India on US currency watch list

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India after getting removed from the US watchlist last year has been added again in the latest report. Though the move doesn't have any immediate implications, it may create a negative perspective about Indian economy in the global markets. For UPSC, one should know about the report, the criteria that decides the additions to the report and the effects of getting added to it.

In news: USA has put India on currency watch list
Placing it in syllabus: Economy
Dimensions:

1. What is a dirty float?
2. What is the criteria for currency manipulation by USA?
3. What are its effects?
4. What is India's stand?

Content:

The United States has included India in its monitoring list of countries with potentially "questionable foreign exchange policies" and "currency manipulation". In May, 2019, India was removed from the watchlist in the US Treasury Department's semi-annual foreign-exchange report to the US Congress.

What is a dirty float?

- A dirty float is a **floating exchange rate** where a country's central bank occasionally intervenes to change the direction or the pace of change of a country's currency value.
- A dirty float **occurs when the government's monetary rules or laws affect the pricing of its currency.**

- In most instances, the **central bank in a dirty float system acts as a buffer against an external economic shock** before its effects become disruptive to the domestic economy.
- A dirty float is **also known as a "managed float."**
- The **goal of a dirty float** is to keep currency volatility low and promote economic stability.
- With a dirty float, the exchange rate is allowed to fluctuate on the open market, but the central bank can intervene to keep it within a certain range, or prevent it from trending in an unfavorable direction.

What are the criteria for currency manipulation by the USA?

- 'Currency manipulator' 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.**
- It means 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.
- An economy meeting two of the ***three criteria*** in the **Trade Facilitation and Trade Enforcement Act of 2015** is placed on the Monitoring List.

Criteria:

- A "significant" bilateral trade surplus with the US — that is, at least $20 billion over a 12-month period.
- A material current account surplus equivalent to at least 2 percent of GDP over a 12-month period.
- "Persistent", one-sided intervention- when net purchases of foreign currency totalling at least 2 percent of the country's GDP over a 12 month period are conducted repeatedly, in at least six out of 12 months.

Its effects:

- Once on the Monitoring List, **an economy will remain there for at least two consecutive reports.**
- This move is to help ensure that any improvement in performance versus the criteria is durable and is not due to temporary factors.
- The designation of a country as a currency manipulator **does not immediately attract any penalties,** but **tends to dent the confidence about a country in the global financial markets.**

Taiwan and Thailand are also added to the Monitoring List of US' major trading partners that "merit close attention" to their currency practices and macroeconomic policies. Other countries in the latest list comprise China, Japan, Korea, Germany, Italy, Singapore, Malaysia.

What is India's stand?

- India's **bilateral goods trade surplus with the US totalled $22 billion** in the first four quarters through June 2020.
- Based on the central bank's intervention data, India's net purchases of foreign exchange accelerated notably in the second half of 2019.
- Following sales during the initial onset of the pandemic, India sustained net purchases for much of the first half of 2020, which pushed **net purchases of foreign exchange to $64 billion or 2.4% of GDP**.

Mould your thought: What criteria is used by the US to classify countries as currency manipulator? What implication does it have on India?

Approach to the answer:

- Write about the latest report
- Write about the criteria used
- Write why India has been added to the latest list
- Write the implications of getting added to the list
- Conclusion