TREASURY FRAMEWORK FOR ASSESSING CURRENCY UNDERVALUATION
SUMMARY

This summary explains how Treasury uses its Global Exchange Rate Assessment Framework (GERAF) to evaluate currency valuations in the context of countervailing duty proceedings.

GERAF assesses exchange rate valuations on a real-trade-weighted basis for more than 50 major economies that account for more than 90% of global economic activity. GERAF's exchange rate valuations are derived from its estimates of the medium-term current account balances for all these economies that are consistent with economic fundamentals and appropriate policies. This approach is widely accepted and often employed in the economic literature on global external imbalances and has been employed in applied practices for assessing currency valuations. GERAF uses an econometric framework to assess historical statistical relationships between current accounts, cyclical factors, macroeconomic and structural fundamentals, and macroeconomic policies in a globally consistent manner. This approach can then translate findings of globally consistent current account misalignments into corresponding real effective exchange rate (REER) misalignments. These REER misalignments can then be translated into corresponding (and multilaterally consistent) bilateral exchange rate misalignments vis-à-vis the U.S. dollar.

GERAF's assessment provides a detailed framework for assessing, among other factors, the impact of specific government policies—including those that could be considered "government action on the exchange rate" in 19 CFR 351.528—on currency undervaluation. Moreover, GERAF can quantify the impact of a particular domestic policy on a given currency's valuation *as well as* the collective impact of all other countries' policies on that given currency's valuation. These features allow Treasury to make a granular assessment of the extent to which a country's government action on the exchange rate contributed, if at all, to REER undervaluation and nominal, bilateral undervaluation vis-à-vis the U.S. dollar.

Ultimately, GERAF allows Treasury to quantify the impact of government action on the exchange rate on:

- "the gap between the country's real effective exchange rate (REER) and the real effective exchange rate that achieves an external balance over the medium term that reflects appropriate policies (equilibrium REER)"; as well as

- the gap between the "nominal, bilateral United States dollar rate consistent with the equilibrium REER" and the "actual nominal, bilateral United States dollar rate" during the period under investigation.

Treasury would normally consider two key external policies to constitute "government action on the exchange rate," as these are generally used as primary policy tools for directly affecting exchange rates. Specifically, Treasury will use GERAF to assess the impact on currency valuation arising from:

i) intervention in foreign exchange markets; and

ii) controls on cross-border capital flows.

Treasury will employ GERAF to assess the extent to which currency valuations have been affected by the actual levels of foreign exchange intervention and capital controls, and how these levels compare to the desirable levels of foreign exchange intervention or capital controls for the economy in question. As necessary, Treasury may consider other policies or actions that may constitute "government action on the exchange rate" on a case-by-case basis. However, such actions may not be possible to incorporate into the GERAF model. Therefore, in assessing the impact of other possible government actions on the exchange rate, Treasury may rely on additional analysis beyond what is feasible using GERAF. For example, 19 CFR 351.528 states that in making assessments of government action on the exchange rate, consideration may be given to the "government's degree of transparency regarding actions that could alter the exchange rate."

For more technical details on the GERAF methodology, see https://home.treasury.gov/policy-issues/international/exchange-rate-analysis.