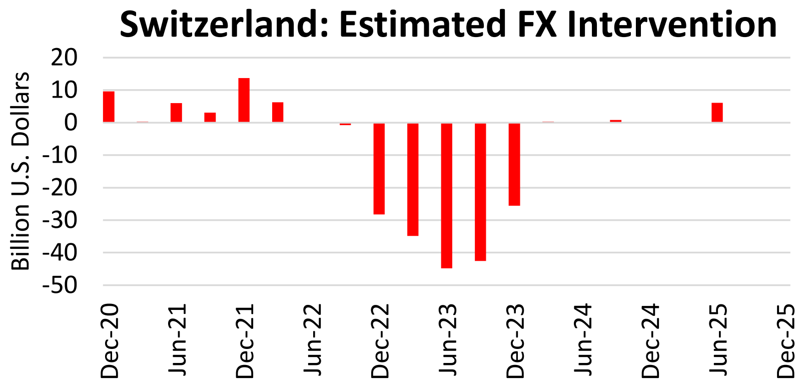


Sources: FRB, Bank for International Settlements

Treasury assesses that Switzerland's growth performance, relatively tight fiscal stance, and continued income flows resulting from a large stock of central bank foreign assets have contributed significantly to Switzerland's external surpluses over the past several years. Other structural factors contributing to Switzerland's large current account surpluses include a large share of prime-aged savers and an aging population; a high household savings rate; relatively limited domestic investment opportunities; measurement issues; and a large positive net international investment position which raises the income balance. While the IMF's assessment of Switzerland's external position in 2025 is not yet available, in 2024, the IMF assessed the Swiss franc was overvalued by 11.5% on a real effective basis.[34]

[34] The IMF cautioned that its latest assessment is subject to uncertainty due to complex measurement issues and data lags.

Intervention Policy



Sources: Swiss National Bank, U.S. Treasury estimates
Note: Chart shows Treasury estimates prior to 2020 and published data from SNB thereafter.

Swiss franc currency dynamics are influenced by the franc's status as a safe haven currency. The franc faces strong appreciation pressures during times of market or geopolitical stress, which in turn can pass through to domestic price levels. Over the four quarters through December 2025, foreign exchange intervention remained relatively modest; cumulative foreign exchange net purchases by the SNB over this period amounted to $6 billion (0.6% of GDP). Treasury estimates that roughly $9.7 billion in purchases occurred in April, which coincided with a sharp appreciation of the franc due to safe haven flows.

Glossary of Key Terms in the Report

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

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

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

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

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

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

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

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

Trade Weighted Exchange Rate – See Nominal Effective Exchange Rate.