Wrong Listing

Why in news?

Recently, US Department of Treasury included India in the currency manipulator's list in its April 2021 report.

Why U.S. included India?

- The current account deficit of the US is expanding to 3.5 per cent of GDP in the fourth quarter of 2020.
- This is the largest as a share of GDP since the last quarter of 2008 so it tries try to apply pressure on its trading partners.
- The report examined the macroeconomic and foreign exchange policies of major trading partners of the US.
- It has identified five countries — Vietnam, Switzerland, Taiwan, India and Singapore — as currency manipulators.

Should India worry about the listing?

- The US Treasury identifies currency manipulators based on three factors:

1. one-sided intervention in the foreign exchange market with the purchases amounting to at least 2 % of the country's GDP;
2. current account surplus of at least 2%of GDP over a 12-month period;
3. material trade surplus with the US of at least $20 billion over a 12-month period;

- One, though India's current account registered a surplus of 1.3 %of GDP in 2020, it was mainly due to falling demand leading to contraction in imports and falling crude oil prices.
- Two, India has always had a trade surplus with the US and therefore the surplus in goods trade with the US in 2020 at $24 billion is not new.
- Three, though RBI had to persistently purchase dollars through 2020 but it was not intended to help exporters.
- The purchases were mainly because of the large stimulus announced by

global central banks which resulted in abundant foreign portfolio and FDI flows into the country.

- The RBI was forced to buy the dollars flooding the country, though it was inflationary and the return on dollar denominated securities was very poor.
- Therefore RBI need not pay much attention to the US Treasury report.

What can we infer from this?

- It is quite likely that India will be out of this list because RBI has halted its dollar purchases in the spot market since February and shifted its interventions to the rupee forward market.
- With RBI to support the Centre's large borrowing programme in FY22 through purchases of Indian government bonds, the room to purchase dollar denominated securities is limited.
- Therefore Indian currency is likely to drift with a downward bias over the coming months as the foreign capital flows are likely to be lower.

Source: Business Line