
UNIT 17 INDIA'S EXTERNAL DEBT

Objectives

This unit enables you to understand the:

- need for external debt and its implications;
- kinds of external debt;
- problems of definition and comparison related to India's external debt;
- dimensions and sources of India's external assistance;
- external debt of India in the post-reform period; and
- India's debt servicing burden.

Structure

- 17.1 Introduction
- 17.2 External Debt : Scope and Classification
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17.1 INTRODUCTION

The economic development of a country may be financed either by domestic savings or by allowing and encouraging foreign investment. But, when there is a gap between domestic savings and investments and foreign direct investments are not significantly forthcoming, a country may resort to borrowing from internal or external sources.

In particular, when a country runs a current account deficit on its balance of payments, to finance the deficit, it may borrow from external sources apart from encouraging foreign investments. It is normal for developing countries to run current account deficits which lead to external borrowings.

India has been borrowing both from internal and external sources since Independence. The borrowings of the Government is called Public Debt. Borrowing from internal sources is referred to as internal debt whereas borrowing from external sources is called external debt.

The growth of external debt has more serious implications than the growth of internal debt:

- Internal debt may be deferred or even annulled. The same for external debt would not only affect country's international relations but may upset further inflow of capital and disturb trade flows.

- Internal debt can be monetised, i.e., repaid by printing money but external debt cannot be repaid that way.
- Internal debt can be repaid by privatisation. But selling off assets to foreigners to repay external debt may seriously harm a country's sovereignty.
- Internal debt can be serviced if the return on capital invested is more than the cost of borrowing and amortisation. In the case of external debt, however, this will not be adequate. In addition, the foreign exchange earnings of the country through exports or otherwise must rise in relation to external debt servicing.

Thus, the complexities of issues involved in external debt are different from that of internal debt. In fact, the level of India's external debt and debt servicing burden have steadily gone up since Independence. Simultaneously, the composition and sources of India's external debt have undergone significant changes.

17.2 EXTERNAL DEBT : SCOPE AND CLASSIFICATION

India's external debt may be broadly classified under eight categories. These include multilateral, bilateral and commercial loans and cover both the Government and non-government sectors. These also comprise highly concessional loans as well as loans on market terms.

(i) Multilateral Debt

This refers to loans and credits extended by multilateral organisations to the Government or, in some cases, with Government guarantee, to Public and Private sector corporate bodies. This includes long term credits (40 years) of International Development Association (IDA) and long term loans from the world bank or the Asian Development Bank (ADB) which have market interest rates and long repayment period (15-20 years).

(ii) Bilateral Loans

This refers to borrowing on varying degrees of concessionality, from other governments. Such loans are given to the government and in some cases to public sector organisations.

(iii) Loans from the International Monetary Fund (IMF)

The IMF debt assumed significance in the early 1980s, when India resorted to withdrawals under the Extended Fund Facility (EFF)/supplementary Financing Facility (SFF) to ease out the balance of payments difficulties.

(iv) Export Credit

This comprises buyers' credit, suppliers' and export credit for defence purchases. Buyers' credit and suppliers' credit are treated as forms of commercial borrowing.

(v) Commercial Borrowing

This includes market borrowings abroad by corporate entities and public sector undertakings and includes commercial bank loans, securitized borrowings (including India Development Bonds) and loans or securitized borrowings with multilateral or bilateral guarantees. Commercial borrowings also include loans from International Finance Corporation (IFC), Washington, and self liquidating loans.

(vi) Non-Resident Deposits

This refers to various types of Non-Resident (NR) deposits and Foreign Currency (Banks & others) Deposits (FC(B&O)D) with maturities of over one year.

(vii) Rupee Debt

This refers to debt denomination in rupees owed to Russia (with some very small amounts owed to other East European Countries) and paid through exports. Rupee debt is broken up into a defence and a civilian component. Since March 1990, the civilian component of rupee debt has also included rupee suppliers credits.

(viii) Short-term Debt

This refers to debt with a maturity period of upto one year. This is usually trade related debt.

The first seven categories may be termed as long term debt. The eighth category is short term, as the very name suggests. A comprehensive definition of India's external debt must include all these items although in different contexts external debt is defined to include only some of these categories.

17.3 INDIA'S EXTERNAL DEBT: METHODOLOGICAL ISSUES

There is no comprehensive and comparable time series data on India's external debt for the period ranging since Independence. The coverage of India's external debt definition has changed overtime. Therefore, differences in the methodology of external debt computation make data for pre-1988-89 period non-comparable with data for post-1988-89 period.

Prior to 1988, there was no international definition of external debt. In 1988, an International Working Group on External Debt Statistics was constituted by the World Bank, IMF, the Organisation for Economic Co-operation and Development (OECD) and the Bank for International Settlements (BIS). This Group defined gross external debt "as the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principal, with or without interest, or to pay interest with or without principal". The coverage of this definition is considerably wider than what has historically been described as external debt in India.

A consolidated statement on external debt was presented by the Government of India only in the Economic Survey, 1988-89. External debt outstanding was given in rupees but was confined to external assistance. A time series data was given but only from 1980-81.

In 1989-90, the coverage of external debt was extended to include external commercial borrowings and borrowings from the IMF. The time-series data for the revised definition of external debt was presented for the period beginning from 1984-85 and included only medium and long term debt.

In the Economic Survey, 1992-93, external debt figures were given both in rupees and in US dollars and the series began with 1988-89. In the Economic Survey, 1993-94 external debt included defence debt, and the revised external debt was presented starting from 1989-90.

Thus, the growth of total external debt including defence debt can be analysed only for the period beginning from 1989-90. But the growth of external debt excluding defence debt can be analysed from 1988-89. Analysis of external debt series for a longer period prior to 1988-89 is possible only for the external assistance component.

17.4 EXTERNAL ASSISTANCE TO INDIA: AUTHORISATION AND UTILISATION (1950-51—2001-02)

External assistance to India is broadly classified under loans, grants and P.L. 480/665 assistance. The composition of external assistance authorised for and utilised by India during 1950/51-2001-02 is presented in Table 17.1.

**Table 17.1 : External Assistance to India, 1950-51 to 2001-02
Authorisation and Utilisation**

(Rs. in Crores)

	Loans	Grants	P1 480/665 etc. Assistance		Total
			Repayable in Rupees	Repayable in Convertible Currency	
I. Authorisation:					
Upto the end of Third Plan	3808.8 (66.7)	392.0 (6.9)	1510.8	—	5711.6 (100.0)
1966-67 - 1968-69	2185.7 (68.9)	164.9 (5.2)	700.2	121.3	3172.1 (100.0)
1969-70 - 1973-74	3670.8 (87.9)	196.2 (4.7)	96.1	209.1	4172.2 (100.0)
1974-75 - 1978-79	7912.1 (80.4)	1795.3 (18.2)	—	136.4	9843.8 (100.0)
1979-80 - 1983-84	13739.7 (88.2)	1838.2 (11.8)	—	—	15577.9 (100.0)
1984-85 - 1988-89	27758.7 (93.4)	1955.3 (6.6)			29714.0 (100.0)
1989-90	10106	720			10826
1990-91	7601	522			8123
1991-92	11806	902			12708
1992-93	13082	1012			14094
1993-94	11619	2415			14034
1994-95	12384	1076			13460
1995-96	10833	1330			12163
1996-97	14209	2933			17141
1997-98	14865	2101			16966
1998-99	8321	210			8531
1999-00	17704	2615			20319
2000-01	17184	941			18125
2001-02	21630	3465			25095

II. Utilisation:					
Upto the end of Third Plan	2768.7	336.9	1403.2	—	4503.8
	(61.5)	(7.5)			(100.0)
1966-67 — 1968-69	2147.7	223.0	755.0	103.9	3229.6
	(66.5)	(6.9)			(100.0)
1969-70 — 1973-74	3656.2	152.8	154.0	220.7	4183.7
	(87.4)	(3.6)			(100.0)
1974-75 — 1978-79	5970.5	1157.0	—	182.0	7309.5
	(81.7)	(15.8)			(100.0)
1979-80 — 1983-84	9098.0	1911.7	—	—	11009.7
	(82.6)	(17.4)			(100.0)
1984-85 — 1988-89	12973.5	1791.0	—	—	14764.5
	(87.9)	(12.1)			(100.0)
1989-90	5138	665			5803
1990-91	6170	534			6704
1991-92	10696	919			11615
1992-93	10102	880			10982
1993-94	10895	886			11781
1994-95	9965	916			10881
1995-96	9959	1064			11022
1996-97	10893	1086			11979
1997-98	10823	921			11745
1998-99	12343	896			13239
1999-00	13331	1074			14405
2000-01	13527	727			14254
2001-02	16112	1448			17559

Source : *Economic Survey*, various issues.

Independent India had a negligible share of external debt. However, after the beginning of economic planning in 1951, to cover the investment and the balance of payments gap, the government resorted to seeking external assistance. The amount of external assistance approved by different sources and utilised by India has grown steadily over a period of time since then.

India got external assistance in several forms. It includes outright grants, loans repayable in rupees and loans repayable in foreign currencies. Technical assistance has also been made available on different terms from different countries. Deferred credits have also been provided by foreign suppliers.

During the first five year plan, the utilisation of external assistance comprising loans, grants and commodity assistance amounted to approximately Rs. 400 crore. It was utilised mainly for the procurement of commodities like wheat and capital goods required for various development projects including irrigation and power projects, etc.

The emphasis on the development of basic and heavy industries for rapid industrial development during the Second Five Year Plan, prompted the Government to go for more external assistance. Besides, the trade deficit widened during this period owing to a large increase in imports. All this necessitated a huge foreign capital inflow. The total external assistance utilised was approximately Rs. 1500 crore, during the Second Plan.

During the Third Five Year Plan, the policy of strengthening the industrial base of the country was continued. On the defence front, the Chinese invasion of 1962 and Indo-Pak war in 1965, forced the country to concentrate on defence industry production and development. Further, due to adverse monsoons, agricultural production was far insufficient to meet the country's demand. This necessitated large imports of food grains and other agricultural commodities under the US Public Law 480 programme. As a result of all these, India had to utilise external assistance to the extent of almost Rs. 2900 crores, during the Third Plan period.

During the three annual plans, the drought conditions in the country necessitated heavy food imports under PL 480. In addition, the development of defence industries, trade deficit, etc. led to reliance on external assistance to the tune of more than Rs. 3000 crores.

During the Fourth Plan, thanks to recovery in agricultural production, the country's dependence on PL 480 food aid came down. Further, due to currency devaluation of 1966, exports grew significantly during this period thereby reducing the trade deficit. Due to these factors, the amount of external assistance sought and utilised increased only marginally. The total amount of external assistance utilisation stood at Rs. 4183.7 crores.

After the Fourth Plan, external assistance sought by India increased dramatically. The major factors which led to a sharp rise in India seeking external assistance were:

- steep rise in the international prices of crude oil and petroleum products,
- increase in the prices of food and fertilisers in the world market.

Since, both petroleum & petroleum products and food & fertilisers were the major items of India's imports, to bridge the trade gap India had to seek external assistance in a big way. During the Fifth Plan, the total amount of external assistance utilised went upto Rs. 7300 crores. During 1979–80—1983–84, external assistance increased further to exceed Rs. 11,000 crores. During 1984–85—1988–89, total external assistance utilisation by India reached almost Rs. 15,000 crores.

By 2001-02, the total amount of external assistance utilisation stood at Rs. 17,559 crores.

17.5 SOURCES OF EXTERNAL ASSISTANCE

The sources of external assistance for India are grouped under :

1. **Consortium Members:** Comprising Austria, Belgium, Canada, Denmark, France, West Germany, Italy, Japan, Netherlands, Norway, Sweden, UK, USA, the World Bank, and International Development Association.
2. **East European Countries:** Which include Bulgaria, Czechoslovakia, Hungary, Poland and Yugoslavia.
3. **Others:** Consist of Australia, European Economic Community (E.E.C.), Oil Producing & Exporting Countries (O.P.E.C.), etc.

The external assistance — source wise, authorised and utilised are presented for select years in Tables 17.2 and 17.3. Consortium members have been the major source of external assistance for India, be it loans or grants. The PL 480/665, etc. assistance was obtained from the USA for food imports. On an average, more than three-fourths of the total external assistance came from the consortium members to India.

Table 17.2: Authorisation of External Assistance by Source: Select Years

(Rs. in crores)

Source and Type of Assistance	1968-69	1974-75	1980-81	1985-86	1990-91	1995-96	2000-01
I. Consortium Members							
(a) Loans	753.1	1297.4	2614.9	4118.4	6787.8	9951.1	11918.5
(b) Grants	64.6	121.0	68.8	313.4	516.8	1128.2	923.0
(c) PL 480/665 etc assistance:							
(i) Repayable in rupees	71.6	—	—	—	—	—	—
(ii) Repayable in convertible currency	53.7	—	—	—	—	—	—
(d) Total	943.0	1418.4	2683.7	4431.8	—	—	—
II. USSR & East European Countries							
(a) Loans	—	—	485.7	1134.0	—	—	—
(b) Grants	0.7	—	—	—	—	—	—
(c) Total	0.7	—	485.7	1134.0	—	—	—
III. Others							
(a) Loans	—	184.0	670.6	84.6	—	—	—
(b) Grants	3.2	68.8	7.0	—	—	—	—
(c) Total	3.2	252.8	677.6	84.6	—	—	—
Grant Total	946.8	1671.2	3847.0	5650.4	8123.4	—	—

Source : *Economic Survey*, various issues.

The Eastern European countries accounted for a negligible share of India's external assistance. The other countries accounted for a still lower share.

A more disaggregated picture reveals that India acquires external assistance for various purposes from various sources:

- Loans are received from international institutions such as the World Bank and International Development Association for specific projects. The loans given by the I.D.A. are on easier terms, i.e., interest free loans for the development of ports, etc.
- Credits are given by individual countries such as the U.S.A., the U.S.S.R., the U.K., West Germany, Japan, Canada, etc. Most of these loans are project loans.
- Specific aid loans for a particular purpose, such as agriculture development loans from the World Bank, irrigation loans by the I.D.A., etc.
- Grants given for various social purposes including technical training, health, nutrition by different countries.

Among the individual countries, U.K. and U.S.A. were the major contributors of loans to India till the end of the Fourth Plan. But thereafter, particularly in the 80s, Japan and Germany were the major lenders to India. A significant

Table 17.3: Utilisation of External Assistance by Source: Select Years*(Rs. in crores)*

Source and Type of Assistance	1968-69	1974-75	1980-81	1985-86	1990-91	1995-96	2000-01
I. Consortium Members							
(a) Loans	591.4	897.0	1687.1	2270.2	5383.5	8018.9	11168.6
(b) Grants	61.0	44.3	311.9	281.6	413.0	885.1	634.0
(c) PL 480/665 etc assistance:							
(i) Repayable in rupees	84.5	—	—	—	—	—	—
(ii) Repayable in convertible currency	73.1	—	—	—	—	—	—
(d) Total	810.0	941.3	1999.0	2551.8	4727.3	—	—
II. USSR & East European Countries							
(a) Loans	86.3	162.0	32.9	161.2	312.8	—	130.1
(b) Grants	0.7	—	—	—	—	—	—
(c) Total	87.0	162.0	32.9	161.2	—	—	—
III. Others							
(a) Loans	2.1	161.4	45.3	61.7	144.4	—	—
(b) Grants	3.5	49.6	84.6	161.3	213.8	—	—
(c) Total	5.6	211.0	129.9	223.0	358.3	—	—
Grant Total	902.6	1314.3	2161.8	2936.0	6704.3	11022.2	14254.3

Source : *Economic Survey*, various issues.

feature of India's external assistance was that, India's reliance on international institutions for external assistance had steadily increased over a period of time: In 1969-70, loans of the World Bank and I.D.A. accounted for hardly 18 percent of the total loans utilised by India. In 1979-80, the share of loan assistance of these international institutions increased to about 53 percent of the total loan utilisation by India. In 1988-89, the World Bank and I.D.A. loans amounted to almost 73 percent of India's total loans utilised. Consequently, India's reliance on individual countries for external assistance had steadily come down. (*For a detailed table on sources of External Assistance see Economic Surveys*).

External Debt Servicing (1950-51 — 2001-02)

India's dependence on external assistance had increased steadily since independence. As a result, India's debt servicing burden had increased over a period of time (Table 17.4). Due to the increasing size of loan burden, both amortisation and interest payments had grown steadily.

Table 17.4 : External Debt Servicing : 1950-51 — 2001-02.

(Rs. in crores)

Period	Amortisation	Interest Payment	Total (Debt Servicing)
First Five Year Plan	10.5	13.3	23.8
Second Plan	55.2	64.2	119.8
Third Plan	305.6	237.0	542.6
1966-67	159.7	114.8	274.8
1969-70	268.5	144.0	412.5
1975-76	462.7	224.2	686.9
1979-80	570.1	313.9	884.0
1985-86	780.0	590.0	1370.0
1988-89	1650.0	1300.0	2950.0
1989-90	1987	1699	3686
1990-91	2329	1954	4283
1991-92	3650	3006	6656
1992-93	4788	3961	8749
1993-94	5352	4199	9551
1994-95	5791	4635	10426
1995-96	7566	5082	12648
1996-97	7070	4870	11940
1997-98	7550	4795	12345
1998-99	8880	5192	14072
1999-00	9686	5480	15166
2000-01	11662	5429	17091
2001-02	10705	5256	15961

Source : *Economic Survey*, various issues.

Activity 1

Prepare a bar diagram for the major sources of external assistance for India and write a note on the growth of external assistance.

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17.6 EXTERNAL DEBT IN THE POST-REFORM PERIOD

The comprehensive data comprising of all the dimensions of India's external debt—long term as well as short term, foreign currency debt as well as rupee debt, external assistance as well as commercial borrowing, public as well as private borrowings, institutional debt as also non-resident Indian deposits are presented in Indian rupees (Table 17.5) and in US dollars (Table 17.6).

To facilitate international comparisons, analysis is confined to external debt in terms of US dollars (Table 17.6). The amount of India's external debt has been increasing steadily in the post-reform period.

Out of the total external debt, multilateral and bilateral assistance together accounted for about 43 percent in 1990. In 1995, these accounted for almost 50 percent of the total external debt. The amount of commercial borrowing though increased in absolute terms, its relative share in total external debt remained more or less at the same level — 12 percent to 13 percent whereas rupee debt which accounted for almost 15 percent in 1990 declined somewhat, to about 10 percent in 1995.

The share of borrowings from the I.M.F. steadily increased from about 2 percent in 1990 to about 5.5 percent in 1994 but declined marginally to about 4.5 percent in 1995.

Non-Resident and Foreign Currency (Banks & others) deposits of long and short-term duration increased from 9424 million U.S. dollars in 1990 to 12422 million U.S. dollars in 1995. But the relative share remained at around 12.5 percent during 1990-95.

The component of rupee debt has marked a steady decline in total external debt from about 15 percent in 1990 to about 10 percent in 1995.

Table 17.5 : India's External Debt: 1990–2001

(Rs. in crores)

		End March											
		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 (R)
I	Multilateral	32886	40386	68262	77758	82199	89819	98173	105066	116904	129682	137132	145105
II	Bilateral	22993	27378	47603	50258	54280	63761	65740	62891	67104	74304	79278	74519
III	I.M.F.	2572	5132	8934	14985	15812	13545	8152	4714	2622	1218	113	0
IV	Export Credit	8002	8374	12418	13484	16307	20876	18432	21044	25783	28812	29564	27625
V	Commercial Borrowing	15988	19727	35711	36367	38782	40915	47642	51454	67086	89019	86963	112938
VI	NRI & FC (B&O) Deposits	15719	20030	27384	34941	39729	39129	37802	39527	47050	50048	59137	77273
VII	Rupee Debt	19075	25199	31956	33149	31634	30315	28150	26978	23204	20077	19218	17345
Total Long-Term Debt (I to VII)		117235	146226	232268	260942	279043	298360	304091	311674	349753	393160	411388	454805
VIII	Short-Term	12964	16775	20642	19804	11375	13432	16637	24153	19929	18137	17162	16919
Grand Total (I to VIII)		130199	163001	252910	280746	290418	311792	320728	335827	369682	411297	428550	471724

Note : R (Revised)

Source : Ministry of Finance (DEA) & Reserve Bank of India.

The external debt stock of India stood at US \$ 101.97 billion at end-September 2002 as against US \$ 98.49 billion at end-March 2002 and US \$ 101.13 billion at end-March 2001. Despite increasing trend of external debt in the recent years, the key debt indicators have considerably improved over time. The external debt to GDP ratio, signifying the extent of external debt vis-à-vis domestic output, declined from 24.3 percent at end-March 1998 to 20.9 percent as at end-March 2002 and further down to 20.1 percent at end-September 2002. Debt service to current receipts ratio that signifies capacity of the country to meet its debt service obligations, improved from 19.5 percent in 1997-98 to 13.8 percent in 2001-02. Short-term debt (debt with original maturity of up to one year) has also declined steadily from US \$ 5.05 billion at end-March 1998 to US \$ 2.75 billion at end-March 2002, but has moved up to US \$ 3.04 billion at end-September 2002 revealing a decline in share of short-term debt to total external debt from 5.4 percent at end-March 1998 to 3.0 percent

17.7 DEBT SERVICE PAYMENTS

The growing stock of external debt is, indeed, a matter of concern. However, the nominal stock of debt is not a good measure of the debt burden. This is because a majority of the external debt is long term in nature and nearly half of the debt is at a concessional rate. A more appropriate measure of external debt burden is the flow of debt service payments expressed as a percentage of current receipts component of the balance of payments.

India's debt service payments (Tabel 17.7) increased from 7420 US million dollars in 1989-90 to 8982 US million dollars in 1990-91. This was due to a bunching of debt service payments on the external commercial borrowings account. In the subsequent two years, debt service payments declined due to a decline in payments on commercial borrowings. In 1994-95, debt service payments increased sharply to 10938 US million dollars from 8293 US million dollars in 1993-94 owing to (i) higher repayments to the I.M.F. and (ii) higher repayments on account of commercial borrowings.

Table 17.7 : Debt Service Payments

(US \$ million)

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1999-00	2000-01	2001-02	2002-03
1. External assistance*	2214	2315	2447	2541	3024	3202	3438	3706	3240	6308
Repayment	1193	1187	1329	1443	1618	1817	—	—	—	—
Interest Payments	1021	1128	1118	1098	1406	1385	—	—	—	—
2. External Commercial borrowing	2244	3414	2830	2707	3232	4273	4758	7665	5997	5988
Repayment	1158	2004	1677	1525	1978	2795	—	—	—	—
Interest Payments	1086	1410	1153	1182	1254	1478	—	—	—	—
3. I.M.F.	1043	778	697	614	387	1368	267	26	—	—
Repayment	874	644	459	335	134	1146	—	—	—	—
Interest Payments*	169	134	238	279	253	222	—	—	—	—
4. NRI Deposits										
Interest Payments	936	1282	1036	918	905	1045	1742	1659	1555	1268
5. Rupee Debt Service	983	1193	1240	878	745	1050	711	617	519	474
6. Total Debt Service (1 to 5)	7420	8982	8250	7658	8293	10938	10916	13673	11311	14038
Repayment	4208	5028	4705	4181	4475	6808	—	—	—	—
Interest Payments	3212	3954	3545	3477	3818	4130	—	—	—	—
Current receipts	24012	25478	27307	26746	33074	41044	67472	79342	81220	95627
Debt Service Ratio (%)	30.90	35.25	30.21	28.63	25.07	26.65	16.2	17.2	13.9	14.7

Source : Ministry of Finance (DEA) & Reserve Bank of India.

The debt service payments as a proportion of current receipts of the balance of payments exceeded 35 percent in 1990-91 but steadily decreased thereafter upto 2002-03. Due to repayments of the IMF loan and higher repayments of commercial borrowings, the debt service ratio once again increased in 1994-95 but decreased thereafter.

17.8 EXTERNAL DEBT : INTERNATIONAL COMPARISONS

An international comparison of India's external debt burden would be appropriate as it would reveal India's position particularly among the developing countries. India's external debt vis-à-vis other prominent developing countries is presented in Table 17.8.

Table 17.8 : International Comparison of Present Value (PV) and PV Based Ratios, 2000

S. No.	Country	Total External Debt (US \$ billion)	Debt to GNP (ratio as %)	PV (US \$ billion)	PV/XGS (per cent)	PV/GNP (per cent)	Indebtedness Classification
1.	Brazil	238.8	41.8	223.8	346	36	Severe
2.	Mexico	160.3	66.8	15.0	96	33	Less
3.	Argentina	150.3	26.9	155.0	425	55	Severe
4.	Russian Federation	149.8	14.1	148.1	154	64	Moderate
5.	Indonesia	146.2	52.6	135.0	212	111	Severe
6.	China	141.8	99.4	133.2	54	13	Less
7.	Korea Republic	134.4	29.5	128.4	70	33	Less
8.	Turkey	116.2	57.7	114.6	198	58	Moderate
9.	India	79.7	66.1	70.9	105	16	Less
10.	Thailand	100.4	21.3	76.6	100	66	Moderate
11.	Poland	63.6	40.5	58.1	128	37	Less
12.	Philippines	50.1	63.1	50.8	109	67	Moderate
13.	Malaysia	41.8	50.7	42.9	43	57	Moderate
14.	Venezuela	38.2	32.0	38.7	139	37	Moderate
15.	Chile	37.0	54.3	34.9	163	51	Moderate

Source : *Economic Survey, 2002-03.*

- *Serial number 1 to 15 is the rank of the country in terms of total indebtedness.*
- *The ratio of PV of debt service to exports is the ratio of PV of debt service in 2000 to average exports (including workers' remittances) in 1998, 1999 and 2000.*
- *The ratio of PV of total debt service to GNP is the ratio of PV of total debt service in 2000 to average GNP in 1998, 1999 and 2000.*

India's external debt which stood at 92.68 billion US dollars at the end of March 1994 ranked third among the developing countries in terms of the absolute magnitude of debt. External debt: GDP ratio for India is much higher than that of South Korea, China, Brazil and Argentina. But it is lower than that of Indonesia, Philippines, Turkey, Malaysia, Thailand and Mexico.

Table 17.8 also presents various debt indicators used by the World Bank to classify indebtedness. A country's indebtedness is classified as severe if the Present Value (PV) of external debt to Gross National Product (GNP) ratio exceeds 80 percent and the Present Value (PV) of external debt to Exports of Goods and Services (XGS) ratio exceeds 220 percent. The Present Value (PV) to GNP ratio for India stood at 16 percent for the year 2000 and the present value (PV) to exports of Goods and services (XGS) ratio was 105 percent. Both these ratios are lower than the critical values. India's indebtedness may not, therefore, be termed as severe.

Although the proportion of concessional debt to total external debt has declined from 39.5 percent at end-March 1998 to 36.0 percent at end-March 2002, it has improved marginally to 36.5 percent at end-September 2002. India continued to enjoy the highest proportion of concessional loans by international standards when compared with top fifteen debtor countries of the world in the year 2000.

In terms of indebtedness classification, the World Bank, in *Global Development Finance 2002*, has categorized India as a *less indebted* country in the years 1999 and 2000. It was placed in the *moderately* indebted category in 1998.

India's indebtedness position vis-à-vis other emerging economies has also improved over the years. In terms of absolute debt levels, India improved from *third* largest debtor after Brazil and Mexico in 1991 to *ninth* in 2000 after Brazil, Russian Federation, Mexico, China, Argentina, Indonesia, Korea and Turkey. India's external debt indicators such as short-term debt to total external debt and short-term debt to foreign exchange reserves ratios were lowest and concessional to total debt ratio was highest in the year 2000 among top 15 debtor countries of the world.

The improvement in India's external debt position is attributed to Government's initiative to encompass policy issues that focus on concentrating on concessional and less expensive debt from multilateral and bilateral sources, keeping the maturity structure of the total external debt under manageable limits, limiting short-term debt, prepaying more expensive external debt and encouraging non-debt creating financial flows on capital account, exports and invisibles on current account. New initiatives in this direction would include an increased coverage and computerization of external debt statistics, better co-ordination among agencies reporting debt and further steps towards refinancing of costly debts, prepayment of identified high cost debt and exploring the possibility of using the financial products for hedging of risks for active management of sovereign debt. As a part of such prudent external debt management policy, high cost external loans amounting to US \$ 1145 million have been prepaid up to end-December 2002.

17.9 EXTERNAL DEBT AND DEBT SERVICING BURDEN : A COMMENT

Of late, the level of external debt and problems of debt servicing burden have become a widely debated issue in India. Till the early 80s, external debt was not a major problem since India had not resorted to much of market and market related external borrowings. But the trend of borrowing externally gained momentum in the late 80s. As a result, India's overall debt and debt-servicing burden increased over the 80s as well as in the 90s.

The growing magnitude of external debt has attracted increasing attention of the Government in the 90s. The Government of India and the Reserve Bank of India have introduced a number of measures to contain the growth of expensive external debt. These include:

- ▣ moderation in the interest rates on non-resident deposits,
- ▣ discontinuation of some high cost forms of non-resident deposits where the Government bore the exchange risk,
- ▣ encouragement to the corporate sector to prepay expensive external debt,
- ▣ limits on external commercial borrowings and prioritisation of such borrowings in favour of infrastructure, term lending institutions and exporters,
- ▣ a more open and pragmatic policy for non debt creating foreign direct investments.

These measures are being combined with an overall trade policy which gives top priority to promoting exports.

In fact, India should go for a two pronged strategy to reduce its debt-service ratio:

- (i) Encourage foreign direct investment inflow through further liberalisation of foreign investment laws. Bureaucratic hurdles must be removed with an iron hand, to realise larger-inflow of foreign direct investment.
- (ii) A big push to exports to grow at the rate of more than 20 percent annually. Accelerating the development of infrastructure itself will give a big boost to export growth. Achieving current account balance, if not surplus, should be the medium term objective.

The strategy will reduce the need for external borrowings and bring down the debt servicing burden gradually.

17.10 SUMMARY

The definition of external debt in India has changed and accordingly the scope has been widened over the period. As a result, a time-series comparison of India's external debt is not possible.

Irrespective of the scope of definition of external debt, the level of India's external debt has steadily gone up and so is the debt servicing burden. Multilateral and bilateral loans, particularly concessional debt forms a significant portion of India's external debt. The proportion of long-term debt is much higher and short-term debt composition has declined in the post-reform period.

An international comparison shows that India has improved from third largest indebted country to ninth in the world. The different debt position indicators do indicate that India needs to manage its external debt position more efficiently. To reduce the debt servicing burden, the Government of India has taken various steps including policy liberalisation for foreign investments and export promotion. Any sustainable success on the foreign investment inflow front and export growth front would enable India to reduce its external debt burden significantly in the medium to long run.

17.11 KEY WORDS

Amortisation: The process of repayment of the principal loan amount, on maturity in lumpsum or in instalments.

Debt-Servicing Burden: This refers to the amount comprising amortisation and interest in a particular year. Since amortisation and interest differ from year to year, debt servicing burden also differs accordingly.

Gross Domestic Product: A measure of market prices of the total flow of goods produced in an economy during a year.

SDRs: The Special Drawing Rights is an international financial asset created by the IMF and serves as an international unit of account, a means of payment among certain eligible official entities, and an international reserve asset. Currently the SDRs issued by the IMF can be used only in transactions among monetary authorities (central banks) and certain international institutions. SDRs may be used to purchase foreign currency from the IMF, to make payments to IMF, or to engage in direct financial transactions among the official holders of SDRs like India.

PL 480/665 assistance: It refers to the food aid which India received under the US Public Law 480 and 665 for the import of food items. However, with improvement in food grains production, this assistance gradually declined in importance.

Soft Loans: A loan bearing no rate of interest or an interest rate which is below the true cost of capital lent. The International Development Association (IDA) gives soft loans to developing countries for long term capital projects.

17.12 SELF ASSESSMENT QUESTIONS

1. What is the role of external debt in the economic development of a country like India? What are the implications of a growing external debt?
2. Distinguish external debt from internal debt and list out the implications of the former for an economy like India.
3. Describe the various kinds of external debt and the relative merits and demerits of each.
4. What are the different sources of external assistance for India? Why has external assistance utilisation increased steadily over the period? Comment.
5. Discuss the composition of India's external debt and its growth in the post-reform period.
6. Critically evaluate the growing debt-servicing burden of India? What measures are needed to counter/check the growth of debt servicing burden?

17.13 FURTHER READINGS

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