



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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WHAT IT MEANS...

<p>For India There will be pressure on RBI to cut down intervention, allow the rupee to appreciate</p>		<p>For economy A stronger rupee would partially offset the impact of rising oil prices on imports</p>
<p>In terms of restrictions The tag does not involve any kind of trade restrictions</p>		<p>For RBI The central bank can increase diversification of its reserves to include non-dollar assets</p>

[Source:TH](#)

PDF Reference URL: <https://www.drishtias.com/printpdf/india-in-us-currency-practices-monitoring-list>