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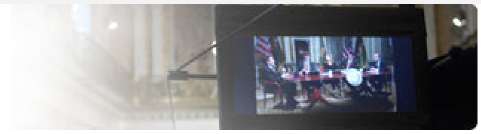

Treasury Releases Report on Foreign Exchange Policies of Major Trading Partners of the United States

4/29/2016

Implements Intensified Evaluation Provisions of the Trade Facilitation and Trade Enforcement Act of 2015, Establishes New "Monitoring List" for Enhanced Analysis

WASHINGTON – The U.S. Department of the Treasury today released a report on the Foreign Exchange Policies of Major Trading Partners of the United States. This updated report reviews developments in international economic and exchange rate policies and is submitted to Congress 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.

This Report is the first to implement the new provisions of the Trade Facilitation and Trade Enforcement Act of 2015, also known as the Customs Bill. The provisions of the Act provide the United States with valuable new reporting and monitoring tools, as well as new measures to address unfair currency practices. These new tools significantly enhance Treasury's ability to undertake a data-driven, objective analysis of a country's foreign exchange policies and their impact on bilateral trade with the United States and the broader multilateral trade position. The Report also describes the factors Treasury used to assess, under the Act, whether a country that is a major trading partner of the United States 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.

The Report highlights that, underpinned by robust job creation and resilient domestic demand, the U.S. economy grew at a solid pace of 2.4 percent in 2015. Outside of the United States, growth in other advanced economies was more disappointing and emerging market economies are facing significant headwinds from low commodity prices, weak trade growth, and internal cyclical dynamics. Most projections for 2016 point to the continuation of modest growth abroad.

Based on the new tools provided under the Act, this report also establishes a new "Monitoring List" which finds that five major trading partners of the United States – China, Japan, Korea, Taiwan, and Germany – met two of the three criteria for enhanced analysis. No economy currently meets all three criteria. Accordingly, Treasury is not undertaking enhanced analysis for any country.

The Report notes that China has both a significant bilateral trade surplus with the United States and a material current account surplus. China has intervened heavily in the foreign exchange markets in recent months to support the RMB, after strong downward market pressure triggered by a surprise change in China's foreign exchange policy last August. More clarity over exchange rate goals would help to stabilize the market.

The Report points to Japan's significant bilateral trade surplus with the United States and material current account surplus. Japan has not intervened in the foreign exchange market in over four years. Treasury assesses that current conditions in the dollar-yen foreign exchange market are orderly, and reiterates the importance of all countries adhering to their G-20 and G-7 commitments regarding exchange rate policies.

Korea has a significant bilateral trade surplus with the United States and a material current account surplus. Treasury estimates that during the second half of 2015 through March 2016, the Korean authorities intervened to resist depreciation of the won during periods of financial market turbulence, representing a shift from several years of asymmetric intervention to resist appreciation. The report urges Korea to limit its foreign exchange intervention only to circumstances of disorderly market conditions and to increase the transparency of its foreign exchange operations.

Taiwan has a material current account surplus and, per Treasury estimates, has engaged in persistent net foreign currency purchases through most of 2015. The Report calls on the authorities to limit foreign exchange interventions to the exceptional circumstances of disorderly market conditions, as well as increase the transparency of reserve holdings and foreign exchange market intervention.

Germany has both a significant bilateral trade surplus with the United States and a material current account surplus. Germany has the second largest current account surplus globally which represents substantial excess saving—more than 8 percent of GDP—that could, at least in part, be used to support German domestic demand.

Treasury will closely monitor and assess the economic trends and foreign exchange policies of the economies on the Monitoring List.

Based on the analysis in this report, the Treasury Department has also concluded that no major trading partner of the United States met the standard of manipulating the rate of exchange between its currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade as identified in Section 3004 of the Act during the period covered in the Report.

The Report underscores the essential importance of comprehensive adherence to all G-7, G-20 and International Monetary Fund exchange rate commitments. These include the G-7 commitments to orient fiscal and monetary policies towards domestic objectives using domestic instruments and to not target exchange rates, and that economies should use all available policy tools to boost demand. In February 2016 and again in April, the G-20 Finance Ministers and Central Bank Governors endorsed this view, stating that G-20 countries "will use all policy tools—monetary, fiscal and structural—individually and collectively" to foster confidence and preserve and strengthen the recovery.

The full report, along with past reports, is available *here*.

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