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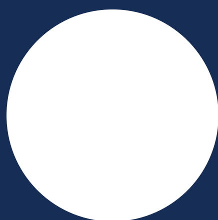

U.S. DEPARTMENT OF THE TREASURY • OFFICE OF INTERNATIONAL AFFAIRS

November 2023

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

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

Executive Summary

Global economic growth in both 2022 and so far in 2023 has been stronger than expected. The IMF estimates global growth was 2.2% in 2022 (measured on a Q4/Q4 basis), outperforming the projection of 1.7% it made in October 2022. It projects global growth to increase to 2.9% in 2023 and further to 3.2% in 2024 on the same Q4/Q4 basis. Prices of commodities like food and energy have become less volatile, supply chain pressures continued to ease, and in some countries domestic demand received a boost from excess savings. Despite more resilient near-term performance, the global economic outlook continues to face elevated uncertainty associated with Russia's war against Ukraine, geopolitical stresses in the Middle East, still-elevated core inflation, and the potential for stresses in China's property sector to deepen.

Global current account imbalances remained elevated in 2022 relative to pre-pandemic levels, as trade and tourism patterns remained disrupted and rising commodity prices tended to strengthen the current accounts of commodity exporting countries and weaken those of commodity importers. As these impulses wane, the IMF projects global imbalances to narrow in 2023 but highlights risks around this forecast, including additional shocks to commodity prices or the risk of a severe tightening of financial conditions. Among major U.S. trading partners, the very large surpluses of Germany, Ireland, Switzerland, Taiwan, the Netherlands, and Singapore have each remained significant as a share of GDP over the four quarters through June 2023. China's surplus was higher in dollar terms at $389 billion (2.2% of GDP) over four quarters through June 2023, compared to $380 billion in the four quarters through June 2022 (2.1% GDP). Meanwhile, the U.S. current account deficit narrowed to 3.3% of GDP in the four quarters through June 2023, down from 4.0% of GDP in the four quarters through June 2022.

Differing growth and inflation outlooks have led to a range of monetary policy actions across countries, and fundamentals including interest rate differentials, terms of trade shocks, and growth expectations have had large impacts on currencies. In 2022, the dollar strengthened against most major trading partners' currencies through October 2022, before depreciating against most major trading partners' currencies in the last few months of the year as global financial conditions began to ease.

The nominal broad dollar was relatively stable in the first half of 2023, weakening slightly but still at a strong level relative to historical values. Over the course of August and September, though, the dollar strengthened nearly 4%, leaving it up 1.1% year-to-date as of end-September. Notably, the dollar strengthened 13.4% against the yen, pushing the yen close to 150 yen per dollar. The dollar is 5.8% stronger against the RMB as expectations for Chinese growth have cooled. As of end-September, the broad dollar has strengthened 1.9% against the basket of advanced economies' currencies and 0.4% against the basket of emerging market economies' currencies.

Most interventions by U.S. trading partners continue to be in the form of selling dollars, actions that strengthen their currency and weaken the dollar. Thus, it is not a surprise that in the four quarters through June 2023, no trading partner was found to have manipulated

the rate of exchange between its currency and the U.S. dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. A number of major trading partners have excessively large current account surpluses as discussed above, suggesting imbalances in demand and supply across major economies, but currency manipulation was not a driving force of those surpluses during this period. It is worth noting that two trading partners that ran current account surpluses (Singapore and China) did purchase foreign currency on net over these four quarters, but they too did not meet the standard for preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade.

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

While the present global macroeconomic circumstances — elevated inflation, monetary tightening to slow demand, and bouts of dollar appreciation — reduce some concerns about current account surpluses, it is important to monitor countries' external balances and whether their production and domestic absorption are broadly aligned.

Treasury Analysis under the 1988 and 2015 Legislation

This Report assesses developments in international economic and exchange rate policies over the four quarters through June 2023. The analysis in this Report is guided by Sections 3001-3006 of the Omnibus Trade and Competitiveness Act of 1988 (1988 Act) (codified at 22 U.S.C. §§ 5301-5306) and Sections 701 and 702 of the Trade Facilitation and Trade Enforcement Act of 2015 (2015 Act) (codified at 19 U.S.C. §§ 4421-4422), as discussed in Section 2 of this Report.

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

Under the 2015 Act, Treasury is required to assess the macroeconomic and exchange rate policies of major trading partners of the United States for three specific criteria. Treasury sets the benchmark and threshold for determining which countries are major trading partners, as well as the thresholds for the three specific criteria in the 2015 Act.

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

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

In this Report, in accordance with the 1988 Act, Treasury has also evaluated whether trading partners have manipulated the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade.

Because the standards in the 1988 Act and the 2015 Act are distinct, a trading partner could be found to meet the standards identified in one of the statutes without necessarily being found to meet the standards identified in the other. Section 2 provides further discussion of the distinctions between the 1988 Act and the 2015 Act.

Treasury Conclusions Related to the 2015 Act

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

Switzerland was removed from the Monitoring List, having met only one of the three criteria over the four quarters through June 2023, as it had in the June 2023 Report for the four quarters through December 2022. Switzerland had previously exceeded the thresholds for all three criteria, as noted in previous Reports, in each of which Treasury conducted enhanced analysis of Switzerland. In early 2021, Treasury commenced enhanced bilateral engagement with Switzerland in accordance with the 2015 Act and discussed with the Swiss authorities the policy options to address the underlying causes of Switzerland's external imbalances. Treasury continues to engage closely with Switzerland,

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

[4] These quantitative thresholds for the scale and persistence of intervention are considered *sufficient* on their own to meet the criterion. Other patterns of intervention, with lesser amounts or less frequent interventions, might also meet the criterion depending on the circumstances of the intervention.

and also continues a separate but related Standing Macroeconomic and Financial Dialogue to discuss macroeconomic issues.

Treasury Assessments of Other Major Trading Partners

Treasury has also established a Monitoring List of major trading partners, whose currency practices and macroeconomic policies merit close attention. When a major trading partner meets two of the three criteria in the 2015 Act, that trading partner is placed on the Monitoring List. Once on the Monitoring List, an economy will remain there for at least two consecutive Reports to help ensure that any improvement in their performance, such that they no longer meet two of the three criteria for enhanced analysis, is durable, rather than being due to temporary factors. As a further measure, Treasury will add and retain on the Monitoring List any major U.S. trading partner that accounts for a large and disproportionate share of the overall U.S. trade deficit, even if that economy has not met two of the three criteria from the 2015 Act. **In this Report, the Monitoring List comprises China, Germany, Malaysia, Singapore, Taiwan, and Vietnam.**

In addition to Switzerland, Korea was removed from the Monitoring List in this Report, having met only one out of three criteria in the 2015 Act for two consecutive Reports. Germany, Malaysia, Singapore, Taiwan, and Vietnam are on the Monitoring List, having triggered two criteria in the 2015 Act.

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

Treasury Conclusions Related to the 1988 Act

The 1988 Act requires Treasury to consider whether any economy manipulates the rate of exchange between its currency and the U.S. dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. **In this Report, Treasury concludes that no major trading partner of the United States engaged in conduct of the kind described in Section 3004 of the 1988 Act during the relevant period.** This determination has taken account of a broad range of factors, including not only trade and current account imbalances and foreign exchange intervention (the 2015 Act criteria), but also currency developments, exchange rate practices, foreign exchange reserve coverage, capital controls, and monetary policy.

Treasury continues to carefully track the foreign exchange and macroeconomic policies of U.S. trading partners under the requirements of both the 1988 Act and the 2015 Act, and to review the appropriate metrics for assessing how policies contribute to currency misalignments and global imbalances. The Administration has strongly advocated for our major trading partners to carefully calibrate policy tools to support a strong and sustainable global recovery. Treasury also continues to stress how important it is for all

economies to publish data related to external balances, foreign exchange reserves, and intervention in a timely and transparent fashion.

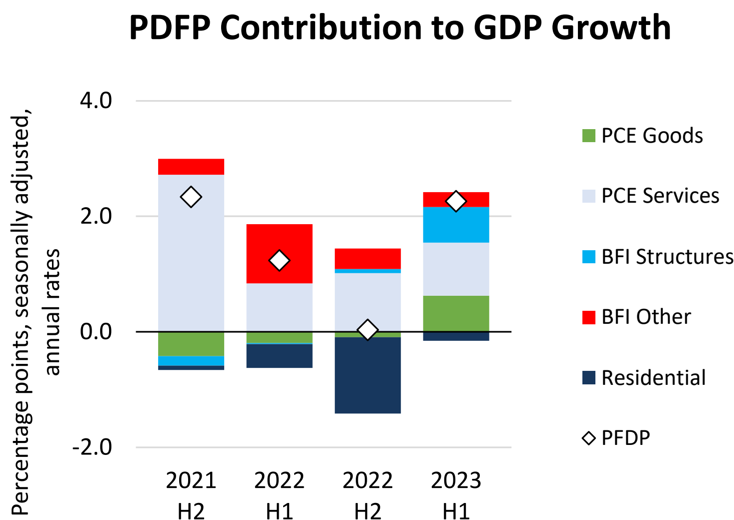
Section 1: Global Economic and External Developments

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

U.S. Economic Trends

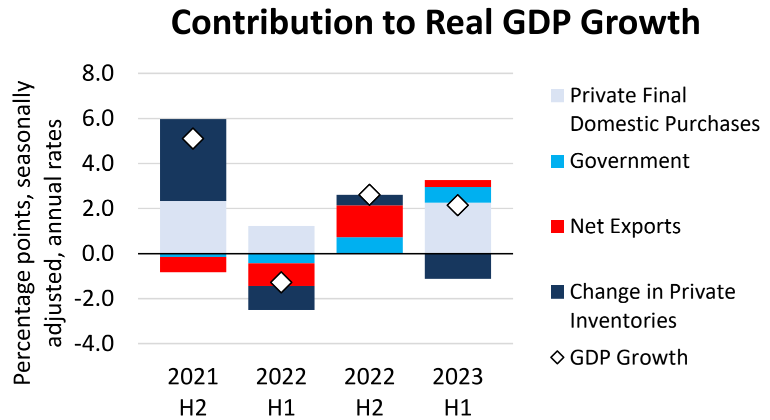
Economic Performance in 2023 H1

The economy grew solidly during the first half of 2023—though at a slower pace than in the latter half of 2022. Real GDP grew 2.0% at an annualized pace in the first half of this year, following a 2.9% advance in last year's second half. Significantly, growth of private domestic final purchases (PDFP)—that is, personal consumption expenditures (PCE), business fixed investment, and residential investment—accelerated in the first half of 2023, and contributed 2.7 percentage points to total GDP growth – a more than five-fold increase over the 0.5 percentage point contribution in the latter half of 2022. The much larger contribution in the first half of this year reflected faster private consumption and, especially, a much smaller decline in residential investment, which was driven by significant improvements in single-family home construction as well as sales of existing homes. Real PCE continued to reflect a rotation from goods to services, even though consumption of services slowed a bit. Meanwhile, the contribution from business fixed investment declined modestly in the first half of 2023. Business spending on structures remained strong, mainly reflecting heavy investment in manufacturing factories, but also other structures.



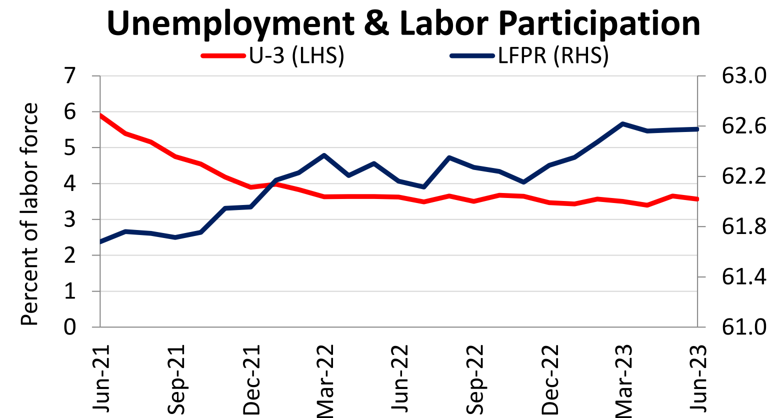
Source: Bureau of Economic Analysis.

Among the remaining three drivers of real GDP, total government consumption and investment added a substantial, 0.7 percentage points to growth in the first half of 2023, after rebounding in last year's second half to make an identical contribution. However, impetus from net international demand was far more modest in the first half of 2023, falling to 0.2 percentage points, a fraction of the leading contribution this component made in the second half of 2022. Exports of goods and services declined 1.9% at an annual rate in the first half of 2023, reflecting slowing global demand for U.S. products, while imports fell more, down -2.6%. Consequently, the trade deficit declined by $26.4 billion, after a more substantial narrowing of $192 billion in the second half of last year. Meanwhile, the contribution from private inventories in the second quarter of 2022 was more than reversed in the third quarter. The change in private inventories posed a 1.1 percentage point drag on growth in this year's first half, after adding 0.5 percentage points in the second half of 2022. The drag in inventories was largely sourced in the wholesale sector.



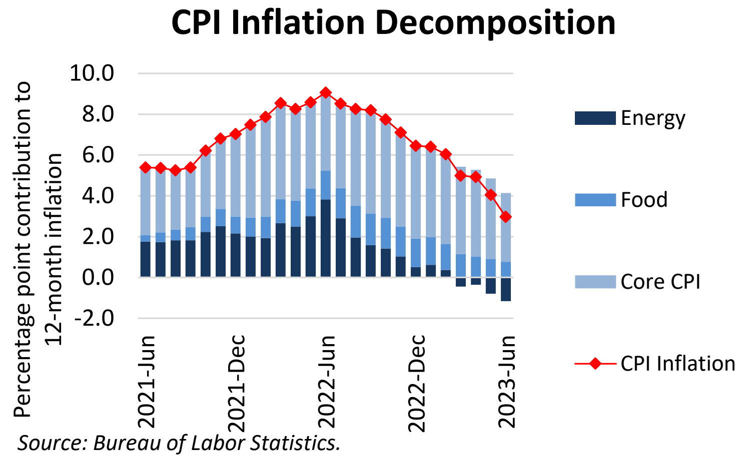
Source: Bureau of Economic Analysis.

Labor markets remained strong in the first half of 2023, but signs of realignment in supply and demand continued to build. The historically rapid pace of payroll job creation in 2021 eased throughout 2022 and into the first half of 2023. The economy created an average 354,000 payroll jobs per month during the latter half of 2022, which stepped down to a monthly average of 257,000 jobs in this year's first half. Even so, the pace is still consistent with that needed to maintain a stable unemployment rate. The unemployment rate (U-3), meanwhile, edged up by 0.1 percentage point to 3.6% from December 2022 to June 2023, although during the first half of 2023, this rate *fell* to 3.4% in January and April, the lowest rate since May 1969, as a growing labor supply matched the pace of job creation.

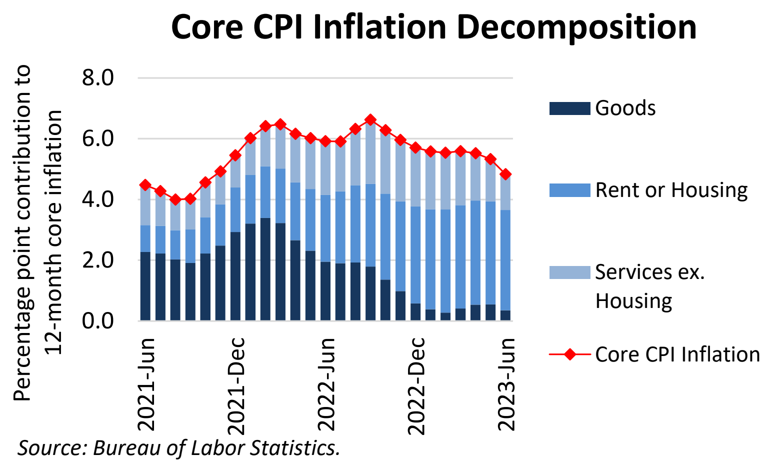


Source: Bureau of Labor Statistics.

Inflation in the first half of 2023 continued to slow due to ongoing improvements in several drivers, including food and energy, as well as in underlying conditions, such as resolving supply chains and price pressures stemming from Russia's illegal invasion of Ukraine were contained. One major component, shelter, showed very little improvement from an elevated pace. After slowing steadily in the final six months of 2022, energy price inflation has declined outright in the first half of this year. Food price inflation remained at a double-digit pace through most of 2022, but finally moved lower during the first half of this year. As a result of all these factors, twelve-month CPI inflation has declined from a peak rate of 9.1% in June 2022, to 6.5% in December 2022, and to 3.0% in June 2023, i.e. a two-thirds reduction from the year-earlier peak. The improvement in core CPI inflation (which excludes food and energy) has been more modest, owing to persistently elevated readings for shelter prices and a shift back to consumption of services. Over the year through June 2022, the core CPI rose by 5.9%, then eased to 5.7% over the 12 months through December 2022. Over the year through June 2023, however, 12-month core inflation eased more noticeably to 4.8%. Even after slowing noticeably during the latter half of 2022, core goods inflation decelerated further during the first half of this year, to a 12-month pace of 1.3% through June 2023. Core services inflation remains elevated, owing to rising demand in various service sectors, especially those adversely affected by the pandemic, as well as persistently rapid inflation in housing (rent of primary residence and owners' equivalent rent).



Source: Bureau of Labor Statistics.



Source: Bureau of Labor Statistics.

Economic Developments Since June 2023

In the advance estimate for real economic activity in the third quarter of 2023, real GDP rose 4.9% at an annual rate, more than double the rate in the first half of 2023 and the fastest pace of growth since the first quarter of 2021. PDFP accounted for 2.8 percentage points of GDP growth as household consumption strengthened and residential investment posted its first contribution to GDP growth since the first quarter of 2021. For the components of real GDP other than PDFP, the change in private inventories boosted real

economic activity by 1.3 percentage points, and government purchases and investment added 0.8 percentage points. However, net exports subtracted 0.1 percentage points from growth as import growth outweighed the increase in exports.

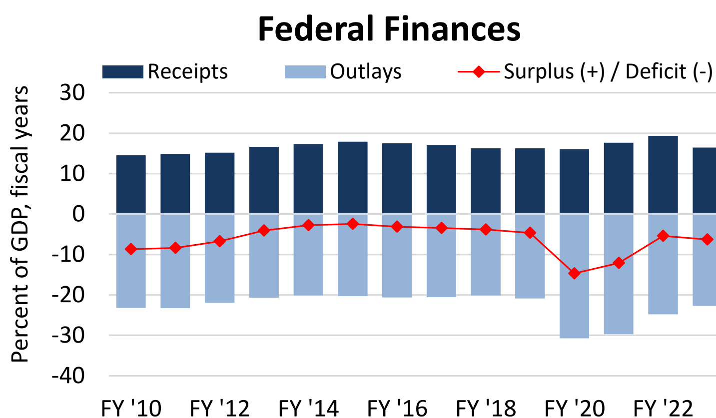
Strong labor markets persisted during the third quarter of 2023 with robust payroll job growth and low unemployment rates. From June to September, employers added an average of 266,000 jobs, up from 201,000 in the second quarter while the unemployment rate increased by 0.2 percentage points to 3.8% in September. Meanwhile, the labor force participation rate continued to improve slowly, averaging 62.8% throughout the third quarter, a post-pandemic high. Demand for labor has slowly eased: the average vacancy ratio in July and August (last available data) ticked down by 0.1 to 1.5 job openings per unemployed persons from the second quarter, still somewhat above the pre-pandemic level of just over 1 but well below recent highs. The quits rate also softened, decreasing by 0.2 percentage points to 2.3% in the third quarter. These improvements have eased labor market pressures but the vacancy ratio and quits rates still are high relative to historical standards, signaling that the imbalance between supply and demand persists.

Inflation trended a bit higher during the third quarter, boosted by higher energy prices, but 12-month rates continued to slow relative to year-earlier readings. On a year-over-year basis, CPI inflation was 3.7% in September 2023, up from 3.0% in June 2023. Year-over-year energy price inflation remains negative—but to a smaller degree due to recent increase in energy prices. Meanwhile, twelve-month core inflation continued to trend lower; over the year through September, core inflation was 4.1%, less than two-thirds of the year-earlier reading and the slowest pace in two years. Rent of housing inflation continues to set a high floor on core price growth.

The Federal Open Markets Committee (FOMC) tightened monetary policy further during the third quarter. The FOMC voted to raise its short-term policy rate target (the federal funds rate) by 25 basis points to 5.25–5.50% at the July 25-26 meeting but left the target unchanged at the September 19-20 meeting. The target range remains at the highest level since February 2001.

Federal Finances in Fiscal Year 2023

Federal finances have improved significantly since Fiscal Year (FY) 2020. In FY 2020, the federal deficit peaked at 14.7% of GDP due to the pandemic and related aid measures to help households and businesses weather the economic shock. By FY 2022, the deficit had decreased to 5.4% of GDP, reflecting the phasing out of pandemic-related aid and

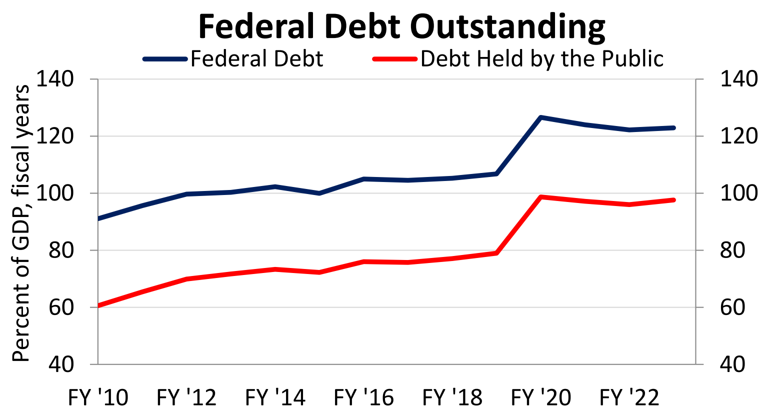


Sources: U.S. Treasury; Bureau of Economic Analysis.

recovery in the economy more broadly. For FY 2023, the deficit increased $320 billion to $1.70 trillion, equal to 6.3% of GDP, as lower receipts outweighed decreased spending.

Individual income taxes dropped $457 billion, reflecting lower capital gains realizations and lower deposits of Federal Reserve earnings coinciding with higher interest rates and the runoff of longer-term securities on the Federal Reserve's balance sheet.

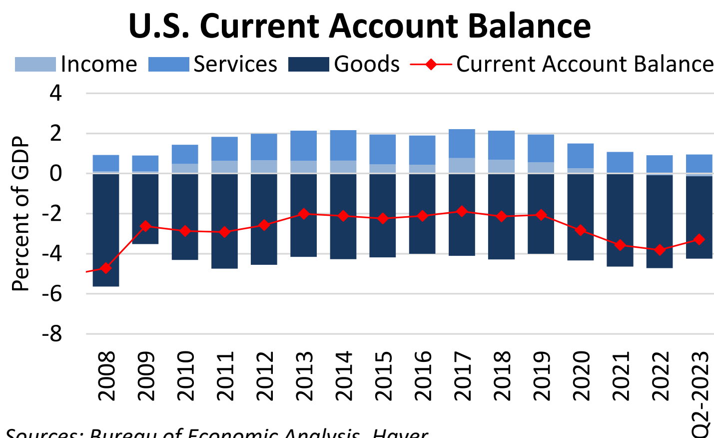
Outlays decreased by $137 billion in FY 2023, partly reflecting lower student loan expenditures and the expiration of the expanded Child Tax Credit, among other provisions. By contrast, outlays for national defense, Social Security, Medicare, and net interest all had large increases.



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

At the end of FY 2023, gross federal debt stood at $33.2 trillion (122.9% of GDP) while debt held by the public was $26.2 trillion (97.6% of GDP). In June 2023, Treasury's borrowing limit was suspended until 2025.

U.S. Current Account and Trade Balances



Sources: Bureau of Economic Analysis, Haver

The U.S. current account deficit decreased by $122.9 billion to $865.5 billion in the four quarters through June 2023. The deficit shrank to 3.3% of GDP over the same period, smaller than the 4.0% in the four quarters though June 2022. The narrowing of the deficit was driven by increased surpluses on primary income and services along with a large decrease in the goods deficit. This offset an increase in the secondary income deficit reflecting a decrease in general government transfers and an increase in private transfers. The services surplus increase was driven in part by an increase in personal travel. The deficit in goods narrowed as goods trade saw increases in exports reflecting an increase in all major categories except agricultural products while imports increased at a lower rate driven by an increase in automobiles and capital goods, offsetting a decline in imports of industrial supplies and materials. From 2013 to 2019, the headline U.S. current account deficit had been quite stable, around 2-2.5% of GDP. The reduction in the current account deficit in the four quarters of this Report follows three years of growing current account deficits from 2019-2022.

The U.S. trade deficit declined 21.2% in the four quarters through June 2023 to 2.3% of GDP compared to the four quarters through June 2022. Overall, the goods deficit declined by around $11 billion in the four quarters through June 2023. The services surplus was relatively stable, increasing around $2.7 billion. Since peaking in March 2022, the trade deficit has steadily declined. Among top trading partners, on a rolling 12-month basis the U.S. deficit in goods trade has shrunk most for China and increased most for Mexico. Overall trade growth has decreased since peaking in the first quarter of 2022. For each month between April and June 2023 on a year over year basis trade growth has been negative for the U.S. reflecting a slowdown in exports and an even larger slowdown in imports. This is likely due to a moderation in trade following the large bounce back in 2021 from the pandemic-related collapse in global trade and potentially some rebalancing in consumption from goods to services, which are less heavily traded than goods.

Source: U.S. Census Bureau

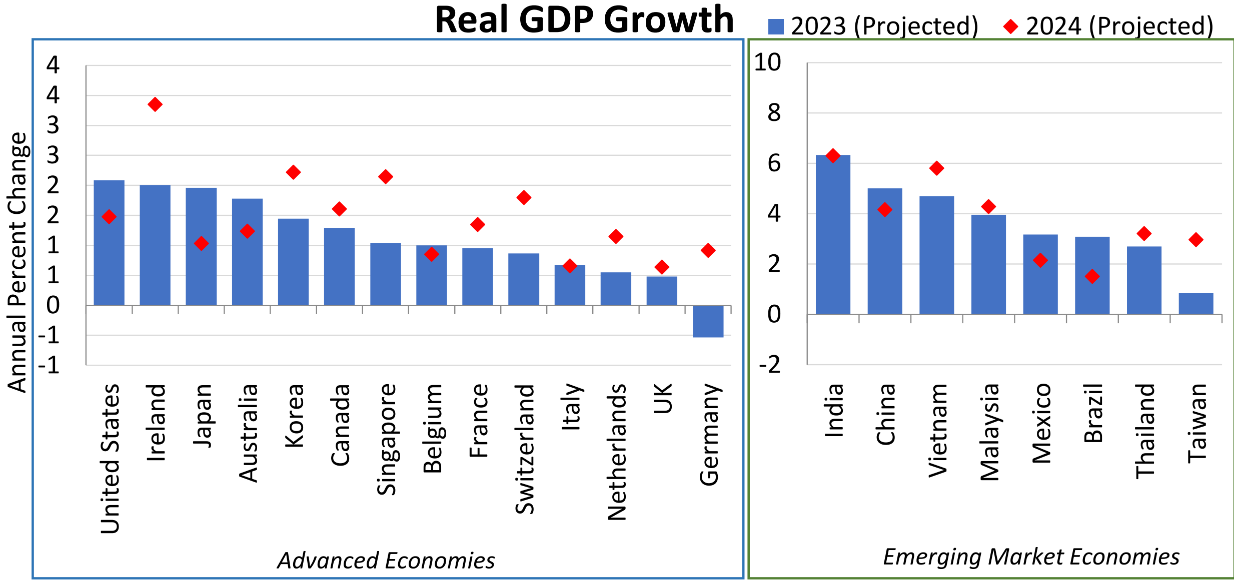
At the end of June 2023, the U.S. net international investment position marked a net liability of about $18.0 trillion (67.2% of GDP), declining by $1.3 trillion from end-June 2022. The stronger dollar in 2022 meant U.S foreign assets denominated in foreign currency lost value in dollars, while the U.S. liabilities are primarily in dollars and their value does not as significantly change with currency fluctuations. In addition, net other changes also reflected U.S. stock price increases that exceeded foreign stock price increases. Still, price and exchange rate changes were relatively muted on average in this four-quarter period for the United States. It is not uncommon for the magnitude of valuation changes to substantially exceed the scale of the current account, as the large size of U.S. gross positions means relatively small percentage changes in prices can lead to large changes in total value. The value of U.S.-owned foreign assets was $33.6 trillion, while the value of foreign-owned U.S. assets stood at $51.6 trillion. Despite current account deficits, the total net liability as of end-June 2023 was roughly the same as at the end of 2021.

International Economic Trends

Global economic growth in both 2022 and so far in 2023 has been stronger than many forecasts had projected. The IMF estimates global growth was 2.2% in 2022, outperforming its projection of 1.7% as of October 2022 (measured on a Q4/Q4 basis). It projects global growth to increase to 2.9% in 2023 and further to 3.2% in 2024 on the same Q4/Q4 basis. Prices of commodities like food and energy have become less volatile, supply chain pressures continued to ease, and in some countries domestic demand received a boost from excess savings. Many emerging market and developing economies have fared

better than expected thanks in part to improved terms of trade for some, proactive monetary policy, and a healthy build-up of external buffers. Russia's war against Ukraine continues to weigh on the outlook after introducing volatility among critical commodity prices, which increased energy and food insecurity and exacerbated inflation. Looking forward, the IMF projects global growth to be around 3% per year over the next five years, the weakest medium-term projections seen for around thirty years.

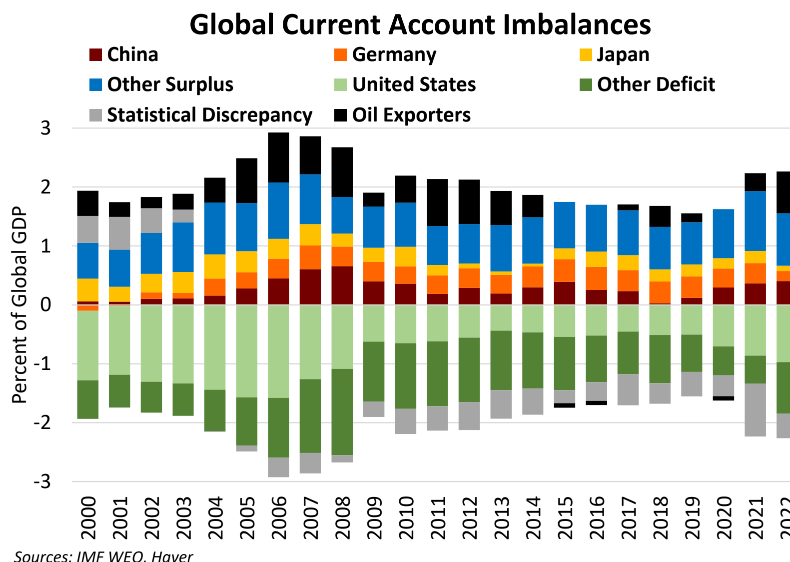
Macroeconomic policies should be carefully calibrated to sustain the economic recovery without exacerbating inflation. Different policy responses will be required to address weak growth, depending on its drivers. Fiscal policy may be particularly complicated for economies with high debt and growing debt service in light of high demands on public sector funding for population aging, defense-related spending commitments, and efforts to address long-standing structural challenges – including climate change, inequality, and infrastructure investment.



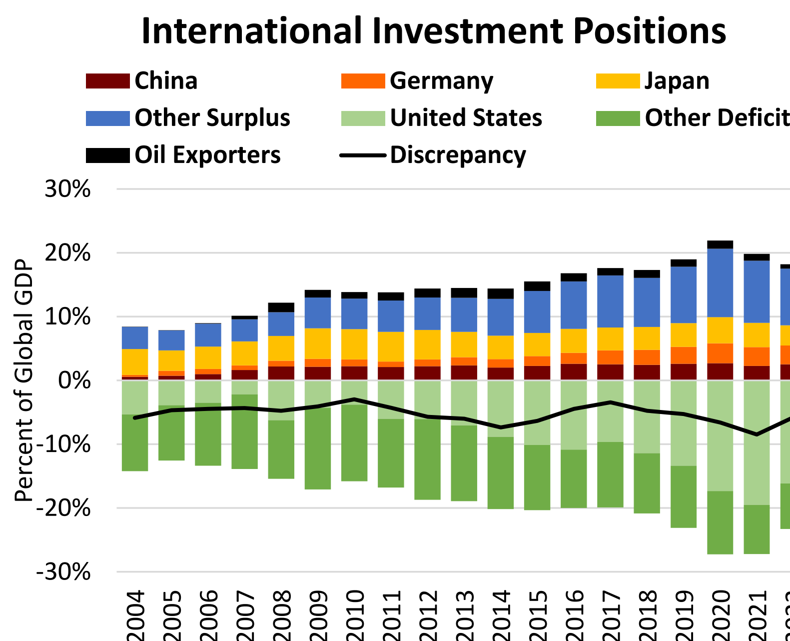
Source: IMF World Economic Outlook October 2023.

Global Imbalances

Global current account imbalances[5] were broadly stable in the few years prior to the pandemic before widening over the last three years. The efforts to contain the COVID-19 pandemic and its negative economic effects led to extraordinary policy responses that contributed significantly to global imbalances. Global current account imbalances remained elevated in 2022 with a notable increase in non-U.S. deficit countries' deficits. Germany's reduction in its current account surplus was sizable, roughly three times the size of the increase in China's surplus in nominal terms. Historically high energy and commodity prices, resulting from Russia's war against Ukraine, boosted the external positions of commodity exporters in 2022 while weakening those of importers. The IMF projects that global current account balances will narrow in 2023 and narrow further over the medium term as commodity prices decline, though this is subject to risks associated with the heterogeneous pace of growth and fiscal consolidation across countries.



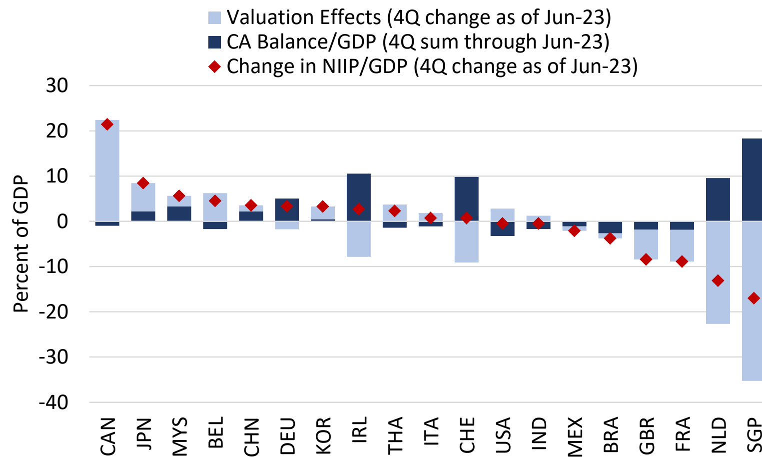
Sources: IMF WEO, Haver



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

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

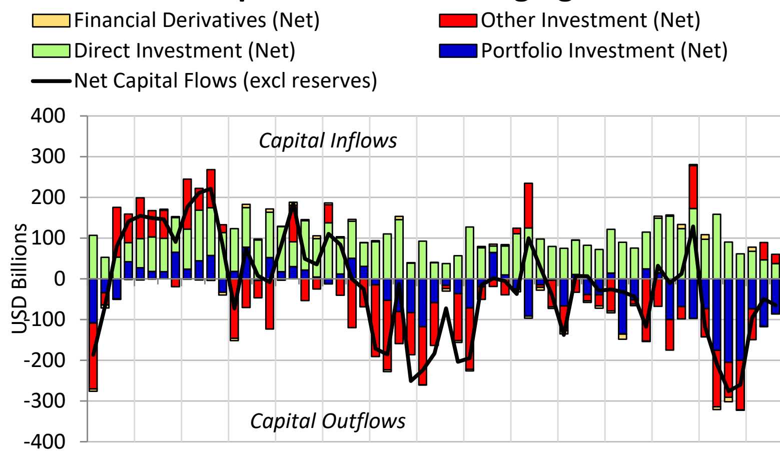
Net international investment positions (NIIP) have narrowed over the last two years relative to the historical peaks reached in 2020 despite large and persistent current account balances in many countries. Among major U.S. trading partners, the change in net international investment positions over the four quarters through June 2023 broadly reflect valuation effects. Notably, in the case of the Netherlands and Singapore, these valuation changes led to decreased net foreign asset positions despite large current account surpluses. Conversely, the NIIP increased in Canada, Belgium, Thailand, and Italy despite their current account deficits. As asset and liability positions are now large as a share of GDP, when asset prices and exchange rates move considerably, valuation changes can overwhelm annual financial flows.



Sources: Haver, IMF, National Authorities

Capital Flows to Emerging Market Economies

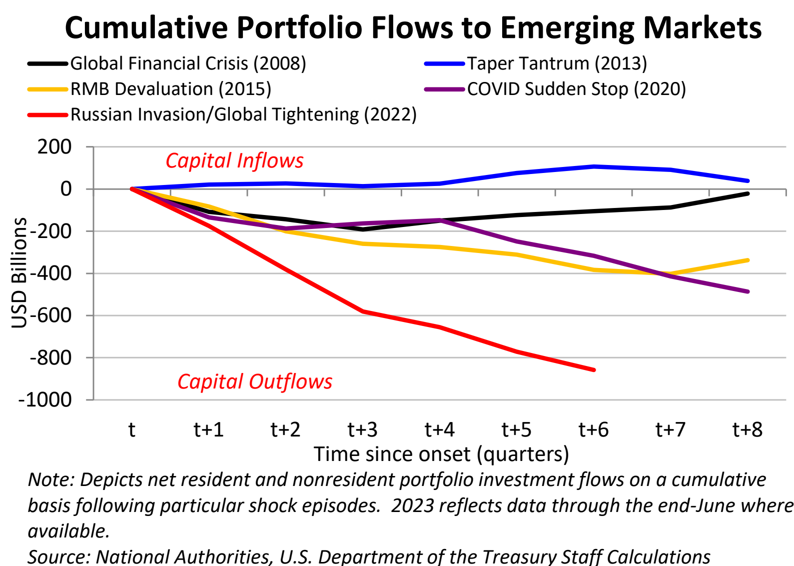
A number of pressures continued to weigh on net capital flows to emerging market economies over the four quarters through June 2023. Total net outflows (FDI, portfolio investment, and other investment) receded to $396 billion over the course of the four quarters (relative to $698 billion over the course of 2022).[6] Combined nonresident net flows remained subdued and positive over the four quarters through June, suggesting that foreign investor demand for emerging market economy assets remained somewhat buoyant, but was outweighed by continued, albeit decreasing, net outflows from



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

[6] Notably, net outflows from Russia equaled $110 billion over the four quarters through June 2023.

residents.[7] During this period, net outflows from emerging markets of portfolio and other investment decreased to $609 billion, narrowing roughly $131 billion relative to the same period one year prior.[8] On a cumulative basis, net portfolio flows have declined by almost $860 billion since early 2022 as the onset of Russia's war against Ukraine and tighter global financial conditions weighed on international capital markets. Excluding China, net outflows of portfolio investment from emerging markets have been less pronounced, with a cumulative decline of about $514 billion compared to pre-invasion levels.



Note: Depicts net resident and nonresident portfolio investment flows on a cumulative basis following particular shock episodes. 2023 reflects data through the end-June where available.
Source: National Authorities, U.S. Department of the Treasury Staff Calculations

On a quarterly basis, net capital flows were largely driven by portfolio and other investment flows over the four quarters through June 2023. During the third quarter of 2022, net portfolio outflows remained elevated with overall net portfolio outflows totaling $200 billion, while net outflows of other investment increased to $121 billion. Net portfolio outflows narrowed in the fourth quarter but remained at moderately elevated levels of about $74 billion as global financial conditions began to ease, nonresident net flows reversed, and resident net outflows decreased. Net other investment outflows also narrowed during this period despite an uptick in nonresident outflows. Net portfolio outflows accelerated again in the first quarter of 2023 to $117 billion amid signs of banking sector stress in the United States and Europe, wherein accelerating resident outflows outweighed buoyant nonresident inflows. Resident outflows slowed in the second quarter of the year and net portfolio outflows narrowed to $86 billion even as the pace of emerging market central bank tightening began to ease. Notably, net portfolio investment flows into China remained under pressure over the four quarters through June, with net outflows totaling $186 billion amid continuing outflows from both residents and nonresidents. Net flows of FDI into China turned negative for the first time since 2019, with outflows totaling $104 billion, due to suppressed inflows from nonresidents.

Higher frequency data (from sources beyond quarterly balance of payments data) suggest that, since end-June, nonresident portfolio flows to emerging markets have been mixed, primarily driven by large, volatile equity flows in China. These measures suggest foreign

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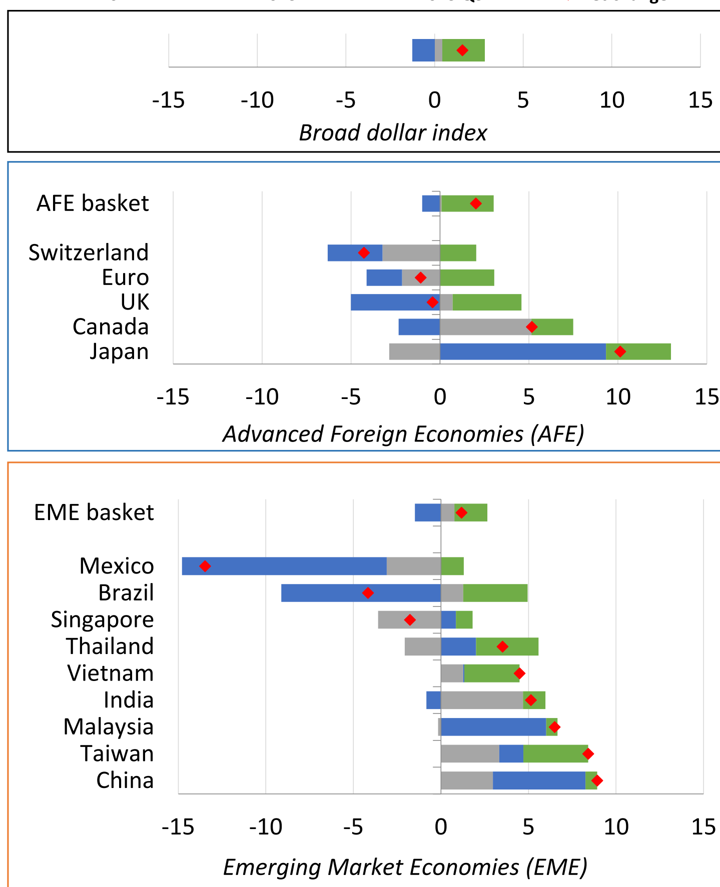
[7] These sustained net outflows from residents can reflect both short-term cyclical factors such as changes in global risk appetite as well as long-term, structural characteristics including reduced investment home bias, increased sophistication of domestic investments, and increased access to international markets.
[8] In the case of several emerging markets, substantial monetary policy tightening over the course of 2022 and 2023 may have helped to lessen the severity of net capital outflows.

investors remain relatively sensitive to signals regarding the outlook for global growth over the medium term, particularly from the deepening property sector deterioration in China and its potential spillovers to the global economy and global financial system.

Foreign Exchange Markets[9]

The nominal trade-weighted dollar weakened 0.8% from end-June 2022 to end-June 2023 as foreign currency movements continued to reflect mixed influences regarding global inflation, the expected pace of monetary policy tightening, and other factors over this period. The dollar depreciated broadly over this period against advanced economy and emerging market economy currencies, weakening by 0.9 and 0.7%, respectively. The dollar appreciated during the third quarter of 2022 by 5.4%, as more rapid tightening of monetary policy by the Federal Reserve relative to the rest of the world, continued labor market tightness and persistent inflation pressures in the United States, terms of trade shocks, and safe haven buying weighed on foreign exchange markets. As global financial conditions began to ease in the fourth quarter of 2022, the dollar depreciated 4.7%, nearly retracing its movement from the preceding quarter.



Sources: FRB, Haver

Against the backdrop of more pronounced dollar appreciation over the course of 2022, several major trading partners intervened to stem the pace of depreciation against the dollar. In September and October 2022, Japanese authorities intervened in currency

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

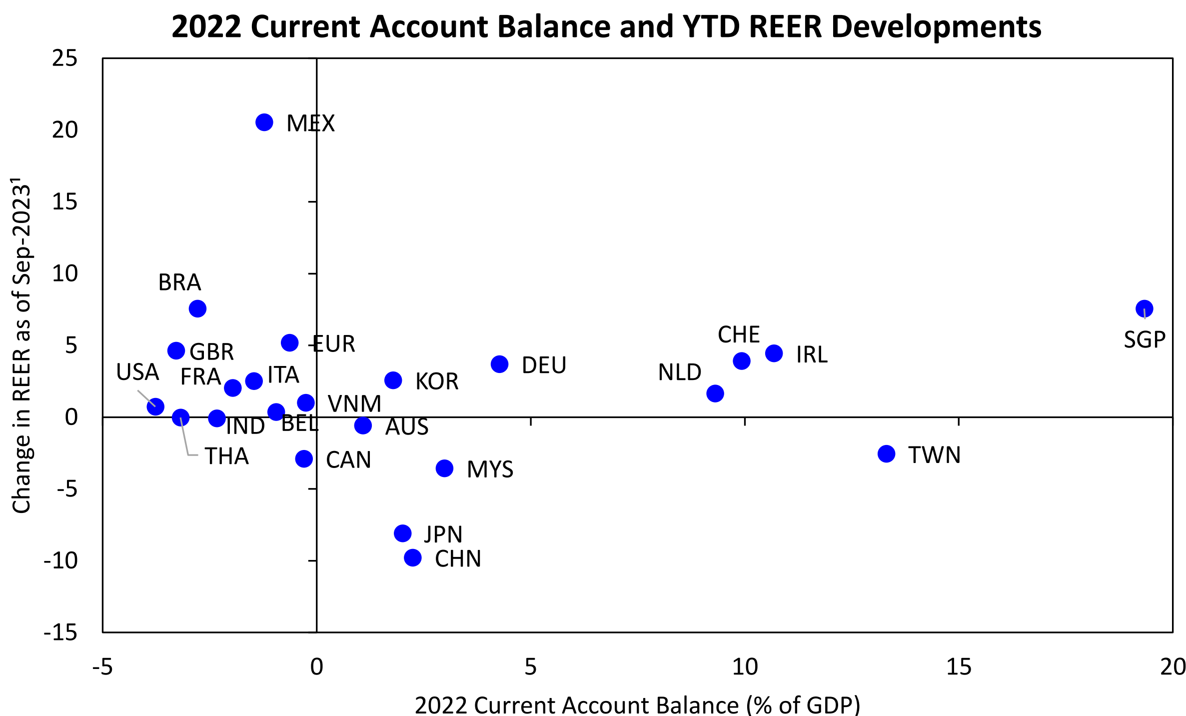
markets, marking their first intervention in currency markets in almost 11 years. They stated that the interventions aimed to reduce recent heightened volatility of the yen. The Japanese authorities sold $62.3 billion in dollars and purchased yen over these two months, strengthening the value of the yen and pushing back against depreciation.

Despite bouts of financial market stress in early 2023 and amid further market expectations of easing financial conditions, the dollar weakened further over the first half of 2023, depreciating by 1.2%. During this time, dollar performance was mixed across major trading partners' currencies. The dollar weakened most notably against the Mexican peso and the Brazilian real, depreciating by 12.1% against the peso and 9.0% against the real. Meanwhile, the dollar appreciated against the yen by 9.6%, the Malaysian ringgit by 6.0%, and the Chinese renminbi by 5.1%.

More recently, the dollar has rebounded, appreciating 2.4% between end-June and end-September, leaving it 1.1% stronger on net since the beginning of the year. While the dollar has strengthened against almost all major trading partners in the third quarter of 2023, dollar appreciation has been more pronounced against advanced economy currencies.

On a real effective basis, the dollar appreciated 0.7% from end-June 2022 to end-September 2023 and remained 16.5% above its 20-year average. In its most recent assessment, the IMF continued to judge the dollar to be overvalued on a real effective exchange rate basis.

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



Sources: National authorities; BIS REER Indices, JP Morgan, FRB
1/Change between 2022 average REER and end-September 2023.

Foreign Exchange Reserves

Global foreign currency reserves totaled $12.0 trillion over the four quarters through end-June 2023, an increase of roughly $72 billion relative to end-June 2022. Data on the stock of global foreign exchange reserves, the currency composition of global reserves, and assumptions regarding the asset composition of foreign exchange reserve assets (see footnote 22 on p. 39 for more details on Treasury's methodology for estimating foreign exchange intervention), suggest this increase was driven predominantly by the $74 billion valuation effects resulting from exchange rate movements over this period, particularly over the last two quarters of 2022, and an estimated interest income of $408 billion. Estimated net sales of $411 billion partially offset this increase. However, balance of payments data, which isolate flows of reserve assets from valuation effects, paint a different picture. The most recent and available quarterly balance of payments data suggest the increase in foreign exchange reserves was due to an accumulation of FX assets of $36 billion while total valuation effects (both exchange rate and price changes) increased reserves by $36 billion over the same time period. This discrepancy highlights the sensitivity of estimates to assumptions about the asset and currency composition of reserves, and further underscores the importance of transparent and timely data on foreign exchange interventions.

Treasury assesses that the economies covered in this Report continue to maintain broadly ample—or more than ample—reserves based on standard adequacy benchmarks. Reserves in most of these economies are more than sufficient to cover short-term external liabilities and anticipated import costs. Moreover, the most recent IMF assessments of

adequacy based on composite metrics across most emerging market economies for 2022 also suggest reserves are broadly adequate. For economies where reserves are substantially/significantly below adequate levels, authorities should rebuild precautionary buffers gradually over the medium term in a manner that does not exacerbate global imbalances and is consistent with necessary macroeconomic adjustment.

Table 1: Foreign Exchange Reserves

	FX Reserves (USD Bns)	1Y Δ FX Reserves (USD Bns)	FX Reserves (% of GDP)	FX Reserves (% of ST debt)	FX Reserves (% of IMF ARA Metric)*
China	3,193.0	121.7	18%	241%	106%
Japan	1,126.1	-66.8	27%	37%	..
Switzerland	808.2	-79.3	96%	72%	..
India	528.0	2.4	16%	427%	165%
Taiwan	564.8	15.9	76%	303%	..
Korea	397.2	-17.3	24%	245%	97%
Singapore	317.2	12.2	67%	27%	..
Brazil	312.6	1.3	16%	388%	136%
Thailand	203.6	2.1	40%	312%	228%
Mexico	183.8	6.4	11%	293%	116%
UK	106.0	-4.3	3%	2%	..
Malaysia	101.9	2.2	25%	94%	110%
Vietnam	89.2	-12.2	21%	242%	..
Canada	86.5	7.5	4%	8%	..
France	27.5	-24.8	1%	1%	..
Italy	47.6	1.2	2%	4%	..
Australia	36.9	2.5	2%	10%	..
Germany	36.9	-0.5	1%	1%	..
Belgium	9.8	-0.9	2%	2%	..
Netherlands	6.4	1.6	1%	1%	..
Ireland	5.5	0.3	1%	0%	..
United States	36.6	0.4	0%	0%	..
World	12,048.5	71.9	n.a.	n.a.	..

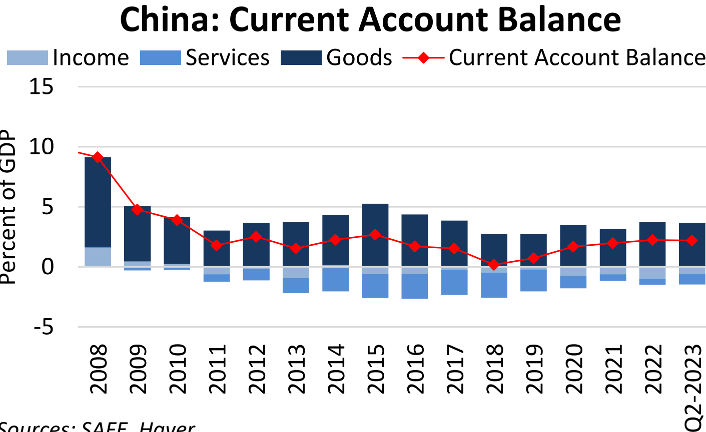
Foreign exchange reserves as of end-June 2023.
GDP caluclated as sum of rolling 4Q GDP through Q2-2023.
Short-term debt consists of gross external debt with original maturity of one year or less, as of the end of Q2-2023; China as of Q1-2023; Vietnam as of Q4-2022.
** IMF Assessing Reserve Adequacy Metric, a composite measure of reserve adequacy, as of end-2022. China's reserves are compared to the IMF's capital controls-adjusted metric. The IMF assesses reserves between 100-150% of the ARA metric to be adequate.*
Sources: National Authorities, World Bank, IMF, BIS.

Economic Developments in Selected Major Trading Partners

China

China's growth increased following the end of the "zero-COVID" policy at the end of 2022, though it continues to underperform relative to pre-Covid trends. While private demand

has begun to recover and has been the primary driver of growth in 2023, household consumption remains below its pre-pandemic trend. Credit demand and investment have also been softer than expected, while declining external demand has provided another headwind. Weakness in the property sector remains a significant drag on growth and exacerbates local government debt issues, both of which pose risks to financial stability. In response to the deteriorating outlook, the authorities have signaled their intention to ease their macroeconomic policy stance through targeted measures to stimulate housing demand, small changes in monetary policy, and most recently, a rare intra-year increase to the central government's fiscal deficit.



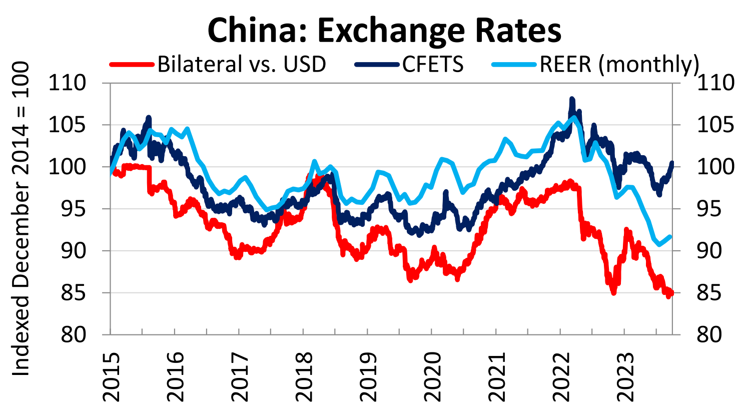
China's current account surplus widened marginally to 2.2% of GDP over the four quarters through June 2023 from 2.1% of GDP in the four quarters through June 2022. During this time, China's goods trade surplus expanded to 3.7% of GDP from 3.5%, in part reflecting weak domestic demand.[10] China's income deficit narrowed to 0.6% of GDP from 1.0% of GDP during this same period, primarily due to a reduction in investment income earned by nonresidents. Partially offsetting these trends, the services trade deficit widened to 0.9% of GDP over the four quarters through June from 0.4% in the preceding four quarters amid an easing of restrictions on outbound travel, though the services deficit remains well below pre-pandemic levels.

China's bilateral goods and services surplus with the United States fell to $294 billion during the four quarters through June 2023, down from $380 billion in the prior four quarters. China's bilateral trade surplus with the United States remains by far the largest of any U.S. trading partner. The bilateral goods surplus fell to $313 billion in the four quarters through June 2023 from $396 billion in the preceding four quarters. The reduction in China's bilateral goods trade surplus during this period reflects both a reduction in U.S. imports from all trading partners and a reduction in the share of U.S. imports from China. China ran a bilateral services trade deficit with the United States of $19 billion in the year through June 2023, widening from a deficit of $16 billion during the previous four quarters.

China's financial account deficit expanded significantly to $230 billion in over the four quarters through June 2023 from $66 billion during the previous four quarters. The rapid expansion of China's financial account deficit was primarily the result of the large swing in

[10] As discussed in previous Reports, these trade statistics are based on China's official balance of payments data compiled by the State Administration of Foreign Exchange (SAFE). Separate trade data from China's General Administration of Customs imply a much larger goods trade surplus of 5.0% of GDP in the year through June 2023. Treasury's use of SAFE data 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.

China's direct investment balance to a record deficit of $104 billion from a surplus of $149 billion during the previous four quarters, reflecting a strong deceleration in FDI inflows during this period. The widening of China's portfolio investment deficit to $186 billion over the four quarters through June 2023 from $96 billion during the preceding four quarters also contributed to the broader shift in China's financial account. These portfolio outflows mostly consisted of portfolio debt outflows by both residents and nonresidents amid a growing divergence in monetary policy stances between China and most advanced economies. These trends were partially offset by a large swing in the other investment balance to a surplus of $57 billion over the four quarters through June 2023 from a deficit of $113 billion over the previous four quarters, primarily due to a reduction in China's overseas loans and financial claims.[11] A net errors and omissions deficit of $37 billion suggests undocumented capital outflows not captured in identified components of the financial account, in line with previous years, although the scale of these outflows has moderated.



Sources: CFETS, FRB, BIS

The RMB depreciated by 5.5% against the dollar in the first nine months of 2023. During this same period, the RMB strengthened by 0.9% against the People's Bank of China's (PBOC's) China Foreign Exchange Trade System (CFETS) nominal basket.[12] Meanwhile, the real effective exchange rate weakened by 5.4% in the first nine months of 2023, as lower inflation in China than its trading partners caused the real exchange rate to depreciate despite the appreciation of the nominal effective exchange rate. The RMB's depreciation against the dollar this year follows appreciation pressure towards the end of 2022, with the RMB appreciating 3% against the dollar in December 2022. The RMB was relatively stable against the dollar and the CFETS basket in the first quarter of 2023 but began to depreciate in mid-April on both a bilateral and nominal effective basis. This depreciation occurred amid a deteriorating growth outlook in China and a widening divergence between interest rates in China and that of most advanced economies. Depreciation pressures temporarily eased in July – when expectations of potential large-scale macroeconomic stimulus momentarily supported sentiment toward Chinese assets and the broad dollar weakened – but subsequently resumed as these supportive factors dissipated. The RMB continued to weaken against the dollar in August before stabilizing in September, while the RMB's appreciation against the CFETS basket amid broad dollar strength more than offset earlier depreciation against the basket.

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[11] Excluding China's SDR allocation in August 2021, the other investment deficit was $155 billion over the four quarters through June 2022.
[12] The CFETS RMB index is a trade-weighted basket of 24 currencies published by the PBOC.

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

The authorities have implemented several regulatory and administrative measures this year to counteract RMB depreciation pressures:

- In early June, a self-regulatory body overseen by the PBOC reportedly instructed banks to lower interest rates offered on dollar deposits, with major state-owned banks subsequently cutting dollar deposit rates twice over the course of the next month.

- In late June, the PBOC started to consistently set the daily fix at a level significantly stronger than the market consensus forecast, which market participants interpreted as the authorities signaling their discomfort with the pace of depreciation.

- In July, the PBOC adjusted macroprudential regulations to incrementally ease restrictions on resident firms' ability to raise funds from nonresidents, a move the central bank described as a response to deprecation pressure.[13]

- In September, the PBOC reduced the foreign currency required reserve ratio, loosening onshore foreign exchange liquidity conditions.

Throughout the RMB's latest depreciation cycle against the dollar, the authorities have made statements indicating their intention to maintain exchange rate stability, for example, stating that the authorities will "implement a mix of policy measures to stabilize market expectations and resolutely prevent major exchange rate fluctuations…" [14] Additionally, multiple press reports provide evidence of state-owned banks taking actions that resist depreciation pressure—including increasing dollar sales in exchange for RMB in the onshore and offshore spot and forward markets—with some reports explicitly tying this behavior to instructions from the Chinese authorities.[15] The authorities have also reportedly encouraged banks to take a variety of actions intended to limit offshore RMB liquidity in order to support the currency, including reducing RMB lending in Hong Kong, scaling back investments in the Hong Kong bond market under the Southbound Bond Connect program, and limiting purchases of negotiable certificates of deposits issued by offshore banks amid increased RMB-denominated bill issuance in Hong Kong by the

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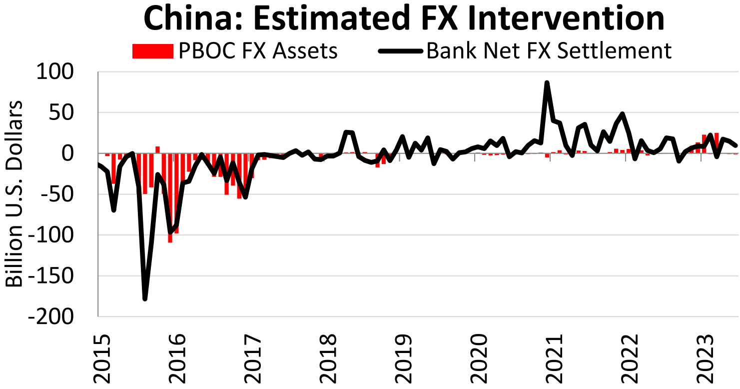
[13] People's Bank of China. Zhongguo Huobi Zhengce Zhixing Baogao 2023 Nian Di Er Jidu [China's Monetary Policy Implementation Report for the Second Quarter of 2023], p. 21, August 17, 2023.
[14] People's Bank of China. "PBOC Monetary Policy Committee Holds Q2 2023 Meeting," June 30, 2023.
[15] *See, for example* "China Told State Banks to Escalate Yuan Intervention," *Bloomberg,* August 17, 2023.

PBOC.[16] All of these actions follow, and in some cases build upon, a range of measures the authorities implemented last year to support the RMB, as described in the previous Report.

China's lack of transparency and use of a wide array of tools complicate Treasury's ability to assess the degree to which actions by the authorities and state-owned banks are designed to impact the exchange rate. Treasury will continue to closely monitor China's use of exchange rate management, capital flow, and regulatory measures and their potential impact on the exchange rate.



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

China's headline foreign exchange reserves increased by $122 billion over the four quarters through June 2023, ending this period at $3.2 trillion. China is an outlier among the economies covered in this Report in not disclosing its foreign exchange market intervention, which forces Treasury staff to estimate China's direct intervention in the foreign exchange market through the following two proxy measures. The PBOC's foreign exchange assets booked at historical cost, the first proxy measure for foreign exchange intervention, increased by $66 billion during the four quarters through June 2023. Between last October and March 2023, a period in which the RMB faced pressures to appreciate, this intervention proxy recorded a $69 billion increase, a pace of accumulation not seen since 2014, but after March, as appreciation pressure eased, this accumulation stopped entirely. Meanwhile, net foreign exchange settlement data, another proxy measure that includes the activities of China's state-owned banks, recorded net foreign exchange purchases, adjusted for changes in outstanding forwards, of $113 billion during this period. These proxy measures suggest intervention to resist appreciation over this period despite China's sizable current account surplus.

These figures represent estimates of Chinese foreign exchange intervention during a period in which the RMB experienced both appreciation and deprecation pressures. In more recent months, Treasury estimates suggest the authorities sold foreign exchange amid additional depreciation pressures. As noted in previous Treasury FX Reports, the divergence between these two proxy measures could be an indication that monthly changes in the PBOC's foreign exchange assets are not adequately capturing the full range of China's intervention methods. Overall, these developments highlight the need for China to improve transparency regarding its foreign exchange intervention activities.

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

The authorities should provide additional policy support in a manner that does not exacerbate economic imbalances or risks to financial stability. China should prioritize measures to support household disposable income and consumer confidence through both direct fiscal support and structural reforms, including improvements to the social safety net and continued liberalization of the household registration (*hukou*) system. These would not necessarily require short term stimulus but a longer-term shift towards consumption as the primary driver of economic growth. The central government should make greater use of its fiscal resources in order to mitigate stresses on local governments' finances. Near-term measures to support the property sector transition to a more sustainable size should be carefully calibrated to mitigate moral hazard and contain adverse macro-financial spillovers while the authorities enhance insolvency and resolution procedures. The authorities should respond to declining returns from China's traditional growth drivers by recommitting to reforms aimed at reducing factor misallocation, including limiting the role of SOEs, and lowering barriers to firm entry and exit to support productivity growth.

The Euro Area

The euro area has gone through 2023 with very low growth momentum and stubborn core inflation as it contends with aftershocks from the pandemic and the economic impact of Russia's war against Ukraine. Despite posting relatively strong growth in early 2022, economic activity slowed in the third and fourth quarter, with 2022 growth at 1.8% on a Q4/Q4 basis, and has remained weak since. The manufacturing sector, in particular, has been challenged by still-elevated energy prices combined with higher financing costs and weak domestic demand. Persistent inflation has similarly hampered household consumption growth as European consumers' behavior shifts to account for the increased cost of living. The IMF expects euro area growth to remain subdued at just 0.7% in 2023, with some intra-bloc variation including Germany's economy contracting by 0.5% and Spain's economy growing by 2.5%.

The euro area's aggregate fiscal policy posture has remained supportive in 2023. Russia's war against Ukraine increased anticipated outlays in 2022-23, as governments attempted to shield consumers and businesses from adverse spillovers, accelerate the drive toward energy independence, and bolster defense spending. However, calls to rein in spending have grown louder throughout 2023. While the European Commission (EC) extended the suspension of the fiscal rules contained within the EU's Stability and Growth Pact (SGP) through the end of 2023, it did not advocate for a broad fiscal impulse in 2023. More recently, the Eurogroup called for an overall restrictive fiscal stance in the euro area for 2024 and encouraged member states to wind down energy support measures as soon as possible in 2023-24. The EC's budget guidance for 2024 similarly encourages member states to return to a path of debt and deficit consolidation.

Fiscal measures are funded in part through the roughly $822 (€750) billion Next Generation EU (NGEU) pandemic recovery package agreed to in July 2020. NGEU has distributed $114 (€106) billion in grants and $51 (€47) billion in loans from the Recovery and Resilience Fund (RRF)—the main component of the NGEU—to member states thus far.

The RRF consists of up to $363 (€338) billion in grants and $415 (€386) billion in loans. While member states have applied for all of the RRF's grants, roughly $236 (€220) billion in lending capacity remains. This remaining capacity will likely decline pending country modification requests, as the EC has asked member states to revise their NGEU National Recovery and Resilience Plans to incorporate the clean energy and energy security goals of the REPowerEU program. The EC has also proposed that member states request these unallocated funds to enact key components of the EU Green Deal Industrial Plan, including through subsidies to "net-zero" industries.

When the recovery gained momentum in 2022, so too did inflation. Headline inflation peaked at 10.6% year-on-year in October 2022, as Russia's war against Ukraine compounded price pressures. Headline inflation declined to 4.3% year-on-year by September 2023 as energy pressures faded and base effects took hold. However, inflation expectations are still elevated as core inflation remains sticky, holding at 4.5% year-on-year in September 2023, just 1.2 percentage points below its March 2023 high. In September, the European Central Bank's (ECB) baseline scenario projected headline inflation of 5.6% in 2023 and 3.2% in 2024. The ECB anticipates that inflation will return to the target level of 2% in the third quarter of 2025.

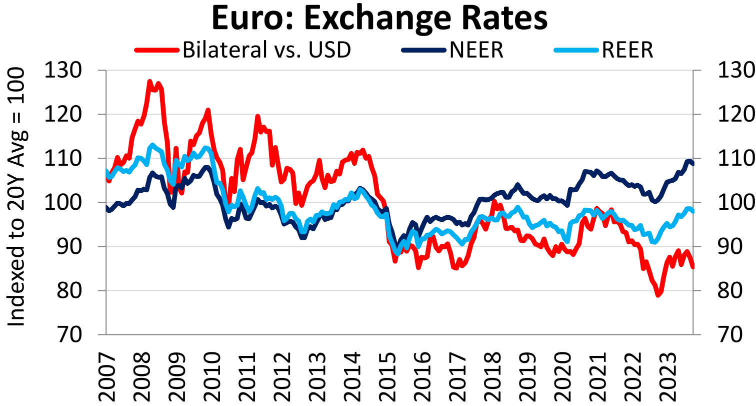
Still-high euro area inflation, driven in part by Russia's war against Ukraine, accelerated the ECB's policy normalization timetable. This monetary tightening cycle—the most aggressive in the ECB's history—has proven to be a challenging task as the ECB attempts to pursue its sole mandate of inflation targeting while also considering a weak outlook for the real economy and pursuing its policy goal of sovereign yield management. At its September 14 meeting, the ECB raised its deposit rate by 25 basis points to 4.0%. This is the highest policy rate in ECB history and represents 450 basis points in consecutive tightening since July 2022. As indicated by the ECB's most recent bank lending survey released on July 25, the monetary tightening is feeding through into the real economy through continued tightening of lending standards by banks and declining corporate, consumer, and mortgage loan demand.

The ECB's balance sheet policy has mirrored its rate increases. Prior to the war, the pace of net asset purchases under its Pandemic Emergency Purchase Program (PEPP) and Asset Purchase Program (APP) had slowed from end-October 2021; net asset purchases under the PEPP ended as of April 2022 and under the APP as of July 2022. Following this slowdown in net purchases, the ECB began reducing its APP portfolio by €15 billion per month by not fully reinvesting payments from maturing securities and stepped up that pace in July 2023 by allowing for a full passive roll-off of maturing APP holdings averaging roughly €25 billion per month. To counter fragmentation risks, the ECB has committed to flexibly reinvest PEPP redemptions as a first line of defense and created a Transmission Protection Instrument (TPI) that, if triggered, allows for effectively unlimited purchases of sovereign bonds "to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area."

The euro area current account surplus equaled just 0.2% of GDP in the four quarters ending Q2 2023 as supply chain disruptions, COVID-19 outbreaks, and high imported

energy prices weighed on the euro area's typically positive external position. The bloc saw a more typical current account surplus of 2.8% of GDP in 2021, followed by a sharp reversal to a deficit of 0.7% of GDP in 2022. The IMF expects the eurozone's current account surplus to recover to 1.2% of GDP in 2023. In its July 2023 External Sector Report, the IMF assessed that the euro area's external position in 2022 was broadly in line with the level implied by medium-term fundamentals and desirable policies, though staff assessed that the policy recommendations to address typical external imbalances emanating from certain member states—which appear to be resurfacing in early 2023 data—continue to hold true.

The euro reached a two-decade low against the dollar in September 2022 as widening interest rate differentials between the United States and Europe supported dollar strength. While the euro was 13.5% weaker against the dollar at end-September 2023 relative to end-2020, it has largely held its value relative to the dollar since the beginning of the year, depreciating by only 1.1%. In real effective terms the euro appreciated 2.9% over the first nine months of 2023. The ECB publishes its foreign exchange intervention and has not intervened in foreign exchange markets since 2011.



Sources: FRB, Bank for International Settlements

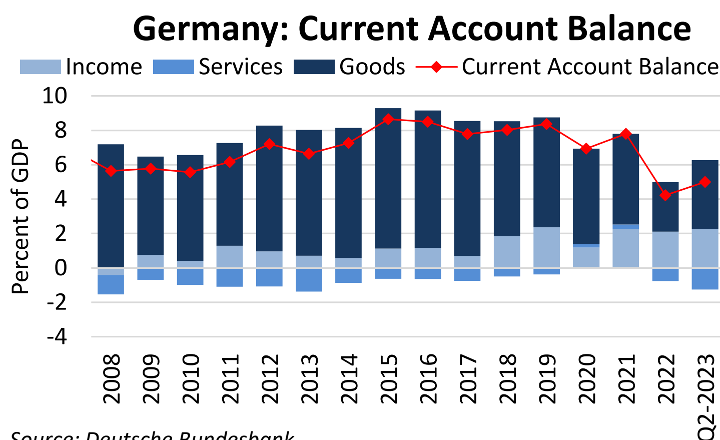
Germany

The IMF expects the German economy to contract by 0.5% in 2023. After contracting in the last quarter of 2022, economic growth in Germany stalled over the course of 2023. Growth stagnated at 0% in the second quarter of 2023, quarter-over-quarter, and inflationary pressures remained persistent. Economic deceleration continues to be driven by declines in private consumption and government expenditure, highlighting the lingering impacts of elevated energy prices and the phasing-out of COVID-related government support programs. Tighter monetary policy has also weighed on gross capital formation in interest-sensitive sectors, such as construction and machinery.

While a rapid and firm policy response helped Germany weather the initial impacts of Russia's war against Ukraine, higher interest rates and reduced government spending are contributing to the slowdown in economic activity. After three years of expansive utilization of fiscal space, Germany's latest federal budget demonstrates a recommitment to technical compliance with the debt brake. Moreover, to meet the 2024 budget deficit target, the government has also proposed expenditure cuts across most ministries, with notable exceptions such as the Ministry of Defense.

German inflation reached the highest levels since the 1990s in October 2022 at 10.4%, year-on-year. Inflationary pressures appeared to be easing over the first half of 2023, until leveling off this summer. The Federal Statistical Office reported headline inflation of 4.5% in September, a noticeable drop compared to previous months and the lowest value since Russia's invasion of Ukraine in February 2022. However, the decline is largely due to below average energy price increases in September, and core inflation remains relatively stubborn at 4.6% (down from 5.5% the month prior). The IMF projects an annual average of 6.2% headline inflation in 2023 before decelerating to an above-target rate of 3.3% in 2024.

Germany has run a large current account surplus for well over a decade as production levels are consistently above domestic absorption. In 2022, however, the country's current account surplus contracted by $160 billion to $174 billion, falling by more than three percentage points of GDP to 4.3%. This represents the largest decline since German reunification and the lowest surplus in decades.



Lower than typical surpluses have continued in 2023, with the current account at 5.1% of GDP over the four quarters through June, with the IMF projecting a slight annual increase to 6% of GDP in 2023.

The persistence of Germany's external imbalances, taken together with the country's slowing growth and planned reinstatement of the debt brake, runs counter to needed changes to the domestic industrial base due to shifts in energy supply and trade patterns in the wake of Russia's war against Ukraine. A major economy with such a consistently large surplus requires offsetting borrowing on a persistent basis by the rest of the world on net.

The country's bilateral trade surplus with the United States has more than doubled since the creation of the euro, hitting $76 billion in 2022, the largest trade surplus since 2015. During the four quarters through June 2023, Germany's bilateral goods and services surplus hit $85 billion. However, despite a consistently strong bilateral surplus with the United States, the country's overall current account has weakened due to elevated energy prices following Russia's invasion of Ukraine. German industry has benefitted from cheap energy in supporting its current account surplus, and significant investment in the green transition, housing, and infrastructure will be necessary moving forward to maintain competitiveness.

Despite a current account surplus and a slowdown in economic activity, the German government still plans to adhere to the pre-pandemic debt brake and reduce fiscal expenditures in 2024. While Treasury recognizes that the German government took strong

fiscal measures in response to COVID-19 and Russia's war against Ukraine, Germany still needs to significantly improve its chronic under-spending, which contributed to persistent pre-pandemic fiscal surpluses. Prior to the pandemic, Germany's approved budgets called for fiscal balance, but stronger-than-forecasted revenues and under-execution of spending plans resulted in fiscal surpluses averaging 1.3% of GDP between 2014 and 2019. As the public health crisis is overcome and recovery takes hold, Treasury encourages the government to deploy fiscal tools in 2023, 2024, and beyond, which include strengthening efforts to combat climate change, enhancing energy security, and reinvigorating investment—which would help external rebalancing proceed at a reasonable pace and contribute to both global and euro area rebalancing.

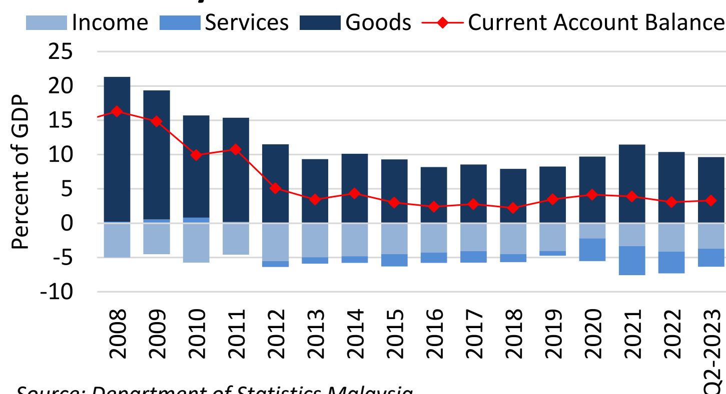
Malaysia

Malaysia's economy registered robust growth of 8.7% in 2022 on the back of a strong post-pandemic recovery in private spending and investment. The outlook for growth this year remains strong, if more tempered, largely attributable to external headwinds including softer demand from key trading partners. Year-over-year growth slowed to 2.9% as of June 2023. Bank Negara Malaysia (BNM) forecasts growth in the 4.0-5.0% range for 2023, with higher overall employment and increased income supporting domestic demand. BNM notes risks are balanced with upside potential from higher-than-expected tourism and project implementation. Meanwhile, downside risks include weaker-than-expected global growth.

The fiscal deficit is projected to shrink further to 5.0% in 2023, as the government moves to gradually tighten fiscal policy. Given the strong growth outturn, Malaysia's public debt-to-GDP fell to 60% in 2022 from its peak of 63% in 2021, still only narrowly below the government's statutory debt limit of 65% of GDP.

With subsidies and other administered prices helping limit the rise in headline inflation—which stood at 2.8% year-over-year in June 2023 (down from 4.5% in September 2022)—BNM has tightened monetary policy gradually. BNM raised its key policy rate—the overnight policy rate (OPR)—a cumulative 100 basis points in 2022 to 2.75%. In May 2023, BNM raised the OPR an additional 25 basis points to 3.0%. BNM notes that while its monetary policy stance is slightly accommodative, headline and core inflation have been moderating and the growth outlook is subject downside risks.

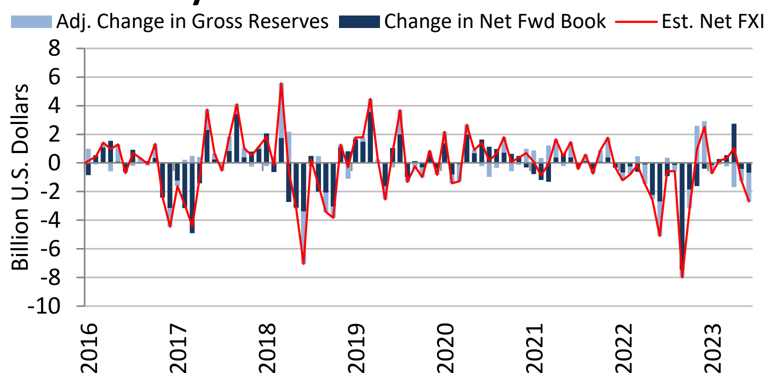
For the past decade, Malaysia's current account surplus has largely held steady at around 3% of GDP. The surplus was 3.3% of GDP through the four quarters ending June 2023. Over the same period, Malaysia's goods surplus narrowed almost one percentage point to 9.6% of GDP from 10.4% of GDP. Meanwhile, Malaysia's services deficit narrowed to 2.6% of GDP over the four quarters ending June 2023, down from 3.1% at end-2022 as tourism services continued to recover. The income deficit narrowed modestly to 3.7% of GDP from a deficit of 4.1% of GDP one year prior, largely reflecting a fall in direct investment income. In its most recent External Sector Report, the IMF assessed Malaysia's external position to be stronger than the level implied by medium-term fundamentals and desirable policies.



Source: Department of Statistics Malaysia

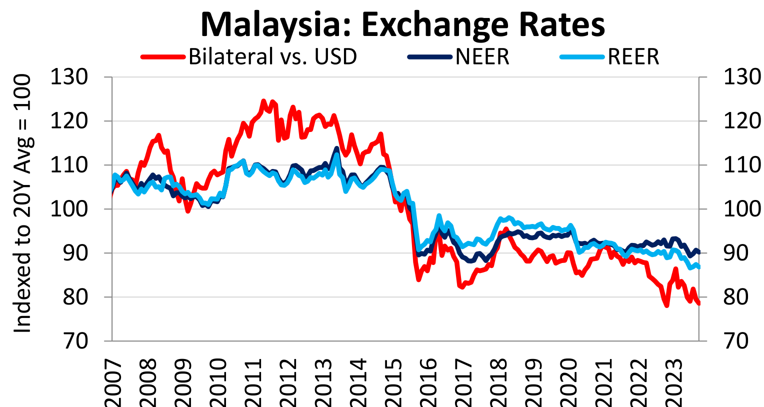
Malaysia's goods and services trade surplus with the United States reached $31 billion for the four quarters through June 2023. Malaysia and the United States have strong supply chain linkages in key industries, particularly electronics and related parts. Conversely, Malaysia engages in relatively limited bilateral services trade with the United States—about $6 billion in gross bilateral services trade flows in the four quarters through June 2023. On net, Malaysia recorded a bilateral services deficit with the U.S. of roughly $1.5 billion over the same period.

In recent years, Malaysia has demonstrated a track record of engaging in two-sided intervention in the foreign exchange market. Malaysia does not publish data on its foreign exchange intervention; however, the authorities have conveyed credibly to Treasury that net sales of foreign exchange over the four quarters through June were $23 billion or 5.8% of GDP. According to Treasury estimates, net sales over the four quarters to June 2023 totaled to $14 billion or 3.5% of GDP. Foreign exchange reserves stood at around $102 billion at end-June 2023, up roughly $2.2 billion compared to a year prior. Reserves remain broadly adequate according to standard adequacy metrics, including that of the IMF.



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

On net, the ringgit depreciated 5.5% against the U.S. dollar over the four quarters through June 2023. Over the same period, the ringgit depreciated 2.8% on a nominal effective basis and 3.5% on a real effective basis.



Sources: FRB, Bank for International Settlements

To support Malaysia's external rebalancing the government should continue to invest in public services and improving the scale and coverage of the social protection system. Likewise, the government should pursue targeted public investments. Such initiatives would support external rebalancing and help foster inclusive and sustainable growth. This could be done in a fiscally prudent way by rolling back broad, untargeted subsidies, which Malaysia has begun to do. The government should also continue to allow the exchange rate to move in line with economic fundamentals and limit foreign exchange intervention to circumstances of disorderly market conditions, while avoiding excessive accumulation of reserves.

Singapore

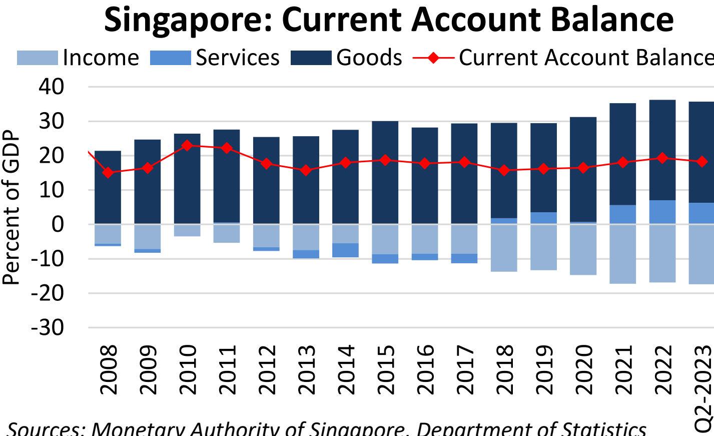
Following a strong initial post-pandemic recovery (real growth was 8.9% in 2021 and 3.6% in 2022), Singapore's economic performance has softened. Domestic activity has cooled from the lagged effect of prior monetary tightening, and exports are weighed down by slowing external demand. Year-over-year GDP growth was 0.7% in June 2023. The authorities project real GDP growth will register 0.5–2.5% this year amid weak external demand in trade-related sectors, particularly the global electronics industry.

Singapore's fiscal year 2023 budget (April 2023-March 2024) aims to tighten the fiscal stance to achieve a surplus of 0.7% of GDP, mostly due to the end of remaining pandemic-related support measures and to an increase in wealth taxes. The authorities believe the tight fiscal policy will complement tight monetary policy in addressing inflation. The government has introduced targeted support for low-income households to alleviate the impact of inflation and the goods-and-services tax increase earlier this year.

The Monetary Authority of Singapore (MAS), which uses an exchange-rate based regime for implementing monetary policy, was one of the first central banks in the region to initiate a tightening cycle in response to burgeoning inflation pressures. MAS tightened monetary policy five times between October 2021 and October 2022 by letting the Singapore dollar appreciate against a basket of currencies. In April 2023, MAS announced it would leave monetary policy unchanged, citing its projections for below-trend GDP growth in 2023. By year-end, MAS expects a negative output gap with risks tilted to the downside due to risks to global growth. MAS projects that inflation will remain elevated in the near term but gradually ease over the second half of 2023 and end the year significantly lower. As of June

2023, headline inflation remained elevated at 5.1% year-on-year, down from 6.7% at the end of 2022. Core inflation fell to 4.6% year-on-year, down from 5.1% at the end of 2022.

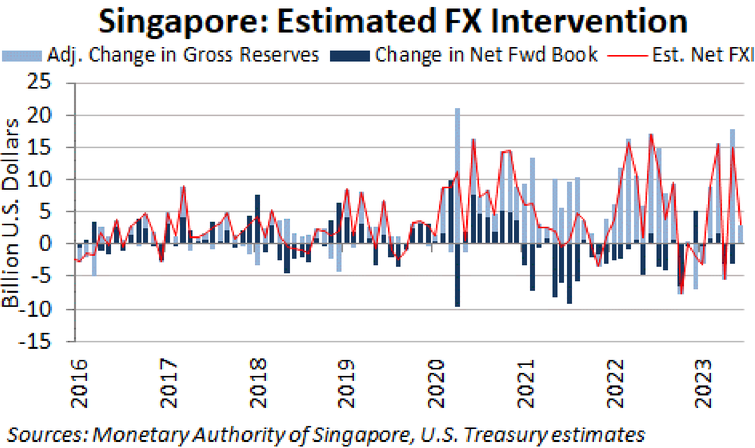
Singapore recorded a substantial current account surplus of 18.3% over the four quarters through June 2023, driven by a large goods surplus (29.4%) and a somewhat smaller, albeit growing, services surplus (6.3%). The rising services surplus generally reflects gradual increases in financial services exports and declining imports of transportation services. These goods and services surpluses were partially offset by an income deficit of 17.4%. The IMF has assessed Singapore's external position to be substantially stronger than warranted by economic fundamentals and desirable policies every year from 2012 to 2022. Singapore's persistent current account surpluses have led to the accumulation of an outsized net international investment position, which stood at around 175% of GDP as of end-June 2023, one of the highest levels in the world.



Sources: Monetary Authority of Singapore, Department of Statistics

Singapore has historically run bilateral trade deficits with the United States in both goods and services trade, which for the four quarters ending in June 2023 totaled $9 billion and $24 billion, respectively. Key Singaporean services imports from the United States include research and development, intellectual property, and professional and management services. The Singapore goods deficit with the United States reflects in part Singapore's role as a regional transshipment hub, with some of Singapore's imports from the United States ultimately intended for other destinations in the region.

MAS implements monetary policy by targeting the Singapore dollar's nominal exchange rate against a trade-weighted basket of currencies. The primary mode of intervention is the purchase or sale of U.S. dollars against the Singapore dollar, since this is the most liquid currency pair in the basket. In April and September 2023, MAS published semiannual data on intervention covering the two quarters through December 2022 and the two quarters through June 2023, respectively. Over the four quarters through June 2023, total net purchases of foreign currency totaled $27 billion,

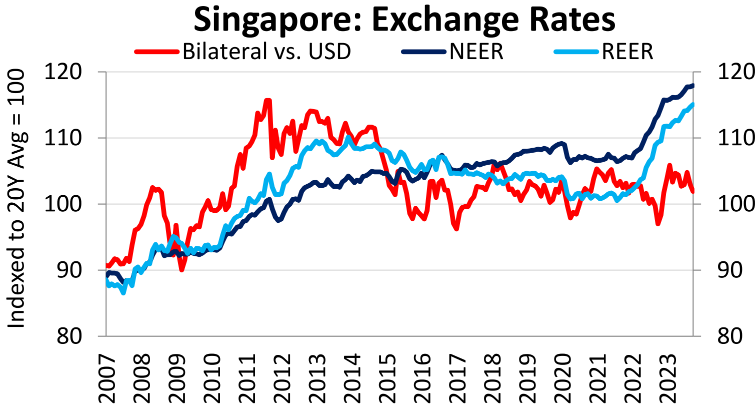


Sources: Monetary Authority of Singapore, U.S. Treasury estimates

equivalent to 5.7% of GDP. Singapore does not publish its foreign exchange intervention at a monthly frequency, forcing Treasury to estimate its pattern of intervention. According to Treasury estimates, net purchases were concentrated in the third quarter of 2022 and the first quarter of 2023, with intervention activity more two-sided during the fourth quarter of 2022 and the second quarter of 2023. Treasury assesses that Singapore meets the foreign exchange intervention criterion given its exceptionally large magnitude and lack of transparency on timing of intervention.

Official foreign exchange reserves totaled $317 billion (67% of GDP) at end-June 2023. For FY22/23, MAS transferred approximately $140 billion of excess reserves to the Singaporean government for longer-term management by GIC, one of Singapore's sovereign wealth and investment funds.[17] In addition to the reserves held by MAS, Singapore's government also has access to substantial official foreign assets managed by GIC and another sovereign wealth fund, Temasek.

The Singapore dollar appreciated 2.8% against the U.S. dollar over the four quarters through June 2023. Over the same period, the Singapore dollar appreciated 5.6% and 7.2% on a nominal effective and real effective basis, respectively.



Sources: FRB, Bank for International Settlements

Singapore's fiscal and monetary policies constrain consumption and have pushed domestic saving to levels that are nearly unmatched, generating one of the largest net foreign asset positions in the world. Policy reforms that durably strengthen domestic consumption, diminish precautionary saving incentives, and transfer wealth to households would help address Singapore's chronic external imbalances. An expansion of the social safety net and investments in healthcare and climate-resilient infrastructure could reduce Singapore's excess external imbalances over time. Singapore could also reduce mandatory pension contribution rates and give households greater control over pension assets. Further appreciation of the nominal and the real effective exchange rate over the medium term, consistent with economic fundamentals, should also continue to play a role in facilitating external rebalancing.

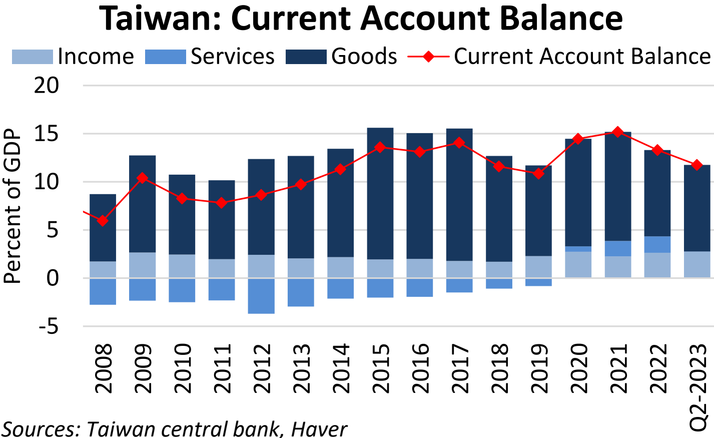
Taiwan

[17] From March 2022, Singapore's government began employing a new type of non-marketable security to facilitate the transfer of excess official reserves from MAS to the government. The Reserves Management Government Securities (RMGS) are issued by the government to MAS in exchange for excess reserves at the time of transfer. Additional information about RMGS may be found here: https://www.mas.gov.sg/statistics/reserve-statistics/reserves-management-government-securities.

Taiwan's real GDP grew by 0.2% in the four quarters ending June 2023, down from 4.1% for the same period in 2022. Growth in this period was driven primarily by private consumption as consumption patterns returned to pre-pandemic norms and were buoyed by the authorities' universal surplus tax rebate program (approximately $200 per person). Net exports were the most significant headwind to growth, declining 13.7% during the Report review period, due to a continued decline in global technology demand, increased energy prices, and economic weakness in China. The authorities revised Taiwan's 2023 annual growth rate down to 1.7% in June, down from the 2.5% annual growth predicted in December 2022.

The central bank paused its rate hiking cycle at 1.875% following a 12.5 basis point hike in March 2023. Prices in Taiwan have been relatively stable when compared to other major economies, with headline CPI inflation moderating to 1.8% in June 2023, down from a recent high of 3.6% in June 2022. The authorities' preferred measure of core inflation was 2.6% in June 2023, down from a recent high of 3.0% in January 2023. The monetary authorities anticipate that both headline and core inflation will moderate over the course of 2023, to 2.2% and 2.4%, respectively.

Taiwan's current account surplus decreased to $87 billion (11.8% of GDP) for the four quarters ending in June 2023, down from $117 billion (14.8% of GDP) for the same period in 2022. The decline was driven in part by a decrease in Taiwan's goods trade surplus to $67 billion (9.0% of GDP) for the four quarters ending in June 2023, down from $80 billion (10.2% of GDP) for the same period in 2022. The decline in year-over-year goods exports was driven by a moderation in global electronics demand in line with post-pandemic normalization. The decline in imports was greater than the decline in exports in year-over-year percentage terms as global commodity prices remained weak, albeit at an elevated level compared to 2019, and inventory growth remained suppressed. Despite the decline in Taiwan's goods surplus, it remains large relative to GDP. Taiwan's services balance declined to $169 million (roughly 0.02% of GDP) over the Report period, as Taiwan's services surplus turned into a deficit during the first two quarters of 2023, again indicating a return to pre-pandemic norms of small services deficits as freight transport and travel services continue to moderate.

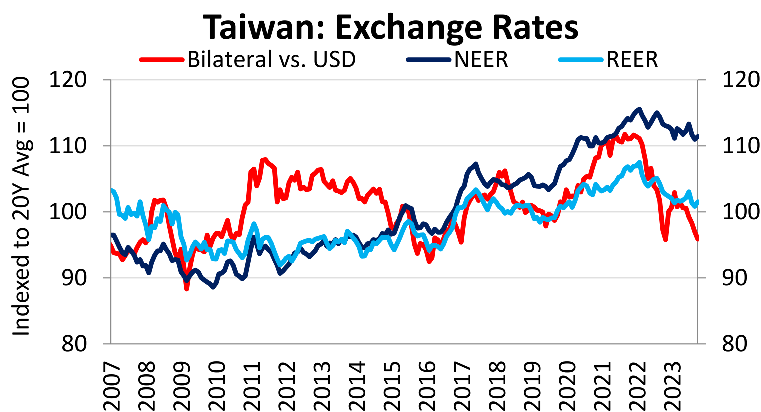


Sources: Taiwan central bank, Haver

Taiwan recorded a $48 billion goods and services trade surplus with the United States in the four quarters ending June 2023, down slightly from $49 billion a year prior. The trade surplus was primarily composed of goods trade and was driven by semiconductors and electronic goods exports. Taiwan's bilateral services trade with the United States was a

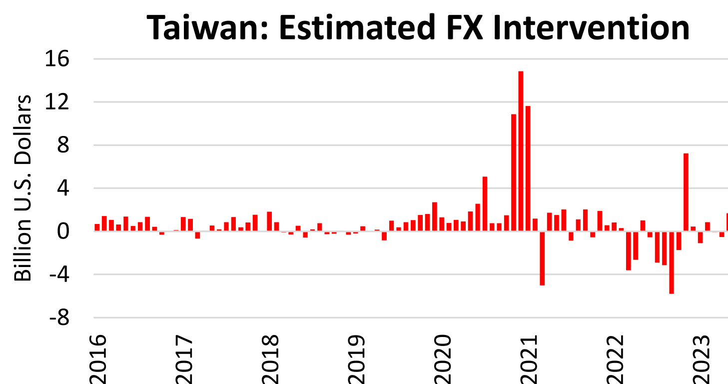
small $2 billion surplus through the four quarters ending in June 2023, approximately the same as the previous four quarters.

The New Taiwan Dollar (TWD) weakened over the four quarters through June 2023, depreciating 4.5% against the dollar and 1.8% on a real effective basis. The TWD continues to move broadly in line with other East Asian currencies, suggesting movements are largely driven by U.S. dollar dynamics and global macroeconomic trends. The decline in Taiwan's electronics exports and increased energy prices reduced Taiwan's foreign exchange proceeds, reducing TWD demand and likely contributing to the TWD's depreciation.



Sources: FRB, Bank for International Settlements

The stated policy of the central bank is to maintain a "managed float" exchange rate, in principle determined by market forces but with flexibility to maintain an orderly foreign exchange market. The central bank publicly disclosed $5.6 billion (0.8% of GDP) in net foreign exchange sales over the four quarters through June 2023, with $4.8 billion in sales in the second half of 2022 and $0.9 billion in sales occurring in the first half of 2023. The intervention aimed to offset the downward pressure on the TWD, slowing the depreciation that was taking place. Treasury estimates that the majority of these sales occurred in the third quarter of 2022 as the U.S. dollar strengthened. Foreign exchange sales were partially offset by purchases in November and December, potentially meant to relieve appreciation pressures as the U.S. dollar began to reverse course and purchases of long-term debt securities by other financial corporations declined. Treasury estimates foreign exchange intervention was limited in the first half of 2023, consistent with muted currency movements. Taiwan publishes its data on foreign exchange intervention on a semi-annual basis, with a three-month lag.



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

Taiwanese authorities should deploy a careful mix of policies that better insulate the economy from external shocks and address structural issues to reduce external sector imbalances. For example, the authorities should explore mechanisms to diversify energy imports, further develop energy storage capacities, and promote renewable energy

projects and technologies to reach Taiwan's 2050 net-zero carbon emissions target and to improve Taiwan's resilience to future external price shocks. Authorities should also closely monitor non-bank financial sector risks, including foreign exchange risks. Foreign exchange intervention should be limited and allow currency movements in line with economic fundamentals.

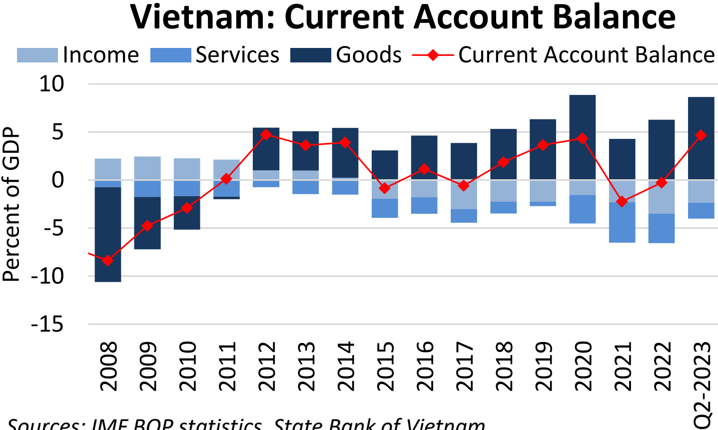
Vietnam

The Vietnamese economy has decelerated substantially in 2023 amid falling global demand. Real GDP growth weakened to 3.7% year-on-year in the first half of 2023, down from 9.5% year-on-year in the second half of 2022, led by a slowdown in the export-oriented manufacturing sector that has weighed on domestic consumption and investment. Goods exports amounted to $259.7 billion during the first nine months of the year, down 8% from the same period last year. The IMF forecasts 4.7% annual growth in 2023, significantly below the 8.0% growth achieved last year.

As growth has decelerated, the authorities have responded with additional fiscal support. The government is projected to record a 1.3% of GDP fiscal deficit in 2023, following the 0.3% of GDP surplus in 2022, on higher public sector wages and investment as well as tax cuts and deferrals. The IMF projects public debt will remain around 34% of GDP this year.

The State Bank of Vietnam (SBV) cut its benchmark interest rate by 150 basis points this spring to support economic activity as inflation dramatically slowed. After peaking at 4.9% year-on-year in January, headline inflation came down to 2% year-on-year in June, driven by lower fuel prices and moderating food costs. Prices have since picked up somewhat. Core inflation has continued to steadily decline since peaking at a record high 5.2% year-on-year in January and was 3.8% year-on-year in September.

Vietnam's current account balance stood at 4.7% of GDP over the four quarters through June 2023. The current account has swung back into substantial surplus, after prolonged deficits due to COVID-related production constraints and elevated commodity prices. While exports have fallen, the goods trade balance has widened on a sharper decline in imports as factories have adjusted to reduced orders from overseas. The current account surplus has also been supported by a recovery in tourism, increased remittances, and reduced corporate profit repatriation.

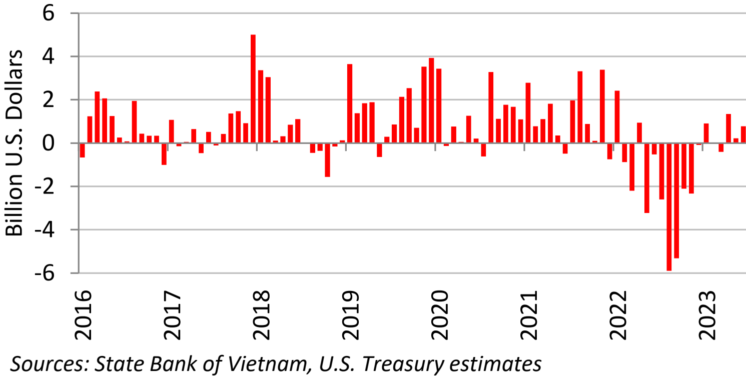


Sources: IMF BOP statistics, State Bank of Vietnam

Vietnam's bilateral trade surplus with the United States has expanded dramatically over the past five years, primarily driven by growth in goods trade, though this growth has

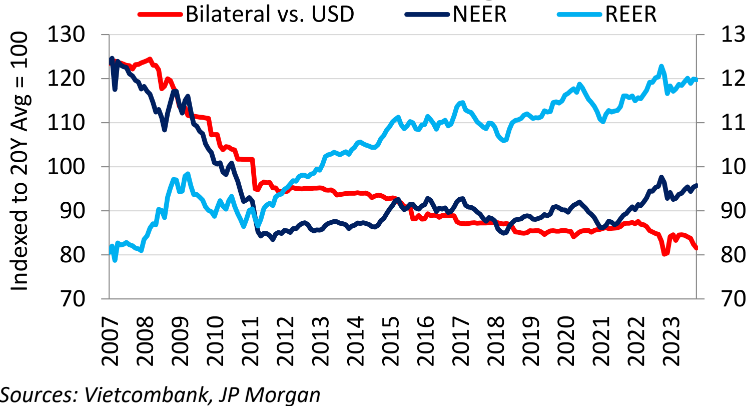
flattened off. The bilateral goods and services surplus was $105 billion over the four quarters through June 2023. Over the same period, the bilateral goods trade surplus was $106.3 billion, marginally below the level from the previous four quarters. Vietnam continues to have the third largest goods surplus with the United States. Electronics and machinery have helped drive Vietnam's recent export growth to the United States, as work-from-home practices and social distancing shifted external demand towards increased durable goods consumption, especially more advanced goods. Vietnam has modest bilateral services trade with the United States and has long run a small bilateral services trade deficit. In the four quarters through June 2023, that services deficit was $1.6 billion.

Vietnam does not publish data on its foreign exchange intervention. The authorities have conveyed credibly to Treasury that net sales of foreign exchange in the four quarters through June 2023 were 1.45% of GDP. That figure is equivalent to about $6 billion. Treasury assesses that Vietnam engaged in significant net sales of foreign exchange in 2022 amid significant depreciation pressure resulting from Russia's war against Ukraine, elevated commodity prices, and expectations for policy tightening by the Federal Reserve. Vietnam has reaccumulated some of these reserves in the first half of 2023, and foreign exchange reserves stood at $89 billion as of June 2023. Reserves remain below the lower range the IMF considers adequate based on its reserve adequacy metric for fixed exchange rate regimes, but broadly adequate if assessed on the basis of the IMF's reserve adequacy metric for floating exchange rate regimes.



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

Since January 2016, the SBV's exchange rate policy has been to allow the dong to float within a fixed trading band against the U.S. dollar relative to the central reference rate. The central reference rate is reset daily based on the movements of a basket of currencies, among other factors. The dong spot rate has depreciated modestly against the U.S. dollar in 2023, with the dong down 3.1% from the beginning of 2023 through the end of September. Meanwhile, the dong has strengthened against many other currencies in the region, and has appreciated 1.7% and 1.2% on a



Sources: Vietcombank, JP Morgan

nominal effective basis and real effective basis, respectively, in 2023. In its most recent Article IV consultation, the IMF welcomed Vietnam's steps towards increased exchange rate flexibility and encouraged more efforts in this direction.

Pursuant to the 2015 Act, Treasury conducted enhanced analysis of Vietnam in its December 2020, April 2021, and December 2021 FX Reports. In early 2021, Treasury commenced enhanced bilateral engagement with Vietnam in accordance with the 2015 Act.[18] As a result of discussions through the enhanced engagement process, Treasury and the SBV reached agreement in July 2021 to address Treasury's concerns about Vietnam's currency practices. Treasury remains satisfied with the progress made by Vietnam and will continue to engage closely with the SBV on currency issues.

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

Section 2: Intensified Evaluation of Major Trading Partners

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

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

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

The 2015 Act requires the Secretary of the Treasury to provide semiannual reports on the macroeconomic and foreign exchange rate policies of the major trading partners of the United States. Section 701 of the 2015 Act requires that Treasury undertake an enhanced analysis of macroeconomic and exchange rate policies for each major trading partner "that has— (1) a significant bilateral trade surplus with the United States; (2) a material current account surplus; and (3) engaged in persistent one-sided intervention in the foreign exchange market." Additionally, the 2015 Act requires the President, through the Secretary of the Treasury, to "commence enhanced bilateral engagement with each country for which an enhanced analysis" is included in the report. The Act also provides for the possible imposition of penalties if, on or after one year of the commencement of enhanced bilateral engagement, the Secretary determines that a country "has failed to adopt appropriate policies to correct the undervaluation and surpluses" that triggered the enhanced analysis and enhanced bilateral engagement.

Key Criteria

Pursuant to Section 701 of the 2015 Act, this section of the Report seeks to identify any major trading partner of the United States that has: (1) a significant bilateral trade surplus with the United States, (2) a material current account surplus, and (3) engaged in persistent one-sided intervention in the foreign exchange market. Required data for the period of review (the four quarters through June 2023, unless otherwise noted) are provided in Table 1 (p. 18) and Table 2 (p. 40).

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

whose bilateral goods and services surplus with the United States in the four quarters through June 2023 exceeded $15 billion.

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

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

Column 3 in Table 2 provides the bilateral goods and services trade balances for the United States' 20 largest trading partners for the four quarters through June 2023.[19] China has the largest trade surplus with the United States by far, after which the sizes of the bilateral trade surpluses decline notably. Treasury assesses that economies with a bilateral goods and services surplus of at least $15 billion have a "significant" surplus. Highlighted in red in column 3 are the 13 major trading partners that have a bilateral surplus that met this threshold for the four quarters through June 2023. Table 3 provides additional contextual information on total and bilateral trade, including individual goods and services trade balances, with these trading partners. Because the Report now incorporates services trade, Table 3, which provides disaggregated goods and services trade data, will be essential for comparison with past Reports that focused on goods trade.

Criterion (2) – Material current account surplus:

Treasury assesses current account surpluses of at least 3% of GDP or a surplus for which Treasury estimates there is a substantial current account "gap" to be "material" for the purposes of enhanced analysis. Highlighted in red in column 2a of Table 2 are the eight economies that met these thresholds over the four quarters through June 2023. No economy that did not already meet the 3% current account surplus threshold had a substantial current account gap.[20] Column 2b shows the change in the current account surplus as a share of GDP over the last three years, although this is not a criterion for enhanced analysis.

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

Treasury assesses net purchases of foreign currency, conducted repeatedly, in at least 8 out of 12 months, totaling at least 2% of an economy's GDP, to be persistent, one-sided intervention.[21] Columns 1a and 1c in Table 2 provide Treasury's assessment of this

[19] Although this Report does not treat the euro area itself as a major trading partner for the purposes of the 2015 Act—this Report assesses euro area countries individually—data for the euro area are presented in Table 2 and elsewhere in this Report both for comparative and contextual purposes, and because policies of the ECB, which holds responsibility for monetary policy for the euro area, will be assessed as the monetary authority of individual euro area countries.
[20] See Box 2 in the December 2021 Report on Macroeconomic and Exchange Rate Policies of the United States' Major Trading Partners for a summary of how Treasury estimates current account gaps.
[21] Notably, this quantitative threshold is sufficient to meet the criterion. Other patterns of intervention, with lesser amounts or less frequent interventions, might also meet the criterion depending on the circumstances of the intervention.

criterion.[22] In economies where foreign exchange interventions are not published, Treasury uses estimates of net purchases of foreign currency as a proxy for intervention.

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

Table 2. Major Foreign Trading Partners Evaluation Criteria

	FX Intervention			Current Account			Bilateral Trade
	Net Purchases (% of GDP, Trailing 4Q) (1a)	Net Purchases (USD Bil., Trailing 4Q) (1b)	Net Purchases 8 of 12 Months† (1c)	Balance (% of GDP, Trailing 4Q) (2a)	3 Year Change in Balance (% of GDP) (2b)	Balance (USD Bil., Trailing 4Q) (2c)	Goods and Services Surplus with United States (USD Bil., Trailing 4Q) (3)
Canada	0.0	0	No	-1.0	1.1	-21	**39**
Mexico	0.0	0	No	-1.1	-0.5	-18	**145**
China	0.4 — 0.6 *	66 — 113	No	2.2	1.5	389	**294**
Germany	0.0	0	No	**5.1**	-2.1	212	**85**
United Kingdom	0.0	0	No	-1.9	-0.4	-58	-21
Japan	-1.5	-62	No	2.1	-0.7	89	**65**
Korea	-1.8	-30	No	0.5	-3.0	8	**38**
Ireland	0.0	0	No	**10.5**	32.8	57	3
India	-0.4	-15	No	-1.7	-2.1	-58	**47**
Switzerland	-12.9	-109	No	**9.8**	5.4	83	-4
Netherlands	0.0	0	No	**9.6**	3.3	100	-58
Taiwan	-0.8	-6	No	**11.8**	0.6	87	**48**
France	0.0	0	No	-1.9	-1.1	-54	**17**
Vietnam	-1.5 **	-6	No	**4.7**	0.3	19	**105**
Singapore	**5.7**	27	No ***	**18.3**	1.7	86	-33
Italy	0.0	0	No	-1.1	-4.3	-23	**46**
Brazil	0.0	0	No	-2.6	0.7	-53	-28
Australia	-0.1	-2	No	1.2	-0.2	20	-29
Thailand	-1.2 **	-6	No	-1.4	-8.1	-7	**42**
Belgium	0.0	0	No	-1.7	-3.1	-10	-14
Malaysia	-5.8 **	-23	No	**3.3**	0.9	13	**31**
Memo: Euro Area	0.0	0	No	0.2	-1.4	34	**106**

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

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

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

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

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

*** Authorities have conveyed bilaterally to Treasury the peristence of net FX purchases during the four quarters ending June 2023, but public data on intervention are not clear on timing.

Table 3. Major Foreign Trading Partners - Expanded Trade Data

	USD Bil., Trailing 4Q						% of GDP, Trailing 4Q					
	Total Trade			Trade Surplus with United States			Total Trade			Trade Surplus with United States		
	Goods and Services (1a)	Goods (1b)	Services (1c)	Goods and Services (2a)	Goods (2b)	Services (2c)	Goods and Services (3a)	Goods (3b)	Services (3c)	Goods and Services (4a)	Goods (4b)	Services (4c)
Canada	905	782	123	39	68	-28	43.2	37.3	5.9	1.9	3.2	-1.4
Mexico	873	791	81	145	143	2	54.3	49.2	5.1	9.0	8.9	0.1
China	689	623	66	294	313	-19	3.9	3.5	0.4	1.7	1.8	-0.1
Germany	320	234	86	85	83	2	7.6	5.6	2.1	2.0	2.0	0.0
United Kingdom	308	144	163	-21	-14	-8	9.9	4.7	5.3	-0.7	-0.4	-0.2
Japan	301	223	78	65	68	-3	7.3	5.4	1.9	1.6	1.6	-0.1
Korea	222	183	38	38	47	-9	13.4	11.1	2.3	2.3	2.9	-0.5
Ireland	205	97	108	3	64	-61	37.9	17.9	20.0	0.5	11.9	-11.3
India	189	127	62	47	40	7	5.6	3.7	1.8	1.4	1.2	0.2
Switzerland	177	91	87	-4	19	-23	21.0	10.7	10.3	-0.5	2.3	-2.7
Netherlands	157	113	43	-58	-45	-13	14.9	10.8	4.1	-5.5	-4.3	-1.2
Taiwan	153	130	23	48	45	2	20.8	17.7	3.1	6.4	6.1	0.3
France	153	104	50	17	13	4	5.4	3.6	1.7	0.6	0.5	0.1
Vietnam	130	127	4	105	106	-2	31.4	30.4	0.9	25.2	25.6	-0.4
Singapore	127	80	47	-33	-9	-24	26.9	16.9	10.0	-6.9	-1.9	-5.0
Italy	120	98	22	46	44	2	5.8	4.7	1.1	2.3	2.2	0.1
Brazil	119	89	30	-28	-11	-17	5.9	4.4	1.5	-1.4	-0.5	-0.8
Australia	82	49	33	-29	-16	-13	4.8	2.9	1.9	-1.7	-0.9	-0.8
Thailand	79	73	5	42	42	-1	15.6	14.6	1.1	8.3	8.4	-0.1
Belgium	76	64	11	-14	-14	0	12.8	10.9	1.9	-2.3	-2.3	0.0
Malaysia	74	68	6	31	33	-1	18.4	16.9	1.5	7.7	8.1	-0.4
Memo: Euro Area	1209	832	377	106	175	-70	8.3	5.7	2.6	0.7	1.2	-0.5

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

Summary of Findings

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

Korea and Switzerland have been removed from the Monitoring List in this Report, having met only one out of three criteria for two consecutive Reports.

With respect to the economies covered in this Report:

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

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

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

As the global economy regains momentum, it is critical that key economies adopt policies that allow for a narrowing of excessive surpluses and deficits. Governments should bolster

domestic-led rather than externally supported growth. This would establish a firmer foundation for strong, balanced growth across the global economy.

Transparency of Foreign Exchange Policies and Practices

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

There have been no significant changes since Treasury published this table in the November 2022 Report. Treasury will continue to press its major trading partners to make significant strides in enhancing the transparency of currency practices.

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

	Foreign Exchange Reserves Data			Intervention			
	Headline Reserves: Frequency /Lag	Derivative Position in IRFCL#	Currency Composition	Publish a Stated Objective	Publish Intervention	Frequency	Lag
USA	Weekly/1 day	Yes	Public	Yes	Yes	As it happens*	None
ECB	Monthly/ 2 weeks	Yes	Public[23]	No	Yes	As it happens*	None
UK	Monthly/ 3-7 days	Yes	COFER[24]	Yes	Yes	As it happens*	None
Japan	Monthly/ 1 week	Yes	COFER	Yes	Yes	Monthly	2 days
Canada	Monthly/ 1 week	Yes	Public	Yes	Yes	As it happens*	None
Switzerland	Monthly/ 1 week	Yes	Public	Yes	Yes	Quarterly	3 months
Australia	Monthly/ 1 week	Yes	Public	Yes	Yes	Annually[25]	4 months
Brazil	Daily/1 day	Yes	Public	Yes	Yes	Daily	5 days
Mexico	Weekly/4 days	Yes	Public	Yes	Yes	Monthly	6 days

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

[23] The ECB's template on international reserves and foreign currency liquidity reports the currency composition of the ECB's official reserve assets but only provides the US Dollar/Japanese Yen breakdown for SDR currency holdings.

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

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

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

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

[26] Treasury staff have questions about the consistency of China's reported derivatives position.
[27] Thailand discloses its foreign exchange intervention to Treasury with consent to publish in the FX Report.
[28] Malaysia discloses its foreign exchange intervention to Treasury with consent to publish in the FX Report.
[29] Vietnam discloses its foreign exchange intervention to Treasury with consent to publish in the FX Report.

Glossary of Key Terms in the Report

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

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

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

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

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

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

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

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

Trade Weighted Exchange Rate – See Nominal Effective Exchange Rate.