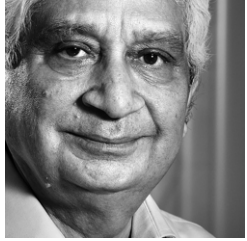


MY VIEW | VOX HETERODOX

GLOBAL VOICES

Government bonds in foreign currencies: bad idea, bad debt

In a world of capital account liberalization, foreign exchange reserves could vanish rapidly in the event of a financial crisis



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In the Union Budget presented last month, the government announced that it would start borrowing in external markets through bonds denominated in foreign currencies. While announcing this radical departure from the past, finance minister Nirmala Sitharaman was most economical in words. Yet, it is essential to analyse the rationale and understand the implications, because there is a real danger that the move could have serious consequences.

There were two explicitly stated reasons. First, India's sovereign external debt is modest, at less than 5% of GDP. Second, such bonds would reduce the demand for government securities—a preferred debt instrument—in the domestic capital market, thereby making scarce resources available for private investment. There was a third unstated reason that such borrowing would be cheap, since interest rates in world financial markets are at an all-time low.

This reasoning is flawed. For one, India's total external debt is 20% of GDP. The relatively modest sovereign external debt is neither an accident nor a coincidence. It is just past prudence to ensure that much of government debt is domestic, insulating it from exchange rate risk. And its low level, limited to borrowing from multilateral institutions like the World Bank, is no reason to borrow more. For another, foreign borrowing will not necessarily dampen domestic borrowing by the government. Moreover, if the Reserve Bank of India sterilizes such foreign exchange inflows, by buying dollars and selling government bonds, it will not reduce government securities available for purchase in the domestic capital market.

The unstated reason that government borrowing abroad will be cheaper is an illusion. Interest rates are low, but there is a currency risk. The rupee might depreciate, and hedging against this risk carries costs. In effect, the cost of borrowing through dollar bonds might turn out to be the same as—if not higher than—through government securities in the domestic capital market.

Flawed reasoning apart, for India, government borrowing abroad in international financial markets is a bad idea. There are several reasons. In principle, it makes no sense for a government to borrow abroad for meeting its domestic expenditure needs. The exchange rate risk is always there. In addition, interest and amortization payments are in foreign currencies, which would pre-empt scarce export earnings. In any case, only governments that cannot sell home-currency-denominated bonds to their own people in domestic capital markets often resort to issuing dollar bonds. India has no such problem.

Most importantly, government debt to its citizens is essentially "what we owe to ourselves". The UK emerged no poorer from two World Wars

financed largely by government borrowing from people. Public debt was enormous, but it was owed to citizens with savings who held government securities. Last but not least, if the government wants to access more foreign resources, it has the much better option of raising the present ceiling of 6% on foreign portfolio investments in government securities. This will mobilize exactly the same foreign inflows from abroad, but through rupee-denominated government securities without any exchange rate risk.

The problem with this bad idea runs deeper. It could have far reaching longer-term consequences. Governments, always hard-pressed for mobilizing resources through taxation, are not known for their ability to exercise self-restraint or resist temptation, when softer options are available. Once the door—so far closed for such borrowing abroad—is opened, sovereign dollar bonds could become a soft option which might be resorted to more and more, until stopped by a crisis.

There is another implication that the government might not have recognized yet. Its sovereign dollar-denominated bonds issued in international financial markets will have to be rated by Moody's or Standard & Poor's. Government finances will be examined in microscopic detail. And it is not clear how this will turn out. In difficult times, that feel-good or show-off factor derived from issuing dollar-bonds, which is discernible now, might well turn into despair if and when there is a downgrade.

Foreign-currency-denominated government bonds will inevitably mean a further integration into international financial markets, which are

characterized not only by volatility, but also by swings in perceptions, moods and sentiments. Investors in world markets are fair-weather friends. In good times, buying might lead to a surge in demand for India's dollar bonds. In bad times, selling might lead to a dumping of India's dollar bonds, which would not only erode international confidence but could also affect the domestic market for government securities.

The internationalization of government debt is somewhat akin to living in a house with a leaking roof. In good weather, there is no need to repair it. In bad weather, there is no opportunity.

THE CRUX

India's plan to raise a part of its borrowing overseas by issuing sovereign dollar bonds could not only expose it to currency risk but also make its economy vulnerable to global shocks

IDEALLY

The better option would be to raise the limit on rupee bonds foreign investors can buy. This would ease pressure on banks to absorb supplies, while helping the government avert new risks

This concern is validated by repeated financial crises, manifested in a run on domestic currencies, in recent history. Many economies—Mexico, Argentina, and Turkey—that followed a similar path, have come to grief. In fact, dollar-denominated government bonds constituted the beginnings of the *teso bono* currency crisis in Mexico.

The comfort, or warmth, of large foreign exchange reserves, in the range of \$400 billion, could be illusory. By end-March 2019, India's short-term external debt was \$108 billion, while the outstanding stock of foreign portfolio investment reported by the National Securities

Depository Ltd) was \$182 billion. Thus, short-term liabilities or liabilities that can be withdrawn on demand, taken together, are almost three-fourths of our reserves. In a world of capital account liberalization, foreign exchange reserves—however large—could vanish rapidly in the event of a financial crisis. Just think, inter alia, of Argentina, Brazil, Mexico, Russia, Turkey, Indonesia, Malaysia, and Thailand.

Forcing Venezuela talks the best option

In concert with European and Latin American nations, the Trump administration embarked on a new strategy for change in Venezuela earlier this year. The idea was to back opposition leader Juan Guaidó as the South American country's legitimate interim president as an alternative to Cuba-backed President Nicolás Maduro. Given the desperate plight of Venezuela, where economic breakdown and human rights violations have caused many, to flee, it was a gambit worth trying. The move was particularly commendable for its rare reliance on multilateral support... US policy has now reached the point where Washington cannot squeeze harder on the Maduro regime without adding to the hardships facing the Venezuelan people. That is one import of a new executive order by Mr. Trump, which broadens existing bans on dealings with more than 100 regime officials and entities to encompass the entire Caracas regime, and freezes assets in the US.

Though not an outright ban on trade or humanitarian relief, the new measure comes closer to that than previous sanctions... Yet the wider US sanctions sweep—the more plausible becomes the regime's propaganda, which blames Washington for problems that originated with Mr. Maduro's own corruption... There aren't too many ways the new US policy could pay off in the short run, but forcing serious talks might be the best hope.

The Washington Post

Stop politicizing the conflict with Japan

Japan is primarily to blame for starting a trade war with South Korea over historical disputes, and for the consequent escalation of tension between the two countries. This, however, should not warrant excessive, reckless and emotive responses from our side. In view of the degree of Japan's provocation—unprecedented economic retaliation in the form of export curbs—the rise of anti-Japanese public sentiment in South Korea may be inevitable... The problem is that politicians—from President Moon Jae-in down to lawmakers within the ruling and opposition parties—are fanning the flames of anti-Japanese sentiment to take advantage of it for their own political gain.

Of course it is important for political leaders, to stand firm against Japan's provocation and boost public confidence in overcoming it. But it is one thing to call for national unity and criticize Japan's provocative acts; it is another to incite excessive, emotive anti-Japan sentiment... With the impact of the South Korea-Japan trade war looming large, the US and China are engaged in increasingly fierce trade and currency disputes... This is another reason South Korean political parties should refrain from excessive politicization of the current conflict with Japan.

The Korea Herald

Australia can bridge trade war differences

The trade war between China and the US got even nastier this week, and this is not just a drill. It is now clear that the US and China are deadly serious. The Aussie dollar fell to its lowest level against the US dollar since the global financial crisis, partly because of concerns that Australia's economy will be caught in the crossfire of what looks likely to be a protracted US-China trade war... Economists can argue about who is right but the lesson the markets have already drawn is that the dispute is not going to be resolved soon and it will hurt China, the US and, indirectly, the global economy. Most likely, that will hurt Australia, too. China will cut imports from Australia as its economy slows. This trade war will only heighten the dilemma Australia has long faced of navigating between the US, our key strategic ally, and China, our key economic partner.

The White House has its own political agenda, which includes forcing China to boost imports of everything from Boeings to US beef. That is not in Australia's interests. Treasurer Josh Frydenberg has rightly said the events of the past week are an "unwanted escalation", and called on both sides to reach a negotiated solution. There is a school of thought that argues trade sanctions should be maintained forever to pressure China on military and strategic issues... Trade may not be a panacea, but it is a great way to build bridges between countries.

The Age, Australia

Lessons to be learnt from the Tshwane protest

South Africa teetered close to the edge this week as public protests rocked the relative calm of two of Gauteng's metropolises, Tshwane and Joburg. The protests were particularly ill-tempered, so much so that in both cities protesters ripped up bits of masonry from the kerbs and transport lanes to block the road... Thousands marched up and down, singing and brandishing sticks. Bins were upended and rubbish set alight. The protests might have been about different issues, but the tenor was similar. In Tshwane, municipal workers were demanding that the 18% pay increase that had been offered to some senior managers be extended to all. In Joburg, the target was foreign traders.

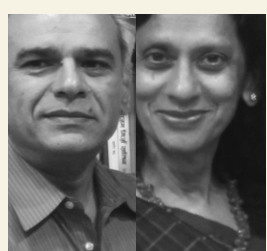
Many asked where Tshwane's mayor was while his city was caught up in the biggest protest in decades and many others wanted to know where the police were to maintain law and order. One of the most concerning aspects of the Tshwane protest was the threat that hung in the air: give us what we want or watch out. We are living on the edge, reaping the bitter harvests of state capture, identity politics and dissent; unemployment is on the rise and people feel increasingly dissatisfied... Slowly residents of the capital will again be able to get the municipal services they pay for. But we must learn the lesson well, before the next protest brings our world-class African cities to their knees.

Pretoria News, South Africa

MY VIEW | PEN DRIVE

The best way to eat a snake or feast on a smart tomato

KALPISH RATNA



Ishrat Syed and Kalpana Swaminathan write together as Kalpish Ratna. Their most recent work is 'FAT: The Body, Food And Obesity'

Someone needs to speak up for vegetables. Not for the trendy exotics trapped in cling film halfway between wilt and rot: lettuce in frigid clench, flaccid lobes of bok choy, chiffons of napa cabbage, crumpled and bedraggled. No, not for these. Nor for darker merchandise that lures the closet pedophile: tight tiny scalps of red cabbage and pudgy caryopsis of corn, pinprick tomatoes congealing on the stem and inchoate paws of ginger so translucent they aren't even foetal.

Such vegetables have their place on Food Network and Instagram. On rare occasions, they may even be eaten, but not a drop of ink do I bleed for them.

Speak for the silenced millions: ignored, snubbed, slighted, sold in heaps and bundles at every corner of the city and consumed by the tonne. They bulk our meals and pass unnoticed to bulk our sewage. But not before they are murdered. Drowned in primeval sludge, doused with toxic mordants, blistered in boiling oil, bludgeoned with hate, they collapse on the plate, then

slide into oblivion unfelt and untasted. We demand tenderness of vegetables—hey, how about some reciprocity?

I thought of this when a snake ambushed me yesterday.

I was late, and walking home to an empty fridge. Looking for the usual quick fix, tomatoes, I spotted that snake glistening in the rain on Balu's shrouded vegetable cart.

Subtle as a serpent, a skein of silver, discreetly plump. Only a faint green stripe on the office suit betrayed a depth of coolth. An exceptional green, the Pantone shade of 2020. A meditative green, halfway between idleness and epiphany.

How could I walk past, uncaring? Cotton-mouthed, milky-fanged, it looks up trustingly from my shopping bag, a snake cute as a cucurbit.

I remind myself sternly that it is *chachinda*, *pudalankai*, *padwal*, *Trichosanthes cucumerina*. It is also lunch.

I need something quick and basic. A light, delectable, one-dish meal to put a laugh in me. Comfort food, but witty with repartee. But this isn't a vegetable with much conversation. A flirty sauté may leave it slack-jawed. In the company of abler gourds, it will simply shrink back, abashed. To square its shoulders and be noticed, *chachinda*

needs a lesser intelligence: *moong dal*.

A lentil of arrested development, clingy and infantile, *moong* is the perpetual door-mat. Treachery is encoded in its DNA. It can singe, slither, and clump, it has a sneaky pelagic pong that can upstage the most aromatic of vegetables. But I have that in hand.

The silvery green arcs that slide off my knife have bite. Into a bowl with just enough water, and the veriest pinch of turmeric. Salt.

Now for the heartbeat of the dish. A small chunk of asafoetida. That's right, chunk. The size of, say, two peppercorns welded together.

The *chachinda* craves muscle. That yellow dust in a plastic shaker won't cut it. Gimme the resin straight up. Lithified sap, pure amber. Its ways are mysterious, but if you aspire to the pinnacle of pleasure, asafoetida will get you there.

As they take the same cooking time, in three generous bowls into the

pressure cooker they go—rice, *chachinda*, *moong*.

When it comes to spice, "less is more" with all vegetables but particularly so for this young adult. That subtle green stripe packs insolence, better countered with parental openness and generosity. Avoid the snark of onion, and garlic's sulfurous sting. Coriander is plain naïve, cumin is too critical. I'll go with the kindly heat of pepper. And, as defence against the *moong dal's* gloop, a spoonful of fresh grated coconut. Spritzed with a splash of hot water it makes a milky paste, coarse with crushed peppercorns.

Meanwhile, the garnish. That calls for *papad*, *pappadam* or *appalam*. A crisp wafer entirely innocent of grease.

Now the assembly. I introduce the *moong dal* to its date, and as the green bits swirl into the mush of *moong*, inhale. The top note is ferocious, a tiger spring of

asafoetida, soon lost. As conversation unfurls, scent will permeate the simmer stealthily, kittenish, and velvet-pawed.

It goes the ground paste. It still needs a catalyst to clear its throat. A sprig of curry leaves, slid in whole, will get it humming.

The *chachinda* gems a gravy of molten gold, and the crushed topping of *papad* sinks in slowly as I ladle it over a jasmine bed of rice.

It is light and delicate on the tongue, the bits of gourd tender, the *dal* rich and gentle till pop goes a peppercorn. The *papad* unfurls like an invisible flower and slides away. The *dal* no longer lisps. It accompanies, not clings, perfect arm candy for the *chachinda* which reveals texture, even heft.

Now let me tell you something crazy. The slender green cylinder I brought home is actually a plump red tomato. In Africa, the motherlode of human wisdom, the *chachinda* is snake tomato. Harvested when a sunny orange, tart and sweet, it will out-tomato any tomato in sauce or stew. And in magic too, lycopene for lycopene. When it comes to Vitamin C, the *chachinda* is, definitely the smarter tomato.

Accompaniments? *Dahi*, *raita* or *pachadi*. Or my choice, *Navarasa* salad. But that's another story, for another time.