Govt may float overseas sovereign bonds to enhance forex reserves

With the rupee coming under pressure due to dwindling capital flows, the finance ministry on Friday deliberated on the possibility of floating sovereign bonds abroad to shore up forex reserves. Such a move was taken only thrice in the past.

The possibility was discussed at a meeting chaired by chief economic adviser Raghuram Rajan with a host of foreign bankers. “They (have given) us a lot of suggestions, including a sovereign bond issue. All options are on the table and We will examine as and when the need comes,” Rajan told reporters after the meeting.

Representatives of Citi Bank, Bank of America, Merrill Lynch, Barclays, among others, attended the meeting and offered their suggestions on making debt markets more liquid.

“They (made) suggestions on a number of issues ranging from ways we can make the markets more liquid. What kind of funding needs India might have? How could this be brought in? we will take note of them,” said Rajan. He clarified the meeting was not meant to take a decision, but to generate ideas. “The meeting was not to take decisions, but to take inputs. This dialogue will continue. We now have bunch of ideas to reflect on.”

In the past well, India had resorted to foreign-currency denominated sovereign bonds. It had first issued quasi-sovereign debt bonds through the State Bank of India in 1991, when the country was facing a balance of payments crisis. Thereafter, such bonds were issued in 1998, when India faced sanctions from the US following the second Pokhran nuclear tests, and in 2000, which was to enhance forex reserves. The government, however, has not dug into its forex reserves, despite current account deficit (CAD) touching a record 4.8 per cent of the gross domestic product (GDP) in FY13, barring marginally in the third quarter of the financial year. India's CAD touched a record high of 4.8 per cent of the GDP in FY13 due to high imports, including that of gold, and a fall in exports.

However, the rupee kept coming under pressure as capital inflows abated. The situation deteriorated further after the initial statement of US Federal Reserve Chairman Ben Bernanke about gradual withdrawal of the stimulus programme. His statement led to a sudden outflow of foreign funds, which in turn had pulled down the value of the rupee to an all-time low of 61.21 to a dollar. Things, however, stabilised after Bernanke clarified that stimulus would continue for some more time.

India’s foreign exchange reserves decreased $3.2 billion to $284.64 billion in the week ended June 28, as the Reserve Bank of India sold dollar to defend rupee.

Earlier, the finance ministry had ruled out the option of resorting to sovereign bond overseas.

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