U.S. DEPARTMENT OF THE TREASURY

Press Center

Statement by Treasury Secretary Timothy Geithner on Release of Semi-Annual Report to Congress on International Economic and Exchange Rate Policies

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Washington, D.C.– Today I am sending to Congress the semi-annual Report to Congress on International Economic and Exchange Rate Policies. The Report is required under Sections 3004 and 3005 of the Omnibus Trade and Competitiveness Act of 1988. The period examined is the second half of 2008, but where appropriate information up to the end of March 2009 is included.

The Report focuses on the economic, financial and exchange rate impacts of the ongoing financial crisis on the U.S. economy, and more broadly the global economy. The Report also examines what policy actions twenty-one economies – that make up more than 80 percent of U.S. international trade – are taking to restore growth and achieve financial stability.

This Report was written recognizing that the global economic and financial backdrop has changed dramatically. The global economy is in recession; the first decline in global output in more than sixty years. Credit market conditions remain strained and financial market volatility continues to be elevated. Since the start of the recession there have been more than 5 million job losses in the United States. Job losses globally are much larger.

The financial shocks of the past 20 months have caused transformational changes to the environment in which the U.S. economy operates. In the aftermath of the emerging market crises of the late 1990s, many economies put in place sound policies and institutions, and attracted considerable capital inflow. Many also grew increasingly dependent on exports for their economic growth and job creation and accumulated large stockpiles of foreign exchange reserves, often as a form of self-insurance. Reserve accumulation by emerging market economies in the two years ending March 2008 averaged nearly $90 billion monthly. Often those reserves were placed in various U.S. dollar assets.

Today's environment is characterized by an unprecedented contraction in global trade and, for many economies, sharp declines in the dollar value of their exports. Virtually every advanced economy and many emerging markets are in recession. Deleveraging and heightened risk aversion by investors has led to a large unwinding of foreign risk positions and a reversal in capital flows to emerging markets. This caused many currencies to depreciate against the dollar in the second half of 2008, and further into 2009, and in many cases the currency declines were sharp. Reserve accumulation came to a halt in the second half of 2008 and reserve assets, in the aggregate, declined as reserves were sold to stem or slow the pace of currency decline.

Similarly, for many economies current account balances have been under pressure from falling exports, weak demand for imports and declining commodity prices. In the course of the adjustment the current account deficit of the United States has fallen sharply from a peak of 6.6 percent of GDP in late 2005 to 3.7 percent of GDP in late 2008.

Treasury makes its determination on currency today in the face of an exceptional global economic crisis in which many major trading partners have made recent progress on seeking to strengthen demand through economic stimulus and have committed to avoid competitive devaluation. In the current Report, Treasury did not find that any major trading partner had manipulated its exchange rate for the purposes of preventing effective balance of payments adjustment or to gain unfair competitive advantage. Many economies still maintain fixed exchange rate regimes, either to a single currency or a basket of currencies. Nevertheless, there has been considerable movement toward greater exchange rate flexibility. Several economies discussed in this Report, for example, have either moved away from exchange rate pegs to the U.S. dollar or have allowed for greater flexibility within a managed exchange rate regime. Restrictions on the flow of capital into and out of economies have also been relaxed. Notwithstanding the current economic crisis, further movement along these lines is likely. As noted, rather than purchasing foreign currency to prevent the appreciation of their currencies to support export growth, many emerging market economies have been using their foreign exchange reserves to temper the depreciation of their currencies.

With respect to China, which has been highlighted in the Report in recent years, our conclusion is based on the following factors. First, China has taken steps to enhance exchange rate flexibility. Chinese officials reaffirmed in January 2009 their commitment to greater flexibility and the need to allow the exchange rate to adapt to an equilibrium level. Second, the Chinese currency appreciated by 16.6

percent in real effective terms between the end of June 2008 and the end of February 2009. As the crisis intensified, the currency appreciated slightly against the dollar when most other emerging market and other currencies fell sharply against the dollar. Third, official statistics suggest the pace of China's foreign exchange reserve accumulation slowed in the fourth quarter of last year. Fourth, China has enacted a large fiscal stimulus package – second in size to that of the United States in the G-20 – which should help spur domestic demand growth and rebalance the Chinese economy. Even so, Treasury remains of the view that the renminbi is undervalued.

Given China's large and rapid increase in its current account surplus, these steps should be just a beginning to a series of policy steps to rebalance the Chinese economy so that economic growth is more dependent on domestic demand, particularly private consumption.

The crisis has led to increasingly close cooperation among the Leaders and policymakers of many of the world's largest economies. It also underscores the important role of the IMF in promoting effective surveillance over the international monetary system and more balanced global economic growth. Most economies covered in this Report have relaxed monetary policy and virtually all have enacted fiscal stimulus packages of varying sizes to support a restoration of growth. At the London G-20 Leaders' Summit, all G-20 economies committed to doing whatever is necessary to restore confidence, growth and jobs, committed to delivering the scale of sustained fiscal effort necessary to restore growth, and pledged to avoid competitive currency devaluations and promote the smooth functioning of the international monetary system.

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REPORTS

- FX Report Final for Web April 15, 2009
- Appendix 1 Final April 15, 2009
- Appendix 2 Final April 15, 2009