Finance Minister of Kerala T. M. Thomas Isaac undertaking relief work

A National Calamity: options before government

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The unprecedented floods in Kerala last month resulted in the death of 373. Around 1.2 million people from their homes and hearths were uprooted. They are now in relief camps.

There are estimates of collateral damage: ₹ 20,000 crore or $2.86 billion. The state government has requested aid for ₹ 2,000 crore or $2.86 million. The central government has sanctioned, as reports say, around ₹ 600 crore, which is 30% of what Kerala wanted. The central government has not indicated reasons for the small proportion. Maybe they are waiting for some detailed assessment of the needs. Certainly, austerity is not the reason at this hour of human misery.

Economic problems

The central government has its own economic problems.

They did not stem from nature's fury. They are man- made: poor governance in public sector banks (PSBs) now for more than three decades or so; the latest infusion of capital in the PSBs which are "in the intensive care", at the expense of tax payers; rise in crude oil price; low growth in exports; mounting trade deficits; pressure of widening current account deficits on the rupee; excessive reliance on the fickle minded hot money inflows (invested in equity and debt of short-term nature, of less than a year duration) from overseas, which are withdrawn at any time. The last mentioned short term inflows in good times, especially over the last two years or so, helped the country in building up a record level in international foreign reserves, as they reached $426 billion in April. Recent outflows of hot money have resulted in the fall in the value of the rupee.

The only country which accumulated high reserves through a straightforward way was China. All by exports!

Added to these troubles, the latest Turkish lira crisis in the first half of August brought down the values of currencies of emerging economies. On August 16, the Indian rupee reached for the first time the lowest ever at ₹ 70.2 per dollar.

The decline in reserves in recent weeks was due to Reserve Bank of India's intervention in currency market to arrest the continuous weakening of the Indian currency since January this year. As India's inflation was at the highest, breaching the targeted level, close to 6% in June, and the dollar getting stronger with possible high hikes in US interest rates and the interest and sovereign risks getting higher, the hot moneys began to flow out. They put pressure on the rupee.

Drawing down from the reserves and by selling foreign exchange and buying up the rupees for stabilizing the value of the rupee appear to be growingly futile. The Niti Aayog Vice Chairman is reported to be more concerned with trade deficit rather than the falling rupee. He wants the exchange rate of rupee to fall to its natural rate

No one knows what the natural rate is. That is another question.

Fear of bulging fiscal deficit

But everyone knows, in eight months from now, India has to return $22 billion of short term debt. No doubt, India would be able to meet its debt obligations from its reserves which now stand as of August 18, 2018 at a comfortable $400.8 billion.

The due date of repayment of $ 22 billion comes after the assembly elections in five states which would be over by December 2018 and a month before the Parliamentary elections in May 2019. By then, the fiscal position of India would have deteriorated. Every election is marked by fiscal blow out. Freebies, handouts, loan waivers and loan write-offs precede elections.

In the midst of all these, there is national pride. Also there is the empty rhetoric: being the sixth largest nation in the world we should not accept any charity. That was the decision when the 2005 tsunami, another unprecedented natural disaster hit the southern states. The damages were less severe and not as widespread as the latest Kerala calamity. This time it is politics, aside from national pride. The decision of 2004 not to accept aid for any rehabilitation works was by the UPA government. Can the NDA government swallow the pride and allow aid for rehabilitation works to flow in and lose the elections purely on the grounds of getting over the fiscal deficit figures?

Press reports carried the first announcement of ready donation from United Arab Emirates. That was the country in the Gulf, which benefited from the steady and rising inflows over the last three decades of Indian labour, covering a wide spectrum of professions ranging from blue collar workers (plumbers, carpenters, masons, electricians, nurses and domestic helpers) to highly skilled professionals (chartered accountants, engineers and management experts). The results of the latest Reserve Bank of India's Survey of Inward remittances for 2016-17, released early August 2018 reveal that more than half (52%) of the remittances to India originated from the Gulf and Middle East: (United Arab Emirates: 26.9%; Saudi Arabia: 11.6%; Qatar: 6.5%; Kuwait: 3.5%; and Oman: 2.3%). Kerala was the largest recipient State (19%) followed by Maharashtra (17%); Karnataka (16%).

It is apparent the large percentage of the senders of money from the Gulf countries are from Kerala.

NRI Bonds?

If the government does not want to depart from the precedent set by UPA government, thereby spoiling its chances of re-election, it can quickly consider raising moneys not by borrowing from foreign governments but by borrowing from the Indian Diaspora on the lines of Non Resident Indian (NRI) Bonds of 1998, 2000 and 2013. The idea is not new. The purpose behind issuance of NRI bonds in those years was different: it was to raise enough foreign exchange in hard currencies (US dollar, the British pound, the euro, the yen, the Canadian and the Australian dollar). They also helped to reduce the volatility in the rupee value and contributed to maintaining stability in the value of the rupee.

Will going to the overseas markets for borrowing send out wrong signals that India wants to save the rupee? Will it not create panic?

No.

It can only signal readiness to help Kerala by appealing to the Indian Diaspora for contributions. Conveniently, the central government can allow Kerala to float the NRI Bond under the label of Kerala State Flood Relief Bond. The central government can bear administrative expenses in floating the bonds and all the operating expenses, besides bearing the annual interest payments in foreign exchange from the reserves. One more step, which would be timely, is to raise the current interest rate paid on deposits of NRI remittances in the depository institutions by at least half a percent, if not one percent, both on Foreign Currency NRI Deposits and on NRI Rupee Deposits.

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[The views expressed by the author in this article is his own.]

Madan Kumar Pradhan awarded with Sikkim State Meritorious Service Award

Madan Kumar Pradhan, Joint Director, Tourism and Civil Aviation Department, Sikkim received the prestigious Sikkim State Meritorious Service Award from the hands of the honourable Chief Minister of Sikkim on the occasion of Independence Day, 2018 at Palzor Stadium, Gangtok.