

Trends & Structure of External Debt in India

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Abstract

The process of trade liberalization and market-oriented economic reform that had started in many developing countries in early 1980s intensified in the 1990s. The reform undertaken varied in ownership and contents in different countries. Broadly speaking, trade policy reforms are a part of external sector reforms in India. The external sector reforms include reforms for external trade in goods and services, reforms for foreign exchange regimes and for determination of foreign exchange rates, reforms for attracting foreign investment, and ways and means of reducing external debt and its servicing. India's external debt has remained within limits as indicated by external debt indicators. The prudent external debt management policy of the government of India has helped in containing rise in external debt and maintaining a comfortable debt position. The policy continues to focus on monitoring long and short term debt, raising sovereign loans in concessional terms with longer maturation, regulating external commercial borrowings and rationalizing interest rates on non-resident Indian deposits.

Key Words : *External Debt, Pre-Liberalization Era, Liberalization, Classification of External Debt, Currency Composition*

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Introduction

Public debt has long been at centre of the fiscal policy debate. Public borrowing is a powerful tool of economic policy. Via borrowing governments can affect the allocation of resources, economic activity and the distribution of income and health. Governments can use borrowing to meet exceptional events, to counter economic downturns and to expand infrastructures. On the other hand, misuse of public borrowing can have significant and long-lasting implications. The stock of public debt influences economic decisions and expectations. It constrains the room for manoeuvring of fiscal policy. It can require painful adjustments or it can cause inflation or default.¹

One form of public debt is external debt or foreign debt, which is the total debt a country owes to foreign creditors. The debtors can be the government, private corporations or industrialists as individuals. The external debt includes money owed to private commercial banks, other governments, or international financial institutions such as IMF and World Bank According to IMF, **“Gross external debt is the amount at any 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.”** But the present study is confined to that part of external debt which is owed by Indian government.

India has borrowed money from external sources on a large scale mainly to meet out its investment demand and balance of payment gaps due to ever increasing population burden and imports. The sudden and fast increase of petroleum prices in 1970s, thanks to formation of OPEC also worsened India's BOP position. Gradual decline in concessional loans, and increased dependence on external commercial borrowings also were the cause for increase in the interest burden of India.

To understand the inevitable need and the role of external debt in a country's economic development, it is better to go through the experience of developed countries. Almost all the developed nations, in their early stages of development, obtained foreign finance to supplement their domestic savings.

The countries, which entered the race of economic development, relied on borrowing from abroad to assist their take-off. Both in take-off and post-take-off periods, foreign capital has played a significant role in the economic development of the developed nations. However, it is important to note that foreign capital has played a supplementary role in those economies. It is suggested that mostly domestic savings must finance economic development of a country and foreign aid only supplement the domestic savings.²

Since the modern day states are welfare state, therefore, they have to take recourse of public expenditure and fiscal deficit to meet the growing needs of their population. It is observed that the external debt in India was positively correlated with public expenditure and fiscal deficit since 1951.

External Debt During Pre-Liberalization Era

External debt in India before nineties is presented in table 1. The total external debt in India has increased from Rs. 32.03 crores in 1950-51 to Rs. 31,524.97 crores in 1990-91, i.e. more than 550 times. During the period 1950-51 to 1990-91, the compound growth rate of external debt in India is recorded at 18.34%.

Table 1 : External Debt in India before Liberalization

Year	Total External Debt (in Rs. Crores)	
Debt GDP Ratio		
1950-51	32.03	N.A.
1960-61	760.96	N.A.
1970-71	2278.32	N.A.
1980-81	10782.39	13.59
1990-91	31524.97	26.22

Sources. : Hand book of statistics of Indian Economy & Annual Report, 1990-91 RBI.

Hence it can be stated that even though there is a secular expansion of external debt in the country, the growth rate of external debt in India is in a declining pace.

External Debt After Liberalization

Table 2 presents India's external debt after the starting of liberalization era. During this period compound growth rate of external debt in India has been 6.2% which is lower than that of pre-liberalization era. In the post-liberalization era, there is remarkable improvement in the international ranking of external debt in India as announced by World Bank.

**Table 2 : India's External Debt After Liberalization
(in Rs. Crores)**

Year	External Debt	Debt GDP Ratio	Debt Service Ratio
1991-92	2,52,910	38.7	30.2
1995-96	3,20,728	27.1	24.3
2000-01	4,72,625	22.5	16.6
2004-05	5,81,802	18.5	13.2
2010-11	14,19,407	18.2	4.4
2015-16	32, 23, 020	23.7	8.8

Source : External Debt Management Unit, Ministry of Finance and RBI

India's external debt stock in US\$ terms was 485.6 billion dollars at the end of F.Y. 2015-16 recorded an increase of 2.2% over the last financial year. In rupee terms the external debt stock stood Rs. 32,23,020 crores an increase of 8.4% over the last financial year. The increase in rupee terms reflects the depreciation in exchange rate of the rupee.

India's external debt to GDP ratio has declined significantly since the early 1990s with fluctuations in a later period but showed a consistent rise since 2011-12 with a marginal decline in 2015-16. During early 1990s it used to be around 30%.

During the period of 2012 to 2011 it was remained between 18-20%, indicating that the GDP growth rate was high and active debt management policy followed by government. The debt service ratio also witnessed steady decline from a peak of 30.3% in 1991 to 4.4% in 2010-11, but doubling during the next five year again. However the data of debt service ratio indicate that India's external debt has remained with manageable limits after 2000-2001. In the years 2002-03 and 2003-04, India's repayment of its external debt is higher than the external borrowings, resulting in negative net external borrowings. This indicates the positive signal for prudent management of external debt in India.

The lower compound growth rate of external debt in post liberalization era indicates that the liberalization process has a positive impact on the problem of external debt in India.

Classification Of External Debt

A large part of India's external debt was owed to bilateral and multilateral creditors; its share was hovering around 50% in later half of 1990s, has gradually declined to around 25% in 2014-15, which is evident from Table 3.

Table 3 : Creditor Classification of External Debt in India
(in percent)

Sl.No.	Category	1991-92	1995-96	1999-2000	2004-05	2009-10	2014-15
1.	Multinational	27.0	28.3	30.7	23.7	16.4	11.0
2.	Bilateral	18.8	20.4	15.8	12.7	8.7	4.6
3.	IMF	3.5	4.1	1.8	0.8	2.3	1.2
4.	Export Credit	4.9	6.6	5.8	3.8	6.5	2.7
5.	Commercial Borrowings	14.1	13.1	34.0	19.7	27.1	38.0
6.	NRI Deposits	10.8	12.4	4.2	24.4	18.3	24.2
7.	Rupee Debt	12.6	9.7	3.7	1.7	0.6	0.3
8.	Long Term Debt (1-7)	91.7	94.6	96.0	86.8	79.9	82.0
9.	Short Term Debt	8.3	5.4	4.0	13.2	20.1	18
10.	Grand total 8+9	100	100	100	100	100	100
11.	Concessional Debt as % of Total debt	44.8	44.7	38.9	20.7	16.8	8.8

Source : External debt management unit, ministry of finance and RBI.

The share of commercial borrowings went up to 34.0% in 2000 from 14.1% in early nineties, subsequently it declines modestly but from 2010 it has again peaked upto 38%, because US exerted pressure on global agencies like IMF and World Bank not to extend concessional finance, for the banks in the US were flooded with petro dollars and hence they were searching borrowers for clearing the deposits with profits. This has resulted in the decline of percentage of concessional debt out of total debt declining steadily from 44.8% in 1991-92 to 8.8% in 2014-15. The share of export credit have continued to be around 5-7% between 1991-92 to 2010 which declines upto 2.7% in 2014-15.

The debt owed to IMF was fully extinguished by 2001, but again from 2004-05 India again resorted to take debt from IMF since then but not of much significance. But there was a decline in rupee debt in relative terms from 12.6% in 1991-92 to 0.3%, as India's trade with Russia has declined in rupee terms.

One significant feature of India's external debt is that NRI deposits which has increased from 10.8% in 1991-92 to 24.2% in 2014-15; hence commercial borrowings and NRI deposits comprise more than 60% of total external debt of India now a days. Taking all these components together, it may be stated that long-term debt is still above 80% which was 96.8% in 2000. The data of short term debt implies a tendency to decline from more than 8% in 1991-92 to be halved by 2000. But since 2003-04, short term debt has witnessed a upward drift, underpinning the strong growth in imports.

Currency Composition of India's External Debt

The currency composition of India's external debt shows that debt denominated in US dollar continues to remain predominant component accounting for 57.1% of total external debt at end March 2016, followed by debt denominated in Indian rupee (28.9%), SDR 15.8% Japanese Yen for (4.4%) and Euro (2.5%).

Table 4 : Currency Composition of External Debt (percent)

Sl.No.	Currency	2010	2011	2012	2013	2014	2015	2016
1.	US Dollar	53.2	55.3	56.9	59.1	61.1	58.3	57.1
2.	Indian Rupee	18.7	18.8	20.5	22.9	21.8	27.8	28.9
3.	SDR	10.7	9.4	8.3	7.2	6.8	5.8	5.8
4.	Japanese Yen	11.5	10.9	8.7	6.1	5.0	4.0	4.4
5.	Euro	3.6	3.6	3.7	3.4	3.3	2.3	2.5
6.	Pound Sterling	1.8	1.6	0.9	0.1	1.1	0.9	0.8
7.	Others	0.5	0.4	1.0	0.6	0.9	0.9	0.5
	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : India external debt (a status report 2015-16 ministry of finance, Government of India.

The share of rupee denominated debt in total external debt increased sharply from 18.7 percent in 2010 to 28.9 at 2016, owing to increased investment by FIIs in Government securities and corporate debt instruments, compared to earlier periods.

Conclusion

From the above analysis it is clear that India's external debt has remained within limits as indicated by external debt indicators. The prudent external debt management policy of the government of India has helped in containing rise in external debt and maintaining a comfortable debt position. The policy continues to focus on monitoring long and short term debt, raising sovereign loans in concessional terms with longer maturation, regulating external commercial borrowings and rationalizing interest rates on non-resident Indian deposits.

However, it suggested to the policy makers of government of India to generate income *inter alia* underking various business ventures to fulfill its financial requirement and avoid both external and internal debt. It is possible for a country to attain economic development without any assistance from foreign countries. For instance the former USSR attained the economic development only by using its domestic finance.

References

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