



MACRO ECONOMICS

Devaluation and currency wars

How a weaker currency changes trade, and what happens when many countries try it at once

Reserve figures as on dates shown; episodes dated to source

For training and education only. Not investment advice.

A country can cut its exports' foreign-currency price by letting its currency fall, with no home price cut.

That is the appeal of a weaker currency. The risk is that trading partners do the same to protect their own exports. A back-and-forth of this kind is called a 'currency war'.

Three terms to fix first



Devaluation

A deliberate cut in a currency's official value under a fixed or managed exchange rate. When a floating currency falls on its own in the market, that is called depreciation.



Beggar-thy-neighbour

A policy that helps your own economy by hurting trading partners, such as weakening your currency to take export share from them.



Currency war

When several countries weaken their currencies in turn to keep exports competitive. The phrase spread after Brazil's finance minister used it in 2010.

Source for the 2010 phrase: contemporary accounts of remarks by Brazil's finance minister, September 2010.

A weaker currency and the export price

ASSUMED FIGURES

A workshop makes a product for Rs 8,000 and sells it at that price at home.

Assume the rupee trades at Rs 80 per US\$1.

- 1 At Rs 80 per \$1, the Rs 8,000 product costs a US buyer $8,000 / 80 = \$100$.
- 2 The rupee weakens to Rs 100 per \$1. The same product now costs the US buyer $8,000 / 100 = \$80$.
- 3 The workshop still receives Rs 8,000. The home price has not changed at all.
- 4 To the US buyer the price is 20% lower, so demand can rise, while rival exporters whose currency did not fall look higher-priced.

A weaker currency can lift exports with no home price cut. That is the appeal, and the risk of a race.

Illustration with assumed figures and an assumed exchange rate. Not a forecast of any rate.

How a currency war gets going

Each step is a response to the one before. No single country has to intend a 'war' for one to form.

1

One currency weakens

Its exports are priced lower abroad while the home price is unchanged, so it can win market share from others.

2

Trading partners lose share

Their exports now look higher-priced by comparison, and their producers press the government for relief.

3

Partners respond in kind

They may ease policy to weaken their own currency, or step into the market to hold it down.

4

Or they reach for tariffs

Instead of moving the currency, a country can tax imports. In April 2025 the US declared an emergency and set a 10% baseline tariff on imports.

Source for the 2025 tariff: White House Executive Order 14257, 2 April 2025.

Four episodes on the record

When	What happened	The lesson
1992	Speculators forced the pound out of Europe's exchange-rate mechanism on 16 September.	A fixed rate can break when markets bet against it.
1997	Thailand floated the baht on 2 July; several Asian currencies then fell sharply.	A peg defended with limited reserves can give way.
2010-13	Complaints of 'competitive' currency weakening; the phrase 'currency war' took hold.	Easy money in one country can spill into others.
2015	China reset its daily yuan fixing on 11 Aug: down about 1.9% that day, about 3.5% in two.	Even a managed currency can move sharply.

Sources: documented accounts of the 1992 ERM crisis and the 1997 Asian crisis; the 2010-13 period; the PBoC's fixing change of 11 Aug 2015.

The renminbi since 2015



2015: a new fixing

On 11 August 2015 China changed how it set the yuan's daily midpoint, cutting it about 1.9% that day and about 3.5% over two days.



2016: into the SDR

On 1 October 2016 the IMF added the renminbi to the SDR, its basket of reserve currencies, the first new entry since the euro.



Today: a small share

The renminbi is about 2.1% of global FX reserves (Q2 2026) and carries a 12.28% weight in the SDR basket (2022 review).

Sources: PBoC fixing change, 11 Aug 2015; IMF press releases on SDR inclusion (2015-16); IMF COFER, Q2 2026; IMF SDR valuation review, 2022.

Where things stand

Reserve shares and official surveillance. These are statistics, not market prices.

US DOLLAR

56.7%

US dollar share of global FX reserves, Q2 2026 (IMF COFER).

RENMINBI

2.1%

Renminbi share of global FX reserves, Q2 2026 (IMF COFER).

INDIA RESERVES

\$741B

India's foreign exchange reserves, week to 28 Aug 2026 (RBI).

US WATCH LIST

10

Economies on the US Treasury currency monitoring list.

Sources: IMF COFER release, 30 Sep 2026; RBI Weekly Statistical Supplement (week to 28 Aug 2026); US Treasury FX report to Congress, 23 Jul 2026.

If you learnt this from older material

What older decks say

- Most currencies are pegged, so a government sets the rate by decree.
- The rupee is quoted near 50 to 60 per US dollar.
- China pegs the yuan tightly to the US dollar.

What holds now

- The rupee and many others float, managed by the central bank, not fixed by decree.
- The rupee trades much weaker now; live rates change daily, so we do not quote a level.
- China manages the yuan around a daily fixing; it has been in the IMF's SDR basket since 2016.

The tools have shifted too: in 2025, tariffs, not only currencies, were in the headlines.

Sources: IMF (SDR inclusion, 2016); White House Executive Order 14257 (2025).

Four things people get wrong



'A weak currency is always a good thing.'

Lower-priced exports come with higher import prices and imported inflation. It helps some and hurts others.



'Devaluation and depreciation are the same.'

Devaluation is a deliberate cut under a fixed or managed rate. Depreciation is a market fall of a floating rate.



'A currency war has clear winners.'

If everyone weakens together, the relative gains largely cancel out and trade tensions can rise.



'Only small economies get attacked.'

A major currency was forced out of Europe's exchange-rate system in 1992. Size is no guarantee.

Source: documented accounts of the 1992 ERM crisis (Bank of England; IMF).

Check yourself

Q1

A product costs Rs 8,000 at home. The rupee moves from Rs 80 to Rs 100 per US dollar. What does it now cost a US buyer, and did the home price change?

Q2

What is the difference between devaluation and depreciation?

Q3

Why is a 'currency war' often described as having no clear winner?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- 'Currency war' popularised by Brazil's finance minister, September 2010: contemporary news accounts of the remark.
- 1992: the pound forced out of the European exchange-rate mechanism on 16 September; 1997: Thailand floated the baht on 2 July: documented accounts of both crises.
- 11 August 2015: China changed the yuan's daily fixing, cutting it about 1.9% that day and about 3.5% over two days: reports of the PBoC fixing data.
- Renminbi added to the IMF's SDR basket effective 1 October 2016 (decision 30 Nov 2015); SDR weight 12.28% (2022 review, effective 1 Aug 2022): IMF press releases.
- US dollar 56.7% and renminbi 2.1% of global FX reserves, Q2 2026: IMF COFER release, 30 Sep 2026.
- India's reserves about \$741bn, week to 28 Aug 2026: RBI. US currency monitoring list of 10 economies, no manipulators: US Treasury FX report, 23 Jul 2026.
- 2025 tariffs: White House Executive Order 14257 of 2 April 2025 (10% baseline tariff under IEEPA). All figures in the worked example are assumed.

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