The USA puts India on currency watchlist

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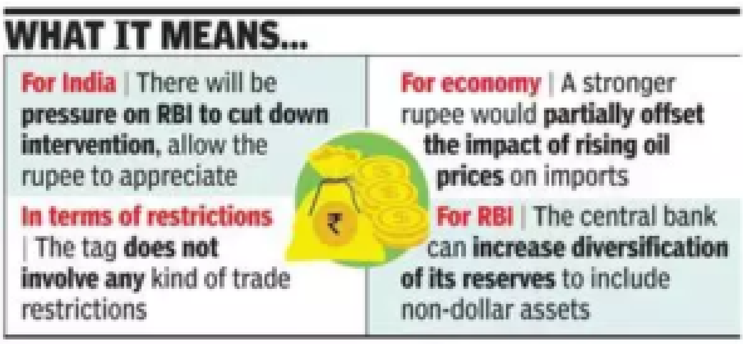
In news

Recently, the United States of America placed India on its currency manipulator watch list for the third time.

A brief note on the issue

- The USA for the third time placed India on its currency manipulator watch list after the Reserve Bank of India's relentless dollar purchase that resulted in forex reserves rising by $100 billion this fiscal.
- The move was disclosed in the US Treasury's semi-annual currency manipulation report
- The USA labelled Switzerland and Vietnam as currency manipulators, and added Taiwan, Thailand and India to the seven others already in the watch list.
- Countries which are already under watch list are China, Japan, Korea, Germany, Italy, Singapore and Malaysia



Criteria for labeling

The US Treasury has three criteria to label countries as currency manipulators. These are:

1. A significant **bilateral trade surplus with the US** that is at least $20 billion over a 12-month period.

2. A **material current account surplus** that is at least 2% of the gross domestic product (GDP) over a 12-month period.
3. Persistent, **one-sided intervention** when net purchases of foreign currency are conducted repeatedly, in at least 6 out of 12 months, and these net purchases total at least 2% of an economy's GDP over a 12-month period

What did the US Treasury report say about India's economy?

- The report said that India's deep domestic demand contraction and slower recovery relative to its key trading partners contributed to the economy's first four-quarter current account surplus since 2004 (0.4% of the GDP over the year to June 2020).
- As per the report, India for several years has maintained a significant bilateral goods trade surplus with the US, which totalled $22 billion in the four quarters through June 2020.
- Based on the central bank's regularly published intervention data, India's net purchases of foreign exchange accelerated notably in the second half of 2019,
  - The sales during the initial onset of the pandemic, India sustained net purchases for much of the first half of 2020.
  - This pushed net purchases of foreign exchange to $64 billion, or 2.4% of the GDP, over the four quarters through June 2020.
- Referring to India's inclusion in the watch list the report said that
  - the treasury encourages the authorities to limit foreign exchange intervention to periods of excessive volatility, while allowing the rupee to adjust based on economic fundamentals.
  - By further opening the economy to foreign investors, India can also support economic

recovery and bolster long-term growth.

- According to it, India has historically argued that it is an outlier when it comes to currency intervention as it is the only country with sizeable reserves and historically a large current account deficit.
- The argument against manipulators is that they have an unfair advantage in trade by manipulating the exchange rate.