India in US Currency Practices Monitoring List

Why in News

Recently, the United States (US) placed 11 countries, including India in the **Currency Practices Monitoring List (Currency Manipulators Watch List).**

- India was **on the list in the December 2020 report** as well. In 2019, the US Treasury Department had **removed India from its currency manipulator watch list** of major trading partners.

Key Points

- **Currency Manipulators:**
    - This is a **label given by the US government** to countries it feels are engaging in **"unfair currency practices"** by **deliberately devaluing their currency** against the dollar.
    - The practice would mean that the **country in question is artificially lowering the value of its currency to gain an unfair advantage** over others.
    - This is because the **devaluation** **would reduce the cost of exports** from that country and artificially show a reduction in trade deficits as a result.
- **Currency Manipulator Watch List:**
    - The US Department of Treasury releases the **semi-annual report where it has to track developments in international economies** and inspect foreign exchange rates.
        - It **reviews currency practices of the US' 20 biggest trading partners.**
- **Criteria:**
    - An economy meeting two of the three criteria in the **Trade Facilitation and Trade Enforcement Act of 2015** is placed on the Watch List. This includes:
        - A **"significant" bilateral trade surplus with the US —** one that is at least USD 20 billion over a 12-month period.
        - A material **current account surplus equivalent** to at least 2% of **Gross Domestic Product (GDP)** over a 12-month period.
        - **"Persistent", one-sided intervention —** when net purchases of foreign currency totalling at least 2% of the country's GDP over a 12 month period are conducted repeatedly, in at least six out of 12 months.
    - Countries **that meet all three of the criteria are labeled as currency manipulators** by the Treasury.
- **Current List:**
    - **Countries on the List:**
        - The other 10 countries on the list with India that merit "close attention to their currency practices" are **China, Japan, Korea, Germany, Ireland, Italy, Malaysia, Singapore, Thailand, and Mexico.**

- **Questionable Chinese Growth:**
    - The **Chinese economic growth in 2020 exceeded that of other large economies** but has been driven by the early resumption of manufacturing and increased external demand, especially for medical supplies, personal protection equipment and electronics.
    - **Questions remain about the continued strength of the Chinese recovery** absent a sustained increase in household consumption.
    - China's **failure to publish foreign exchange intervention** and **lack of transparency** of its **exchange rate mechanism** and the activities of state-owned banks warrant close monitoring of renminbi (China's currency) developments going forward.

- **India's Status:**
    - India **met two of the three criteria** that is the **trade surplus** criterion and the **"persistent, one-sided intervention"** criterion.
- **Consequence:**
    - Inclusion in the list **does not subject to any kind of penalty and sanctions** but it **deteriorates the global financial image** of the country in the financial markets in terms of foreign exchange policies including undervaluation of currencies to gain export advantages.

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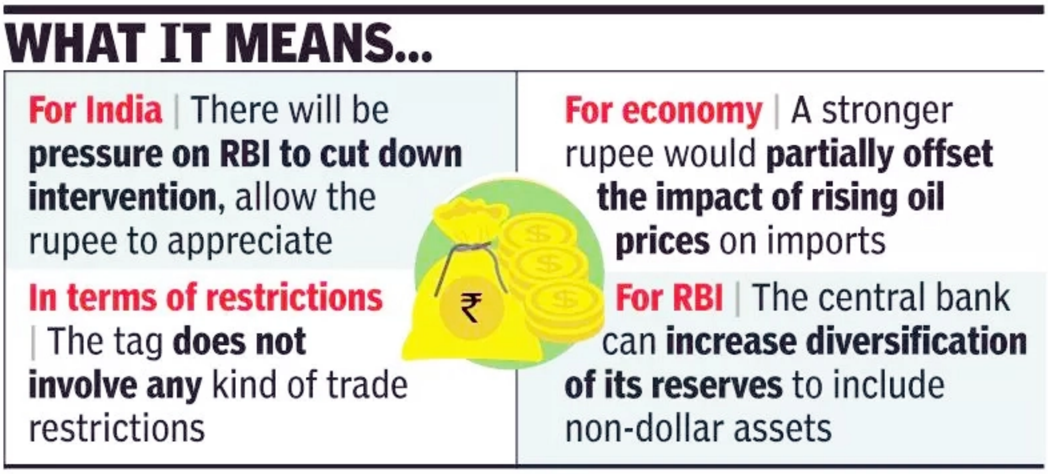

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