Currency Manipulation Watchlist

In December 2020, the United States Treasury Department placed India under its Currency Manipulation Watchlist after a year it was taken off that same list. Other countries include Switzerland, Japan, Germany etc.
What is the Currency Manipulation Watchlist and what are the economic implications for India regarding this watchlist. This article will give the relevant details within the context of the Civil Services Examinations.

What is the Currency Manipulation Watchlist?

The Currency Manipulation Watchlist consists of those countries that the United States Department of the Treasury believe is engaging in 'unfair currency practices' that give them an advantage in trade.

These practices may include currency interventions or monetary policies where a central bank buys or sells foreign currency in exchange for domestic currency, usually with the objective of influencing foreign exchange rates or commercial policies. Controlling inflation, maintaining financial stability are also additional reasons.

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.
It is to be noted that currency manipulation is not necessarily easy to identify and some people have considered quantitative easing to be a form of currency manipulation.

Parameters used to add to Currency Manipulation list-

An economy meeting two of the three criteria in the Trade Facilitation and Trade Enforcement Act of 2015 is placed on the Monitoring List. The criteria with which a country is included in the list is as follows:

1. A significant bilateral trade surplus of at least 20 billion and above over a 12-month period.
2. A current account surplus of at least 2% of the total GDP (Gross Domestic Product).
3. One-sided intervention on part of the central bank authorities where net purchases of foreign currency totaling at least 2% of the GDP is made over a period of 12 months repeatedly.

If a country is included in the Currency Manipulation Watchlist then it will not be included in the US Government procurement contracts and significant damage to the global financial image of the country.

To know more about the GDP of India visit the linked article.

Countries in the Currency Manipulation Watchlist

The following are the countries included in the Currency Manipulation Watchlist as of December 2020, based on at least two of the required criteria set by the United States Department of the Treasury:

Nations under Currency Manipulation Watchlist (December 2020)		
Country	**Goods Surplus (in billions USD)**	**Net Purchases (% of GDP)**
China	310	-0.1
Germany	62	N/A
Japan	57	0
India	22	2.4
Italy	30	N/A
Malaysia	29	1.1
Switzerland	49	14.2
South Korea	20	-0.6
Taiwan	25	1.7
Thailand	22	1.8
Singapore	-1	21.3
Vietnam	58	5.1

For topics of national and international importance, visit the current affairs page.

Implications for India

Now that India has been included in the watchlist, it is likely that the Reserve Bank of India is likely to ease down on its persistent dollar purchase. This will in turn lead to the appreciation of Indian currency in the coming months. A stronger rupee will also offset partially the impact of rising oil prices on imports. As per the US Treasury Department report, India, which has for several years maintained a bilateral trade surplus that had crossed the 20 billion thresholds, while its net purchases had accelerated in the second half of 2019. Upon the onset of COVID-19 Pandemic in the first half of 2020, net purchases of foreign exchange to USD 64 billion was reported.
India was last included in the currency watchlist in October 2018, but removed from the list that came out in May 2019.

Important Questions

1. What is meant by Currency Manipulation?

Currency manipulation is a policy used by governments and central banks of certain countries to artificially lower the value of their currency (in turn lowering the cost of their exports) to gain an unfair competitive advantage.

2. Why would a nation seek to devalue its currency?

One reason a country may devalue its currency is to combat a trade imbalance, because exports increase and imports decrease, it favors a better balance of payments by shrinking trade deficits. That means a country that devalues its currency can reduce its deficit because of the strong demand for cheaper exports.

3. How is currency devaluation done?

Devaluation occurs when a government wishes to increase its balance of trade (exports minus imports) by decreasing the relative value of its currency. The government does this by adjusting the fixed or semi-fixed exchange rate of its currency versus that of another country.