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China, Germany Criticized by U.S. for Account Imbalances

By Ian Katz and Kasia Klimasinska - Oct 30, 2013

The U.S. reiterated its complaints that China's yuan hasn't strengthened as fast as needed and criticized Germany for its current-account surplus in a report yesterday.

The yuan is "significantly undervalued," the Treasury Department said in a twice-yearly review of currencies and economic policies, in which it declined to name China or any major trading partner a currency manipulator.

The Treasury targeted "countries with large and persistent surpluses" in the euro area, which "need to take action to boost domestic demand growth and shrink their surpluses." Germany has "maintained a large current-account surplus throughout the euro-area financial crisis, and in 2012, Germany's nominal current-account surplus was larger than that of China," the department said.

The U.S. criticism comes less than a month after a political logjam in Washington drove the world's largest economy close to a default, led to a partial government shutdown and triggered criticism from officials from China to Europe, who pointed to it as single largest threat to global economic growth.

"You target Germany as a way to get at the euro area as a whole," Jacob Funk Kirkegaard, senior fellow at the Peterson Institute for International Economics in Washington, said in an interview after the report was released. "Now is really the time to finger Germany" if the U.S. wants to have an impact on economic policies that are being negotiated by lawmakers there, he said.

German Surplus

Germany's surplus grew to $238.5 billion in 2012 from $223.3 billion in 2011 and was the largest among the countries for which the World Bank has data, according to its website. China's current-account surplus rose to $193.1 billion from $136.1 billion and was the second largest among the countries tracked by the World Bank.

Germany's "anemic pace of domestic demand growth and dependence on exports have hampered rebalancing at a time when many other euro-area countries have been under severe pressure to curb demand and compress imports in order to promote adjustment," the Treasury said. "The net result has been a deflationary bias for the euro area, as well as for the world economy."

On Japan, the Treasury said it will "closely monitor" the government's policies "and the extent to which they support the growth of domestic demand."

Calibrate Pace

To support potential economic growth, Japan should "calibrate the pace of fiscal consolidation to the recovery in domestic demand and take ambitious and effective steps to increase domestic demand," the Treasury said. "Monetary policy cannot offset excessive fiscal consolidation or be a substitute for structural reform."

The Treasury said it will urge South Korea to limit its foreign-exchange interventions "to the exceptional circumstances of disorderly market conditions and to commit to transparency with respect to foreign exchange intervention."

China's yuan "is appreciating, but not as fast or by as much as needed," the Treasury said. "The evidence that China has resumed large-scale purchases of foreign exchange this year, despite having accumulated reserves that are more than sufficient by any measure, is suggestive of actions that are impeding market determination and a currency that is significantly undervalued."

The yuan fell for a fourth day yesterday, the longest losing streak since July, as the central bank cut the currency's reference rate amid a rally in the dollar. The People's Bank of China cut its fixing, which limits the yuan's daily moves to 1 percent on either side, by 0.06 percent to 6.1412 per dollar, the weakest since Oct. 17.

Pot, Kettle

"It looks like a bad case of the pot contemplating criticism of the kettle," Kit Juckes, global strategist at Societe Generale SA in London, wrote in an e-mail. "Fed policy has delivered a number of overvalued currencies and a smattering of asset bubbles around the world. The Chinese pay more at Starbucks for coffee but the U.S. would like a weaker dollar."

The report's "strong focus" on China's reserves "is probably appropriate," said Nicholas Lardy, a China specialist and senior fellow at the Peterson Institute. China's foreign-exchange reserves were $3.66 trillion on Sept. 30 and rose by $166 billion in the third quarter, according to People's Bank of China data.

The Treasury also chided China for not disclosing its intervention in foreign-exchange markets and said the government should do so "to increase the credibility of its monetary policy framework and to promote exchange rate and financial market transparency."

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