

# Undervaluation of Currency

The currency of a nation is said to be undervalued when its value in foreign exchange is low. A cheaper (undervalued) currency renders the nation's goods (exports) more affordable in the global market while making imports more expensive. After an intermediate period, imports will be forced down and exports to rise, thus stabilizing the trade balance and bring the currency towards equilibrium.

## Undervaluation and Overvaluation of Currencies - Difference

Undervaluation and overvaluation of currencies are majorly carried out with an objective of achieving the balance of trade.

| <b>Undervaluation of Currency</b>                         | <b>Overvaluation of Currency</b>                       |
|---|--|
| Appreciation of currency to achieve the balance of trade. | Depreciating currency to achieve the balance of trade. |

## Advantages of Undervaluation of Currency

1. Earnings of Exporters increases.
2. Undervaluation makes imports expensive, therefore it helps in protecting the domestic companies from external competition, and helps in saving jobs and investments.
3. Undervaluation of currency helps in attracting more investors.

## Disadvantages of Undervaluation of Currency

1. When imports get reduced due to undervaluation, it reduces competition among local companies.
2. If the country has limited labour supply then it will end up increasing the wages which will result in an increase in inflation.
3. If a tourist is travelling to another country then the undervalued currency will not be helpful.

## Undervaluation of Currencies - Latest News

1. Anti-subsidy duties will be imposed on products, from countries that undervalue their currencies against Dollar.
2. This new rule would only be applicable to imports that harm the domestic industries in the US.
3. As per some experts, these rules would not be in alignment with the trade rules framed by the World Trade Organisation.