



CURRENCY MANIPULATORS: INDIA ON US TREASURY CURRENCY MONITORING LIST ONCE AGAIN

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India is one of 11 countries on the US Treasury's 'Monitoring List' with regard to their currency practices as per the April 2021 edition of the semi-annual report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States,¹ the first report of the Biden administration. India was also on the list in the previous report by the US Treasury Department delivered to Congress which reviewed and assessed the policies of 20 major US trading partners during the four quarters through December 2020.²

The current report states that the Indian authorities should allow the exchange rate to move to reflect economic fundamentals, limit foreign exchange intervention to circumstances of disorderly market conditions, and refrain from excessive reserve accumulation.³ Furthermore, Reserve Bank of India (RBI) carried out higher dollar purchases of close to 5% of GDP largely on account of huge capital inflows, which is higher than its threshold of 2% of GDP.⁴

Currency manipulator is a designation applied by US government authorities to countries that engage in what is called unfair currency practices that give them a trade advantage by deliberately

¹ <https://home.treasury.gov/news/press-releases/jy0131>

² <https://www.theedgemarkets.com/article/malaysia-10-others-placed-under-us-monitoring-list-currency-practices>

³ <https://economictimes.indiatimes.com/news/international/business/us-treasury-labels-switzerland-vietnam-as-currency-manipulators-adds-india-in-monitoring-list/articleshow/79762881.cms?from=mdr>

⁴ <https://economictimes.indiatimes.com/news/economy/finance/us-treasury-report-designates-india-a-currency-manipulator-due-to-huge-dollar-purchases/articleshow/82147081.cms>

devaluing their currency against the dollar. At times, countries keep the value of their currency artificially low to make their exports cheaper and imports more expensive. This helps them in building up a trade surplus. A country can keep its currency value low by selling its own currency and buying other currencies, mainly dollars on the open market.⁵

Being labelled a currency manipulator requires a trading partner to enter into negotiations with the US and the International Monetary Fund to address the situation. The blemish is somewhat symbolic, but can lead to tariffs or other retaliation if talks collapse.⁶ The US Treasury uses three criteria to review partners which have: a significant (at least \$20 billion) bilateral trade surplus, a material current account surplus and persistent one-sided intervention in forex markets.⁷ India met two of the three criteria according to the report - the trade surplus criterion and the persistent, one-sided intervention criterion. According to Dr. Janet Yellen, US Secretary of the Treasury, the Treasury Department will add and retain on the Monitoring List any major US trading partner that accounts for a large and disproportionate share of the overall US trade deficit even if that economy has not met two of the three criteria from the Trade Priorities and Accountability Act of 2015.⁸

India was added to the US Treasury Department's currency manipulator watchlist for a second time in December 2020. It was first added to the list in December 2018, and later removed in 2019.⁹ Also on the list with India are China, Japan, South Korea, Germany, Ireland, Italy, Malaysia, Singapore, Thailand and Mexico. Over the four quarters through December 2020, five major US trading partners Vietnam, Switzerland, Taiwan, India, and Singapore intervened in the foreign exchange market in a sustained, asymmetric manner with the effect of weakening their currencies.¹⁰ Vietnam and Switzerland were removed from the list of nations in the new report, reversing a decision made by the Trump administration in December 2020, but they will still be under enhanced monitoring.¹¹

Indian Commerce Secretary Anup Wadhawan questioned the rationale behind the US government's decision to put India in the watchlist for currency manipulators, and said the list constituted an intrusion into the policy space needed by central banks around the world to meet their mandates.

⁵ <https://www.timesnownews.com/business-economy/markets/article/india-back-on-currency-manipulation-watchlist-what-does-it-mean/697576>

⁶ <https://www.nytimes.com/2021/04/16/business/treasury-currency-report-taiwan.html>

⁷ <https://www.thehindu.com/news/international/india-on-us-treasury-currency-monitoring-list-again/article34338775.ece>

⁸ <https://economictimes.indiatimes.com/news/international/world-news/us-keeps-11-countries-including-india-china-japan-in-currency-practices-monitoring-list/articleshow/82106026.cms>

⁹ <https://www.moneycontrol.com/news/india/explained-us-adds-india-to-currency-manipulator-watchlist-what-does-it-mean-6790691.html>

¹⁰ https://www.business-standard.com/article/finance/us-keeps-india-10-others-in-the-currency-practices-monitoring-list-121041601509_1.html

¹¹ <https://www.usnews.com/news/politics/articles/2021-04-16/us-lifts-vietnam-switzerland-from-currency-manipulator-list>

He also added that the RBI has been taking necessary steps to maintain stability in the financial markets and not accumulating forex reserves, like other countries on the list, and its activity in forex market is perfectly balanced.¹²

While the designation of a country as a currency manipulator does not immediately attract any penalties, it tends to dent the confidence about a country in the global financial markets. With the tag of currency manipulator, bankers in India believe that it could lead to the rupee appreciating as the RBI is likely to step back from its dollar purchases and be discouraged from aggressive intervention in the foreign exchange market.¹³ Once on the Monitoring List, an economy will remain there for at least two consecutive reports to help ensure that any improvement in performance versus the criteria is durable and is not due to temporary factors, according to the US Treasury Department.¹⁴ The US President, through Treasury, can take specified remedial action against any such countries, which includes India, that fail to adopt policies to correct the undervaluation of their currency and trade surplus with the United States. Being a member of WTO, the US lacks the direct enforcement tools needed to persuade India to revalue its currency. On the other hand, past experience demonstrates that even large and important trading partners can be persuaded to revalue if confronted with the threat of a sizeable import tariff.¹⁵

¹² <https://www.thehindu.com/business/Economy/us-currency-watchlist-an-intrusion-official/article34369954.ece>

¹³ <https://www.india.com/business/us-puts-india-back-on-currency-manipulation-watchlist-heres-what-it-means-for-rupee-economy-4271902/>

¹⁴ <https://indianexpress.com/article/explained/currency-manipulation-explained-india-us-currency-watchlist-7108379/>

¹⁵ <https://www.epi.org/publication/pm164/>