Q49

If another global financial crisis happens in the near future, which of the following action/policies are most likely to give some immunity to India? 1. Not depending on short- term foreign borrowings 2. Opening up to more foreign banks 3. Maintaining full capital account convertibility Select the correct answer using the code given below: (a) 1 only (b) 1 and 2 only (c) 3 only (d) 1, 2 and 3 Official key: A.

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Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a) Official key

1 only. Avoiding short-term foreign debt is the crisis buffer. More foreign banks and full capital-account convertibility add vulnerability.

(b)

1 and 2 only. Opening the bank door wider is not immunity.

(c)

3 only. Full CAC is the opposite of a shield (1997 / 2013 lessons).

(d)

All three. 2 and 3 fail.

Summary

Official key is (a) 1 only. Immunity to a sudden stop comes from not leaning on short-term foreign borrowing. More foreign banks and full capital-account convertibility do not give that shield.

Related possible facts

These can be asked in a future Prelims paper.

Original sin / sudden stop
Short FX debt reprices in a panic.

Tarapore / CAC
India's sequenced, incomplete convertibility.