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US Treasury says China not manipulating currency

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China is not a currency manipulator but its real exchange rate "remains substantially undervalued", the US Treasury said on Friday **in its semi-annual currency report to Congress**.

The report balances praise for a real terms rise in the renminbi "at a rate of around 9 per cent a year" against the dollar with complaints that "progress thus far is insufficient".

The measured tone of the report and its low key release just before a holiday weekend show how the heat has gone out of the **US dispute over China's currency policy**.

The Treasury continued to argue that China's build-up of foreign exchange reserves and the lack of any rise in its overall effective exchange rate mean that the renminbi is undervalued.

But it argued that letting the renminbi rise is now in China's self-interest. "By trying to limit the pace of appreciation, China is not allowing the exchange rate to serve as a tool to counter inflation in its own economy," the Treasury said.

The rise in the renminbi against the dollar – and a belief that China will allow that rise to continue for domestic economic reasons – underlie the fall in tensions over what had become the leading bilateral issue between the world's two largest economies.

"China's currency policy is now less a problem for the US than it is a headache for China itself and for the rest of the world," said Eswar Prasad, a senior fellow at the Brookings Institution and former head of the International Monetary Fund's China department.

Mr Prasad noted that while the renminbi may have risen against the dollar, the dollar has been weak in general, and so China's overall effective exchange rate with the rest of the world is little changed.