

ASIA ECONOMICS ANALYST

Asian Central Banks' FX Policy Toolkit

The Middle East conflict-related energy shock has complicated the policy backdrop for Asian central banks, which are now balancing weaker growth, higher inflation, and weaker currencies alongside volatile capital flows. Excessive FX volatility can be costly for the real economy, and a sharp currency depreciation can raise imported inflation and increase external debt-service costs.

In this report, we assess the regional central banks' FX-management toolkit beyond conventional policy rate tightening/easing. We identify five broad tools: i) direct and indirect intervention, with increasing use of FX forwards; ii) managing the FX forward curve; iii) managing the term structure of front-end rates; iv) capital outflow controls; and v) capital inflow measures. Each tool comes with distinct benefits, costs, and implementation constraints, so effectiveness depends on the underlying macro and market backdrop.

The first part of solving for Asian central banks' appropriate mix of FX policy tools is to determine whether the main driver of the currency change is from the current account or the capital account, and second, whether the pressure is more likely to be short-term (i.e., event shock) or medium-term (i.e., more structural). In either case (current or capital account), we think FX intervention can be used to temper volatility, although this is typically just a short-term solution as FX reserves are finite. Medium-term solutions can involve central banks deploying capital flow measures, adjusting policy rates, and/or letting the currency gradually adjust to rebalance the current account.

Asian central banks' initial response to the 2026 Middle East shock was appropriately centered around FX intervention, given the early assumption that the conflict would be short-lived. But as the shock has persisted, central banks have broadened their toolkit: Indonesia moved from FX intervention, to front-end rate tightening and then policy hikes; the Philippines also hiked; India has so far relied on measures to attract inflows rather than raising rates; and Korea has focused on managing outflows and supporting inflows. In our view, these actions have been somewhat effective, with several USD/Asia pairs off their recent record highs. Going forward, if the conflict drags on for longer, oil prices remain elevated, and US rates and the broad USD remain firm, further policy tightening and flow measures across the region are likely. While each FX policy tool can work under the right conditions, they also carry costs, which we examine in more detail in this report.

Danny Suwanapruti

+65-6889-1987 |
danny.suwanapruti@gs.com
Goldman Sachs (Singapore) Pte

Santanu Sengupta

+91(22)6616-9042 |
santanu.sengupta@gs.com
Goldman Sachs India SPL

Chris Poh

+65-6889-3454 | chris.poh@gs.com
Goldman Sachs (Singapore) Pte

Xinquan Chen

+852-2978-2418 |
xinquan.chen@gs.com
Goldman Sachs (Asia) L.L.C.

Irene Choi

+82(2)3788-1722 | irene.choi@gs.com
Goldman Sachs (Asia) L.L.C., Seoul Branch

Andrew Tilton

+852-2978-1802 |
andrew.tilton@gs.com
Goldman Sachs (Asia) L.L.C.

Managing the “impossible trinity”

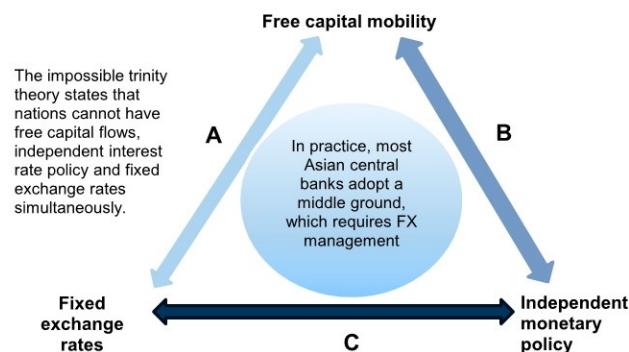
Policymakers in Asia are facing a challenging macro backdrop as the Middle East conflict and the associated energy shock weighs simultaneously on growth, inflation and exchange rates. The “impossible trinity” suggests that an economy cannot sustain an independent interest rate policy, a fixed exchange rate, and full capital mobility, simultaneously, implying that policymakers can prioritize only two of the three objectives at any given time ([Exhibit 1](#)):

A) Free capital mobility + fixed exchange rates (while giving up independent interest rate policy).

B) Free capital mobility + independent interest rate policy (while giving up fixed exchange rates).

C) Fixed exchange rates + independent interest rate policy (whilst giving up free capital mobility).

Exhibit 1: Most EM Asian central banks try to manage a middle ground within the “impossible trinity.”



Source: Goldman Sachs Global Investment Research

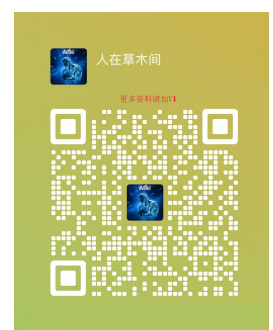
In practice, many EM central banks have tended to adopt a middle ground, seeking to balance these objectives rather than look for a corner solution, i.e. fully relinquish any single policy goal. This reflects the view that excessive FX volatility can occur in a completely free-floating exchange rate regime, which may prove disruptive for the real economy. As a result, central banks in the region often intervene to smooth excessive currency volatility. Singapore and Hong Kong operate FX-based monetary frameworks, and therefore do not conduct an independent interest rate policy in the conventional sense.

Conventional monetary policy (hiking or easing policy interest rates) can be used as an FX-adjustment tool by Asian central banks. To the extent that FX responds to interest rate differentials, tighter policy in Asia supports local currency appreciation, while easing generally means local currency depreciation. In practice, however, the more relevant variable is typically the rate spread versus the Fed funds rate, rather than the absolute level of domestic rates.

We exclude conventional monetary policy from the main discussion in this report because it is a blunt instrument for FX management. Policy rate changes affect the broader economy, not just the currency. Tightening to support FX when growth is weak can deepen a growth slowdown, while easing to restrain appreciation can fuel overheating and inflation. As a result, while monetary policy can be effective in influencing FX, policymakers typically balance FX objectives against broader macro costs.

In this report, we examine the policy toolkit available for managing exchange rates and assess how these instruments are used in practice. We see five broad tools that central banks in the region typically use, besides tightening / easing policy rates to manage FX: i) direct and indirect intervention, with increasing use of FX forwards; ii) managing the FX forward curve; iii) managing the term structure of front-end rates; iv) capital outflow; and v) capital inflow measures.

In our view, each approach has its own benefits, costs, and implementation constraints, and their effectiveness depends on the underlying macroeconomic and market backdrop. We therefore also outline the conditions under which these tools are most likely to be effective, which should help investors analyze newly announced FX regulations or tools.



Asian Central Banks' FX Policy Toolkit

Exhibit 2: Summary of tools available for Asian central banks to manage the currency

To strengthen currency		To weaken currency	Benefit	Costs	Effectiveness
1. Intervention					
Spot intervention	Sales of USDs vs. local currency.	Purchase of USDs vs. local currency.	Can be implemented quickly with immediate result (if sizable).	- Tightening or loosening domestic liquidity conditions - Selling USDs is a drain on finite FX reserves - Buying USDs (if one-sided) risk mention in US Treasury FX report	- Results are immediate but rarely long lasting. - Intervention help to temper volatility and buys time for central banks but does not change overall trend for currency.
FX forwards	Sales of onshore or offshore FX forwards (where applicable)	Buying of onshore or offshore FX forwards (where applicable)	Utilizes less FX reserves (at inception) than spot intervention.	Corporates are active participants in FX forwards. Unusually elevated / depressed FX fwd. points affect importer / exporter hedging costs.	Effective in short run and uses less gross reserves, but FX forwards ultimately need to be settled. It buys time but there is limit to how much FX fwd. book can grow before it has counter effect on spot.
State banks / related entities	Encourage state entities to sell USDs or encourage FX conversion to local currency	Encourage state entities to buy USDs or discourage FX conversion to local currency	Does not appear in intervention reports and therefore less visible to the market.	US Treasury report is widening scope to capture state entity / proxy related activity.	Effective in short run, but does not alter broader BoP fundamentals.
2. Managing liquidity / shape of FX forward curve					
Domestic liquidity	-Tighten local currency liquidity (i.e. sell/buy USDs FX swaps, or engage in OMOs that would drain liquidity). *-This will push FX forward curve up, making it cheaper to express a long local currency position.	-Loosen local currency liquidity (i.e. buy/sell USDs FX swaps, or engage in OMOs that would inject liquidity). *-This will push FX forward curve lower, making it cheaper to express a short local currency position.	Can be implemented quickly and does not impact FX reserves (although FX swaps would grow/reduce FX forward book).	Corporates are active participants in FX forwards. Unusually elevated / depressed FX fwd. points affect importer / exporter hedging costs.	- Sharply elevated (/discounted) FX forward curve makes it expensive for foreign investors to express a bearish (/ bullish) view on the local currency. This can help discourage speculative flow. *- Less effective if the driver of currency weakness/strength is from current account flows.
USD liquidity	- Loosen USD liquidity (cutting RRR on USD deposits). *-This will push FX forward curve up, making it cheaper to express a long local currency position.	- Tighten USD liquidity (raising RRR on USD deposits). *-This will push FX forward curve lower, making long local currency more expensive.			
3. Managing term structure of front-end rates					
Price guidance on central bank bills	Raise cut-off yields on central bank bills in primary market.	Lower cut-off yields on central bank bills in primary market (by increasing issuance).	Faster response than adjusting at policy rate meeting (typically 4-8 week intervals).	Elevated central bank bill yields can crowd out commercial loans.	Offer short-term reprieve to attract capital inflows, but does not change current account flows.
4. Capital inflows measures					
Export repatriation	Can force exporters to repatriate export proceeds to home country (within a time period). This will improve USD liquidity, but not necessarily drive FX spot.	No restrictions and allow full flexibility on repatriation of export proceeds (usually the default).	Helps bring improve USD liquidity onshore via private sectors and not rely on central bank.	-Several exporters also import (and therefore still have natural demand for USDs). -Forced repatriation creates burden and can adversely affect corporates FX management.	May provide short-term injection of USD liquidity onshore. But without actual FX conversion into local currency, effectiveness may be limited.
FX conversion	Compel exporters to convert foreign currency into local currency, upon repatriation.	No restrictions and allow full flexibility on conversion of export proceeds (usually the default).	Compels private sectors to support currency, while not impacting central bank's FX reserves.	-Exporters also import and therefore have natural demand for foreign currency. - Corporates will need to convert back to FCY again possibly at a higher rate.	-From our observation, this is very draconian and not effective long-term, since corporates that export and import are already naturally hedged. -Forced conversion creates more FX exposure and potentially increases costs for companies.
Portfolio flows (typically fixed income)	- Improve ease of access to local bonds. - Promote bond index inclusion to attract passive flows.	-Discourage inflows by imposing withholding or capital gains taxes for bond investments. - Introduce minimum holding periods for bonds.	Bond index inclusion flows can help bring long-term investors into the bond market.	Hot money flows can follow passive flows. Frequent movement in hot money flows can create volatility in FX market.	Index inclusion can take years to achieve, and most Asian markets are in their appropriate indices.
5. Capital outflows measures					
Financial institutions	Impose limits / quotas for foreign investment by investor types or sectors.	-Remove restrictions for foreign investment by local FIs. - Adjust foreign vs local taxes on investment proceeds to encourage outflows.	Capital outflow measures can reduce demand to buy foreign currency by local investors, thereby reducing the risk of capital flight.	-Deprives local investors the opportunity to diversify and invest offshore. - Concentration risk in only local assets can create imbalances and potentially lead to domestic asset price bubbles.	- China's tight capital outflow measures has likely contributed to CNY's stability. - India has stringent outflow measures, yet the currency has been weakening for years.
Retail investors	- Limits on foreign currency purchases - Control channel of foreign investment (through FIs only) *- Limits on types of investments	- Liberalize channels and limits for foreign investments - Improve market access for domestic investors - Improve financial literacy for offshore products.		- Discourages repatriation of funds, as investors may prefer to keep funds offshore.	- Can help control portfolio flows, but underlying CA trend is also key for direction of currency.
6. Monetary Policy					
Adjusting policy rates	Hiking policy rates	Cutting policy rates	- Widens/narrows domestic interest rates versus the US. - Rebalances the economy (via tightening or loosening financial conditions).	- Adjusting policy rate impacts the entire economy, and not just FX. - Therefore, it is a very blunt tool for short-term volatility.	- Significantly widening on the domestic interest rates vs the US rates is needed for measure to be effective. - Likely more effective in high-yield markets (as it is the spread against the US that matters and not just the absolute level in local policy rates).

Source: Goldman Sachs Global Investment Research

1. FX Intervention

Description and implementation: Most EM central banks intervene in the FX market to some extent, either under an explicit mandate, (e.g. Singapore and Hong Kong), or to smooth excessive currency volatility (e.g. India), as large exchange-rate swings are generally seen as undesirable for the real economy. Most central banks now disclose, or have committed to disclose intervention data, typically with a lag ([Exhibit 3](#)). In some cases, state-owned banks or public-sector entities also adjust the pace of foreign-currency purchases on the central bank's behalf to help moderate local-currency volatility.

Exhibit 3: Most Asian central banks now report (or have committed to report) FX intervention levels on a lagged basis
Disclosure of FX reserves, predetermined drains, contingent drains and FX intervention activity

	Foreign currency resources*	Predetermined drains**	Contingent drains**	FX intervention	FX intervention data frequency and lag
Japan	Y	Y	Y	Y	Officially, MoF reports its monthly FX intervention operations on the final business day of the month, for the period covering up to two business days before the end of the month. Unofficially, market participants can infer possible daily intervention from changes in BoJ Treasury funds and current account data, which become visible with roughly a 1 to 2 business day lag.
China	Y	Y	Y	N	While official FX intervention data is unavailable, market participants estimate possible intervention using proxy data, such as SAFE FX settlement data, changes in PBoC foreign assets, and the net foreign asset position of the state commercial banks.
Hong Kong	Y	Y	Y	Y	HKMA reports its FX intervention operations daily/near-real time via changes in the Aggregate Balance.
South Korea	Y	Y	Y	Y	BoK reports its quarterly aggregated FX intervention operations with a three-month lag from the end of the period.
Taiwan	Y	Y	Y	Y	From November 2025, CBC commits to the reporting of quarterly aggregated FX intervention operations with a three-month lag from the end of the period. On a monthly basis, CBC will disclose whether intervention was conducted, though, not on the direction or amount.
Singapore	Y	Y	Y	Y	MAS reports its six-month aggregated FX intervention operations with a three-month lag from the end of the period.
Malaysia	Y	Y	Y	Y	In Oct 2025, BNM committed to provide greater FX intervention disclosures: • To US Treasury: BNM will report its aggregate FX intervention operations on a six-month aggregated basis, and with a three-month lag from the end of the period • To the public: BNM will report its aggregate FX intervention operations over the past 12-months and only twice a year (published in end-March and end-September every year)
Thailand	Y	Y	Y	Y	In Oct 2025, BoT committed to public disclosure of any foreign exchange intervention operations on at least a semiannual basis with a quarterly lag.
Indonesia	Y	Y	Y	N	Does not disclose FX intervention volumes.
Philippines	Y	Y	Y	N	Does not disclose FX intervention volumes.
India	Y	Y	Y	Y	RBI reports its monthly FX intervention operations with a two-month lag from the end of the period.

*Includes official reserve assets and other foreign currency assets

**Includes foreign currency liabilities and financial derivative positions in forwards, futures and swaps

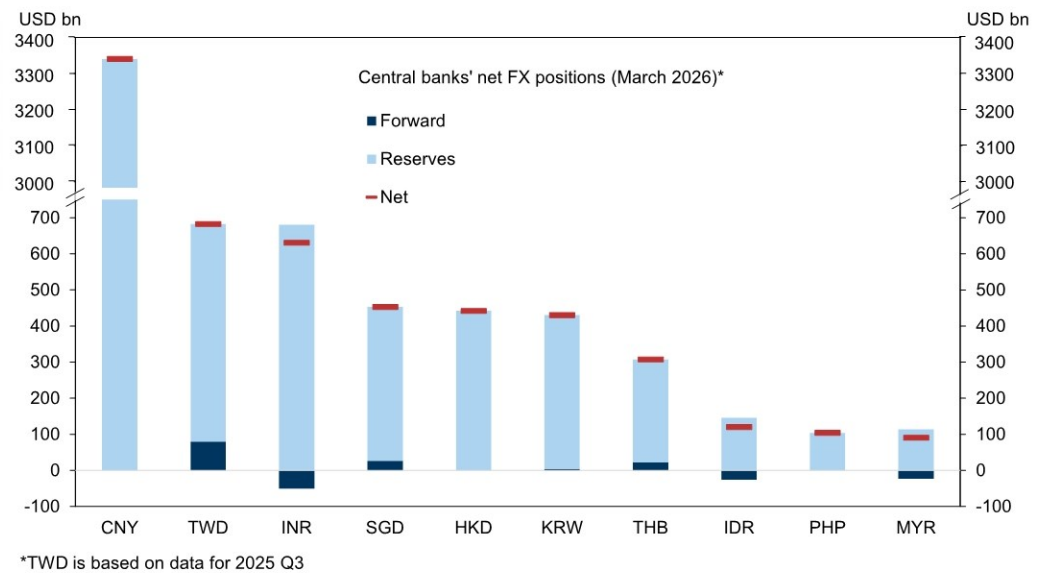
***Contingent foreign currency liabilities, foreign currency securities issued with options, undrawn and unconditional credit lines and positions of options in foreign currency vis-à-vis the domestic currency

Source: IMF, Central banks, Goldman Sachs Global Investment Research

Increasing use of FX forwards: FX swaps is one of several tools that central banks use to manage local and foreign currency liquidity. However, Asia central banks have increasingly relied on forwards as an FX management tool in recent years. Relative to spot intervention, forwards require no use of USD notional (at inception) and therefore have no impact on the drawdown in *gross* FX reserves. That said, the impact on *net* reserves is similar, since a short USD forward position constitutes a liability for the central bank, which has a future foreign-currency delivery obligation. FX forwards also provide greater flexibility, as positions can be rolled at maturity, allowing central banks more time to manage market pressures. As of most recent data, Taiwan, Singapore and Thailand have net long USD forward positions, while India, Indonesia and Malaysia have short USD forward positions ([Exhibit 4](#)).

In 2018, Bank Indonesia (BI) innovated beyond the traditional FX forward product and introduced “domestic non-deliverable forwards.” This allows BI to offer an FX hedging tool for corporates / asset managers looking to hedge IDR risk, while settling in local currency, eliminating the need to draw down FX reserves (for details on DNDF product, please see [here](#) and [here](#)). Over the past year, both [BI](#) and the [RBI](#) have been active in the offshore non-deliverable forward (NDF) market.

Exhibit 4: Taiwan, Singapore and Thailand currently have long USD forward books, while India, Indonesia and Malaysia have short USD forward books



Note that the FX forward book excludes offshore positions (i.e. NDF markets)

Source: Haver Analytics, Goldman Sachs Global Investment Research

Constraints on intervention

Sterilization: Spot FX intervention has direct implications for domestic monetary conditions because it mechanically changes the stock of local-currency liquidity in the banking system. Specifically, spot sales of FX withdraw domestic liquidity and tighten money-market conditions, while spot purchases inject liquidity and ease them. Central banks therefore often **sterilize** these operations, typically through open-market purchases or sales of government securities, when they seek to influence the exchange rate without altering the underlying monetary policy stance.

When a central bank buys FX from banks, it pays in domestic currency. That payment shows up as an increase in commercial banks' reserves at the central bank and/or an increase in currency in circulation if the liquidity is withdrawn as cash. In other words, the central bank acquires foreign assets on the asset side of its balance sheet and creates base money on the liability side.

In balance-sheet terms:

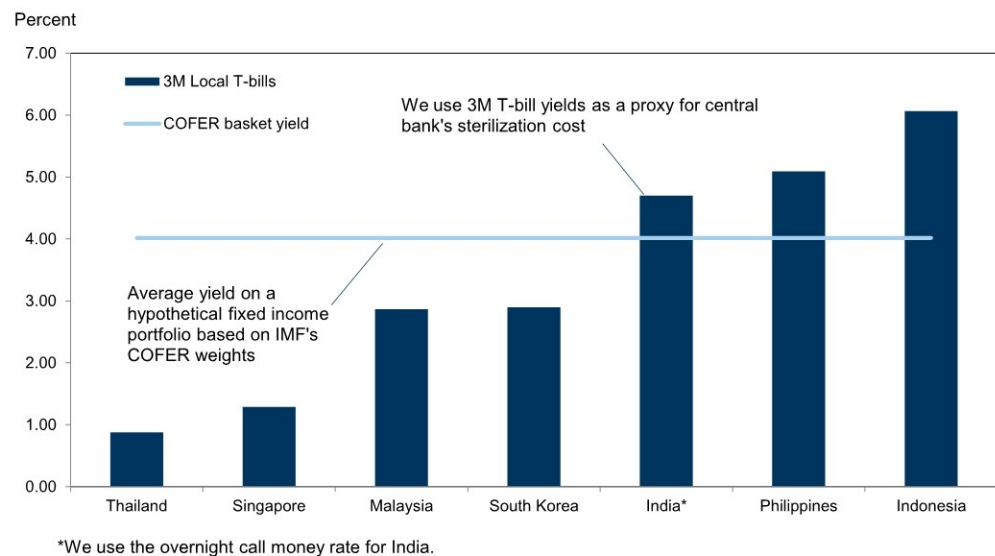
- Assets: FX reserves increase
- Liabilities: Reserve money increases, typically via bank reserves

So, FX purchases are expansionary for domestic liquidity. Now the impact on reserve money depends on whether the central bank sterilizes the intervention:

- Unsterilized FX purchase: Reserve money rises
- Sterilized FX purchase: The central bank offsets the liquidity injection by selling domestic securities, issuing central bank bills, or draining liquidity through deposits/repos, so the net effect on reserve money is reduced or neutralized.

To assess the cost of intervention activity on central bank balance sheets, we compare the cost of sterilization (approximated at 3M T-bills) versus the likely yield return on reserve deployment from USD accumulation. The average yield return on an IMF COFER-weighted basket of government bonds is around 4%. [Exhibit 5](#) shows that most Asian central banks would effectively be earning a positive carry from their intervention activity. Therefore, apart from the Philippines, India and Indonesia, the sterilization cost of buying USDs is less of a concern at this juncture. However, when core DM yields are very low (as they were during 2010–2015 and 2020–2021)—persistent negative carry on sterilization would erode central bank capital over time—policymakers may be more reluctant to engage in extended periods of USD buying.

Exhibit 5: Sterilisation cost is likely a concern only for Asian high-yielders at present



As of Q4 2025, IMF COFER data show that the top five currencies held by global central banks are USD (57%), EUR (20%), JPY (5.8%), GBP (4.4%), and CAD (2.5%)

Source: Bloomberg, Goldman Sachs Global Investment Research

Constraints to intervention when selling FX reserves: Apart from sterilization, reserve adequacy is the key constraint on FX reserve sales, but there is no single accepted benchmark for what constitutes an appropriate reserve buffer. Traditional metrics have focused on import cover and short-term external debt, but in practice reserve needs depend on a broader set of country-specific characteristics, including the exchange-rate regime (fixed vs. floating) and the degree of capital account openness. Economies with more tightly managed exchange rates or more open capital markets generally require larger precautionary buffers, while relatively closed capital accounts (e.g. China and India) may imply lower capital flight risk. The IMF has developed an Assessing Reserve Adequacy (ARA) framework, which we explain in more detail below ([Exhibit 6](#) and [Exhibit 7](#)).

BOX: IMF's Assessing Reserve Adequacy (ARA) framework (2015)

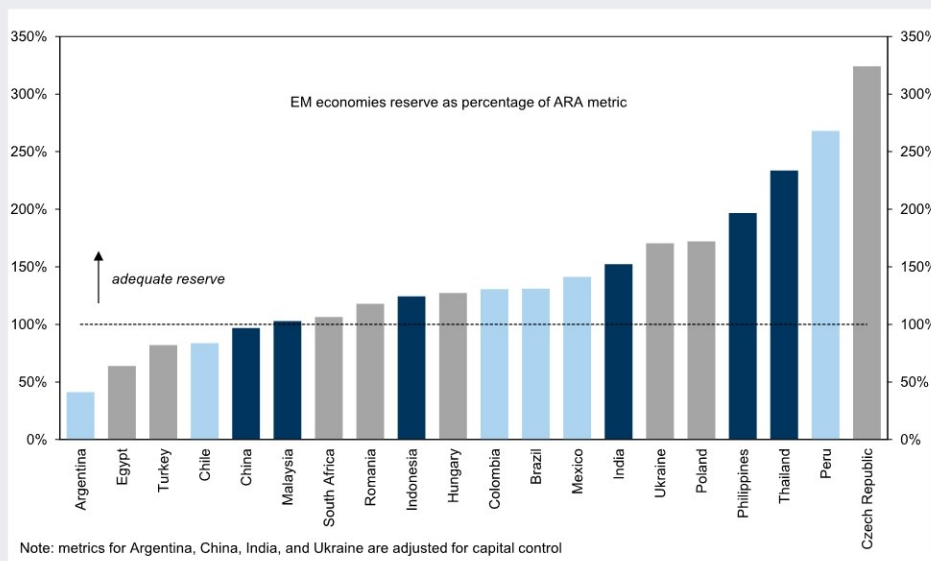
The *IMF's Assessing Reserve Adequacy (ARA) framework (2015)* provides a more comprehensive approach (than traditional metrics, such as import cover) by linking reserve needs to potential sources of balance-of-payments pressure. For emerging markets, the ARA metric incorporates four components: (i) export income, to capture potential losses from a decline in external demand from terms-of-trade shocks; (ii) broad money, as a proxy for potential resident capital flight via liquidation of highly liquid domestic assets; (iii) short-term external debt, to reflect rollover risk; and (iv) other liabilities, to capture the risk of portfolio outflows. The overall reserve adequacy metric is calculated as a weighted sum of these components, with the weights varying according to whether the economy operates under a fixed or floating exchange-rate regime [Exhibit 6](#) and [Exhibit 7](#). For a more comprehensive explanation of the IMF's ARA methodology, please see the IMF's [2011](#), [2013](#) and [2015](#) papers.

Exhibit 6: IMF's ARA metric for reserve adequacy

Component	Risk represented	Weight (Floating FX regime)	Weight (Fixed FX regime)
Short-term debt	Debt with rollover risk (within 1 year)	30%	30%
Other liabilities	Portfolio outflows (long-term debt / equity)	15%	20%
Broad Money	Resident capital flight (liquidity risk)	5%	10%
Exports	External demand / terms of trade shock	5%	10%

Source: IMF, Goldman Sachs Global Investment Research

Exhibit 7: Asian economies have adequate reserves according to the IMF's ARA metric



Source: IMF, Goldman Sachs Global Investment Research

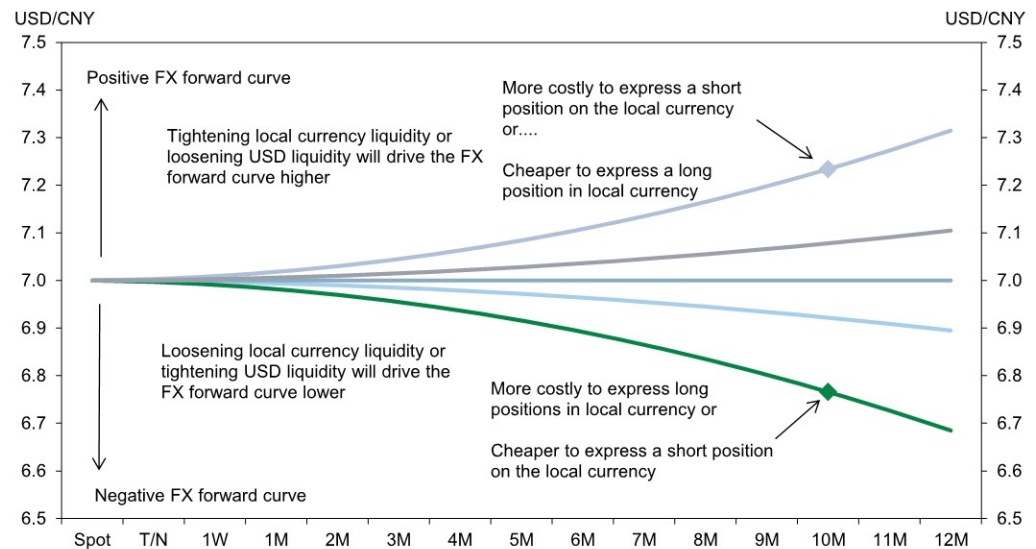
Constraints to intervention when buying FX reserves: Apart from sterilization, there is the risk of being labeled a “currency manipulator” in the US Treasury’s FX report. US Treasury focuses on three criteria for its semi-annual FX report: i) a significant bilateral trade surplus with the US (at least USD 15bn), ii) a material current account surplus (at least 3% of GDP), and iii) persistent one-sided FX intervention (at least 8 out of 12 months, totaling at least 2% of GDP). As of January 2026, seven of the ten economies on the US Treasury’s monitoring list are from Asia, including China, Japan, Korea, Taiwan, Thailand, Singapore, and Vietnam (alongside Germany, Ireland, and Switzerland). The US Treasury did not designate any country as a currency manipulator in its January 2026 report. If designated, there could be trade policy repercussions, which Asian policymakers generally seek to avoid.

Effectiveness of intervention: FX intervention appears effective over short horizons, with market impact often immediate. Recent BoJ operations showed that intervention can push USD/JPY lower in the near term. However, academic studies suggest that intervention is less effective in the long run, when leaning against fundamentals. The SNB tried to keep EUR/CHF above 1.20 in 2014, but eventually the pair dropped to 1.0 in 2015. Asian central banks have seen reserve drawdowns this year, which have slowed depreciation pressures but have not prevented several currency pairs from breaking to fresh highs (USD/KRW, USD/IDR, USD/INR and USD/PHP). In our view, FX intervention is a tool to smooth volatility and buys time for macro adjustment, regulatory measures, or monetary policy to gain traction. But rarely does it alter the direction of travel for the currency on its own.

2. Managing liquidity / shape of the FX forward curve

Description and implementation: Central banks can influence FX forward pricing through liquidity operations that move short-end funding rates in local currency and, in some cases, onshore USD funding. Under covered interest parity, forward points are primarily anchored by the spot rate and the relevant interest-rate differential, but in practice they also reflect the cross-currency basis. All else equal, draining local-currency liquidity tends to raise front-end local rates (vs. USD rates onshore), raising forward points and increasing the carry or roll cost of short local-currency positions vs. the USD ([Exhibit 8](#)). Conversely, injecting local-currency liquidity tends to compress local front-end rates, lower forward points, and reduce the cost of short local-currency positions. In Asia, forward pricing also reflects cross-currency basis, onshore-offshore market segmentation, capital flow management measures, non-deliverable vs. deliverable market structure, hedging demand, and onshore USD liquidity. As such, central bank liquidity operations can have a meaningful impact on FX forwards.

Exhibit 8: Managing USD or LCY liquidity conditions can influence FX forward curve



Source: Goldman Sachs Global Investment Research

Exhibit 9: Policy measures, structural factors, and changes in market conditions can have an impact on FX forwards

Factors impacting FX forwards	Short definition	Why it matters for forwards
Cross-currency basis dynamics	Differences between covered interest parity (CIP) implied and market forward pricing	Changes forward points independently of policy-rate moves
Onshore-offshore market segmentation	Separation between domestic deliverable and offshore FX markets	Weakens arbitrage and allows pricing gaps
Capital flow management measures	Rules limiting market access, positioning, or cross-border flows	Alters liquidity, hedging channels, and basis
NDF versus deliverable market structure	Offshore cash-settled forward versus onshore physically deliverable forward	NDFs can price off offshore USD conditions rather than domestic rates
Hedging demand	Structural demand to buy/sell forwards for risk management	One-way flow can push forwards away from fair value
Episodic onshore USD liquidity constraints	Temporary scarcity of USD funding in the domestic system	Distorts front-end forward points and widens basis

Source: Goldman Sachs Global Investment Research

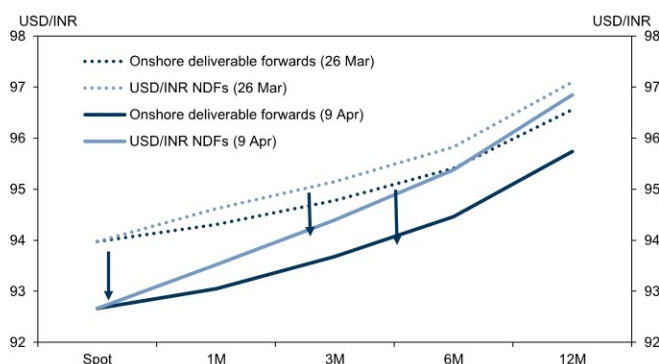
Constraints: Corporates and local financial institutions are often major participants in the onshore FX forward market, so the shape of the forward curve matters not only for investors but also for natural hedgers in the real economy. Elevated forward points raise the cost for importers to hedge their future foreign-currency demand, while negative forward points (deeply discounted) make it costly for exporters to hedge their future FX receivables.

Effectiveness: Liquidity adjustment can be deployed quickly through routine open market operations, which can be carried out daily, without the need to change to policy rates or introducing new rules or regulatory measures. If exchange-rate pressure is being driven by leveraged or speculative flows, influencing the carry or roll cost of FX positions can help discourage one-way positioning. However, if the currency strength or weakness is being driven by underlying current-account balances or other structural balance-of-payments factors, this tool will likely be less effective.

Practical examples: China often adjusts the reserve requirement ratio (RRR) on FX forward sales and USD deposits, which affects the FX forward curve. Cutting RRR on FX forward sales (as in March 2026, from 20% to 0%) would push the USD/CNY FX forward curve lower, which makes it cheaper for importers to hedge (buy USD/CNY) but more expensive for investors to express a long CNY position. Alternatively, the PBoC could also raise the RRR on FX deposits (as it did in December 2021), which would drain onshore USD liquidity, thereby also pushing the USD/CNY FX forward curve lower. These policies are consistent with the PBoC trying to curb CNY strength, as they both would effectively push the FX forward curve lower (similar to that explained in Exhibit 8).

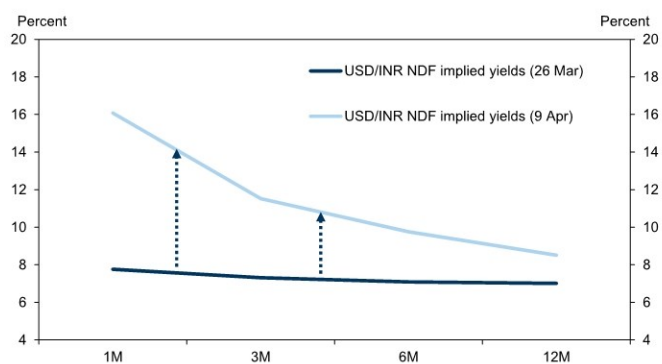
India adjusted FX regulations in March, which flushed out a significant volume of carry trades (estimated at USD 30bn) between the onshore and offshore NDF curves. The RBI reduced banks' end of day net open position (NOP) limit sharply to USD 100mn (from 20-25% of tier I and II capital—in some cases the NOP was USD 1bn+ for some foreign banks in India). Whilst we do not think the intention of the policy was specifically aimed at influencing the FX forward curve, this resulted in higher USD/INR NDF points, which made it more costly to express a bearish view on the INR market. The RBI's tightening of offshore NDF access and FX position limits has further reinforced onshore-offshore bifurcation and the scope for basis dislocations.

Exhibit 10: Spot USD/INR, onshore DF and NDFs curves shifted lower post FX regulations changes in March 2026



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 11: USD/INR NDF implied yields rose significantly post announcement of the FX regulations changes



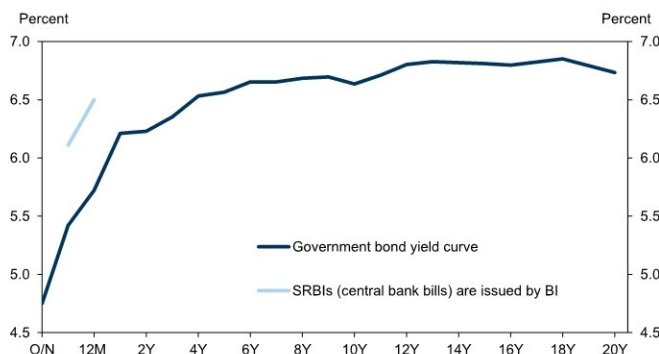
Source: Bloomberg, Goldman Sachs Global Investment Research

3. Managing the term structure of front-end rates

Innovation over the years has led some central banks to expand their toolkit to influence the term structure of front-end rates to attract foreign inflows, with Bank Indonesia's introduction of SRBIs in 2023 being a case in point.

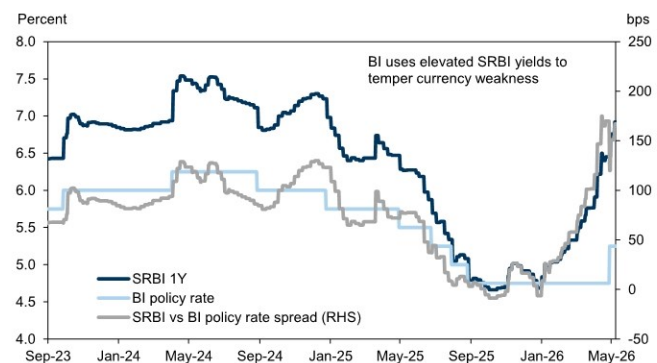
Managing the term structure: Several Asian central banks issue their own short-term bills. They are issued to mop up excess liquidity, while allowing bills to roll off injects liquidity. Korea issues Monetary Stabilization bonds (MSBs), Malaysia issues Bank Negara Malaysia Notes (BNMN), Thailand issues Bank of Thailand Bonds and Indonesia issues Securitas Rupiah Bank Indonesia (SRBIs). They are different to government T-bills, which are used for fiscal financing purposes. Central bank rate decisions typically happen during their monetary policy meetings (~4-8 weeks intervals). To respond to market conditions more promptly, BI introduced SRBIs in 2023, which are auctioned bi-weekly, where it can guide market interest rates higher in the primary market. BI aims to maintain IDR stability via: "Strengthening the interest rate structure of pro-market monetary instruments to continue attracting foreign portfolio investment inflows."

Exhibit 12: BI can issue SRBIs at elevated spread above the policy rate to attract foreign inflows



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 13: BI allows the spread of SRBIs vs policy rate to widen to attract foreign inflows



Source: Bloomberg, Goldman Sachs Global Investment Research

Costs and constraints: The term structure (overnight to 12M) is typically determined by the overnight rate (usually set by the central bank's policy target rate), expectations for its future path and demand / supply. When a central bank influences the term structure, it potentially distorts the curve, which may lead to unintended consequences. For instance, when BI allows 1Y SRBI yields to trade significantly above the policy rate, then there is risk that banks may prefer to park their funds in SRBIs, as opposed to lending to the real economy. In practice, this is similar to hiking rates, in that market rates rise, attracting inflows. However, it does not (at least intentionally) directly impact other rates in the banking system (i.e. deposit and lending rates). Another cost is that it could potentially crowd out investment into government bonds.

Effectiveness: During periods of heightened volatility and external shocks, which require a swift response, we think BI's use of SRBI has illustrated its effectiveness in helping to manage FX volatility. BI has used multiple FX tools since the pandemic (2020-2021), which we think has tempered the IDR's volatility over the past five years (compared to previous crises, such as GFC and Fed taper tantrum). However, extended use may have other repercussions as described above.

4. Capital inflow measures

Description and implementation: Two key sources of inflows that central banks can target to aid or stem currency appreciation are export proceeds and portfolio flows (particularly fixed income flows, as opposed to equity flows). When the Asian local currencies are under pressure, central banks can tighten rules around the repatriation of export earnings and/or require faster conversion of FX proceeds into local currency.

Export repatriation and FX conversion rules: Repatriation rules refer to the time frame within which exporters must bring foreign-currency proceeds back onshore. FX conversion rules refer to when an exporter must convert their foreign currency into local currency. Most Asian economies do not have mandatory export repatriation and/or FX conversion rules, since they can impose significant costs to corporates (more on this below). However, there are some exceptions. In Indonesia, export proceeds from natural resources have to be repatriated within 3 months and retained onshore for 12 months. During that period, only up to 50% may be converted into IDR, the rationale being that policymakers would like maintain a pool of USD liquidity onshore ([Exhibit 14](#)). For non-natural resources, proceeds must be repatriated within 3 months, but corporates have flexibility on the timing for FX conversion. In 2016 (when the MYR was under pressure), Malaysian exporters had to convert 75% of their export proceeds immediately upon repatriation, and only 25% of was allowed to be retained in foreign currency. However, BNM removed the FX conversion rules in April 2021.

Exhibit 14: Some economies in Southeast Asia have export repatriation rules, with Indonesia most stringent currently

Market	Repatriation deadline	Retention / FX conversion rules
China	Offshore retention of export proceeds permitted under SAFE monitoring	No deadline for FX conversion, subject to "Authenticity Principle" and banks must verify underlying trade transactions.
Taiwan	Liberalized	No deadline for FX conversion
Hong Kong	Liberalized	No deadline for FX conversion
South Korea	Liberalized	No deadline for FX conversion
Singapore	Liberalized	No deadline for FX conversion
Philippines	Liberalized	No deadline for FX conversion
India	9 months (reduced from 15 months) for goods/services	18 months allowed for repatriation of INR-settled trade; No mandatory conversion.
Thailand	360 Days	Exemption for transactions < \$10 million. No mandatory conversion.
Malaysia	6 Months	Repatriation within 6 months; but no mandatory FX conversion.
Indonesia	Natural resources within 3-months Non-natural resources within 3-months	Natural Resources (non-oil and gas): Must retain 100% onshore 12 months (max 50% conversion to IDR); Oil & Gas 30% of proceeds retained for 3 months; Non-natural resources: Once repatriated, fully flexible on conversion.

Note: This is not an exhaustive list of all FX regulations (as there are exceptions) but outlines the major principles

Source: Central banks, Goldman Sachs Global Investment Research

Constraints and effectiveness: Most goods trading companies both import and export. Repatriation rules help bring foreign currency back to the onshore market, which helps with the availability of foreign currency liquidity onshore (as this helps with the cost of onshore USD funding), although this in itself does not impact the FX spot market unless there is FX conversion. The problem with forced FX conversion rules is that it can be costly for corporates that have USD needs, since they would end up having to buy back the foreign currency (at a possibly higher price). As such, blanket FX conversion rules for sustained periods are not often used by policymakers in Asia. Indonesia's natural resource companies are unique as they are skewed towards exports rather than imports.

Managing fixed income flows: Asian local bond markets can attract short-term (i.e. “hot money”) and long-term (passive index) flows. Several countries in Asia have pursued bond index inclusion over the past decade to attract long-term sticky flows. After significant reform, China’s bond market has been included in the three major global bond indices ([Exhibit 15](#)). South Korea’s bond index just joined the FTSE WGBI in April 2026, while the Philippines will join the GBI-EM Global Diversified in January 2027. Indonesia, Thailand and Malaysia were among the founding countries included in the JPM GBI-EM Global Diversified index since 2006. Asian local currency bond market access is now largely liberalized, and most markets are already represented in the relevant benchmark indices, consistent with their credit ratings and income-based DM versus EM classifications. As a result, the pipeline for meaningful new index inclusions over the next few years appears fairly limited. The main remaining exception is India, for inclusion in the Bloomberg Global Aggregate Index. [Bloomberg Index Services](#) has said it will provide an update in mid-2026 ([Exhibit 15](#)).

Exhibit 15: Asian local bonds are now in the appropriate global indices (considering credit ratings and income level)

	FTSE WGBI	Bloomberg Global Aggregate	GBI-EM Global Diversified
China	Yes	Yes	Yes
South Korea	Yes	Yes	Not applicable as considered DM
Singapore	Yes	Yes	Not applicable as considered DM
Malaysia	Yes	Yes	Yes
Indonesia	No*	Yes	Yes
Thailand	No*	Yes	Yes
India	No*	No (but being discussed)	Yes
Philippines	No*	No	Yes (to be included from Jan 2027)
Taiwan	No (due to capital controls)	No (due to capital controls)	No (due to capital controls)

*Does not meet credit rating criteria

Source: FTSE, Bloomberg, Goldman Sachs Global Investment Research

Recent examples: On June 5, India announced a slew of [FX policy measures aimed at boosting inflows](#). These include a reduction in capital gains and withholding taxes for foreign purchases of government bonds. India expanded the universe of Fully Accessible Route (FAR) bonds to include the new 15Y, 30Y and 40Y bonds, raised the investment limits for non-resident investors to invest in listed equities without SEBI registration, reduced the timeline for export repatriation to 9 months from 15 months, and offered full hedging cost (until September 2026) for banks raising non-resident deposits for 3-5 years period.

5. Capital outflow measures

Description: After the Asian financial crisis in 1997, policymakers across the region imposed several layers of capital controls for institutional and retail investors to prevent further outflows / currency depreciation. Policy makers have generally moved toward gradual liberalization over the past two decades. Even so, capital account openness still varies widely: Singapore is among the most open, while China and India remain the most restrictive, particularly for resident outflows (see [Exhibit 16](#) for details).

Exhibit 16: Several Asian economies have controls on capital outflows with the most stringent being China and India*

	Institutional Investor Controls	Retail Investor Controls
China	Strict Quotas: Outflows managed via Qualified Domestic Institutional Investor (QDII) and Qualified Limited Partnership (QDLP) quotas. New quotas were issued in March 2026. There are also various Connect schemes (Stock, Bond, and Wealth) that allow mainland investors' purchase of assets in Hong Kong.	Annual Limit: \$50,000 FX purchase per person. Direct offshore stock/bond buying is restricted to QDII funds.
India	Asset Managers: Industry-wide cap of \$7 billion for overseas investments and \$1 billion for ETFs. Insurance: Outbound investment of policyholder funds remains prohibited. Pension Funds: Restricted to domestic assets.	Liberalized Remittance Scheme: \$250,000 limit per year per individual (education, medical treatment, travel, property, foreign stocks, and bonds). Some transactions are prohibited.
Taiwan	Pension Fund: The BLF (Bureau of Labor Funds) operated under Ministry of Labor oversight. Asset Manager: No hard limit on investment overseas. Insurance: Foreign investment value cannot exceed 45% of the fund's investment	Annual limit: \$10mn annual limit on gross forex settlements for individuals (amount higher than that requires CBC approval).
Indonesia	Mutual fund manager cannot invest over 20% of the Net Assets Value of investment funds in securities traded at foreign securities exchanges.	Documentation-free cash FX purchase limit cut to USD25k from USD50k previously.
Thailand	Institutional investors (GPF, SSO, mutual funds, securities companies, insurance, Thai companies with assets of at least THB 5 billion, companies listed in the Stock Exchange of Thailand) are allowed to invest in securities abroad without limit.	Retail investors are allowed to invest in foreign securities abroad. Transfers to non-residents for purpose of portfolio investment are allowed up to USD5mn per person per calendar year, where the investment is not made through onshore investment agents.
Malaysia	Banks and insurance companies may invest abroad freely for their own account. Fund managers may invest abroad on behalf of clients up to 100% of NAV for non-residents and residents without domestic MYR borrowing.	Residents, companies and individuals, with no domestic borrowing are free to invest abroad.
Philippines	For resident institutional investors, outward investments funded by bank sourced FX are subject to a USD60mn annual threshold; above this, BSP notification is required.	Individuals can buy up to \$500,000 in FX from banks without documentation for investment.
South Korea	Pension Fund: Set by investment management committee (chaired by Ministry of Health and Welfare). Asset Manager: No hard limit on investment overseas. Insurance Companies: Can invest as much as 50% of foreign currency assets.	No hard limit on investment overseas or explicit rules on hedging (though there are reporting requirements for large money transfers to overseas accounts)
Singapore	Generally, there are no capital controls for institutional investors. However, MAS Notice 757 limits financial institutions from extending credit (>SGD5mn) to non-resident financial institutions when the funds may be used to speculate against the SGD.	No broad capital controls but subject to standard regulatory requirements such as AML/CFT checks and investor protection rules.

Note: This is not an exhaustive list of FX regulations but rather provides some examples for each economy

Source: Asian central banks, Goldman Sachs Global Investment Research

Outflow measures: These measures typically target two groups: institutions and households. For institutions, restrictions usually take the form of quotas, eligibility rules, or limits on offshore investment. For retail investors, frameworks are generally tighter and tend to cover foreign currency purchase limits, remittance caps, and restrictions on direct investment in foreign assets.

Cost and constraints: Policymakers can loosen capital outflows measures to alleviate currency appreciation pressure, or tighten them to contain depreciation pressure. In practice, China's tightening in 2016-17 and more recent measures in some regional markets illustrate the latter, while Thailand has moved in the opposite direction by gradually liberalizing resident outflows.

Effectiveness and trade-off: The main trade-off is that tighter control on outflows can support FX stability, but at the cost of weaker portfolio diversification, greater concentration in domestic assets, and stronger incentives for grey-market activity. In our view, these measures have generally been effective in tempering depreciation pressure in more restrictive regimes, most notably in China and India.

Maximizing cost/benefit of FX policy measures

As discussed in this report, there is no one-size-fits-all approach to FX management in Asia. The appropriate policy mix depends on country-specific fundamentals, including economic size, stage in economic cycle, reserve adequacy, current-account and fiscal balances, external debt, inflation, degree of energy dependence, and the extent of capital controls. As these conditions evolve, so too will the optimal mix of FX tools.

What is driving the currency pressure - current or capital account?

In our view, the first step is to assess whether FX pressure is being driven by the current account or capital flows, and whether the shock is temporary or more structural. That distinction is important because the effectiveness, transmission, and costs of available policy tools differ across scenarios.

FX intervention, in both spot and forward markets, can help smooth volatility, lean against disorderly moves, and deters speculative positioning (i.e. drawing “a line in the sand”). But it is typically a short-term tool rather than a durable solution, and its effectiveness depends in part on the scale of intervention and quantity of FX reserve buffers. More broadly, each FX tool involves trade-offs, and policymakers therefore typically weigh the near-term benefits of stabilizing the currency against the financial and macroeconomic costs of intervention or regulation.

Exhibit 17: Asian FX central bank FX policy options

	Current Account	Capital Account
Short-term	- FX intervention (<i>Spot or FX forwards</i>) - Adjust term structure of front-end rates	- FX intervention (<i>Spot or FX forwards</i>) - Adjust term structure of front-end rates
Medium-term	- Let FX adjust (<i>if exports / imports are elastic</i>)	- Capital flow measures - Adjust monetary policy

Source: Goldman Sachs Global Investment Research

If the currency pressure is driven mainly by the current account, we think capital-flow measures are likely to be less effective on their own. In such cases, some currency adjustment is ultimately needed to help restore external balance, while FX intervention can smooth the path and reduce near-term disruption. That said, policy tools are not mutually exclusive. Even when current-account dynamics are the main driver, policymakers can use capital-flow measures alongside intervention to help offset pressure at the margin and support broader macro adjustment. If FX pressure is driven primarily by the capital account, the toolkit is broader. In our view, policymakers can respond through measures targeting inflows or outflows, and, where appropriate, through monetary policy adjustments. [Exhibit 17](#) is a matrix on the potential mapping to select the appropriate FX tools. As explained above, the optimal mix will depend on the source, persistence, and scale of the underlying flow shock, and has trade-offs, which we summarize in [Exhibit 18](#).

Exhibit 18: Each FX policy tool has different objectives, effectiveness, limitations and trade-offs.

	Aim	Effectiveness	Limitations	Trade-off
Intervention	Slow the pace of appreciation / depreciation	Results are immediate if intervention is conducted in size	Generally does not alter the broad trend of the currency	-Draw down in FX reserves when selling USDs. - Risk of mention in US Treasury FX report when buying USDs.
FX forward curve	Adjust the cost of expressing a bearish or bullish view on the local currency	- Results can be swift if liquidity injection / withdrawal is conducted in size. - Likely more effective if source of currency pressure is from speculative flows.	Less effective if source of currency pressure is coming from current account (i.e. real exports and imports)	Repercussions for real sector (i.e. increasing hedging costs for exporters and importers).
Term structure	Encourage foreign bond inflows to help strengthen local currency	If rates are high enough (i.e. spread vs USD rates), then it can help attract foreign inflows.	Too steep a term structure would distort transmission / effectiveness of the actual policy rate	If T-bill yields are too elevated vs policy rate, then it could crowd out bank lending to private sector
Inflows measures (Exporters)	-Encourage export repatriation and/or FX conversion - To encourage / discourage bond inflows	-Export repatriation helps with USD liquidity onshore - FX conversion may help support local currency (short-term), but corporates typically also needs to buy USDs	Repatriation alone does not drive spot FX and actual conversion is needed.	Forced FX conversion can be very expensive for corporates, as they may have to buy USDs back at higher cost.
Inflows measures (Fixed Income flows)	Encourage / discourage foreign bond inflows	-Bond index inclusion would attract long-term sticky inflows. - Taxes can discourage inflows, as it reduces the return on investment.	Bond index inclusion takes time / reform. Most countries already in appropriate indices.	Reducing taxes to attract inflow would also reduce tax revenue.
Outflow measures	Tightening (/ liberalizing) outflow measures to limit currency depreciation (/appreciation).	- Can be effective if source of pressure is from portfolio flows but results are unlikely to be immediate.	Less effective if the source of currency pressure is coming from the current account.	Limiting outflows results in opportunity cost to diversify portfolio and invest abroad, leading to "trapped liquidity onshore."
Monetary Policy	Widening / reducing the interest rate differential with the USD should strengthen / weaken the local currency.	- The spread vs USD rates needs to widen/narrow significantly to have meaningful impact.	Policy rate is a very blunt tool to address FX, as it has repercussions for the wider economy.	Hiking too much can slow growth, while cutting too much may stoke inflation

Source: Goldman Sachs Global Investment Research

Applying the Asian FX Toolkit to the 2026 Energy Shock

Asian FX has weakened materially since the start of the Middle East conflict, with every major regional currency depreciating against the USD (except the CNY), and several pairs testing or breaking prior highs (USD/KRW 1500, USD/IDR 18000, USD/PHP 61 and USD/INR 96). In our view, the initial policy response—primarily spot and forward FX intervention—was appropriate given policymakers and the market's early assumption that the shock would be short-lived. Consistent with that, FX reserve data (unadjusted for valuations) suggests intervention across the region. But as the conflict has extended into a fourth month, it is becoming clearer that intervention alone is unlikely to be sufficient, particularly where FX weakness reflects both a terms-of-trade shock from higher oil prices (Asia is a large oil importer) and capital outflows (e.g. India and Korea).

Policy responses have since broadened across Asia. The BSP was the first in the region to hike, raising the policy rate by 25bp to 4.50% in April, with a hawkish tone, citing concerns over second-round effects on inflation. BI initially started with FX intervention (announcing its triple intervention policy) in March, followed by raising the term structure of interest rates in April, and ultimately hiking by 50bp in May and again in an off-cycle 25bp hike in June. BI simultaneously, announced a slew of measures aimed at bolstering inflows including increasing SRBI yields, providing a 10% discount for foreign

investors looking to hedge FX exposure, and increasing the repo window (a form of sterilization, which we discussed earlier in this note). The RBI has so far kept policy rates unchanged, but moved to ease foreign investor access and incentivize capital inflows, including concessional forex swap rates for quasi-sovereigns and banks to raise dollar funding, exemption of interest and capital gains on G-Sec from tax for FPIs and increasing foreign investor access to G-Sec with ultra-long-end maturities. In Korea, where KRW weakness appears more closely tied to portfolio flows (domestics buying overseas assets and now foreign investor selling local assets), the authorities have leaned more heavily on capital-flow management measures (i.e. encourage National Pension Service hedging), even as the BoK kept rates on hold, while shifting to a more hawkish tone.

This sequencing of policy action is broadly consistent with the framework set out earlier in this report. The first response across Asia was intervention, but as the shock persisted and reserve use became more costly, central banks have increasingly turned to additional tools. Where inflation risks have intensified and reserve space is more limited, as in the Philippines and Indonesia, rate hikes have become part of the response function. Where reserve buffers are larger or the flow shock is more clearly capital-account-driven, as in India and Korea, policymakers have so far relied more on measures to attract inflows or moderate outflows rather than immediate rate hikes. In our view, these measures have had at least some near-term effect, with several USD/Asia pairs (USD/KRW, USD/IDR, USD/INR and USD/PHP) retreating from recent highs.

Going forward, a de-escalation in the Middle East conflict, lower oil prices, and a softer broad USD would likely provide some relief for Asian FX. But if oil prices remain elevated, US rates move higher, and the USD stays strong, we think Asian central banks will need to draw further on their broader FX toolkit. In that environment, additional hikes from BSP and BI would remain likely, while other central banks could face increasing pressure to complement intervention with tighter monetary policy or more forceful capital-flow measures. We have rate hikes penciled in for RBI, BoK and CBC later this year.

Disclosure Appendix

Reg AC

We, Danny Suwanapruti, Santanu Sengupta, Chris Poh, Xinquan Chen, Irene Choi and Andrew Tilton, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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Contributing Authors: Danny Suwanapruti Goldman Sachs (Singapore) Pte, Santanu Sengupta Goldman Sachs India SPL, Chris Poh Goldman Sachs (Singapore) Pte, Xinquan Chen Goldman Sachs (Asia) L.L.C., Irene Choi Goldman Sachs (Asia) L.L.C., Seoul Branch, Andrew Tilton Goldman Sachs (Asia) L.L.C..

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