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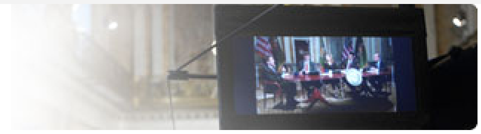

Treasury Releases Report on Foreign Exchange Policies of Major Trading Partners of The United States

10/14/2016

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 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 second to implement the intensified evaluation provisions of the Trade Facilitation and Trade Enforcement Act of 2015, also known as the Customs Bill. The 2015 Act requires that Treasury undertake an enhanced analysis of exchange rates and externally-oriented 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. The provisions of the 2015 Act provide the United States with valuable reporting and monitoring tools, as well as measures to address unfair currency practices.

The Report highlights that U.S. domestic demand remains solid, consumer sentiment is around pre-recession norms, and the period of inventory adjustment appears to be drawing to a close. The current outlook suggests that real GDP will expand at a solid pace through the end of 2016, led by healthy growth of consumer spending, further recovery in the housing sector, and a small boost from government spending. Growth is projected to pick up in 2017.

As noted in the April 2016 Report, Treasury has created a “Monitoring List” of major trading partners that merit attention based on an analysis of the three criteria. Specifically, an economy is added to the Monitoring List when it meets two of the three criteria. Once added, an economy will remain on the Monitoring List for at least two consecutive reports to help ensure that any improvements in performance versus the criteria are durable, not due to temporary one-off factors. Six major trading partners of the United States are included on the Monitoring List in this Report: China, Japan, Korea, Taiwan, Germany, and Switzerland. No economy currently meets all three criteria. Accordingly, Treasury is not undertaking enhanced analysis for any country.

With regard to the six economies on the Monitoring List:

China has a significant bilateral trade surplus with the United States. The country’s current account surplus fell to 2.4 percent of GDP for the last four quarters through June 2016, moving below the established threshold for that criterion. China’s intervention in foreign exchange markets has sought to prevent a rapid RMB depreciation that would have had negative consequences for the Chinese and global economies. More transparency over exchange rate management and goals, and strong adherence to G-20 commitments to refrain from competitive devaluation and not to target exchange rates for competitive purposes, will enhance the credibility of China’s exchange rate regime. It is important for China to continue market-oriented exchange rate reform, allowing for two-way flexibility of the RMB.

Japan has a significant bilateral trade surplus with the United States, and its current account surplus for the last four quarters through June 2016 reached the highest level since 2011. Japan has not intervened in the foreign exchange market in over four years, notwithstanding the appreciation of the yen in the last year. Treasury 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 current account surplus well above the material threshold. Treasury estimates that over the 12 months ending June 2016, the Korean authorities intervened to resist depreciation of the won, representing a shift from several years of asymmetric intervention to resist appreciation. Treasury has urged Korea to limit its foreign exchange intervention to only circumstances of disorderly market conditions. In addition, Treasury continues to encourage the Korean authorities to increase the transparency of their foreign exchange operations and to take further steps to support domestic demand, including more robust use of fiscal policy tools.

Taiwan has a current account surplus well above the material threshold and, per Treasury estimates, has engaged in persistent net foreign currency purchases in the 12 months through June 2016. Such interventions limit currency appreciation that would generally reduce Taiwan’s very large and growing current account surplus.

Germany has both a significant bilateral trade surplus with the United States and a current account surplus well above the material threshold. Germany’s current account surplus in dollars is the largest in the world. In Treasury’s view, Germany continues to have substantial fiscal policy space to provide additional support to demand. It could also take steps to encourage private investment, which would support demand.

Switzerland has been added to this Report as its trade with the United States is now sufficiently large to be included as a major trading partner. The country has a current account surplus well above the material threshold and, per Treasury estimates, has engaged in significant foreign currency purchases over the last year. However, Switzerland’s bilateral trade surplus with the United States was below the threshold, and thus Switzerland did not meet all three criteria for enhanced analysis. Moreover, Switzerland’s economic policy situation is distinctive given its relatively small stock of domestic assets, which limits monetary policy options to address persistent deflation in the context of significant safe haven capital inflows.

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, Treasury 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 during the period covered in the Report.

The Administration will continue to take effective actions to help ensure a level playing field for our workers and companies. The President has been clear that no economy should grow its exports based on a persistently undervalued exchange rate, and Treasury has been working aggressively to address exchange rate issues bilaterally, including through the U.S.-China Strategic and Economic Dialogue, and multilaterally, including through the G-7, G-20, and the International Monetary Fund (IMF).

As noted in the April Report, this strategy has produced results. The United States has secured important commitments in recent years regarding exchange rate policy from G-7 and G-20 members. In particular, the G-7 has committed to orient fiscal and monetary policies towards domestic objectives using domestic instruments and to not target exchange rates. The

G-20 has committed to refrain from competitive devaluations and not target exchange rates for competitive purposes. This year, G-20 members also agreed to consult closely on exchange markets.

The full report, along with past reports, will be available at https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx.

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