



NDB to Tap Indian Offshore Market

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Recently, the **New Development Bank (NDB)** in its efforts to raise capital has announced to tap into the Indian rupee offshore market.

- NDB which recently has received its **first 'AAA' rating**, is looking into the Indian rupee offshore market to raise resources after the Masala bonds market slowed down.
 - There has been a slowdown in **Masala bond** market due to the global slowdown and India's economic issues like **IL&FS crisis**.
- It is a significant move as this will strengthen **gradual internationalization of the Indian Rupee**.
- However, the offshore rupee market has its own issues.
 - The exchange rate in the two markets i.e. home and offshore, could be different leading to arbitrage opportunities and inefficiencies.
 - In fact, the price in one market could drive the price in another market.
 - This reduces the efficacy of central bank's monetary policy.
 - That's why the government had recently formed a **Task Force on Offshore Rupee Markets** under former Deputy Governor of the RBI, Usha Thorat.
 - The task force recommended expanding onshore currency markets, in a calibrated manner.
 - This will enable foreign investors to hedge their currency risk and could incentivise greater participation in rupee-denominated bonds.

Note:

- AAA is the safest of investment ratings, as there's almost zero probability of defaulting on the loan.
- It is significant that NDB got a higher rating than the **BRICS countries**.
Also, no other bank owned by emerging markets has a AAA rating.

Source:THBL