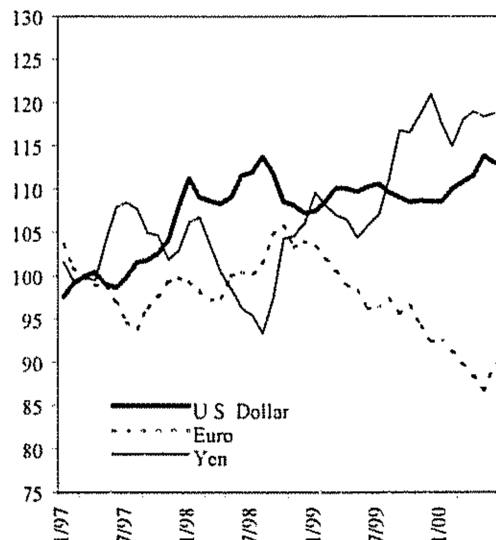
U.S. Department of the Treasury

Report to Congress on International Economic and Exchange Rate Policies
Covers the period January 1, 2000 to June 30, 2000

Real Value of the Dollar, Euro, and Yen
Trade-weighted currencies, 1997-2000 (3/97=100)
Source FRB (Broad Real Index), ECB (Broad Real CPI-weighted Euro), JP Morgan (Yen Broad Real)



This report reviews developments in U.S. international economic policy, including exchange rate policy, during the period from January 1, 2000 through June 30, 2000. This report is required under Section 3005 of the Omnibus Trade and Competitiveness Act of 1988 (the "Act").

EMBARGOED FOR RELEASE UNTIL:

4:30 p.m., January 18, 2000

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Summary

Major Findings

- **The U.S. economy continued its record-breaking expansion over the period January 1, 2000 to June 30, 2000.** The U.S. economy continued to experience a combination of strong, private investment-led output growth, low inflation, and low unemployment
- **Continued, high U.S. growth relative to foreign economies, and the higher price of oil, helped to spur a renewed acceleration of U.S. imports over the first half of 2000. Export growth picked up noticeably as foreign domestic demand increased, but import growth was even faster than export growth; as a result, the U.S. trade deficit worsened in the first half of 2000.**
- **Strong capital inflows continued in the first half of 2000, more than accommodating the current account deficit.** These inflows, together with rising total national saving, helped sustain a high level of domestic investment. National saving rose, despite a decline in the personal saving rate, as the federal budget surplus expanded. The strong capital inflows also implied, however, further deterioration in the U.S. net international investment position
- **Treasury determined that no major trading partners of the United States manipulated exchange rates under the terms of Section 3004 of the Act during the period under consideration. We continue to monitor the exchange rate practices of our major trading partners and encourage further steps towards more flexible exchange rate regimes where appropriate.**

Policy Priorities

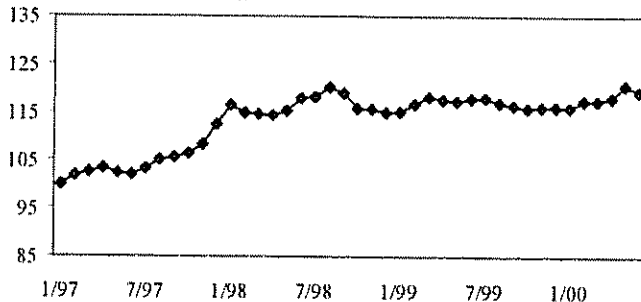
- **Maintain sound economic and financial policies in the United States, including our long-standing strong dollar policy.**
- **Encourage macroeconomic and structural policies supportive of sustained non-inflationary growth by major trading partners in order to reinforce the emerging pattern of more balanced and sustainable global growth.**
- **Encourage Japan to implement supportive macroeconomic policies and structural and financial sector reforms to foster a self-sustaining, domestic demand-led recovery.**
- **In Europe, encourage appropriate macroeconomic policies and an intensification of structural reforms with a view to raising private investment and increasing the region's productive potential.**
- **Continue efforts to open foreign markets to U.S. exports while maintaining the commitment to open markets that has been so important to our economic success.**
- **Continue to monitor the policies and practices of U.S. trading partners for evidence of currency manipulation as countries balance the goals of reserve accumulation to cover short-term liabilities and of allowing exchange rates to find their appropriate level.**

Economic Policy and Currency Market Developments in Key Economies

United States

During the period covered by this report, the Federal Reserve Board staff's nominal dollar index indicated that the nominal value of the dollar appreciated 3.3% on a trade-weighted basis, after a 2.0% depreciation in the second half of 1999. During the first half of 2000, the real effective dollar exchange rate appreciated 4.0%, after a 1.5% depreciation from the second half of 1999. Dollar movements have reflected the record-setting U.S. expansion and continuing growth differences between the United States and the European Union and Japan. During the period of this report, the Federal Reserve raised interest rates three times, by 25 bps in February and March and by 50 bps in May.

Currency Movements: United States
Federal Reserve Board Staff Nominal Broad Dollar Index, 1/97=100

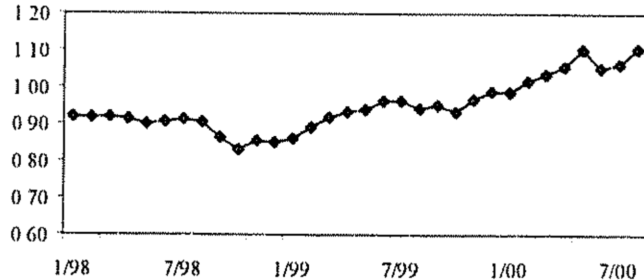


Euro-zone Countries

The euro continued its fall during the first half of 2000, declining 6.4% against the dollar and 2.4% on a real trade-weighted basis. The Euro-11's aggregate current account deficit deepened in the first half of 2000, moving from a deficit of €9.3 billion (not seasonally adjusted, nsa) in the last half of 1999 to €14.4 billion (nsa) in the first half of 2000. Increased oil prices may be responsible for much of this deterioration, along with stronger domestic demand growth in the Euro-zone, which has led to higher import demand.

Current estimates are that aggregate real GDP growth in the euro area will be around 3.5% in 2000, with a strong first half and some weakening in the second half of 2000. Unemployment is declining, especially in Spain and France, and some smaller countries are close to full employment. The harmonized unemployment rate for the region was down to 9.1% in June. The still-high unemployment rate suggests that a key issue for the area will be sustaining growth over the medium term and improving job-creating investment. Inflation remains low, with the yearly core inflation rate at 1.3% in June.

Currency Movements: Euro-zone
Euros per Dollar



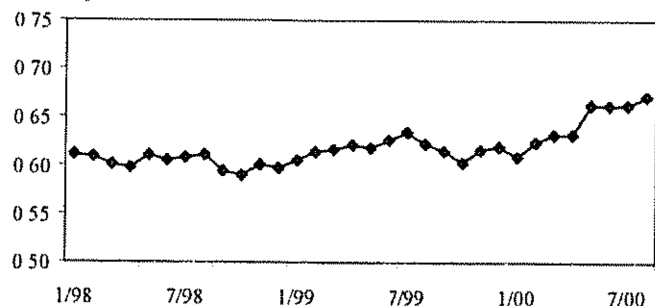
Note: European Currency Units prior to January 1, 1999

United Kingdom

In the first half of 2000, sterling declined on a real trade-weighted basis by 2.4% overall. During that time period, it fell by 6.4% against the dollar and by 1.6% against the euro, but it was still 18% above its 1996 average real trade-weighted rate and 30% above the 1996 average €/£ rate. The United Kingdom current account balance is customarily the combination of a goods trade deficit, and surpluses on both the services and investment income accounts. In the first half of 2000, the current account deficit totaled $10.3 billion or 1.4% of GDP, following a deficit of $17.8 billion or 1.2% of GDP for 1999.

GDP growth accelerated to 2.9% SAAR (seasonally adjusted annualized rate) in the first half of 2000, slightly above the 5-year average growth rate, and up from the 2.2% SAAR rate for 1999. Labor market conditions were generally tight, particularly for skilled workers, with unemployment at 3.9%, a 25-year low. During the time period, core inflation (retail prices excluding mortgage interest and indirect taxes) averaged a low 1.8%, well below the Bank of England's 2.5% target rate. However, the overall consumer price index rose 2.7%, due to rising energy prices. With low inflation but rising inflationary pressures, the BOE's Monetary Policy Committee increased its benchmark rate by 25 bps to 6% in February 2000. The Bank of England forecasts rising inflation for the second half of 2000 and in 2001, reaching the target rate at end-2001.

Currency Movements: United Kingdom
Pounds per Dollar



Japan

The yen depreciated modestly (3 0%) against the dollar and in real trade-weighted terms (1 7%) during the first six months of 2000, while rising (1 9%) against the euro With prices falling in Japan during the period, the yen fell in real terms against the dollar by 5 8% Japan's current account surplus grew from a seasonally adjusted ¥5 8 trillion ($54 billion, or 2 1% of GDP) in the second half of 1999 to ¥7 1 trillion ($67 billion, or 2 9% of GDP) in the first half of 2000 Net private capital outflows increased to ¥4 2 trillion, compared to ¥1 0 trillion in the second half of last year, as Japanese firms reduced their overseas borrowing while the pace slowed on both inward and outward portfolio investment flows Net foreign exchange reserve accumulation totaled ¥3 9 trillion ($37 billion) in the first six months of the year 2000, vs ¥4 7 trillion ($43 billion) in the last six months of 1999 Reported foreign exchange reserves rose $57 billion in the first six months of 2000, to $345 billion. The difference between the change in reported reserves and the BOP data on reserve accumulation reflects valuation and definitional differences

Japan's economic recovery appeared to gain strength in the first half of 2000, as real GDP grew at a 4 3% annual rate, and industrial production and other data also showed strong growth The key questions for Japan's near-term outlook are whether private consumption will rebound in the face of continued cost-cutting efforts by Japanese firms seeking to strengthen their financial positions, and whether private investment will achieve sustained improvement Over the longer-term, Japan will need continued progress in market-opening deregulation and other structural and financial market reforms if it is to raise Japan's potential growth rate A shrinking labor force due to Japan's rapidly aging population implies that strong productivity growth will be needed if Japan is to achieve stronger growth than the disappointing 1 6% annual GDP growth recorded during the 1990s

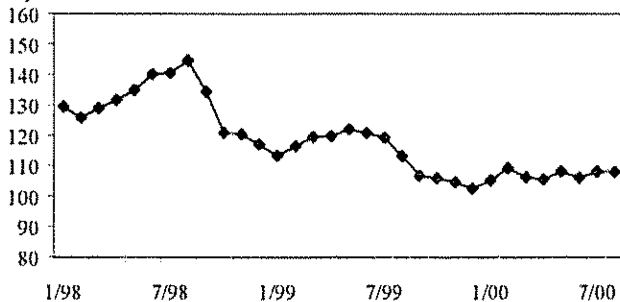
Canada

The Canadian dollar was essentially stable in real trade-weighted terms over the first half of 2000, while falling slightly (2 4%) against the U.S. dollar, reflecting both a strong Canadian currency (which rose 2 6% against the euro and 0 6% against the yen) and the rise of the U S dollar against other world currencies during the period Canada's current account balance – customarily a combination of sizeable trade surpluses and deficits on investment income – moved into a first half surplus aggregating $5 7 billion in the first half, after a $2 3 billion deficit for 1999 as a whole Exports to the rapidly growing U S. economy were particularly strong over the period, and Canada gained also from its net oil exporter status

Overall real GDP growth in Canada was at nearly a 5% annual rate during the period; in this strong upturn the unemployment rate averaged 6 7%, a 24-year low. Inflation remains low and within the 1-3% target of the Bank of Canada's (BOC) Consumer prices were up 2 5% in first half of 2000, mainly because of energy price increases The CPI excluding energy and food rose only 1.6% over the same period The BOC raised interest rates in three 25 basis point increments in the first half of 2000 These increases followed Federal Reserve increases and maintained a negative spread with the U S federal funds rate

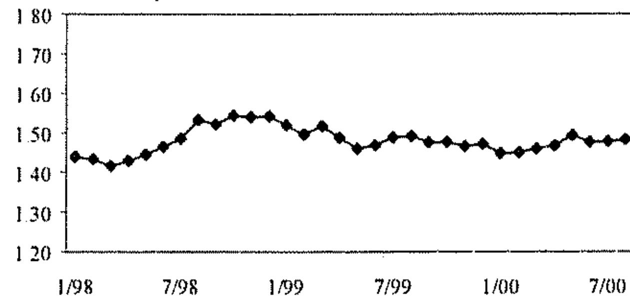
Currency Movements: Japan

Yen per Dollar



Currency Movements: Canada

Canadian Dollars per Dollar



Overview of Emerging Markets

Most emerging market economies experienced strong recovery in the first half of 2000 The recovery was supported by a number of reform efforts, either underway or completed, in many crisis-affected countries These reforms should help contribute to laying the basis for a stronger, more resilient system of capital flows to the emerging markets:

- The level of transparency and disclosure has improved substantially
- There has been a substantial move toward more resilient and more flexible exchange rate regimes
- The degree of some types of leverage in the official and private balance sheets of most post crisis economies has been reduced; in particular, the ratio of short term debt to reserves is now more healthy almost everywhere
- There is greater consensus behind eliminating perverse incentives that encourage certain types of leverage and behind advancing debt management practices that leave governments less vulnerable to liquidity, exchange rate and interest rate risk
- Insolvency regimes have begun to improve (at the national level), along with limits on the scope of implicit government guarantees to the financial system that created significant moral hazard concerns
- There have been important improvements in risk management practices in private financial institutions and in supervisory policy, both in borrowing countries and in countries that supply capital
- The repair, recapitalization, and restructuring of banking systems in the emerging markets are progressing, aided by much greater support from the international financial institutions and regulatory bodies than existed before

Looking forward, it will be imperative to continue pursuit of reforms In particular, governments need to:

- Find an appropriate balance between minimizing financing costs for the public sector and increasing liquidity risk by avoiding excessive reliance on short-term debt, "bunching" of external debt payments, and developing an efficient and liquid market for long-term domestic currency-denominated government securities
- Continue strengthening financial supervision, regulation, and disclosure;
- Ensure the aggressive disposal of bad assets to restore the basis for bank lending,
- Ensure that banks have sufficient, high-quality capital, including through the conditioned use of public funds where necessary and appropriate for systemic reasons;
- Privatize more quickly government shares of intervened financial institutions and develop deeper capital markets as an alternative to bank financing; and
- Strengthen bankruptcy regimes to force debtors to renegotiate and implement needed restructuring

Latin America. Overview of Selected Countries

Most of the region experienced economic recovery during the first half of 2000, as the global financial turbulence and high domestic interest rates of the previous year receded Argentina stood out somewhat due to the weakness of its recovery, with GDP rising only 0 8% y/y in 2000 H1, while Mexico stood out for its strong growth, with GDP rising 7 8% y/y in the first half External bond spreads, as measured by the Latin America EMBI+ index, widened for the region as a whole, as investors digested $29 billion in new Latin American bond issues in the first six months of 2000, compared to $24 billion in the first half of 1999

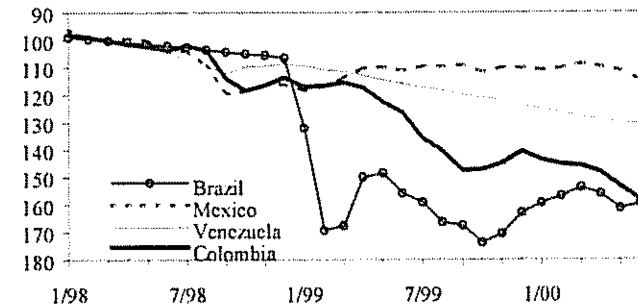
Real GDP Growth: Selected Latin American Countries
% change over a year ago

	Mexico	Brazil	Venezuela	Argentina
1Q/99	1 8%	0 4%	-9 3%	-3 0%
2Q/99	3 1%	-0 1%	-8 9%	-5 3%
3Q/99	4 3%	0 3%	-5 8%	-4 1%
4Q/99	5 2%	3 9%	-4 5%	-0 3%
1Q/00	7 9%	3 8%	0 3%	0 9%
2Q/00	7.6%	3.9%	2 6%	0.8%

Source Haver Database

Argentina. Economic recovery in Argentina proceeded more slowly than expected from last year's recession and deflation, with 0 8% y/y GDP growth in the first half of 2000 and the latest Consensus Forecast projecting growth of 1 9% and deflation of 0 2% in 2000 Slow growth contributed to weak public revenues, and the GOA responded by making additional fiscal cuts to meet fiscal targets Argentina was on-track with its fiscal deficit targets in the first half of 2000 Low growth helped foster an increase in the perception of risk by investors, which contributed to a 140 basis points widening of Argentina's EMBI+ bond spreads from end-1999 to June 30, 2000, vs a widening of only 80 basis points for the overall Latin American EMBI+ index Investor sentiment and appetite for Argentine debt is especially important for Argentina, given its need to issue large amounts of foreign debt each year to rollover amortizing debt Exports increased 13% y/y in H1/00 and imports grew only 2% y/y, which contributed to a narrowing of the current account deficit from $5 5 billion in H1/99 to an estimated $4 8 billion in H1/00 Confidence in the banking system seemed to remain strong, however, reflected in steady deposit growth (6% y/y as of end-June)

Currency Movements: Latin America
Domestic Currency Units per Dollar. 3/98=100 (Inverted Scale)



Currency Values: Selected Latin American Countries
Domestic currency units per Dollar, average monthly levels

	1/99	1/00	6/00	Jan-Jun Change
Brazil (Reais/$)	1 50	1 80	1 81	-0 2%
Mexico (Pesos/$)	10 13	9 49	9 8	-3 4%
Venezuela (Bolivares/$)	569 2	652 4	680 4	-4 1%
Ecuador (Sucres/$)	7,107.3	24,695 0	25,000 0	-1 2%
Colombia (Pesos/$)	1,569.4	1,929 0	2,124.5	-9 2%

Brazil. Economic recovery strengthened in Brazil during the reporting period, with GDP up 3 8% in the first half of 2000 compared to the same period of 1999. For 2000 as a whole, official and private forecasters estimated that growth would be 4%. The recovery took place in a favorable broader context: the real was relatively stable, depreciating only 0 6% through June 30; CPI inflation fell to 1 6% in the first half of the year (3 3% annualized) The Central Bank cut the overnight interest rate from 19% to 17 5% over the period, with six-month and one-year rates showing larger declines Brazil was on-track to meet its IMF fiscal targets with a large margin and to exceed its program floor for foreign exchange reserves.

The current account deficit narrowed slightly, to $11 2 billion in the first half of 2000, down from $12 2 billion in the same period of the previous year, and foreign direct investment of $12 3 billion more than financed that deficit Reflecting its progress in stabilizing its economy and restoring growth, Brazil completed the repayment of the $9 5 billion in extraordinary financial support it received from the BIS; repaid $9 billion of its $10 8 billion in IMF loans; and announced that did not intend to draw further resources from the IMF under its Standby program

Colombia. Despite Colombia's economic recovery and fiscal adjustment, investor sentiment toward Colombia weakened in the first six months of 2000, likely reflecting perceptions of a deteriorating internal security situation and, to a lesser degree, of discord between the Pastrana government and the Congress. That can be seen in the sharp widening of Colombia's EMBI+ spread, from 423 basis points at end-1999 to 722 basis points on June 30, 2000. Colombia grew 2.9% y/y in the first half of 2000, and analysts expect about 3% growth for the year, after the 4 5% GDP contraction in 1999 A core challenge for Colombia is to reduce the public sector fiscal deficit from last year's level of 5 5% of GDP Its IMF-backed adjustment plan calls for the deficit to fall to 3 6% of GDP in 2000 and Colombia was on-track with program fiscal targets in the first half of 2000 The current account deficit narrowed to $185 million in Q1/00, from $685 million in Q1/99, reflecting strong export growth Cumulative inflation in H1/00 was 7% y/y, and Colombia appeared on-track to meet its 10% inflation target for 2000

Ecuador. Ecuador's economic and political crisis deepened in early 2000, as the sucre lost 20% of its value against the dollar in the first week of the year, after shedding two-thirds of its value in 1999, and as political turmoil led to the resignation of President Mahuad, who was replaced by Vice President Gustavo Noboa. To help restore stability, Ecuador announced in January that it would eliminate the sucre and adopt the U.S. dollar as its national currency. In April, Ecuador agreed with the IMF on a significant reform program, including dollarization, privatization, labor reform, bank restructuring, and a reduction in the fiscal deficit from 7 2% of GDP in 1999 to 2.7% of GDP in 2000 Ecuador was broadly on-track to meet its IMF targets in the first half of the year.

Although the banking system remained weak, with non-performing loan ratios of close to 50%, banking system deposits rose modestly over the period, indicating some improvement in confidence. Freely disposable official foreign exchange reserves rose to $406 million by end-June, $250 million above the IMF program target, providing some cushion for the authorities to provide lender-of-last-resort facilities to the banking system. Consumer prices rose 65% in the first six months of the year, reflecting the large real depreciation that occurred in late 1999 and early 2000 However, monthly inflation showed a sharp downward trend on a month-over-month basis during the period. During the first half of 2000, the Government of Ecuador announced it would seek to restructure or reschedule its debt to official bilateral and private creditors, but it had not concluded such agreements by end-June.

Mexico. The Mexican economy grew 7 8% in the first half of 2000 compared to the same period in 1999, and the most recent *Consensus* survey of private forecasters projects growth for the entire year of 6.3%, up from 3.7% last year. Inflation was on a downward trend and is expected to be near 9% for the year, compared to the 10% official target and the 12 3% recorded in 1999. The peso was relatively stable, closing June 30 at 9 95/$, down 4 4% from December 31 of last year Mexico was on-track with its IMF program, including its fiscal deficit targets, during this period. The current account deficit widened slightly to $8 0 billion (2.9% of GDP) in the period, up from $6 5 billion (2.7% of GDP) in the first half of 1999 Foreign direct investment inflows of $6 7 billion covered 84% of that deficit. Net international reserves rose $2 2 billion, to $29 6 billion on June 30 Reflecting its strong economic performance and prospects, Moody's upgraded Mexico's long term foreign currency rating to an investment grade rating of Baa3

Emerging Asia

According to the *Consensus* survey of private forecasters, growth in Emerging Asia (outside of China) is expected to increase from 2.5% in 1999 to 7% in 2000. All countries in the region, posted positive growth in 1999, ranging from 0.5 % in Indonesia to as high as 10.5 % in South Korea. Growth was boosted by continued strong demand from the United States, strong global demand for high technology goods, and resurgent intra-regional trade. With export growth strong and imports still recovering from the sharp decline in domestic demand (primarily a collapse in investment) in 1997-98, all countries in the region recorded current account surpluses in 1999, though the rebalancing of growth toward domestic demand has led to stronger import growth and a further reduction of external surpluses in 2000.

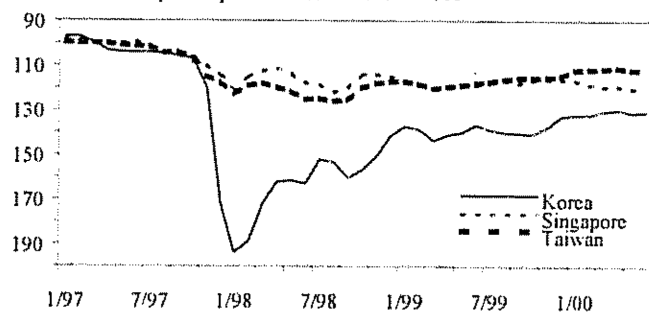
With the exception of China, Hong Kong, and Malaysia, most of the large countries in the region maintained managed floating exchange rate regimes. While most central banks intervened in the foreign exchange markets, they did so primarily to rebuild foreign exchange reserves, which were severely depleted during the crisis, rather than to affect the value of the exchange rate. This reserve accumulation, with the ratio of reserves as a percent of short-term debt increasing across the region in 1999, has allowed most countries to reduce significantly their vulnerability to external shocks. In most countries, reserves had reached a high enough level that only Indonesia and the Philippines remained in need of balance of payments support from international financial institutions.

Indonesian GDP growth in 1999 was the lowest in the region at 0.5%, but due to strong export growth so far, the 2000 Consensus forecast for real GDP growth has risen to 4%. Indonesia maintains a floating exchange rate regime. On several occasions during the reporting period, Indonesian monetary authorities intervened in the foreign exchange market and raised short-term interest rates to support the rupiah. Nevertheless, the rupiah depreciated 16% in real effective terms (and 21% against the dollar in nominal terms) over the reporting period, largely as a result of political uncertainty and doubts about the Indonesian government's willingness and capacity to follow through on its economic reform program. The weak rupiah helped boost Indonesian exports of non-oil merchandise and kept a lid on imports. Net oil exports also benefited from higher world oil prices. Investment remain subdued due to excess capacity and political uncertainty. As a result, the current account surplus in the first half of 2000 increased to 4% of GDP compared to 3.5 % in the first half of 1999. During the reporting period, net international reserves rose from 70% to 80% of short-term external debt.

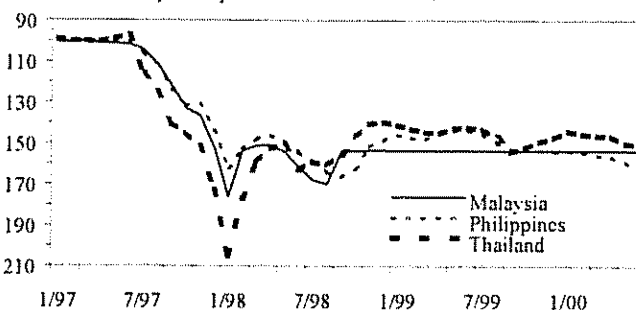
Thailand. GDP grew 4% in 1999 supported by accommodative monetary and fiscal policies. Due largely to stronger private domestic demand, the *Consensus* forecast is for 2000 real GDP growth to have risen to 5%. The current account surplus fell to 7% of GDP for the first half of 2000 from 9% of GDP in 1999 due to higher oil prices and an increase in imports of capital and consumer goods. Thailand maintains a floating exchange rate regime. During the reporting period, the Thai baht fell 2% against the dollar and in real effective terms. Net international reserves decreased by $3 billion over the period, but they increased relative to the stock of short-term debt – by 21 percentage points, to 168%.

Philippines. Real GDP grew 3.5 % in 1999. Due to strong, albeit falling, export growth, particularly in the electronics sector, and weakening foreign and domestic investor confidence, the *Consensus* forecast projects real GDP growth to remain relatively unchanged for 2000. The current account surplus for the first quarter of 2000 (first half data is not yet available) shrank to 7% of GDP, compared to 9% a year earlier, as imports grew, particularly for consumer and intermediate goods. The Philippines maintains a managed floating regime. On several occasions during the reporting period, the Philippine monetary authorities intervened in the foreign exchange market and raised short-term interest rates to support the peso. Nevertheless, the Philippine peso fell 5% against the dollar and 1% on a real effective basis, largely a result of the continued decline in investor confidence in the face of a deteriorating fiscal deficit, failure by the government to advance important structural reforms, concerns about governance, and increased violence and hostage taking activity in the southern island of Mindanao. Gross international reserves were roughly unchanged between the beginning and end of the reporting period at $15 billion and 109% of short-term debt.

Currency Movements: NIEs (ex. Hong Kong)
Domestic currency units per dollar, Mar. 1997 = 100



Currency Movements: Selected ASEAN Countries
Domestic currency units per dollar, Mar. 1997 = 100



Developments in other Economies

Russia. GDP rose 7 5% y/y in the first half of 2000, reflecting robust industrial output growth and a recovery in domestic demand Strong growth helped federal revenues collections to increase to 17% of GDP in the first half of 2000, with a primary surplus of 6% of GDP The current account surplus increased to 18% of GDP in the first half, from 11% of GDP in 1999, primarily due to higher energy prices Imports have not recovered significantly since the August 1998 crisis (they remained at roughly 60% of pre-crisis levels) despite increases in household income and some real appreciation of the ruble during 2000

By end-June, the ruble (in real terms) was still 30% below its pre-August 1998 level The Central Bank of Russia's foreign exchange reserves ($21 billion as of end-June) rose $8 5 billion from the start of the year and were at their highest level since August 1998 Accumulation of reserves is fueling growth of base money, which increased 23% in the first half of 2000 Increased money demand due to strong economic growth and remonetization of the economy partly reflects the money supply growth Windfall tax revenues currently held at the Central Bank of Russia (CBR) have also effectively sterilized some of the CBR's foreign reserve purchases

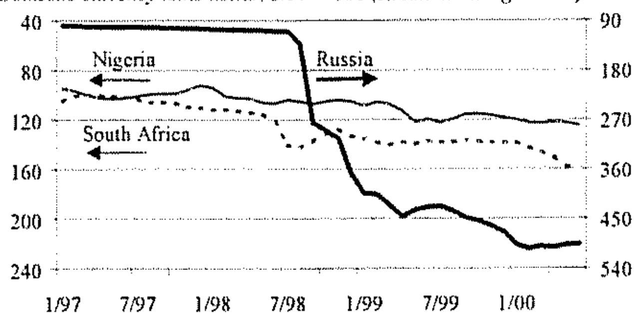
South Africa. GDP grew a weaker than expected 1 5% SAAR in the first half of 2000, as a result of massive floods, overcapacity in the mining sector, and uncertainty over the situation in Zimbabwe GDP is now predicted to increase only 2 7% in 2000, down from earlier expectations of 3% to 3 5% High oil and food prices and a depreciating rand caused the South Africa Reserve Bank's (SARB) targeted inflation measure to increase from 6 9% for 1999 to 9.2% for the first half of 2000 These shocks have largely been absorbed into the economy and the rate of inflation is expected to fall to below 8% by end-2000 As a result, the SARB has resisted tightening monetary policy Due to higher-than-expected revenues, the budget deficit for FY1999/2000 was lower than expected, at 2 6% of GDP This trend is continuing in FY 2000/2001 and the budget deficit is forecast to fall to 2% of GDP

An increase in merchandise exports and a rising price of gold caused the current account balance to go from -0 4% of GDP in 1999 to +0 1% of GDP for the first half of 2000 However, negative sentiment towards sub-Saharan Africa, as well as emerging markets in general, has caused capital flows to fall from +2 6% of GDP in 1999 to -0.3% of GDP in the first half of 2000 It has also led to a 6 6% depreciation in the rand trade-weighted exchange rate in the first half of 2000 and a 9 8% depreciation of the rand against the dollar over the same period The reversal of capital flows has made increasing foreign exchange reserves much more difficult Nevertheless, the SARB reduced its net open forward position (NOFP) from $13 billion at end 1999 to $10 1 billion in June 2000 and is working to eliminate the NOFP

Nigeria. Growth is projected to expand in 2000 to 3 4% from 1% in 1999 almost entirely on account of higher oil prices; oil accounts for roughly 95% of all exports and 80% of budgetary revenues Nigeria Bonny Light crude averaged $27 11 in the six months to June 30 as compared to $22.47 in the previous six months. As a result, the external current account balance showed a marked improvement from -11 0% of GDP in 1999 to a programmed 0 2% of GDP in 2000; this improvement differs sharply from the non-oil current account deficit projected at a negative 27 6% of GDP in 2000 In contrast to Nigeria's experience in past oil price cycles, the current increase in oil prices has not been reflected in an appreciation of the naira In fact, the naira depreciated moderately in the six-month period to June 30 partly as a result of the substantial liberalization of the foreign exchange regime in late 1999 The Central Bank of Nigeria demonstrated a willingness to allow the naira to depreciate but used government sales of treasury bills through open market operations to prevent a greater depreciation

Outside of oil prices, the other dominating economic development during Q1 and Q2 of 2000 was the inability to reach agreement on the budget due to outstanding differences between the executive and legislative branches of the government The National Assembly, in its first year of operation since the return to democracy, sought to benefit from current oil prices by passing a law providing for approving unsustainable spending levels in order to demonstrate a "democracy dividend" to the people of Nigeria As a result, approval of the IMF's one-year $1 billion precautionary program was delayed until after the end of the reporting period

Currency Movements in Other Emerging Markets
Domestic currency units/dollar, 3/97 = 100 (Russia is on right scale)

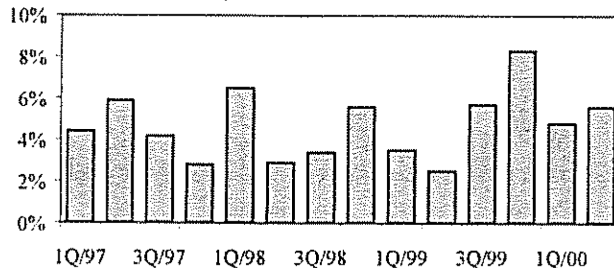


U.S. Economy

Overview of the U.S. Economy

The U.S. economy continued to exhibit strong growth and low inflation during the period covered by this report, and the United States is enjoying the longest period of uninterrupted growth in its history. U.S. GDP expanded 4.8% (SAAR) in the first quarter of 2000, and 5.6% (SAAR) in the second quarter, but recent evidence indicates that the economy is slowing. U.S. unemployment was at 30-year lows during the reporting period; the unemployment rate in June 2000 was 4.0%, down slightly from the end of the previous reporting period (4.1% in December 1999). The CPI inflation rate (year over year) reached 3.7% in June, up from 2.7% in December, largely due to increases in oil prices. The "core" rate of inflation (excluding food and energy) was lower, at 2.4% in June, but was up from 1.9% in December. The interest rate on the benchmark 10-year U.S. Treasury note peaked at 6.7% in January and then fell to 6.1% in June. While the personal saving rate has continued to fall, the growing federal budget surplus and strong private business saving has helped to lift total national saving.

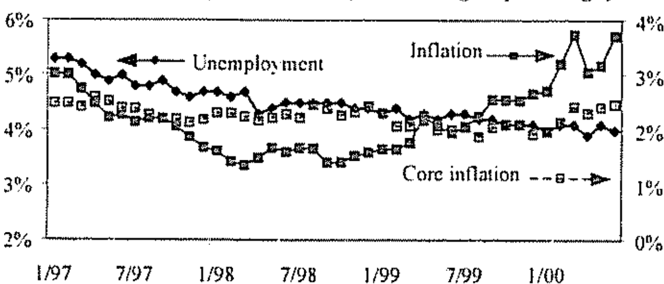
U.S. Real Gross Domestic Product
% change over previous quarter, SAAR



Source: Bureau of Economic Analysis (BEA)

The strong U.S. growth relative to that of its major trading partners and relatively high U.S. private sector investment gave rise to an increasing U.S. current account deficit. It is important that the rest of the world take steps to increase domestic-demand-led growth in order to sustain a more balanced global expansion, while the United States strives to increase its national saving.

U.S. Civilan Unemployment Rate and U.S. Inflation Rate
Unemployment (left); Inflation (year-on-year % change in prices, right)

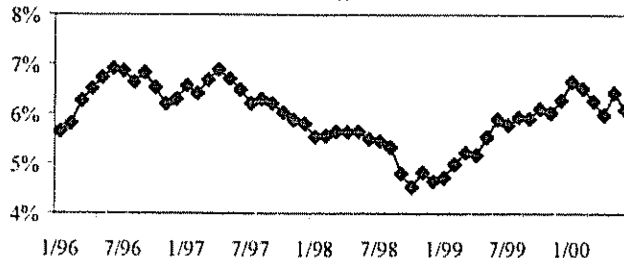


Source: Bureau of Labor Statistics

IMF Article IV Consultation

The conduct of economic policy by the U.S. Administration and the Federal Reserve was highly commended by the IMF staff at the conclusion of the IMF staff's 2000 consultation with the United States on July 12, 2000 (in accordance with Article IV of the IMF's Articles of Agreement). The IMF staff said that "[s]ound monetary and fiscal policies have contributed to making the current U.S. economic expansion the longest on record." The IMF staff also notes the importance of the U.S. expansion to the global economy: "The strength of the U.S. economic expansion played a critical role in supporting world economic growth during the period of turbulence in 1997-98."

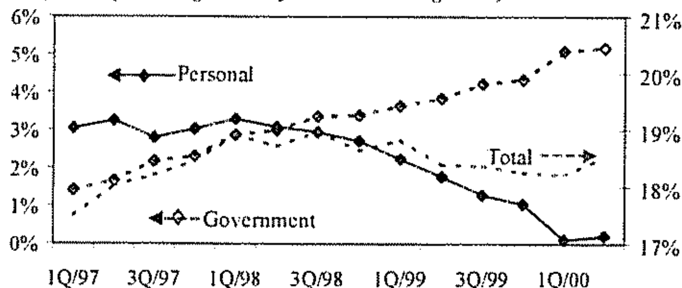
U.S. Interest Rates
% (10 year Treasury, constant maturity)



Source: U.S. Treasury

However, the IMF staff also took the view that the growth in U.S. domestic demand in excess of supply and the perceived attractiveness of the investment environment have been reflected in a large and growing current account deficit. In the view of the IMF staff, appropriate policies in major U.S. trading partners to promote sustained expansion of their economies as well as U.S. policies aimed at sustaining noninflationary growth are necessary to produce a smooth rebalancing of global demand. Consistent with a broad effort by the United States to enhance the transparency of the IMF, the United States is part of a pilot project established by the IMF's Executive Board to allow countries to release to the public the staff reports on their Article IV reviews. The staff report on the U.S. economy was released on July 28, 2000 on the IMF's web site.

U.S. National Saving and Selected Components
% of GDP (personal/gov't on left axis, total on right axis)



Source: BEA

Trade Flows

The disparity in growth between the U.S. and our major trading partners continued in the first half of 2000. This growth differential, along with the recent increases in the price of oil, helped to drive significant expansions of both the trade and current account deficits. The increase in the trade deficit occurred despite strong export growth in the first half of 2000 The U.S. economic expansion actually accelerated in the last two quarters of 1999 and continued into 2000 at a strong pace By the second quarter of 2000, real U S GDP was 6.1% above the previous year's second quarter level. This growth was considerably faster than most other economies

The current account deficit rose from $305 billion SAAR in the 4th quarter of 1999 to $424 billion SAAR in the second quarter 2000 Over the same period, the goods and services deficit increased from $305 billion SAAR to $357 billion SAAR

U S. exports of goods and services increased 12.2% in the first half of 2000 over the same period in 1999. While export growth has recently been strong, exports still have not fully recovered from the global financial crises of recent years Average monthly exports of goods during the first half of 2000 to the crisis-Asian economies (Indonesia, Philippines, South Korea, and Thailand) and other Asian emerging markets (Singapore, Hong Kong, Taiwan, and Malaysia) totaled $8 9 billion This level of exports is still below the peak of $9 4 billion for the monthly average of the six months to August 1997 Goods exports to South America and the EU remain weak, growing only 3 2% and 4 9% (respectively) from the first half of 2000 over the same period in 1999 In contrast, goods exports to the NAFTA countries, Japan, and China showed more impressive gains, growing 11 9%, 11 5%, and 14.4% (respectively) over the same period

Strong economic growth in the United States generated robust demand for imports Furthermore, high oil prices have increased the nominal value of U.S. imports dramatically, with petroleum import prices at the highest level since November 1990 (during the Gulf War) Indeed, the rise in the price of oil has helped to increase the monthly value of petroleum imports by 49 3% ($3 5 billion) since the beginning of 2000; in contrast, the value of all other goods imports increased only 7 8% ($6 7 billion).

U.S. Trade in Goods and Services
Billions of U.S. $ (BOP basis SAAR)

	Exports		Imports	
	Level	Change	Level	Change
1994	703 4	9 4%	800 5	12 5%
1995	795 1	13 0%	891 0	11 3%
1996	852 1	7 2%	954 2	7 1%
1997	936 9	10 0%	1042 9	9 3%
1998	933 0	-0 4%	1099 9	5 5%
1999	956 2	2 5%	1221.2	11 0%
1H/2000*	1042.2	12.2%	1391.0	19.8%

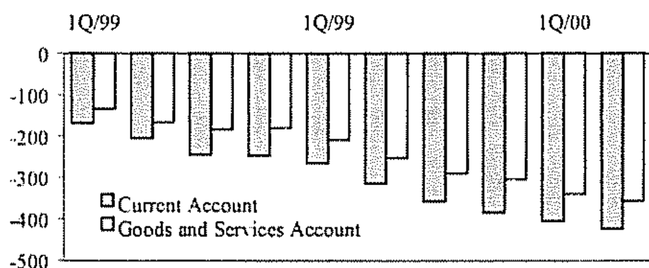
*at SAAR, increase over 1H 99 , source BEA, Bureau of the Census

U.S. Bilateral Merchandise Trade Balances
Billions of U.S. $ (nsa. Census basis)

	China	Japan	Canada	Mexico	SA	EU
1Q/98	-11 5	-15 3	-3 0	-2 7	3 4	-2.1
2Q/98	-13 6	-15 6	-3 3	-4 5	3 5	-7 0
3Q/98	-17 3	-15 5	-5 3	-4 4	2 8	-8 6
4Q/98	-14 5	-17 6	-5 3	-4 2	3 5	-9 7
1Q/99	-13 6	-16 3	-6.8	-5 7	1 1	-5 6
2Q/99	-15 7	-17 2	-6 8	-6 5	-0 3	-10 6
3Q/99	-20 1	-19 4	-9 4	-6 3	-2.5	-13 8
4Q/99	-19.3	-20 6	-9 1	-4 3	-1 6	-13.4
1Q/00	-16 7	-19 1	-10 8	-5 7	-4 1	-13 1
2Q/00	-19.4	-20.6	-11.5	-6.2	-3.4	-13.4

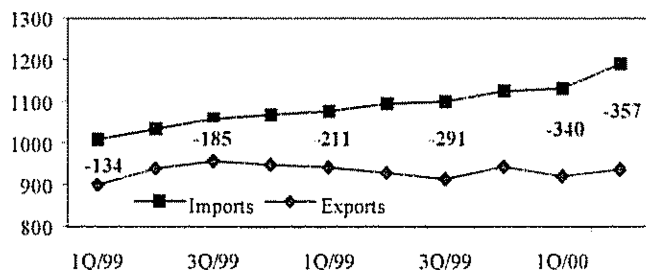
Source Bureau of Economic Analysis, Bureau of the Census
Quarterly non-seasonally adjusted (nsa) data can be volatile

U.S. External Balances
Billions of U.S. $, SAAR (Balance of Payments, BOP, Basis)



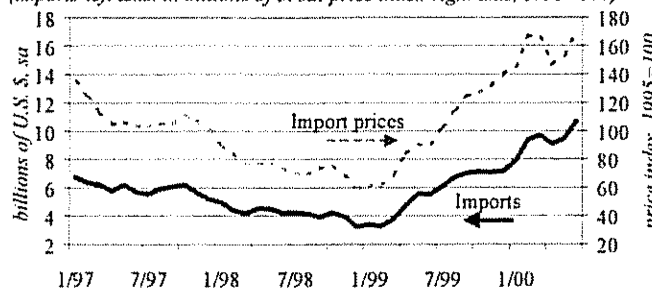
Source Bureau of Economic Analysis, Bureau of the Census

U.S. Trade in Goods and Services
Billion of U.S. $, SAAR (BOP Basis, trade balances in bold)



Source Bureau of Economic Analysis, Bureau of the Census

Trends in Petroleum Imports and Import Prices
(imports-left axis, in billions of $, sa, price index-right axis, 1995=100)



Source Census Department (imports) and BLS (price index)

Capital Flows

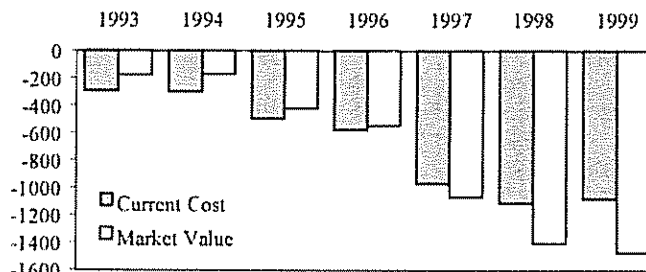
Capital inflows continued to increase during the period covered by this report, supporting high levels of business investment in the United States. Capital inflows help maintain lower interest rates than would likely be possible otherwise Increased capital flows and trade deficits, however, increase the potential vulnerability of the United States to changes in global financial markets' perceptions of investment opportunities in the United States.

As global demand patterns revert toward historical trends, the United States will likely experience a moderation in the pace of capital inflows and a related adjustment in the current account. It is important that sound domestic policies be in place in both the United States and our major trading partners to help prevent a disruptive adjustment Policies in our major trading partners that encourage domestic demand growth and investment, and policies in the United States that support national saving, such as the growing federal budget surplus, are important to contain the rise in imbalances and facilitate their eventual reduction.

The stock of U.S. assets owned by foreigners is increasing. The value of foreign investment in the United States exceeds the value of U.S. investments in other countries. The U S net international investment position (NIIP) at year end 1999 was a negative $1,083 billion with direct investment valued at the current cost of replacing plant, equipment and other tangible assets, compared to a negative $1,112 billion at year end 1998 Valuation changes offset the effects of financial capital flows that would have made the investment position more deeply negative, all else constant With direct investment valued at the current stock market value of owner's equity, the U S NIIP at year end 1999 and 1998 was a negative $1,474 billion and negative $1,408 billion, respectively The deeper negative position on this basis primarily reflects the continued large increases in U S equity prices that raised the value of foreign holdings here A growing negative U S NIIP implies that a larger amount of the return generated by assets in the United States will be payable to foreigners in the future

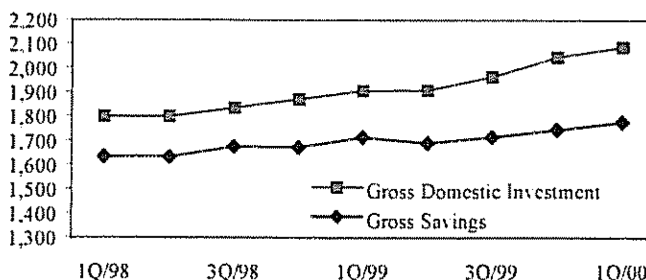
It is vital that the current high level of business investment be employed productively to support both future repayments to foreign investors and increased standards of living in the United States In that regard, it is interesting to note the high level of profits enjoyed by U S businesses has been facilitated by accelerating productivity growth. In fact, labor productivity growth (in the nonfarm business economy) has averaged 2 8% since the end of 1995 and 4 0% since the end of 1998.

U.S. Net International Investment Position
Billions of U.S. $



Source Bureau of Economic Analysis

U.S. National Savings and Investment
Billions of U S. $, SAAR



Source: Bureau of Economic Analysis

Capital Flows in the United States
Billions of U.S. $, s.a., details might not equal totals due to rounding

	1Q/98	2Q/98	3Q/98	4Q/98	1Q/99	2Q/99	3Q/99	4Q/99	1Q/00	2Q/00
Net Capital Flows	**18**	**28**	**32**	**76**	**77**	**100**	**70**	**64**	**58**	**148**
Net Portfolio Flows	**98**	**48**	**-20**	**-17**	**77**	**-6**	**45**	**74**	**117**	**42**
U S acquisition of foreign assets*	-16	-66	-3	-62	-13	-97	-69	-42	-80	-52
Foreign acquisition of U S assets	114	113	-16	45	90	91	114	116	196	94
Foreign Official	11	-10	-47	26	4	-1	12	27	22	6
Private**	103	124	30	19	86	92	102	88	174	88
Net Banking Flows	**-54**	**6**	**47**	**5**	**15**	**-5**	**13**	**-26**	**-64**	**64**
Assets	-5	-28	-28	26	28	-42	-11	-45	-56	15
Liabilties	-49	34	75	-20	-14	37	25	20	-9	49
Net Direct Investment	**-26**	**-25**	**4**	**87**	**-14**	**111**	**12**	**16**	**6**	**42**
U S direct investment abroad	-48	-45	-19	-34	-41	-33	-44	-33	-43	-37
Foreign direct investment in the United States	22	20	24	121	27	144	56	49	49	80

Source Bureau of Economic Analysis

* Net private claims on foreigners by nonbanks plus net private U S purchases of foreign securities.

** Net purchases of U.S. Treasury securities, net nonbank liabilities to foreigners net purchases of gov't non-Treasury securities, and net U S. currency flows.

U.S. Exchange Rate Policies

G-7 Statements on Exchange Rate Policies

During the reporting period, January 1, 2000 to June 30, 2000, G-7 Finance Ministers and Central Bank Governors reaffirmed their standing commitment to the importance of progress in a more balanced pattern of growth among the G-7 economies.

- **April 15, 2000.** "We discussed developments in our exchange and financial markets In this context, we emphasized our view that exchange rates among major currencies should reflect economic fundamentals We will continue to monitor developments in exchange markets and cooperate as appropriate "

Currency Intervention

U S monetary authorities did not engage in any intervention for their own account during the period covered by this report. On September 22, 2000, at the initiative of the European Central Bank, the monetary authorities of the United States and Japan joined with the European Central Bank in concerted intervention in exchange markets because of their shared concern about the potential implications of recent movements in the euro for the world economy.

Statement by Secretary Summers

In a press conference immediately after the G7 Ministerial in Tokyo, Secretary Summers noted::

- **January 22, 2000.** "Our policy with respect to the dollar remains unchanged: a strong dollar is in the interest of the United States "

Emerging Market Exchange Rate Regimes

Elements of Manipulation

Section 3004 of the Omnibus Trade and Competitiveness Act of 1988 requires the Treasury to analyze annually the exchange rate policies of foreign countries, in consultation with the IMF, and to consider whether countries manipulate the rate of exchange between their currency and the dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade The Secretary of the Treasury is required to undertake negotiations with those manipulating countries that have material global current account surpluses and significant bilateral trade surpluses with the United States, unless there would be a serious detrimental impact on vital national economic and security interests

- **Treasury undertook a broad review of the performance of major trading partners of the United Stated and concluded that no major trading partners of the United States manipulated exchange rates under the terms of Section 3004 of the Act during the period under consideration.**
- **Treasury officials have urged the Malaysian and Chinese authorities to move, over time, to a more flexible exchange rate regime.**

In evaluating evidence of currency manipulation, Treasury looks at the following five factors:

- **External Balances.** Persistent global current account surpluses are fundamentally a reflection of an excess of national savings over national investment, but in some cases may also reflect efforts to maintain an exchange rate level that would prevent external adjustment
- **Exchange Restrictions and Capital Controls.** Restrictive exchange regimes and capital controls can be a concern, particularly where the restrictions are designed to maintain a consistently undervalued exchange rate
- **Exchange Rate Movements.** Large depreciations of exchange rates, if induced artificially rather than by market forces responding to fundamentals, could suggest an attempt to gain a competitive advantage in trade Manipulation could also be reflected in the absence of a significant appreciation of the exchange rate when justified by fundamentals Equilibrium real exchange rates, however, are determined by a number of factors and are therefore difficult to define
- **Changes in International Reserves.** Significant and persistent accumulation of foreign exchange reserves could be a source of concern if it reflects efforts to maintain an excessively competitive exchange rate
- **Macroeconomic Trends.** When analyzing these economies, Treasury looks at the macroeconomic policy stance and other conditions that are important determinants of exchange rates

Assessment

As the law requires, economies were examined as potential exchange rate manipulators if they had significant global current account surpluses and bilateral surpluses with the United States and maintained a fixed or actively managed exchange rate system during the period of this report Four emerging market economies met this test: Taiwan, China, Korea, and Malaysia

With the exception of China, Hong Kong, and Malaysia, economies in the region maintained floating exchange rate regimes

Taiwan. Taiwan's real GDP grew 5 5 percent in 1999 as a result of strong external demand for Taiwan's high tech exports and fiscal stimulus resulting from earthquake-related reconstruction The *Consensus* forecast is for real GDP growth to have risen to 6 5% in 2000 as a result of continued robust export growth and investment in the high tech sector Despite strong export growth, rising investment reduced the current account surplus substantially to 1 5% of GDP in the first half of 2000 from to 3 5% in the same period in 1999 The bilateral trade surplus with the U S , at around $5 billion in the first half of 2000, was little changed from the same period during the previous year

Taiwan operates a managed floating exchange rate policy Over the first half of 2000, net foreign exchange reserves expanded by $7 5 billion to $115 billion, over 600% of short-term debt While reserve adequacy is high by most standards, Taiwan's desire to accumulate foreign exchange to reduce vulnerability to external shocks remains driven by its unique lack of access to IMF balance of payments support Despite this reserve accumulation, the New Taiwan Dollar (NTD) nevertheless appreciated by 2 percent against the dollar, and 5 percent on a real effective basis, over the reporting period In addition to accumulating reserves, Taiwan's central bank also intervened to reduce daily volatility in its currency and the NTD remains one of the least volatile currencies among emerging markets with floating exchange rate regimes US Treasury officials have urged the Taiwanese authorities to allow market forces to play a greater role in the determination of the exchange rate and accept a greater amount of volatility to, *inter alia*, encourage better currency risk management

China. Real GDP growth strengthened to 8% y/y in H1/00, up from 7% in 1999, on strong exports and recovering domestic demand, fuelled by fiscal and monetary stimulus. The Consensus forecast is for real GDP growth of 8% for the full year. China's current account surplus was 1.5% of GDP in 1999. While data on China's current account balance is only released on an annual basis, China's trade surplus fell to $12 billion in H1/00 compared to $29 billion in 1999 (full year). Strong exports were surpassed by a surge in recorded imports due to increased capital investment as companies undertake technological upgrades and the continued effects of a crackdown on smuggling. China's bilateral trade surplus with the U.S. rose to $36 billion in H1/00, compared to $29 billion for the first half of 1999.

China maintains a de facto currency peg to the dollar which it has maintained unchanged within a tight band since 1995. The real effective exchange rate of the RMB appreciated about 3% during January – May 2000, reflecting the weakening of the yen and euro as well as deflation in China. Its gross foreign exchange reserves were more than six times short-term external debt at end-1999. While the comparable figure for end-June is not available, partial data indicate the ratio has not changed much: short-term debt to banks rose modestly during the first quarter and reserves rose slightly in U.S. dollars during the first half. As a percent of M2, reserves were relatively unchanged at around 11% between end-1999 and end-June 2000. Reserve growth moderated significantly relative to 1994-1997. The $3.5 billion increase in reserves during H1/00 can be accounted for by largely by estimated interest earnings. China also continues to maintain wide-ranging controls on capital account transactions. In bilateral discussions, U.S. Treasury officials have urged the Chinese authorities to move, over time, to a more flexible exchange rate regime.

Korea. Korea also benefited from strong external demand for high technology goods and stronger domestic private consumption. Real GDP grew 10.5% in 1999 – the fastest in the region – but the *Consensus* forecast is for it to slow to 8.5% in 2000. Higher oil prices and strong import demand due to rising investment and consumption caused Korea's current account as a percent of GDP to fall significantly to 2% in the reporting period from 6% in 1999 and 12.5% in 1998. Korea's bilateral trade surplus with the U.S. was $5.5 billion in the first half of 2000, little changed from the first half of 1999.

Korea maintains a managed floating exchange rate regime. Net foreign exchange reserves rose by about $16 billion in the reporting period to $84 billion, as the government sought to continue rebuild reserves and compensate for an increase in short-term foreign debt. By end-June, reserves fell to 177% of short-term external liabilities compared to 189% in 1999. Moreover, as a percent of M2, reserves were relatively unchanged at 26.5% at end-June compared to 25.5% at end-1999. Despite the reserve accumulation in U.S. dollars during the reporting period, the won still strengthened by 1.5 % against the U.S. dollar and 4.5 % on a real effective basis. As with Taiwan, U.S. Treasury officials have urged Korean officials to: 1) allow market forces to play a greater role in the determination of the exchange, 2) take advantage of upward pressure on the won to contain inflation and reduce the need for higher interest rates (which retards financial and corporate restructuring), and 3) accept a greater amount of daily exchange rate volatility.

Malaysia. Strong domestic demand and robust export growth pushed first half growth to over 10% and the *Consensus* survey of private forecasters is for real GDP growth to rise to 8.5% in 2000 from 6% in 1999. Despite strong export growth, even stronger growth in domestic demand led to a large decline in the current account surplus to about 10 percent of GDP during the first half compared to 16% of GDP in 1999. The bilateral surplus with the U.S. increased to $7 billion in the first half of 2000 from $5.5 billion in the first half of 1999.

Malaysia has maintained a fixed peg since September 1998, when it also imposed capital controls. Since then Malaysia has relaxed these controls, which are now largely limited to a capital gains tax on repatriated profits, restrictions on foreign investment by residents, and a prohibition on offshore trading of the ringgit. On a real trade-weighted basis, the ringgit appreciated 2% from end-1999 to June 2000. In the first half of 2000, net reserves increased by $3 billion, and rose as a percent of short-term external debt to 333%, up from 300% at end-1999. Reserves as a percent of M2 increased by a few percentage points to approximately 37%. In bilateral discussion U.S. Treasury officials have urged the Malaysian authorities to move, over time, to a more flexible exchange rate regime.

Policy Priorities

- **Sound economic and financial policies in the United States, including our strong dollar policy, which is in the interest of the United States.**

- **In particular, sound domestic policies aimed at increasing the level of national savings would ease adjustment of U.S. external imbalances.** Maintaining a budget surplus is essential to this important goal.

- **Encourage policies that promote sustained, domestic demand-led growth in our major industrial trading partners in order to create more balanced global growth patterns and, over time, contribute to reduced global imbalances.**

- **In particular, encourage Japan to take supportive macroeconomic policies that foster a self-sustaining domestic demand led recovery and implement structural and financial sector reforms. Encourage Europe to undertake appropriate macroeconomic policies and intensify structural reforms with a view to raising private investment and increasing productive potential.** Japan and Europe should both aspire to achieve a sustained period of growth above what has recently been considered their potential through encouraging the kind of investments that are necessary for economic expansion.

- **Continue efforts to open foreign markets to U.S. exports while maintaining the commitment to open markets that has been so important to our economic success.**

- **Continue monitoring markets for evidence of currency manipulation as countries balance the goals of reserve accumulation to cover foreign liabilities and appropriate exchange rate adjustment.** In economies with a significant amount of debt denominated in foreign currencies, or where the currency is fixed to another currency, a sufficient level of foreign reserves is important. However, in the context of a floating exchange rate regime, a country can accumulate an excessive level of reserves in an attempt to prevent a currency appreciation. This appreciation can serve an important element in the adjustment of both trade and financial flows. Excessive intervention can, in the long-run, build pressures in an economy.

Appendix

OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988 (H.R. 3)

SEC 3004 INTERNATIONAL NEGOTIATIONS ON EXCHANGE RATE AND ECONOMIC POLICIES

(a) Multilateral Negotiations -The President shall seek to confer and negotiate with other countries-

(1) to achieve-

(A) better coordination of macroeconomic policies of the major industrialized nations: and

(B) more appropriate and sustainable levels of trade and current account balances. and exchange rates of the dollar and other currencies consistent with such balances: and

(2) to develop a program for improving existing mechanisms for coordination and improving the functioning of the exchange rate system to provide for long-term exchange rate stability consistent with more appropriate and sustainable current account balances

(b) Bilateral Negotiations -The Secretary of the Treasury shall analyze on an annual basis the exchange rate policies of foreign countries, in consultation with the International Monetary Fund, and consider whether countries manipulate 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 If the Secretary considers that such manipulation is occurring with respect to countries that (1) have material global current account surpluses; and (2) have significant bilateral trade surpluses with the United States, the Secretary of the Treasury shall take action to initiate negotiations with such foreign countries on an expedited basis, in the International Monetary Fund or bilaterally, for the purpose of ensuring that such countries regularly and promptly adjust the rate of exchange between their currencies and the United States dollar to permit effective balance of payments adjustments and to eliminate the unfair advantage The Secretary shall not be required to initiate negotiations in cases where such negotiations would have a serious detrimental impact on vital national economic and security interests; in such cases, the Secretary shall inform the chairman and the ranking minority member of the Committee on Banking, Housing, and Urban Affairs of the Senate and of the Committee on Banking, Finance and Urban Affairs of Representatives of his determination

SEC 3005 REPORTING REQUIREMENTS

(a) Reports Required -In furtherance of the purpose of this title, the Secretary, after consultation with the Chairman of the Board, shall submit to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate, on or before October 15 each year, a written report on international economic policy, including exchange rate policy The Secretary shall provide a written update of developments six months after the initial report In addition, the Secretary shall appear, if requested, before both committees to provide testimony on these reports

(b) Contents of Report -Each report submitted under subsection (a) shall contain-

(1) an analysis of currency market developments and the relationship between the United States dollar and the currencies of our major trade competitors;

(2) an evaluation of the factors in the United States and other economies that underline conditions in the currency markets, including developments in bilateral trade and capital flows;

(3) a description of currency intervention or other actions undertaken to adjust the actual exchange rate of the dollar;

(4) an assessment of the impact of the exchange rate of the United States dollar on

(A) the ability of the United States to maintain a more appropriate and sustainable balance in its current account and merchandise trade account;

(B) production, employment, and noninflationary growth in the United States;

(C) the international competitive performance of United States industries and the external indebtedness of the United States;

(5) recommendations for any changes necessary in United States economic policy to attain a more appropriate and sustainable balance in the current account;

(6) the results of negotiations conducted pursuant to section 3004;

(7) key issues in United States policies arising from the most recent consultation requested by the International

Monetary Fund under article IV of the Fund's Articles of Agreement; and

(8) a report on the size and composition of international capital flows, and the factors contributing to such flows, including, where possible, an assessment of the impact of such flows on exchange rates and trade flows

(c) Report by Board of Governors.-Section 2A(1) of the Federal Reserve Act (12 U.S.C 225a(1)) is amended by inserting after "the Nation" the following:", including an analysis of the impact of the exchange rate of the dollar on those trends"

SEC 3006 DEFINITIONS.

As used in this subtitle:

(1) Secretary.-The term "Secretary" means the Secretary of the Treasury.

(2) Board.-The term "Board" means the Board of Governors of the Federal Reserve System.