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Report to Congress on
International Economic and Exchange Rate Policies
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This report reviews developments in international economic policy, including exchange rate policy, focusing on the first half of 2003. The report is required under the Omnibus Trade and Competitiveness Act of 1988, which states that "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."

After reviewing developments in the United States, the report examines exchange rate policies in major countries across five regions of the world: (1) the Americas, (2) Europe and Eurasia, (3) Africa, (4) the Middle East and South Asia, and (5) East Asia. To summarize, the report finds that

• Countries around the world continue to follow a variety of exchange rate policies, ranging from a flexible exchange rate with little or no intervention to currency unions and full dollarization. For example, Canada follows a flexible exchange rate regime with no intervention, Greece recently joined the European Monetary Union, and El Salvador maintained its dollarization regime.

• A notable trend observed over the past several years is the move by many countries to adopt flexible exchange rates, combined with clear price stability goals and a transparent system for adjusting monetary policy instruments. It is good news that nearly 100 countries have eschewed pegged exchange rates and have chosen to use a flexible exchange rate, dollarize, join a currency union, or create a currency board.

• The report finds that no major trading partner of the United States meets the technical requirements for designation under the Omnibus Trade and Competitiveness Act of 1988 during the first half of 2003. The report notes that while a number of countries continue to use pegged exchange rates and/or intervene in foreign exchange markets, a peg or intervention does not in and of itself satisfy the statutory test. Treasury has consulted with the IMF management and staff, as required by the statute, and they concur with our conclusions. The Administration strongly believes that a system of flexible, market-based exchange rates is best for major trading partners of the United States.

• For this reason, Treasury is continuing to engage actively with countries and to encourage, in both bilateral and multilateral discussions, policies that promote a flexible market-based exchange rate combined with a clear price stability goal and a transparent system for adjusting policy instruments. For example, one important accomplishment was the communiqué of the G7 Finance Ministers and Central Bank Governors in September of this year endorsing an Agenda for Growth and stating that "more flexibility in exchange rates is desirable for major countries or economic areas to promote smooth and widespread adjustments in the international financial system, based on market mechanisms."

The United States International Accounts

In assessing the trade deficits and surpluses of individual countries with the United States, it is important to examine first the overall U.S. trade and current account balance.

Saving, Investment, and the Current Account

Developments in the overall trade or current account balance are best understood in terms of developments in investment and saving. The current account deficit is conceptually equal to the gap between investment and saving as a matter of international accounting. When investment in the United States is higher than domestic saving, then foreigners make up the difference, and the United States has a current account deficit. In contrast, if savings exceed investments in a country, then that country has a current account surplus as its people invest abroad.

In the second quarter of 2003, for example, the U.S. current account deficit was $570 billion (at a seasonally adjusted annual rate and adjusted to a national income accounting basis) or 5.3 percent of GDP. This $570 billion deficit equaled the gap between $1,977 billion in investment and $1,407 billion in saving. That is, U.S. domestic investment was $570 billion more than domestic saving with net foreign investment making up the difference

Viewed in these terms over the past year, the increase in the U.S. current account deficit was caused by an increase in investment, combined with a somewhat smaller decline in saving. Over the year ending in the second quarter of 2003 the current account deficit rose by $73 billion from the second quarter of 2002. During that same period investment rose by $40 billion and saving fell by $33 billion. The increase in investment reflected the acceleration in U.S. economic growth during 2003. Overall, real GDP grew at a 3.3 percent annual rate in the second quarter, up from 1.4 percent in the first quarter. Business investment in equipment and software investment posted large gains, and forward momentum in those sectors continued into the third quarter.

The current account was $555 billion in deficit on a balance of payments basis in the first half of 2003. How has the deficit been financed? The largest single part of financing the current account deficit has recently been net private foreign purchases of U.S. securities, which reached $436 billion in the first half of 2003. (Included in these were net foreign purchases of U.S Treasuries amounting to $151 billion.) In addition, foreign official institutions increased their U.S. assets by $197 billion. These items alone more than covered current account financing needs and the total of all other financing items were equal to a net $78 billion capital outflow.

Due to the current account deficit the net investment position of the United States (with direct investment valued at the current stock market value of owners' equity) fell to a negative $2.6 trillion at the end of 2002 from a negative $2.3 trillion at the end of 2001. Despite this large negative position, net income payments on investment assets were not significant in 2002, amounting to roughly $1 billion. These positive net income receipts are the result of large net inflows of income from direct investment offsetting net outflows of income on portfolio investment.

[Note: Balance of payments statistics are compiled on a slightly different basis than national income statistics. The net foreign investment (-$570 billion) item in the national income accounts closely matches the current account balance (-$555 billion) in the balance of payments. Saving includes the statistical discrepancy between the income and product accounts.]

The U.S. Dollar

According to the Federal Reserve Board's "broad" nominal dollar index, the U.S. dollar registered a 5.1 percent depreciation during 2003H1. The decline was 8.3 percent against "the major foreign currencies" (largely the industrialized countries)

and 1.5 percent against "other important trading partners" (largely emerging market economies). The broad index declined 9.2 percent from February 27, 2002, when it reached its recent peak, through June 30, 2003.

Inflation remained subdued during this period. The consumer price index rose 2.1 percent over the 12 months ending in June as energy prices increased, while the core rate (excluding food and energy) increased 1.5 percent. The Federal Reserve maintained the federal funds rate target at 1.25 percent through the first five months of the year, then lowered the rate to 1.0 percent in June. During 2003H1, U.S. interest rates declined toward historical lows, and interest rate differentials increasingly favored relatively higher yielding non-dollar placements.

As discussed below, the currencies of different economies showed varying degrees of flexibility relative to the dollar, as some monetary authorities sought to dampen or prevent movements of their exchange rates against the dollar while others did not intervene at all. The United States did not intervene in foreign exchange markets during the first half of 2003

The Americas

Overall, nominal exchange rates in the region appreciated or remained relatively stable relative to the U.S. dollar during the first half of 2003, with the Canadian dollar noticeably strengthening against the U.S. dollar. Interest rate spreads between the Latin American Emerging Market Bond Index (EMBI+) and U.S. Treasury securities continued to decline from the September 2002 high of 1366 basis points, ending June at 697 basis points above U.S. Treasuries.

A recovery appears to be emerging in many countries in Latin America following a disappointing year in 2002. The region saw real GDP decline 0.1 percent in 2002, but GDP is expected to grow 1.1 percent in 2003. Canada's GDP declined in the second quarter of 2003, but with stronger subsequent growth Canada is expected to achieve 2.0 percent growth for the year.

Canada

Canada's overall current account surplus rose to 2.0 percent of GDP in the first half of 2003, up from 1.7 percent in 2002H2, but still below the somewhat higher ratios recorded in 2000 and 2001. After little net change in 2002, the Canadian dollar rose 16.5 percent against the U.S. dollar between the end of 2002 and the end of June 2003, with the J.P. Morgan real trade-weighted Canadian dollar index up 11.4 percent over the period.

Canada has a flexible exchange rate and did not intervene in exchange markets during 2003H1. Canada has not intervened in foreign exchange markets since 1998, except to make a small contribution to the brief G-7 intervention in support of the euro in September 2000.

Argentina

Argentina has had a flexible exchange rate since the end of 2001 when it abandoned its convertibility law, which had pegged the peso one-to-one with the U.S. dollar. Argentina's currency continued to strengthen in the first half of 2003, moving from 3.36 pesos per dollar at end-December 2002 to 2.81 at end-June 2003 for a 19.6 percent appreciation. Argentina's trade surplus was $8.7 billion in the first half of 2003, with exports rising 16 percent and imports rising 38 percent compared with the same period the previous year. Argentina's gross foreign exchange reserves grew by $1.7 billion during the first half of the year to $12.2 billion at the end of June 2003. The economic recovery continued after the severe contraction in the first half of 2002, with real GDP growing 10 percent in the first quarter of 2003. Consumer prices were stable, with a net increase of 2.1 percent from end-December 2002 to end-June 2003, and conditions in the banking system continued to improve. Interest rates on saving deposits of 30-59 day maturities fell from over 20.7 percent at the beginning of 2003 to 9.6 percent by end-June 2003.

Mexico

Mexico has a flexible exchange rate The Mexican peso depreciated 2.9 percent from 10.2 pesos per dollar at end-December 2002 to 10.5 pesos at end-June 2003, following an 11.2 percent depreciation in 2002. The real trade-weighted value of the peso depreciated 3.1 percent in the first half of the year, following a 3.6 percent depreciation last year. The current account deficit fell to 0.6 percent of GDP in the period, with seasonally adjusted imports falling 6.5 percent and exports increasing 4.7 percent compared with the second half of 2002. Foreign direct investment in Mexico was $5.2 billion in the period, a decline of 26.4 percent from the comparable period last year. International reserves grew $4.6 billion over the period, reaching $55.2 billion by end-June. Economic conditions remain soft, with real GDP for the first half of 2003 growing at a 0.2 percent annual rate from the second half of 2002 and 1.2 percent from the comparable period last year.

Brazil

The real appreciated 22 percent in the first half of 2003. Brazil registered a current account surplus of $535 million for the first half of the year, driven by a $10.4 billion trade surplus. This performance compares with an $8.4 billion current account deficit for the first half of 2002. Net international reserves increased from year-end 2002 by $400 million to $14.6 billion at the end of June, while gross international reserves totaled $48.0 billion, up from $38.7 billion at 2002 year-end (IMF disbursements are not included in the calculation of net reserves.)

Consumer price inflation was 17 percent for the twelve months ending in June 2003. In this environment, the central bank tightened monetary policy in January and February, raising the target monetary policy interest rate 150 basis points to 26.5 percent. The central bank began to ease monetary policy in June with a 50 basis point cut following declining inflation readings in May and June.

Europe and Eurasia

In the European Monetary Union, the euro appreciated strongly against the dollar, and in Russia, oil sales and an improved capital account supported the ruble. In Central Europe, weakness in the major economies led to weakness against their key trading currency, the euro

The European Monetary Union

The countries in the European Monetary Union as a whole had a current account surplus during the first half of 2003 equal to $14 billion. Goods exports fell 3.8 percent in the first half of 2003 from the second half of 2002, and goods imports increased by a mere 0.8 percent. The current account surplus for 2003H1 was down 60.1 percent from that of 2002H2 (in dollar terms). The underlying movement behind this change appears to have been an increase in investment and a decline in saving in the Euro-zone. Gross capital formation (seasonally-adjusted) grew by 1.4 percent between the two time periods. Saving is estimated to have fallen 1.6 percent between 2002H2 and 2003H1.

The financial account for the Euro-zone was dominated in 2003H1 by a large deficit in "other investment" of $124.6 billion, down 15.2 percent from $146.9 billion in 2002H2. The biggest contributors to "other investment" were short-term loans by monetary financial institutions and loans from other sectors. There were smaller deficits in financial derivatives (- $5.1 billion) and direct investment (- $4.5 billion). The Euro-zone saw surpluses in portfolio investment ($36.5 billion, down 48.8 percent from 2002H2) and accumulation of reserve assets of $16.2 billion (compared to a fall in reserves of $5.9 billion in 2002H2).

The euro appreciated 9.7 percent against the dollar in the first half of 2003, while according to the Eurostat index the real effective exchange rate appreciated 8.4 percent. The European Central Bank did not intervene in exchange markets during

this period.

Russia

In the first half of 2003, Russia saw large net inflows of foreign exchange resulting from high oil prices and high foreign borrowing by Russian corporations. This led to a 5 3 percent appreciation of the ruble against the U.S. dollar compared to a 1.3 percent depreciation during the second half of 2002. Intervention by the Russian monetary authorities to moderate the appreciation of the ruble against the dollar led to a $16.6 billion increase in foreign exchange reserves to a record high of $64 4 billion.

Central Europe

After appreciating steadily for several years in real terms, the currencies of the major Central European economies began to show weakness in both nominal and real terms during 2003H1. Nominal depreciation of key regional currencies against the euro, the most important foreign currency for trade, combined with a slowdown in inflation in the major area economies to reverse the real appreciation trend.

In Poland, for example, the zloty weakened in both nominal terms (1.9 percent versus the dollar and 10.5 percent versus the euro) and real terms during the period as the fiscal deficit grew and confidence in the zloty faltered. The Czech Republic koruna depreciated in real terms due to deflation during the period and political uncertainty. In Hungary the forint saw extreme volatility against the euro. A strong appreciation in the beginning of the year prompted massive intervention by the central bank of Hungary. However, deteriorating macroeconomic conditions and market uncertainty concerning the course of fiscal reform led to capital flight and depreciation. The Bulgarian lev appreciated against the dollar as its value was fixed relative to the euro as part of its successful currency board arrangement.

Africa

Most key exchange rates in Africa depreciated against the U.S dollar on a nominal basis during the first half of 2003. Notable exceptions were the South African rand, which appreciated 14.7 percent, and the currencies of the CFA zone, which are pegged to the euro. They appreciated against the dollar just as the euro did. The strengthening of the rand probably reflected favorable interest rate differentials, improved investor sentiment following credit ratings upgrades, and the country's more sound economic fundamentals

GDP growth in Africa remained resilient despite the weak pace of recovery in industrialized countries. For the continent as a whole, growth is expected to increase in 2003. The continent's overall current account deficit is expected to fall slightly in 2003 from 1.3 percent of GDP in 2002, though current account deficits in many countries in sub-Saharan Africa remain relatively high. Capital inflows are expected to increase, particularly from private sources. Since 2001, foreign exchange reserves have increased from $64.7 billion to a projected $86.7 billion in 2003, with the bulk of the reserve accumulation occurring in North African countries due to higher energy prices.

In Egypt the Egyptian pound is notionally floating but strongly managed. The pound did move substantially over the period, however, falling 23 percent against the dollar and 25 percent on a real trade-weighted basis. The current account surplus grew during the first half of 2003, reaching 1.5 percent of GDP in the second quarter compared to 0.4 percent in the same quarter the year before, due in part to a slight contraction in imports but more significantly to an increase in both oil and non-oil exports.

Middle East and South Asia

The Middle East has seen strong growth this year, largely fueled by high global oil prices. Regional growth in 2003 should end up greater than last year's 3.9 percent,

with the growth largely centered in the oil-exporting countries

Many countries in this region maintain inflexible exchange rate regimes, including narrow bands and explicit or implicit pegs to the dollar. The high price of oil has led to higher current account surpluses and official reserve accumulation among the oil exporters. In Saudi Arabia, for example, reserves increased 12 percent in the first four months of this year to reach $23.1 billion, the highest level in a decade. The current account surplus is expected to increase well above the 6.2 percent of GDP level in 2002. Among the non-oil exporting countries, the current account deficit is expected to widen in 2003 from the 0.5 percent of GDP deficit recorded in 2002. In addition to higher oil prices, these countries were also hit by declines in tourism revenues due to the uncertainty surrounding the conflict in Iraq

India maintains a heavily managed exchange rate regime. While the rupee appreciated 3.4 percent against the dollar in the first half of 2003, the Indian authorities intervened to limit further appreciation. As a result, foreign reserves grew $11.6 billion in the first half of the year, reaching $78 billion by end-June. The current account returned to a small deficit (seasonally adjusted) after surpluses in 2002. Capital inflows, including FDI, increased due to the improved economic outlook and expectations of an appreciation of the rupee

Turkey and Israel have flexible exchange rates Both currencies appreciated significantly since the start of the year, buoyed by strong investor demand for emerging market assets. The Turkish lira appreciated 18.3 percent between the end of December 2002 and the end of June 2003, following a 12.7 percent depreciation in 2002. The current account deficit fell to 1.6 percent of GDP in the first 6 months of 2003 from 3.0 percent of GDP in the second half of 2002. Gross foreign exchange reserves grew $2.1 billion over the period, reaching $28.8 billion by end-June.

Similarly the new Israeli shekel appreciated 9.8 percent from end-December 2002 to end-June 2003, following a 7.3 percent depreciation in 2002. The current account balance grew to a 1.8 percent of GDP surplus in the period, compared to a 1.0 percent deficit in 2002. Foreign exchange reserves grew 2.0 percent over the period, reaching $24.6 billion by end-June.

East Asia

Asian currencies were generally stable against the dollar in the first half of 2003, although the Indonesian rupiah and Thai baht both appreciated near the end of the period. Currency stability was maintained against the backdrop of a high degree of regional economic uncertainty, stemming from SARS and oil prices. Uncertainties regarding the oil price outlook were reduced after the start of the military campaign in Iraq. Efforts to contain SARS proved successful, and its economic effect, while significant for some countries, was less than anticipated.

Japan

Japan's current account surplus grew to $62 billion (3.0 percent of GDP) in the first half of 2003, up from $54 billion (2.6 percent of GDP) in the second half of 2002. While Japan's merchandise trade surplus declined by 9 percent during the period to $45.2 billion, Japan's services deficit narrowed substantially to $15.4 billion, 35 percent smaller than in the second half of 2002. Japan had a bilateral merchandise trade surplus with the United States of $32.2 billion during 2003H1, down from $36.8 billion in 2002H2, and from $33.1 billion in 2002H1

The persistent Japanese global current account surplus reflects the high rate of Japanese domestic saving relative to domestic investment. The trend rate of Japanese growth fell after the first oil crisis, and again after the bursting of Japan's asset price bubble at the beginning of the 1990's. Slower growth has meant lower investment, and the share of private investment in GDP has fallen from 26 percent in the 1960's, to 22 percent in the 1980's, to 19 percent in the last 3 years. Excess private saving has been partially absorbed by larger government deficits.

During the first half of 2003, the yen fluctuated in a narrow range against the dollar, depreciating 0.9 percent to ¥119.9 at the end of June 2003 from ¥118.8 at the end of December 2002. But in September and October of this year the yen appreciated against the dollar to around the 108 level or about 7 percent since the beginning of September. Intervention by the Japanese monetary authorities in the exchange markets totaled $59.0 billion in the first half of 2003 and continued in July and August with an additional $22.7 billion. Japan's foreign exchange reserves grew by 17 percent to $527 billion at the end of June, up from $451 billion at the end of December 2002. Taking the longer view over the past 3 years it has fluctuated between a low of 135 and a high of 108. The Japanese have stated that their "intervention is carried out when excess volatility or over-shooting is observed in the markets." The Treasury is actively engaged with the Japanese on these issues both bilaterally and through the meetings of the G7 finance ministry and central bank officials

China

China's overall trade surplus narrowed in the first half of 2003 to $13.5 billion (2.2 percent of GDP), compared to $20.7 billion a year earlier (3.8 percent of GDP). The reduced overall trade surplus was accounted for by the strong growth in China's merchandise imports compared to exports. This reflected China's growing deficit with trading partners other than the United States. Other Asian economies that used to export directly to the United States increasingly ship components to China for assembly. China's bilateral surplus on trade in goods with the United States grew to $53.9 billion in 2003H1, up from $43.1 billion a year earlier.

China's current account surplus in 2003H1 was $11.1 billion compared to $13.6 billion in 2002H1. However, net FDI inflows were $26.9 billion, while non-FDI net capital inflows were $17.5 billion, compared to $22.7 billion and -$10.4 billion a year earlier, respectively. Thus, the increase in China' official reserves was due more to capital inflows than to the much smaller current account surplus.

China has pegged its currency since 1994 at 8.28 to the dollar. This policy is not appropriate for a major economy like China and should be changed. The Administration has engaged in direct talks calling on the Chinese to move towards a flexible exchange regime. The Administration has utilized bilateral and multilateral forums to urge China to move toward greater flexibility At the September 2003 G7 meeting in Dubai, the ministers and central bank governors endorsed flexibility in exchange rates for large economies. Secretary Snow traveled to China for discussions with senior Chinese officials on financial issues including exchange rate policy. President Bush, in his bilateral meeting with President Hu, discussed China's exchange rate policy.

China has maintained its fixed exchange rate despite significant changes – up and down – in the exchange rate of the dollar vis-à-vis other currencies. Recently there has been strong pressure on the yuan, as evidenced by foreign exchange reserves rising to $346 billion in June 2003, up 43 percent from June 2002. The Chinese government has indicated that it will move to a flexible exchange rate regime. It is taking steps to get there and the U.S. is providing technical cooperation. However, it also has stated that doing so immediately would harm the banking system and the overall Chinese economy.

In his discussions, Secretary Snow stressed the desirability of China's moving to a flexible market-based exchange rate regime and reducing controls on capital flows The Chinese economy is now one of the largest in the world, and China is a major player in world trade. The Chinese capital account is expected to become increasingly open, and policies of maintaining a currency peg in the face of an increasingly open capital account increases risk. Greater exchange rate flexibility would also allow China greater scope to maintain a low-inflation, pro-growth monetary policy. It would improve the allocation of resources and the quality of financial intermediation in the Chinese economy. Moreover, such a change would be consistent with our view that the international trading system works best with free trade, the free flow of capital and with market-based exchange rates.

Serious engagement with China on these issues will continue. A new Technical

Cooperation Program is being implemented under the leadership of the Secretary of the Treasury and the Governor of the central bank of China. This program can help create the market mechanisms needed to make the transition to a flexible exchange rate regime. Moreover, the Chinese deputy finance minister and deputy central bank governor have begun to have regular meetings with the G7 finance deputies, with the first meeting held in Dubai in September and the next one scheduled for Paris in November.

Korea

Korea entered its first recession in five years during the first half of 2003. Real GDP contracted 2.9 percent in the second quarter of 2003, continuing the 1.6 percent drop in the first quarter. The slowdown was due to contracting domestic demand combined with slowing external sales. In response, both fiscal policy and monetary policy have been eased. In July the overnight call rate was cut a quarter-point to 3.75 percent.

Korea's current account surplus for the first half of 2003 was $1.2 billion, down from $3.9 billion for the same period last year. The balance on capital and financial account transactions recorded an almost $3.0 billion increase as the result of portfolio and other investment inflows. Official foreign reserves increased by $10.2 billion to $131.7 billion. The U.S. bilateral trade deficit with Korea in the first half of 2003 was $5.4 billion.

The won depreciated a net 0.8 percent in the first half of 2003 but has been on a rising path for several months. JP Morgan's real trade-weighted index of the won fell 2.3 percent during the period. While Korea has officially adopted a flexible exchange rate policy, in practice the won is quite closely linked to the Japanese yen. Since 2000 the monthly nominal won/yen exchange rate has averaged 1031, and the rate has deviated no more than 6 percent from this average.

Taiwan

After decreasing 2.4 percent in the first quarter of 2003, Taiwan's real GDP declined by a sharp 9.9 percent in the second quarter of 2003, reflecting the drag of SARS on the economy. Deflation remained entrenched, with consumer prices falling 2.2 percent in 2002 and 0.9 percent in the first half of 2003. Taiwan recorded a current account surplus of about 10.6 percent of GDP or $14.7 billion during the first half of 2003. The current account surplus was due mainly to a large, $13.4 billion, trade surplus with China and growing foreign investment earnings. The United States ran a $7.3 billion bilateral trade deficit with Taiwan in the first half of 2003.

Net portfolio investment recorded an extraordinary deficit of 20 percent of GDP during the first half of 2003, as residents' portfolio investment abroad increased 160 percent compared with the same period in 2002. These portfolio outflows were largely offset by other investment inflows, and the financial account recorded a more moderate deficit of 5 percent of GDP in the first half of 2003. In the first half of 2003, the new Taiwan dollar appreciated slightly (0.3 percent) against the U.S. dollar and also depreciated 4.3 percent on a real trade weighted basis, as measured by the JP Morgan index. Reserves increased by $15 billion during the first half of 2003. Taiwan's $177 billion in reserves are equivalent to almost 10 times its short-term external debt and almost twice the country's total foreign liabilities.

Taiwan is in the process of liberalizing its capital account regime; this liberalization has already resulted in a significant increase of flows in the financial account. The increase in outward portfolio investment over the last 18 months has eased appreciation pressures and reserve accumulation.

Malaysia

After a strong rebound in 2002, Malaysia's economy slowed in the first half of

2003. Real GDP grew 3.0 percent in the first quarter and 6.1 percent in the second quarter. The current account surplus increased to 12.3 percent of GDP in the first half of 2002 from 7.2 percent a year earlier, reflecting slowing domestic demand growth. Malaysia's bilateral trade surplus with the United States increased to $6.6 billion in 2003H1 from $6.0 billion in 2002H1.

Malaysia has maintained a fixed peg to the dollar since September 1998, when it also imposed capital controls. Controls on capital flows have since been relaxed, but offshore trading of the ringgit remains prohibited and foreign portfolio investment by residents continues to be restricted. The ringgit depreciated 2.7 percent over the period on a real trade-weighted basis, according to the JP Morgan index. At the end of June, reserves stood at $36.8 billion, up from $34.2 billion at end-2002.