



India's External Debt during Post Reform Period

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Most of the countries of the world, which embarked on the road of economic development, had to depend on foreign capital to some extent. In fact in the initial stage of development, when domestic resources are not sufficient enough to finance development plans, foreign aid or capital is of immense importance. If the foreign aid or help is not used efficiently and managed effectively, if the receiving country does not put serious efforts in developing the domestic resources for its development, if the country becomes more and more dependent on foreign aid and loans continuously, it may be great cause of concern for the country. It may find itself in debt trap and face the debt servicing difficulties. In fact the external debt of the developing countries has been on rapid rise in absolute terms, that's why the external debt of developing countries became the most talked about international problem. This paper throws light on certain important aspects of external debt of India and suggests the measures to for an effective external debt management policy.

India's external debt problem came under sharp focus when country faced payment crisis in 1990. There were however, several special factors responsible for this crisis.

They were:

- i. The sharp increase in oil prices due to gulf crisis following the annexation of Kuwait by Iraq.
- ii. Fall in exports to West Asia due to gulf crisis.
- iii. Fall in the emigrant remittances following the gulf crises.

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- iv. Dry up of the short term credit due to loss of confidence in government's ability to manage the situation.
- v. Net outflow of NRI deposits which started in October 1990 and continued until the end of 1992, mostly due to loss of confidence.

After 1991, slowly and gradually India improved its position with the help of concerted and continuous effort of prudent external debt management strategy. This has also earned us increased international recognition in the sphere of both monitoring and management of external debt and bears important lesson for other developing countries.

The total stock of external debt and some key indicators are shown in the following table:

Extent of India's External Debt: Key Indicators

Year's	India's External Debt		End – March	
	Total External Debt (US \$ billion)	Total External Debt (Rupee crore)	Debt Service to Current Receipts	External Debt to GDP
1991	83.80	163,001	35.5	28.5
1992	85.28	252,910	30.2	38.7
1993	90.02	280,746	27.5	37.5
1994	92.70	290,418	25.4	33.8
1995	99.01	311,685	25.9	30.8
1996	93.73	320,728	26.2	27.0
1997	93.47	335,827	23	24.5
1998	93.53	369,685	19.5	24.3
1999	96.88	411,297	18.9	23.4
2000	98.26	428,550	17.1	21.9
2001	101.3	472,625	16.1	21.5
2002	98.84	482,328	13.6	21.1
2003	104.91	498,804	16.0(12.4)	20.4
2004	111.65	491,078	15.9(8.1)	17.8
2005	123.20	539,389	6.1(5.7)	17.3
2006	126.39	564,591	10.2(6.1)	15.8
2006(QE*) End Sept.	136.52	638,181	NA	NA

QE * Quick Estimates

NA Not Available

Note: Figures in bracket indicate debt service ratios excluding exceptional transactions such as payments for 2002-03 and 2004-05, and payments as well as redemptions of Resurgent India Bonds (RIBs) for 2003-04 and prepayments as well as redemptions of India Millennium Deposits in 2005-06.

Source: Economic Survey, Government of India, Various Issues.

The above table reveals that India's stock of external debt, which was US \$ 83.80 in 1991 rose to US \$ 98.26 in 2000. But, it rose significantly from 98.26 to US \$ 101.3 in 2001. The increase in debt stock mainly resulted from mobilizing of US \$5.5 billion by India Millennium Deposits Scheme in Oct/ Nov 2000. This increasing trend in stock of external debt was also observed in the time period from 2002-2006. According to the quick estimates of RBI this stock was US \$ 136.52 in 2006 at the end of September. Thus in the first half of current decade the external debt has increased significantly. One of the important reasons responsible for this trend is the increase in the amount of the external commercial borrowing as international markets provide increased excess to Indian Corporate.

Though the absolute amount of the external debt has increased, important debt ratios suggested improvement with the passage of time. For example debt service ratio to current receipts has shown significant signs of improvements. This ratio declined from the peak of 35.3 per cent in 1991 at the end of March to 10.2 per cent level in 2006. Likewise one of the important debt ratios which showed the same declined trend is the ratio of external debt to the GDP of the country. This ratio was high as 38.7 percent in 1992, improved significantly and stood at 15.8 percent. This is the minimum level during the last 15 years.

Composition of India's External Debt: The following table shows the India's short term external debt ratios which are key components of external debt of the country:

Years	Short Term Debt to Total Debt	Short Term Debt to Foreign Currency Assets
1991	10.2	382.1
1992	8.3	125.6
1993	7.0	98.5
1994	3.9	24.1

1995	4.3	20.5
1996	5.4	29.5
1997	7.2	30.1
1998	5.4	19.4
1999	4.4	14.5
2000	4.0	11.2
2001	3.4	8.8
2002	2.8	5.4
2003	4.5	6.5
2004	4.0	4.0
2005	6.1	5.6
2006	6.9	6.0
2006 (QE) End Sept.	7.7	6.7

Sources: Economic Survey of India, Government of India, various issues

High volumes of short term debt make balance of payments of a country vulnerable as borrower faces refinancing/rollover risk. More over if the borrower is not able to repay his dues in time, he has to go for a new short term debt and it further increases the financial burden on the balance of payments of the country. It is a vicious circle. This could mean heavy net repayments on account of short term maturing obligations which could further aggravate the balance of payment crisis. Short term finance is just like “**Fair Weather Friend** “ because in the time of crises it is very difficult to access international capital market for short loan. This happened with in India in 1991 when there was a lack of confidence. The loss of confidence has itself undermined the government’s capability to deal with the Balance of Payments crisis by closing off all resources to external debt and for the first time in India’s history a default on payment had become a serious possibility in June 1991.

The table shows that short – term debt, which was at peak at 10.2 percent of the total debt in 1991, has improved significantly and it has touched the minimum level of 2.8 percent in 2002. But, after 2002 it is showing the rising trends and in 2006 end of September it was as high as 7.7 percent, which might be a cause of concerns, if not managed effectively in time:

Concessional Debt: Concessional debt is also one of the important indicators that show the severity of indebtedness of a country. The following table shows the trend of the concessional debt of the country:

Year (End – March)	Ratio of Concessional Debt to Total External Debt
1991	45.9
1992	44.8
1995	45.3
1997	42.2
1998	39.5
1999	38.5
2000	38.9
2002	35.9
2003	36.8
2004	36.1
2005	33.0
2006	31.2
2006 (QE) End Sept.	29.2

Source: Economic Survey of India, Government of India, Various issues

The proportion of concessional debt in the total debt has been steady 45 percent during the first half 1990s, declined to 38.5 percent at end March 1999. If the table is analysed carefully it is clear that for last few years the average ratio has been approximately one third of the total external debt. Despite the declining trend, India's share of concessional debt continues to be high by international standards.

The table (next page) reveals that the India is comparatively in a comfortable position if compared with top ten debtor countries of the world. On the basis of key external debt indicators India continued to rank 8th among the top ten debtors countries of the world according to Global Development Finance 2005, World Bank.

CONCLUSIONS:

Now it is clear that India is not one of the severely indebted countries of the world but for the last few years external debt as well as short term debt of the country has increased significantly. To address the problem government should focus on raising funds on concessional term and from less expensive sources. For this the government should take steps to reduce the amount of external commercial borrowings. Loan should be of long maturities. Monitoring of short –term debts is very crucial. Besides, non-debt creating capital should be encouraged into the country. This will help in containing the accumulation of external debts and managing external debts within manageable limits.

International Comparison of Top Ten Debtor Countries – 2003

Sr No.	Country	Total External Debt (US \$ Million)	International Classification	Debt Sustainability Indicators			
				Debt To GNP	Debt Service	Short Term Debt to Total External Debt	Concessional Debt to Total Debt
1	Brazil	235.4	Severe	50	63.8	8.3	1.4
2	China	193.4	Less	15	7.3	37.7	16.8
3	Russian Federation	175.3	Moderate	50	11.8	17.6	0.8
4	Mexico	140	Less	23	20.9	6.6	0.9
5	Argentina	166.2	Severe	104	37.9	13.8	0.8
6	Indonesia	134.4	Severe	80	26	17	27.4
7	Turkey	145.7	Severe	77	38.5	15.8	3.5
8	India*	113.5	Less	22	18.1	4.2	37.8
9	Poland	95.2	Moderate	49	25.1	20.5	7.1
10	Philippines	62.7	Moderate	77	22.1	9.9	22.6
* According to World Bank Data. Source: Global Development Finance 2005, The World Bank							

Source: Economic Survey, Government of India, Various Issues

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