

Sovereign bonds act as better financial instrument to finance fiscal deficit of the country. Do you agree with this view? Analyse.

Sovereign bond is a specific debt instrument issued by the govt. They can be denominated both foreign & domestic currency.

Union Budget 2019 proposed funding the fiscal deficit partially by borrowing from international market in foreign currency (\$10 billion)

Why it is needed?

- * Public sector borrowing is putting significant pressure on market rate, along with liquidity in the system
- * Govt is already resource constrained & large level of local borrowing could drive up interest rates & crowd out private sector
- * Borrowing abroad, govt can take advantage of global low interest rates
- * Reduce the pressure on domestic market & make credit available for private players

* India's Sovereign external debt is less than 5% of its GDP, lowest among developing major economies, so make seem relatively risk free.

Even It seems better soln to reduce fiscal deficit it has major concerns

* Depreciation of Rupee in future increase the govt liability

* Borrowing through sovereign bond the repayment subject to exchange rate fluctuations, it may make repayment costly

* Borrowing through Domestic market has advantage like govt can mint currency & repay loan but it is not possible in sovereign bond

So govt should consider all these concern & explore the option carefully more you borrow externally more the domestic economy vulnerable to global financial situations.

Govt may constitute a council based on council recommendation it can borrow up sustainable level