DEPARTMENT OF THE TREASURY

INTERIM REPORT TO THE CONGRESS

ON

INTERNATIONAL ECONOMIC AND

EXCHANGE RATE POLICY

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SUMMARY AND CONCLUSIONS

This interim report addresses recent developments in U.S. international economic policy, including exchange rate policy, since the seventh annual report to Congress of December 1994. The Report primarily covers information available through May 31, 1995. This report is required under Sections 3004 and 3005 of the Omnibus Trade and Competitiveness Act of 1988 (Trade Act). Developments in Mexico are not discussed in detail because they are treated extensively in other reports.

The global expansion strengthened in 1994. Most of the major industrial countries experienced strong growth, with inflation reduced to rates not seen in 30 years in many cases. In 1995 the pace of growth has slowed, but expansion appears sustainable in most countries.

The consensus of private forecasters is that aggregate G-7 growth will moderate from just above 3 percent in 1994 to about 2 1/2 percent this year and next, with weakness in Japan standing out as an exception to a generally positive outlook. G-7 inflation should reach the 2-1/2 to 3 percent range in 1995 and 1996, up from 2 1/4 percent in 1994.

Weak conditions in Japan cast a shadow over an otherwise favorable outlook. Real GDP declined in the fourth quarter and was essentially flat in the first quarter of 1995. Market commentary cites a confluence of factors, all working to dampen the outlook: asset and goods price deflation contributing to high real interest rates, weak bank balance sheets, an overhang of investment from the late 1980s and the appreciation of the yen. The consensus is for very low growth in 1995-96.

The first half of 1995 was a period of significant movement in all the major currencies. Measured on a real, trade-weighted basis, the dollar declined 4 1/2 percent between October 1994 and May 1995, while the real mark and yen moved up 6 percent and 10 percent respectively. The aggregate movement in the dollar masked sharply divergent movements against the currencies of our key trading partners, as the dollar declined by 13 percent against the yen and 6 percent against the DM, while appreciating against the Canadian dollar and the Mexican peso. The dollar reached all-time lows of DM1.345 on March 8th and ¥79.75 on April 19th, before stabilizing above these lows after the April 25 G-7 meeting.

Market participants attributed the dollar's decline and the appreciation of the mark and yen to several factors. In the United States, there was a shift in expectations about the outlook for Federal Reserve policy, along with indications the economy was slowing, and renewed concern about the U.S. current account deficit. The mark was affected by expectations of firm Bundesbank monetary policy and by concerns about inflation and fiscal developments in some European countries. In Japan, the yen was affected by deflation, economic weakness, and continuing concern about reduction of the current account surplus.

The decline in the dollar during this period was a source of concern to the Administration and to the Federal Reserve, who intervened in the exchange markets on several occasions. At the April 25 G-7 meeting, Ministers and Central Bank Governors "expressed concern about recent developments in exchange markets". Further, they agreed that "recent developments have gone beyond the levels justified by underlying economic conditions in the major countries...[and]..that an orderly reversal of those movements is desirable, would provide a better basis for a continued expansion of international trade and investment, and would contribute to our common objectives of sustained non-inflationary growth". They also agreed to strengthen efforts to reduce internal and external imbalances and to continue to cooperate closely in exchange markets.

The U.S. trade and current account deficits widened further in 1994, as growth in the United States exceeded that in its major trading partners. The robust U.S. expansion contributed to a strong increase in imports. Increases were particularly strong in capital goods and autos and parts. Export growth also continues to be robust, with double digit growth to the G-7 industrial countries and Latin America.

For 1995, we expect a modest further widening in the U.S. trade and current account deficits. The 1995 current account deficit is expected to be on the order of 2 1/2 percent of GDP, as suggested in the previous Report. Looking beyond 1995, the U.S. competitive position remains exceptionally strong and, at a minimum, the external deficit should begin to decline as a share of GDP. But the outlook for 1996 depends heavily on prospects for a sustained and strengthened recovery in the other industrial countries. With continued expansion abroad, the trade and current account deficits should decline in absolute terms.

In this interim Report, Treasury has reexamined the systems and policies of Korea, Taiwan and China, which have been identified in some previous reports as having manipulated the exchange rate between their currency and the U.S. dollar in order to prevent effective balance of payments adjustment or to gain an unfair advantage in international trade.

As in the December annual report, it is Treasury's judgment that, at the current time, neither Korea nor Taiwan is manipulating the exchange rate between its currency and the U.S. dollar for such purposes. However, Treasury continues to monitor closely certain financial and foreign exchange policies in both economies, particularly capital controls, which have the potential to impede the operation of market forces in exchange rate determination:

- Treasury continues to engage Korea on further liberalizing its financial sector, and on easing foreign exchange and capital controls which inhibit market forces from fully determining the exchange rate. Discussion of these issues has taken place in bilateral Financial Policy Talks, and in the context of the WTO negotiations on trade in financial services. The U.S. is also encouraging liberalization in the context of discussions of Korea's proposed membership in the OECD.

- Treasury is also negotiating with Taiwan on further liberalization of its financial sector, principally in the context of Taiwan's WTO accession negotiations. Of note since the last report, Taiwan authorities moved in January to liberalize the rules governing forward foreign exchange contracts and swaps further, and are reportedly considering a plan to raise the cap on foreign ownership of listed shares and to remove the prohibition on individual investors participating in the Taipei Stock Exchange. However, Treasury remains concerned about significant remaining controls, and will continue to press Taiwan to remove foreign exchange and capital controls that may impede market forces from fully determining the exchange rate.

China has registered large increases in its global trade surplus and its bilateral trade surplus vis-a-vis the United States in the first half of this year. High savings and efforts to restrict credit have bolstered an already strong external position. At the same time, recent renminbi appreciation, especially in real terms, and relatively high economic growth in China are factors that are contributing to strong growth in U.S. exports to China. Nonetheless, China's growing current account surplus is a concern and bears continued close observation.

Since 1992, China has taken important steps toward opening its market to U.S. companies, but multiple overlapping barriers to trade continue to frustrate market access for U.S. goods. Through bilateral and multilateral channels the Administration is pressing China to provide meaningful market access for goods and services. These include the 1992 U.S.-Sino Memorandum of Understanding on Market Access and China's accession to the WTO.

It is Treasury's determination that China is not currently manipulating its exchange system to prevent effective balance of payments adjustment and gain unfair competitive advantage. This report reiterates the conclusion of the prior Treasury report. As noted in that report, major strides were made in reforming China's foreign exchange system in 1994. China should take advantage of its strong balance of payments situation to implement additional steps to liberalize its foreign exchange regime. Such steps should include a commitment to current account convertibility as soon as possible, eliminating restrictions on access to China's foreign exchange markets, and eliminating foreign exchange balancing requirements.

GLOBAL ECONOMIC DEVELOPMENTS

A. Economic Situation in the G-7 Countries

Recovery Firms, Except in Japan

The global recovery continued in 1994, with the weakness in Japan standing out as an exception to a generally positive outlook. Table 1 below shows projections by the International Monetary Fund, the Organization for Economic Cooperation and Development and Consensus Economics (an average of private sector forecasts) for 1995 and 1996.

Table 1

G-7: Real GDP Growth
(% change year/year)

	1994	1995F			1996F		
		IMF	OECD	Consensus	IMF	OECD	Consensus
United States	4.1%	3.2%	3.2%	3.0%	1.9%	2.3%	2.4%
Japan	0.5	1.8	1.3	1.0	3.5	2.3	1.5
Germany*	2.9	3.2	2.9	2.9	3.3	2.7	2.7
France	2.8	3.2	3.0	3.0	3.0	3.2	2.9
Italy	2.2	3.0	3.0	2.9	3.0	2.9	2.7
United Kingdom	3.8	3.2	3.4	3.1	2.8	3.0	2.8
Canada	4.5	4.3	3.9	2.9	2.6	3.4	2.5
Total G-7	3.1	3.0	2.8	2.6	2.6	2.6	2.4

* All Germany; F=Forecast

Sources: IMF, World Economic Outlook, May 1995; OECD Economic Outlook, June 1995; and Consensus Economics, Consensus Forecasts, June 1995

Where the recovery first took hold -- the United States, Canada and the United Kingdom -- the expansion has matured, and growth slowed in the first half of 1995. These slowdowns were generally more sharp than anticipated. Nonetheless, in each case, the outlook is for a rebound in growth this year and next, but at a slower and more sustainable rate than in 1994.

In contrast, in Continental Europe, where the expansion began later, growth is expected by most forecasters to be as strong as or stronger this year than in 1994. Growth in Germany is expected in the 2 1/2-3 percent range, although delays in publishing data make the current economic conditions in Germany difficult to gauge. Growth in France and Italy remained solid in early 1995.

Japan's recovery has taken a disappointing turn. After a strong third quarter in 1994, real GDP declined sharply in the fourth quarter and barely rose in the first quarter of this year. Indicators still point to positive growth, but at a very low rate, in 1995. A number of factors are at work:

- o Consumer and producer price deflation is contributing to slow growth in incomes and means that interest rates -- while low in nominal terms -- are high in real terms for this stage of the cycle.

- o Weak balance sheets of the financial institutions and a growing bad loan problem suggest that banks will act cautiously in extending new credit.

- o The rise of the yen earlier this year against all major currencies -- not just the dollar -- is contributing to a weaker outlook by leading to a markdown in export prospects and discouraging investment spending in Japan by industries focused on trade.

Between December 1994 and June 1995 the yen rose in real trade-weighted terms (i.e., against the currencies of all Japan's trading partners and after allowance for differences in national inflation rates) by 11 percent, bringing the rise since the end of 1992 to 27 percent. The yen at this level has significant effects on Japan's exports and investment in export industries, encouraging adjustment of Japan's large external surplus but leaving growth prospects all the more dependent on a strong recovery in domestic demand.

Prospects for Continued Low Inflation

Industrial country inflation continues to be low, with aggregate rates of increase in consumer prices among the lowest in 30 years. Last year G-7 inflation averaged 2 1/4 percent, and should reach only the 2 1/2 to 3 percent range in 1995 and 1996 (Table 2).

The outlook for inflation is well grounded. The decline in long-term interest rates in most G-7 countries in recent months is partial evidence of a decline in inflation expectations. In addition, the gap between the levels of actual and potential output remains sizeable in most countries. (See Table 3 for IMF estimates.) Hence, economies below potential can continue to grow for some time above their long-run potential rate of growth without experiencing inflation pressures. The moderate pace of the expansion and the shift in momentum from countries recovering earlier to the Continental countries have helped to prevent undue pressure on supply in any one country, thereby containing inflation pressures. In the United States, the slowing of growth will favor continued moderation of wage and price increases, in line with recent data and private sector forecasts.

Table 2

G-7: Consumer Price Inflation
(% change year/year)

	1994	1995F		1996F	
		IMF	Consensus	IMF	Consensus
United States	2.6%	3.1%	3.1%	3.5%	3.4%
Japan	0.7	0.3	0.2	0.7	0.4
Germany*	3.0	2.0	2.2	2.0	2.5
France	1.7	2.0	2.1	2.0	2.5
Italy	3.9	5.2	5.1	4.2	4.6
United Kingdom	2.5	2.9	3.5	2.8	3.5
Canada	0.2	2.0	2.4	1.9	2.5
Total G-7	2.2	2.5	2.6	2.7	2.8

* western Germany for Consensus; F=Forecast

Sources: IMF, World Economic Outlook, May 1995; and Consensus Economics, Consensus Forecasts, June 1995.

Table 3

G-7: Output Gaps
(% of potential GDP)

	1994	1995	1996
United States	0.5%	1.2%	0.8%
Japan	-6.0	-6.4	-5.3
Germany	-2.1	-1.8	-1.3
France	-3.4	-2.5	-1.8
Italy	-2.5	-1.6	-0.8
United Kingdom	-3.0	-2.0	-1.4
Canada	-2.5	-1.0	-1.0
Total G-7	-1.8	-1.3	-1.1

Source: IMF, World Economic Outlook, May 1995

Cautious Monetary and Fiscal Policies

Monetary policy in the G-7 has reflected the differing conditions in the major countries. In the United States, monetary policy has been directed toward keeping inflation low while sustaining recovery. The Federal Reserve increased both the Federal Funds target and the discount rate on February 1. After that, with inflation measures indicating that inflation remains under control, and with some signs of slowing in the economy, market sentiment shifted toward an expectation of future interest rate cuts. [*On July 6, the Federal Reserve lowered the Federal Funds target by 1/4 percentage point, to 5 3/4 percent.*]

In Germany, the Bundesbank cut the discount rate by half a point at end-March. The Bundesbank move was seen as a response to the weakness in domestic demand, continued declines in inflation, and below target money growth. French official interest rates have also fallen this year. With some concern about higher inflation risks, the Bank of Italy has twice raised interest rates this year, while the Bank of England increased the base rate in February. Canadian market interest rates rose sharply in early 1995, but are now below their peaks.

In Japan, with various measures showing declining price levels and with output growth weak, the Bank of Japan cut the discount rate to 1 percent and overnight call money rates to about 1 1/4 percent. [*Another cut in the call rate, to 0.85 percent, was made on July 7.*] But real interest rates remain fairly high, given the slack in the economy.

Fiscal policy has become more restrictive in most G-7 countries. The restrictive movement in fiscal policy is indicated by an improvement in estimated "structural" budget balances (i.e., the fiscal position is estimated by abstracting from the normal cyclical movements in revenues, expenditures, and GDP). Since the upturn is also reducing budget deficits by the revenue-increasing action of cyclical forces, the shift in actual budget deficits will be larger -- from 4.1 percent of G-7 GDP in 1993 to 3.2 percent this year and 2.9 percent by 1996, according to IMF estimates. The OECD Secretariat's estimates yield a similar conclusion. The tightening outside Japan will be even greater. In Japan, the authorities approved an economic program on April 14 which involved modest additional spending for public infrastructure. Another supplemental budget is expected in the fall.

In the United States, the Administration has made it clear that it is committed to further deficit reduction, building on the major reductions in the budget deficit that were accomplished in the first two years of the Administration. In early June, the President submitted a economic plan that would balance the budget over 10 years.

External Account Developments

Japan's trade and current account surpluses have begun to decline, but they remain high. The current account surplus measured in yen -- and as a share of GDP -- peaked in 1992. Because of the yen's rise against the dollar, however, the surplus in dollar terms continued to rise for some time, beginning its decline only in the latter part of 1994. For 1994 as a whole, the surplus fell nearly 10 percent in yen terms, but less than 2 percent in dollar terms. The first four months of 1995 showed further declines by both measures (Table 4). Volume measures also have begun to adjust. While import volumes rose very little in 1993, the gain was 10.6 percent in 1994. Export volumes were also up, though moderately: 3.5 percent in 1994, reflecting strong growth in Japan's trading partners.

Some further reduction in Japan's current account surpluses is expected in 1995 and 1996, although the pace and the extent of the adjustment will be affected by the pace of domestic demand growth and the tendency for the price effects of exchange rate changes to offset in the short-term the change in volumes. The substantial rise in the yen in trade-weighted terms will work through to lower surpluses with a lag. At first, lower import prices will simply lower the yen costs of imports, given customary time lags in adjustment of imports (J curve effects). In addition, even lower surpluses in yen terms could have a higher dollar value, because each yen is worth more in dollars (translation effects).

Strong German growth and the continued rebuilding of eastern Germany will result in somewhat higher German current account deficits in 1995-96. Declining net inflows of investment income, stemming from cumulative deficits (since 1991), are also affecting the current account. France and Italy will continue to register surpluses, sizeable in relation to GDP in the latter case. Canada's deficits should be falling as growth slows, while the UK will register essential balance.

The U.S. current account deficit is expected to continue to rise this year, but is projected to level off in 1996 as U.S. growth slows relative to that in Europe. Exports to Mexico will be weak this year, but should recover in 1996 as the Mexican economy turns around. (For a more detailed discussion of U.S. current account prospects, see Section C.)

Table 4

G-7: Current Account Balances
($ billions; % of GDP in parentheses)

	1994		1995F IMF		1995F Consensus	1996F IMF		1996F Consensus
United States	-151	(-2.2)	-178	(-2.5)	-169	-179	(-2.4)	-151
Japan	129	(2.8)	130	(2.5)	117	128	(2.3)	87
Germany	-21	(-1.0)	-26	(-1.1)	-18	-33	(-1.3)	-17
France	10	(0.7)	10	(0.7)	10	11	(0.7)	6
Italy	15	(1.3)	23	(2.2)	17	28	(2.5)	21
United Kingdom	-0	(-0.1)	-3	(-0.2)	1	-2	(-0.2)	-1
Canada	-18	(-3.3)	-11	(-2.0)	-14	-11	(-1.8)	-13
Total G-7	-36	(-0.3)	-56	(-0.3)	-56	-60	(-0.3)	-68

F=Forecast

Sources: IMF, World Economic Outlook, May 1995; OECD, Economic Outlook, June 1995; and Consensus Economics, Consensus Forecasts, June 1995

B. Developments in Major Currency Markets

The period from October 31, 1994 to May 31, 1995 was a time of significant movements in virtually all currencies. The dollar declined 12.7 percent against the yen and 5.8 percent versus the mark.

CHART 1
$/DM Exchange Rate

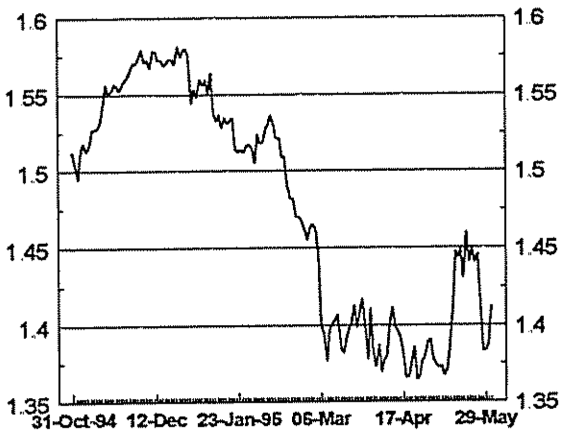
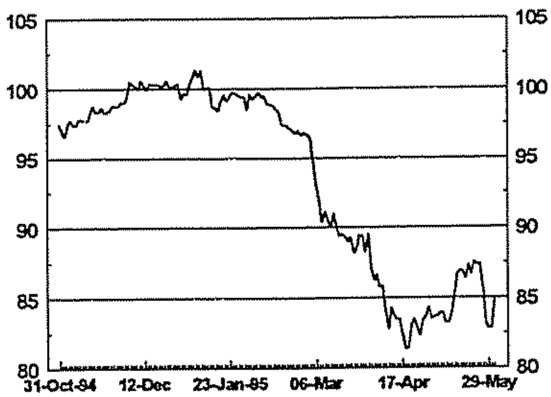
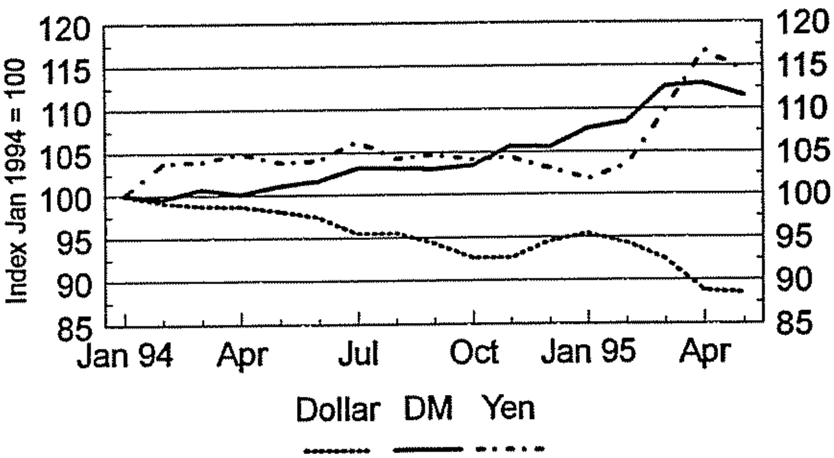


CHART 2
$/Yen Exchange Rate



On a trade-weighted basis, as shown in Chart 3 however, the dollar's decline was more moderate, losing 4.4 percent over this time period. This decline brought the dollar to the lower end of the ranges in which it has been trading over the past seven years on a trade weighted basis (Chart 4). In contrast, the mark and especially the yen moved well above their historic trading ranges on a trade weighted basis.

CHART 3
Real Broad Trade Weighted Exchange Rate Indices
January 1994 to May 1995



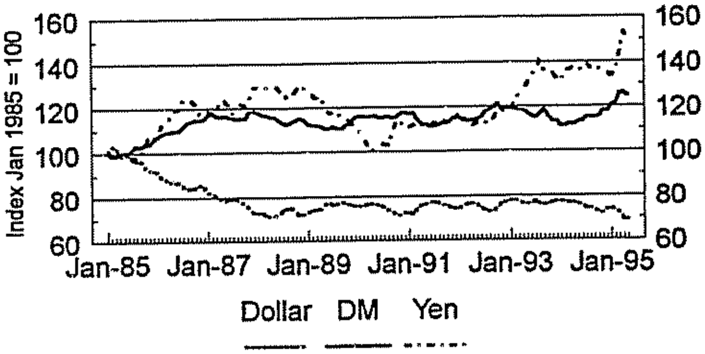
Source: JP Morgan; 1990 trade weights of 22 OECD and 23 Developing Countries.
Monthly Average

The yen rose 12.7 percent in nominal terms on the dollar and 7.3 percent against the mark, as Japan faced deflationary forces in conjunction with a stubborn current account surplus. The yen rose 9.9 percent in real trade-weighted terms (Chart 3). The Deutsche mark appreciated by 7.8 percent on a real trade-weighted basis, in large measure due to the weakness of other European currencies.

CHART 4

Real Broad Trade Weighted Exchange Rate Indices

January 1985 - May 1995



Source: JP Morgan; 1990 trade weights of 22 OECD and 23 Developing Countries. Monthly Average.

Market participants attributed these developments in the major currencies to several specific factors:

- o In the United States, a shift in expectations regarding the outlook for Federal Reserve policy followed the FOMC's rate hike on February 1st of 50 basis points. As indications of a slowing economy began to develop, earlier expectations that the Fed would tighten further dissipated. The market focus turned to narrowing interest rate differentials between the U.S. and Germany.

- o Concern about the sustainability of the U.S. current account deficit increased, in part because of the adjustment required in the wake of the Mexican financial crisis.

- o Outright price level declines in Japan meant a small trend appreciation of the yen was consistent with an appreciated real exchange rate. Weakness in the Japanese financial sector resulted in capital repatriation to bolster Japanese balance sheets. Moreover, as growth in domestic demand weakened again, pessimism over the prospects for a reduction in Japan's current account surplus continued to put upward pressure on the yen.

- o In Germany, early in the year, wage talks with a key labor union suggested some inflationary pressure, which initially contributed to the market's expectation of a steady Bundesbank policy in the near term. Meanwhile, fears over worsening fiscal deficits, increasing inflation, and political uncertainty in various European nations caused what some journalists termed a "flight to quality" out of those currencies and into the German mark. This factor, along with the initial outlook for Bundesbank policy, contributed to the significant rise in the mark's value.

At times, exchange rate movements were accentuated by technical factors, and the dollar hit all-time lows of DM 1.3450 on March 8th and Y 79.75 on April 19th.

The dollar stabilized at the end of April. Among the factors cited by market participants as contributing to this development are the following:

- o The prospect of deeper fiscal consolidation in the United States, building on significant progress at deficit reduction already achieved in this Administration, contributed to increased investor confidence in U.S. assets.

- o As growth slowed in the United States more quickly than had been expected, confidence increased that inflation would remain low and prospects improved for a more rapid improvement in our current account imbalance.

- o As the economic outlook deteriorated in Japan and concerns emerged about a possible slowdown in the pace of growth in Europe, interest rates in those markets fell, widening the differentials in favor of U.S. assets.

- o Substantial rallies in the U.S. debt and equity markets during this period induced further demand for dollars by foreigners.

On April 25, the G-7 Finance Ministers and Central Bank Governors issued the following statement on exchange rates:

> "The Ministers and Governors expressed concern about recent developments in exchange markets. They agreed that recent movements have gone beyond the levels justified by underlying economic conditions in the major countries. They also agreed that an orderly reversal of those movements is desirable, would provide a better basis for a continued expansion of international trade and investment, and would contribute to our common objectives of sustained non-inflationary growth. They further agreed to strengthen their efforts in reducing internal and external imbalances and to continue to cooperate closely in exchange markets."

<u>Exchange Rate Policy</u>

Between October 31, 1994 and May 31, 1995, the U.S. monetary authorities -- in concerted intervention operations with the G-7 partners -- intervened in the exchange markets during four different periods.

- On November 2nd and 3rd, the U.S. monetary authorities intervened, buying dollars against the Japanese yen and German mark. Secretary Bentsen stated, "I believe that the recent movements in the dollar are inconsistent with the fundamentals of a strong, investment-led recovery in the United States...Continuation of recent foreign exchange trends would be counterproductive for the United States and the world economy."

- The next round of intervention was on March 2-3. On the second day of intervention, Treasury Secretary Rubin stated, "A strong dollar is in our national interest. That is why we have acted in the markets in concert with others. The Administration is continuing its work on strengthening economic fundamentals including bringing down the budget deficit further."

- During the first week in April, the U.S. monetary authorities intervened early in the Asian session on April 3rd, later in the New York trading session on the same day, and on April 5th. On April 3rd, Treasury Secretary Rubin noted that, "We acted in the exchange markets overnight out of concern with recent movements in exchange rates." Following the last round of intervention, he also added that the G-3 "expressed their view that a strong dollar is in the most general interest of the economies of the world.... In effect, you have a shared commitment to a stronger dollar."

- The U.S. monetary authorities intervened to support the dollar on May 31st. These purchases of dollars against the yen and mark were accompanied by Treasury Secretary Rubin's comments that, "We acted in the exchange markets this morning consistent with the exchange rate objectives expressed in the April 25 G-7 Communique. We are prepared to continue to cooperate in exchange markets as appropriate."

By the end of May, the dollar had recovered to 2.4 percent and 3.9 percent above the recent lows against the yen and the mark, respectively.

C. U.S. Balance-of-Payments Developments

<u>Recent Developments</u>

The U.S. current account deficit widened further in 1994, to $151.2 billion (2.2 percent of GDP), reflecting a continuation of the factors which have been at work since the deficits hit their recent low point in 1991. The balance on merchandise trade -- the largest component of the current account -- was importantly influenced by cyclical movements:

- The robust U.S. expansion continued to pull in imports, which grew by over 13 percent in both value and volume terms. Increases were particularly strong in capital goods and autos and parts.

- Exports grew 10 percent in both value and volume, substantially above 1993 rates of growth, despite a recovery in Europe that was only moderate and continued sluggish activity in Japan. Strong growth in developing country markets and industrial countries outside Europe was an important contributor, as was the continued strong U.S. competitive position.

o Reflecting these trends, the 1994 merchandise trade deficit widened to $166 billion, up from $133 billion in 1993 and a recent low point of $74 billion in the recession year of 1991.

The other components of the current account ("invisibles") netted a surplus of $15 billion for 1994, down from $33 billion in 1993. The principal contributor to the lower invisibles surplus was investment income, which recorded a negative swing of $18 billion, from a surplus of $9 billion in 1993 to a deficit of $9 billion in 1994, as the U.S. net foreign liabilities position continued to widen. Income payments to foreign direct investors in the U.S. rose steadily during the year, to over $7 billion in Q4 compared with $5 billion for all of 1993; for 1994 as a whole they were up 4-fold at $23 billion.

The surplus on services transactions, which has grown very rapidly since the latter 1980s, showed only a modest ($2 billion) increase in 1994 which was nearly offset by an increase in unilateral transfers.

Table 5

U.S. Trade and Current Account
(selected years; $ billion)

	1987	**1992**	**1994**
Exports	**250**	**440**	**502**
Ag.	30	44	47
Non-Ag.	220	396	455
Imports	**-410**	**-536**	**-669**
Oil	-43	-52	-51
Non-oil	-367	-485	-617
Trade Balance	**-160**	**-96**	**-166**
Services, net	7	57	60
Investment Income, net	9	10	-9
Transfers	-23	-32	-36
Current Account	**-166**	**-62**	**-151**
(As % of GDP)	(3.7)	(1.0)	(2.2)

SOURCE: Survey of Current Business

Data on goods and services trade for the first quarter of 1995 indicate that the deficit on goods trade continued to widen (to $45.1 billion, from $43.5 billion for Q4 1994), albeit at a slower rate than during 1994. The first-quarter services surplus was down $1 billion or so from Q4 1994.

The pattern of capital flows continued to show a high degree of variability in 1994. There was a strong rebound in net private inflows via both direct investment and securities transactions -- both generally considered "long-term". U.S. reserve assets rose while official inflows from foreign sources declined sharply (albeit from an unusually high level for 1993), as did the combination of "other" (largely banking) flows and the statistical discrepancy.

Table 6

Financing the U.S. Current Account
($ billions)

	1990	1991	1992	1993	1994
Current Account	-93	-7	-62	-100	-151
Financing (net)					
Direct Investment	18	-9	-25	-31	0
Securities	-30	8	20	-38	43
Official	32	23	44	71	45
Other	28	14	48	63	78
(of which: banks)	(9)	(3)	(36)	(51)	(115)
Stat discrepancy	44	-29	-26	36	-14

SOURCE: Survey of Current Business

Outlook for 1995 and 1996

The slowdown in the Mexican economy as adjustment occurs in response to the financial crisis will have a significant, although temporary, impact on the U.S. trade balance in 1995. In addition, as U.S. economic growth slows to a more sustainable pace as capacity limits are approached, the rise in U.S. imports should moderate. U.S. exports should continue to thrive as the recovery in Europe is expected to solidify, and most developing country markets remain strong. But the changing relative

U.S. and foreign demand growth in prospect is not expected to be enough this year to prevent some further deterioration in the current account balance of the United States despite strong U.S. price competitiveness.

In addition to a widening in the goods trade deficit, invisibles transactions are expected to make a small negative contribution to the current account. Continued growth in the services surplus will only partially offset growth in the deficit on net investment income, where the negative trend due to rising U.S. indebtedness could be reinforced by the return to profitability of FDI in the U.S. The net result should be a 1995 current account deficit on the order of 2.5 percent of GDP, as mentioned in the previous Report.

The U.S. competitive position remains exceptionally strong -- at a minimum, the external deficit should begin to decline as a share of GDP. But the outlook for 1996 depends heavily on prospects for a sustained and strengthened recovery in the other industrial countries. With a reasonably robust recovery abroad, shared by Japan, the current account and trade deficits should begin to decline in absolute terms.

Over the medium term, the course of the current account deficit primarily will reflect developments in the U.S. -- and foreign -- saving/investment balances. A reduction in our external deficit with continued strong investment will require higher U.S. saving (including lower government sector dissaving).

ACTIONS UNDER SECTION 3004

Section 3004 of the Omnibus Trade and Competitiveness Act of 1988 requires the Secretary of the Treasury to consider whether economies manipulate the rate of exchange between their currencies and the U.S. dollar for the purposes of preventing effective balance of payments adjustment or gaining competitive advantage in international trade. Section 3004 also requires the Secretary to undertake negotiations with those manipulating economies that have material global current account surpluses, and significant bilateral trade surpluses with the United States. This section summarizes the current status of Korea, Taiwan and China, economies that have in past reports been designated as manipulating the rates of exchange between their currencies and the U.S. dollar.

A. Korea and Taiwan

It remains Treasury's judgment that neither Korea nor Taiwan is manipulating its exchange rate within the meaning of Section 3004 of the Omnibus Trade Act of 1988. Nevertheless, Treasury continues to seek liberalization of certain financial and foreign exchange policies in both economies, particularly capital controls, which have the potential to discourage investment and impede the operation of market forces in exchange rate determination.

Korea

The Korean won appreciated by 2.4 percent relative to the U.S. dollar between December 1993 and December 1994, and appreciated by 3.5 percent between end-1994 and May 31, 1995. Consumer price inflation for 1994 was 6.2 percent, slightly above the 6 percent target and well above the 1993 average of 4.8 percent. Korean officials expect consumer price inflation to remain around 6 percent in 1995. The Korean won has experienced a real appreciation against the U.S. dollar of 10 percent over the past 18 months. Korea registered a global trade deficit of $2.5 billion during the first quarter of 1995, compared to a deficit of $1.5 billion for the same period in 1994. According to official U.S. trade statistics, Korea registered a trade deficit of $920 million with the United States during this period, compared to a trade surplus of $172 million during the same period in 1994. Korea's current account deficit (balance-of-payments basis) climbed to $3.8 billion during January-March 1995, compared to $2.1 billion in the first quarter of 1994. This is the largest first quarter current account deficit since 1968. Dramatic import surges in consumer goods and machinery contributed to the record first-quarter trade and current account deficits. U.S. exports to Korea, on a first-quarter to first-quarter basis, grew by 52 percent.

Strong economic growth is one of the key engines behind Korea's expanding trade and current account deficits. Real GDP growth for 1994 was roughly 8.4 percent, and preliminary indications are that GDP growth in the first quarter of 1995 may have been as high as 9.9 percent. Exchange rates are also playing a role in Korea's shifting trade and current account balances. The Korean won appreciated a small amount against the U.S. dollar and fell by approximately 16 percent relative to the yen between December 31, 1994 and May 30, 1995. Consequently, Korea's import bill vis-a-vis Japan grew by 35 percent during the first quarter of 1995, increasing the bilateral trade deficit with Japan by 40 percent compared to the same period in 1994.

At the same time, the won's depreciation relative to the yen is making Korean exporters more competitive relative to their Japanese counterparts. The value of Korean exports to China during January-March 1995, for example, increased by 53 percent compared to the same period in 1994. By the same measure, Korean exports to Hong Kong increased by 43 percent, and to ASEAN countries by 39 percent. Korean exports to Japan grew by 29 percent, while exports to the U.S. grew by 16 percent.

Treasury continues to engage Korea on further liberalizing its financial sector, and on easing foreign exchange and capital controls which inhibit market forces from fully determining the exchange rate. Discussion of these issues has taken place in bilateral Financial Policy Talks, and in the context of the WTO negotiations on trade in financial services. An example of progress stemming from these discussions is Korea's recent decision to raise the ceiling on aggregate foreign ownership of a Korean company from 12 to 15 percent of listed shares. As noted in the last report, the Korean government released in late 1994 its Foreign Exchange System Reform Plan -- a package of measures which will loosen some foreign exchange and capital controls in three stages extending to year-end 1999. Treasury will continue to press Korea to accelerate implementation of this plan and broaden the measures contained in it.

Another significant development since the last report is Korea's formal application to join the Organization for Economic Cooperation and Development. A key element in attaining membership in this organization will be liberalization of the financial sector and a commitment to liberalize the flow of capital. Korea's desire to join the OECD by 1996 should help to accelerate the reform process and eliminate those controls which inhibit a fully market-determined exchange rate.

Taiwan

The New Taiwan dollar appreciated by 1.5 percent relative to the U.S. dollar between December 1993 and December 1994, and appreciated by 2.9 percent from end-1994 to May 31, 1995. Consumer price inflation was 4.1 percent for 1994, compared to 2.9 percent in 1993 and 4.5 percent in 1992. The increase in the CPI during 1994 was caused primarily by an increase in food prices due to typhoon damage, a relatively easy monetary policy, and a rise in gasoline prices. Taiwan's overall balance of trade declined from a surplus of $8 billion in 1993 to a surplus of $7.7 billion in 1994, the lowest level since 1983. Taiwan's current account surplus also declined from $6.7 billion in 1993 to $6 billion in 1994. Official sources estimate the overall trade surplus for the first four months of 1995 to be $1.5 billion, compared to $750 million for the same period in 1994, with the current account surplus at $1.2 billion for the first quarter, compared to a surplus of $556 million in January-March 1994.

Taiwan's real GDP growth was 6.5 percent in 1994, and indications are that growth rates may climb higher in 1995. Unlike Korea, however, where rapid growth has translated into an import surge and significant expansion of the trade and current account deficits, growth in Taiwan's imports lagged behind exports in 1994 and the first quarter of 1995. Taiwan's export growth was led by shipments to Hong Kong, Taiwan's largest overseas market and the conduit for trade with China. A continued strong export performance is likely to boost overall economic growth for Taiwan in 1995.

Exchange rates may also have played a role in the expanding first-quarter surplus. The New Taiwan dollar fell by roughly 18 percent relative to the yen between January 3 and May 30, 1995. As with Korea, the appreciation of the yen has helped Taiwan's products compete overseas with Japanese products. For example, compared to the first quarter of 1994, the value of Taiwan's exports to developing Asian countries during January-March 1995 grew by 33 percent, and by 33 percent for shipments to Japan. By comparison, Taiwan's exports to the U.S. during January-March 1995 grew by 14 percent, and by 16 percent for Western Europe. On the other hand, yen appreciation has also sharply increased prices for Taiwan's imports, especially key Japanese technology products that are incorporated in locally produced export goods. As a result, Taiwan's bilateral trade deficit with Japan increased by 7.2 percent during the first quarter of 1995, compared to the same period in 1994.

Taiwan's bilateral trade surplus with the United States increased from $8.9 billion in 1993 to $9.6 billion in 1994. For the first three months of 1995, Taiwan registered a trade surplus of $1.9 billion with the United States, compared to a surplus of $1.8 billion in the first quarter of 1994. Although Taiwan's bilateral trade surplus with the United States showed a modest increase in 1994 and the first quarter of 1995, the overall trend for the past few years has been in the opposite direction. An important factor in this process has been the slowing of growth in Taiwan's exports to the U.S. as Taiwan companies have switched production of some consumer goods, one of Taiwan's biggest categories of exports to the U.S., to overseas factories in China and elsewhere.

Treasury remains closely engaged with Taiwan on further liberalization of its financial sector, principally in the context of Taiwan's WTO accession negotiations. Since the last report, Taiwan authorities moved in January to liberalize further the rules governing forward foreign exchange contracts and swaps, and are reportedly considering a plan to raise the cap on foreign ownership of listed shares and to remove the prohibition on individual investors participating in the Taipei Stock Exchange. However, Treasury continues to press Taiwan to remove remaining foreign exchange and capital controls that may impede market forces from fully determining the exchange rate.

B. China

China has registered large increases in its global trade surplus and its bilateral trade surplus vis-a-vis the United States in the first half of this year. (The extent of the increase is highly uncertain and difficult to interpret due to weaknesses in the data.) High savings and efforts to restrict credit have bolstered an already strong external position. At the same time, recent renminbi appreciation, especially in real terms, and relatively high economic growth in China are factors that are contributing to strong growth in U.S. exports to China. Nonetheless, China's growing current account surplus is a concern and bears continued close observation. Critical for addressing this would be significant progress on lowering the broad array of trade barriers which impede imports to China's strongly growing market.

It is Treasury's determination that China is not currently manipulating its exchange system to prevent effective balance of payments adjustment and gain unfair competitive advantage. This report reiterates the conclusion of the previous Treasury report in this series. Nonetheless, Treasury remains concerned that the Chinese authorities retain the capacity to tighten foreign exchange restrictions. China can take advantage of the strong external situation to implement additional steps to liberalize its foreign exchange regime. In order to eliminate distortions in foreign exchange allocation and investor disincentives, China should commit to current account convertibility as soon as possible, eliminating restrictions on access to China's foreign exchange markets, and eliminating foreign exchange balancing requirements. China should also act to remove the multiple formal and informal trade controls which impede and distort trade.

Trade and Economic Developments

According to Chinese customs data, China's overall trade balance rebounded from a deficit of $12.2 billion in 1993 to a surplus of $5.3 billion in 1994. Exports rose 32 percent to $121.0 billion while imports rose 11 percent to $115.7 billion. For January-June 1995, China reported an overall trade surplus of nearly $13.2 billion, compared to a $730 million deficit in the first half of 1994.[1] A large disparity between the growth of China's exports and imports has been evident in the first half of this year. China's exports to all countries grew by 44.2 percent during the first six months of 1995, while imports grew by only 15.2 percent. Chinese economic authorities have attributed the rapid expansion in exports to expectations of an official decision to lower value-added-tax (VAT) refunds provided to trading companies. Trading companies reportedly sought to maximize exports before the VAT rebate was reduced. The reduction in the VAT rebate from 17 percent to 14 percent was implemented on July 1, 1995, and Chinese officials predict that exports will fall during the second half of 1995. The issue of the VAT rebate's effect on China's export performance bears continued observation, although Treasury remains skeptical as to the significance of this single factor.

In 1994, China's trade surplus with the United States continued to grow rapidly. According to U.S. Commerce Department data, Chinese exports to the United States grew 23 percent to $38.8 billion while Chinese imports from the United States grew 6 percent to $9.3 billion. This gave China a trade surplus of $29.5 billion with the United States in 1994.

According to official U.S. trade data through May 1995, China's trade with the U.S. did not closely mirror China's trade with the world as a whole. In contrast to the large disparity between China's export and import growth with all trading partners, the growth of China's imports from and exports to the U.S. was near equal in percentage terms. In the first five months of 1995, Chinese exports to the U.S. rose 25.2 percent to $16.2 billion, while Chinese imports from the U.S. grew 25.3 percent to $4.6 billion. As a result, China's surplus with the United States measured $11.6 billion in January-May 1995, up from $9.2 billion in the same period in 1994. Particularly notable was the high growth rate of U.S. exports during January-May 1995 (25.3 percent). By comparison, U.S. exports to China during the first two quarters of 1994 grew by only 17 percent. U.S. exports continue to be concentrated in capital intensive goods such as machinery, aircraft, chemicals, and agricultural products such as cotton. U.S. imports are concentrated in toys, footwear, clothing and other labor intensive products.

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[1] China's trade data do not agree with those of partner countries. In particular, China reports lower exports than partner countries report as imports. China's surrender requirements and restrictions on access to foreign exchange for non-trade related transactions encourage exporters to under-report earnings and keep foreign exchange offshore.

According to figures from China's central bank, foreign exchange reserves increased $30.4 billion in 1994, bringing China's total reserves to $51.6 billion (about 5 months of imports).[2] China's services balance is estimated at -$3.2 billion in 1994. Net transfers are estimated at $1.2 billion giving China an overall current account surplus of $2.2 billion. In addition to China's current account surplus, China registered a surplus of $36.0 billion on the capital account. Net foreign direct investment increased from $23 billion in 1993 to $30 billion in 1994.

The large increase in China's reserves and the easing of credit to troubled state enterprises contributed to rapid growth of China's money supply in 1994. M1 grew 27 percent in 1994 while M2 grew 36 percent. The Chinese authorities have taken some limited steps to control growth of the money supply. On January 1, 1995 the People's Bank of China announced it was raising the rates it charged on loans to financial institutions. Rates on three month loans were raised 0.18 percent to 10.62 percent while rates on one year loans were raised 0.27 percent to 10.89 percent. In the spring of 1995, the authorities took additional steps, including allowing more rapid appreciation of the renminbi in the interbank market for foreign exchange and recalling RMB 5 billion in loans which the People's Bank of China had extended to the Bank of China.

Real economic growth was 11.8 percent in 1994. Industrial production rose 22 percent while fixed investment by state enterprises rose 34 percent. In the first three months of 1995, China's growth moderated somewhat. Real GDP growth slowed to 11.2 percent while the growth of industrial production slowed to 20 percent.

Reflecting strong growth in the money supply and aggregate demand, as well as a runup in food prices, China's inflation continued to rise in 1994. Retail prices rose 23 percent in the year to December 1994 while the urban inflation rate rose to an estimated 29 percent. Year-on-year inflation rates peaked in September-October 1994 and have moderated somewhat since then as the effects of rising food prices receded. However, without significant tightening of monetary policy, inflation is likely to remain in double digits.

Foreign Exchange System

There have been no major changes to China's foreign exchange system since Treasury's last report. China's exchange rate operates as a managed float, with the daily exchange rate set according to the median price for foreign exchange on the previous day. Intervention by the People's Bank of China and restrictions that prevent the exchange rate from moving more than ±0.25 percent act to stabilize the exchange rate. China's main foreign exchange market is the foreign exchange trading center (FETC) in Shanghai. A number of other cities are connected to this market via satellite links. In those areas where satellite-links are unavailable, foreign funded enterprises (FFEs) needing foreign exchange must buy and sell foreign exchange in local swap centers at the rate set in Shanghai.

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[2] China's foreign exchange figures exclude holdings of the Bank of China that until 1992 were counted as part of official reserves.

Table 7
Chinese Balance of Payments Figures
($ billions)

	1991	1992	1993	1994
Current Account	13.3	6.4	-11.9	2.2
Of Which:				
Trade Balance*	8.1	4.4	-12.2	5.3
Capital Account	8.0	-0.2	23.5	36.0
Net Errors and Omissions	-6.8	-8.3	-9.8	-7.8
Change in Reserves	14.5	-2.1	1.8	30.4

Sources: Chinese and IMF Statistics
*Trade Figures on Customs Basis; Other Figures on Balance of Payments Basis

FFEs may buy and sell foreign exchange through designated financial institutions in the interbank market. However, all transactions must be approved by the State Administration of Exchange Control (SAEC). This approval can be withheld if the FFE does not fulfill requirements imposed by its investment contract (e.g. paid-in capital; export performance and foreign exchange balancing requirements).

Unlike FFEs, domestic enterprises may purchase foreign exchange directly from banks for trade and trade-related transactions upon presentation of supporting documents, without SAEC approval. However, domestic enterprises may not trade foreign exchange in the interbank market and are required to sell their foreign exchange earnings to designated banks at the official exchange rate. While the Chinese currency is convertible for trade transactions, it is not convertible for certain services transactions (e.g. tourism, purchase of services abroad) or for capital account transactions.

Exchange Rate Developments

In 1994, the renminbi appreciated 2.8 percent from its end-1993 value. On May 31, 1995 China's exchange rate stood at 8.3 yuan/dollar, a nominal appreciation of 1.7 percent from its end-1994 value. The People's Bank of China intervened in the Shanghai interbank market for foreign exchange to buy U.S. dollars in early 1995. In May, the authorities began to allow the renminbi to appreciate more rapidly while still maintaining a close link with the U.S. dollar. The recent acceleration in appreciation appears to have resulted from the authorities' attempts to resist inflation.

China's relatively high inflation rate has caused China's currency to appreciate more rapidly in real terms. In 1994, the renminbi appreciated 15.7 percent in real terms versus the U.S. dollar, 4.4 percent versus the Japanese yen, and 3.6 percent against the ECU (See Table 9). The renminbi is estimated to have appreciated an additional 9.4 percent in real terms versus the U.S. dollar between January 1 and May 15, 1995.

Exchange Rate Negotiations

In bilateral negotiations as well as negotiations on China's accession to the WTO, Treasury has continued to press the Chinese government to reform its exchange system. In particular, Treasury has urged the People's Bank of China to: (1) give domestic and foreign firms equal access to a unified foreign exchange market; (2) eliminate all requirements for government approval of foreign exchange purchases for current account transactions; and (3) eliminate foreign exchange balancing requirements. Chinese authorities have responded that they are considering further reforms of the exchange system. In this regard, the People's Bank of China has indicated that it is evaluating steps to eliminate discriminatory access requirements for FFEs and simplifying the SAEC approval process.

Assessment

Treasury has determined that China is not currently manipulating its foreign exchange system to prevent effective balance of payments adjustment or gain unfair competitive advantage in international trade. While China continues to maintain the capacity to impose significant restrictions on foreign exchange transactions, we do not have evidence that imports are impeded by exchange restrictions. Nevertheless, China's growing current account surplus remains a serious concern.

Since 1992, China has taken important steps toward opening its markets, but multiple overlapping barriers to trade continue to frustrate market access for U.S. goods. China uses high tariffs -- in combination with restrictions on trading rights, discriminatory technical standards, quantitative import barriers, industrial policies and subsidies -- to protect its domestic industry and restrict imports. China's market for services is still largely closed. In addition, on agriculture, pervasive state trading and unscientific phytosanitary restrictions also block market access. Through bilateral and multilateral channels, the Administration is pressing China to provide meaningful market access for goods and services. These include the 1992 U.S.-Sino Memorandum of Understanding on Market Access and China's accession to the WTO.

There are no technical or economic obstacles to immediate current account convertibility. China should eliminate restrictions on access to its exchange markets as soon as possible. The United States continues to seek these commitments from China in bilateral negotiations and in multilateral negotiations on China's accession to the WTO.

Treasury is concerned about China's ability to reimpose significant restrictions on foreign exchange transactions, thereby preventing market forces from having their full effect on exchange rate determination and external imbalance adjustment. Treasury remains committed to seeking an elimination of these restrictions and the associated bureaucratic apparatus.

Table 8

China: Nominal Bilateral Exchange Rates Indices
(End of Period)

	1990	1991	1992	1993	1994
United States	100	96.4	80.2	68.9	66.3
Japan	100	88.7	73.7	56.7	48.4
EU	100	98.9	91.1	84.8	73.6

China: Real Bilateral Exchange Rates Indices
(End of Period)

	1990	1991	1992	1993	1994
United States	100	97.2	83.8	82.6	95.6
Japan	100	89.9	78.8	70.7	73.8
EU	100	98.2	93.2	98.8	102.5

Sources: IMF and Treasury Department Data

Decline of Index = Depreciation of Chinese Currency

APPENDIX 1: 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 of 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 underlie 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.