

External debt

6.74 India's outstanding external debt, increased from US\$105.4 billion at end-March 2003 to US\$111.8 billion at end-March 2004, essentially because of a surge in NRI deposits (Table 6.15). The NR(NR)RD scheme, which was not considered as part of external debt, was discontinued with effect from April 1, 2002. The provision that the maturity proceeds of NR(NR)RD could be credited into NR(E)RA – a part of external debt – together with flow back of a portion of redemption proceeds of Resurgent India Bonds (RIBs) resulted in larger inflows under NRI deposits during 2003-04. As per the latest available data, external debt stock rose to US\$ 113.6 billion at end-September 2004, because of a rise in trade related credits reflecting larger import demand.

6.75 Movement in key debt sustainability indicators point towards further consolidation of external debt during 2003-04. The total external debt to GDP ratio improved to 17.8 per cent at end-March 2004. The proportion of short-term debt in total external debt declined from 4.8 percent at end-March 2003 to 4.3 percent as on March 31, 2004, which however rose to 5.7 percent at end-September 2004 with a rise in import-related

Table 6.14 : Sources of accretion to foreign exchange reserves (US\$ billion)

Items	April-Sept. 2003-04	April-Sept. 2004-05
1. Current account balance	2.2	-3.3
2. Capital account (net)	11.9	10.1
a. Foreign Investment	5.1	2.6
b. Banking Capital	2.2	0.3
Of which, NR deposits	2.2	-1.3
c. Short term credit	2.0	2.0
d. External Assistance	-0.2	0.4
e. External commercial borrowings.	0.2	2.1
f. Other capital	2.6	2.7
3. Valuation change	2.1	-0.2
Total (1+2+3)	16.2	6.6

trade credits. Debt service payments as a proportion of current receipts rose in 2003-04 mainly due to exceptional transactions, namely, prepayments and redemption of RIBs. Excluding these one-off transactions, debt service ratio worked out to 10.4 percent in 2003-04.

6.76 In terms of international comparison, India ranks eighth among the top fifteen debtor countries of the world according to the *Global Development Finance 2004*, World Bank.

Table 6.15 : India's external debt

	End-March			End-Sept. 2004
	2002 R	2003 R	2004 R	QE
(US \$ million)				
Long-term Debt	96,098	100,344	107,060	107,105
Short-term Debt	2,745	5,009	4,770	6,485
Total External Debt	98,843	105,353	111,830	113,590
(Rupees crore)				
Long-term Debt	4,68,932	4,77,093	4,71,154	4,93,979
Short-term Debt	13,396	23,793	20,725	29,930
Total External Debt	4,82,328	5,00,886	4,91,879	5,23,909
(Ratio as per cent)				
External Debt to GDP	21.2	20.3	17.8	*
Short-term debt to Total External Debt	2.8	4.8	4.3	5.7
Short-term debt to Foreign Currency Assets	5.4	7.0	4.4	5.7
Debt Service to current receipts	13.4	15.8	18.3	*
Concessional debt to total debt	35.9	36.6	36.0	35.1
R : Revised QE : Quick Estimates * : Not computed for the broken year.				

India's external debt indicators compare well with that of other countries (Table 6.16).

6.77 A prudent external sector policy, particularly in relation to external debt, pursued since 1991 placed India's external debt position at a comfortable level (Box 6.6). The policy focus has been on concessional and relatively less expensive source of funds, preference for long maturity loans, monitoring of short-term debt and emphasis on non-debt creating capital flows. Recent initiatives

towards external debt moderation include, *inter alia*, prepayment of costly Government and non-Government loans, (Table 6.17) rationalisation of interest rates as well as structure of NRI deposits, end-use stipulations for ECB and restriction on trade credits. As regards external debt statistics, continuous efforts are being made to bring in refinement in coverage, classification, presentation and technological upgradation in the computation of external debt data.

Table 6.16 : International comparison of external debt—2002

Sl. No.	Country	Total External Debt	Debt Sustainability Indicators			
			Debt to GNP	Debt Service	Short term debt to total external debt	Concessional debt to total debt
		(US \$ billion)	(ratio as per cent)			
1	Brazil	227.9	52.5	68.9	10.3	1.4
2	China	168.3	13.4	8.2	28.5	17.8
3	Russian Federation	147.5	43.3	11.3	11.1	0.4
4	Mexico	141.3	22.6	23.2	7.0	0.9
5	Argentina	132.3	138.4	18.3	11.2	0.9
6	Indonesia	132.2	80.3	25.0	17.6	24.0
7	Turkey	131.6	72.7	46.8	11.5	3.5
8	India*	104.4	20.7	14.9	4.4	38.4
9	Poland	69.5	37.2	22.5	12.8	9.5
10	Philippines	59.3	71.4	20.2	9.4	21.1
11	Thailand	59.2	47.6	23.1	20.1	16.6
12	Malaysia	48.6	54.9	7.3	17.2	6.6
13	Chile	41.9	68.1	32.8	9.0	0.7
14	Hungary	35.0	54.4	33.9	16.2	0.3
15	Colombia	33.9	43.3	40.2	11.2	2.7

* According to World Bank data.
Source: Global Development Finance 2004, The World Bank.

Box 6.6 : India's external debt—a change in profile

In terms of composition, India's external debt has shifted in favour of private debt over the last decade. The ratio of Government and non-Government debt, which was roughly 60:40 during 1990 to 1995, declined to 40:60 by end-September 2004. Larger accumulation of private debt was essentially under 'NRI deposits' and 'export credit & commercial borrowings'. With the increasing importance of external debt of the non-Government variety, the share of concessional debt, although stagnant in the range of US\$38-40 billion in absolute terms, fell from 45.9 percent in 1991 to 36 percent in 2004. The proportion of short-term debt in total external debt has also declined over the years. Notwithstanding the increase, albeit moderate, in the absolute level of external debt, both solvency and liquidity indicators show signs of continuous improvement

Compositional share and Key indicators of India's external Debt

Components	(At end-March)				Ratios	Key indicators (ratio as percent)			
	Share in total debt (per cent)					1991	1995	2000	2004
	1991	1995	2000	2004 (Sept.)					
A. Long-term debt	89.8	95.7	96.0	94.3	1. Total external debt-	28.7	30.8	22.1	17.8
(i) Multilateral	25.0	28.8	32.0	26.6	to-GDP				
(ii) Bilateral	16.9	20.5	18.5	14.6	2. Total external debt-	328.9	235.8	145.6	95.5
(iii) IMF	3.1	4.4	0.0	0.0	to-current receipts				
(iv) Export credit & Commercial borrowings	17.3	19.8	27.2	24.2	3. Short-term debt-	10.2	4.3	4.0	4.3
(v) NRI deposits	12.2	12.5	13.8	26.9	to-external debt				
(vi) Rupee debt	15.3	9.7	4.5	2.0	4. Short-term debt-	2.9	1.3	0.9	0.7
B. Short-term debt	10.2	4.3	4.0	5.7	to-GDP				
C. Total debt (A+B)	100.0	100.0	100.0	100.0	5. Debt service ratio	35.3	25.9	17.1	10.4*
					6. Short-term debt-to-	382.1	20.5	11.2	4.4
					forex assets				
<i>Memo item :</i>									
1. Government debt	59.6	60.1	47.7	38.9	* excluding exceptional transactions such as				
2. Non-government debt	40.4	39.9	52.3	61.1	prepayments and redemption of Resurgent				
3. Total debt (1+2)	100.0	100.0	100.0	100.0	India Bonds (RIBs)				

Table 6.17 : Prepayment of Government & Non-Government loans

(US \$ million)

Year	Creditor Category	Government Account	Non-government Account	Total
2002-2003	Multilateral	2788.7	530.0	3318.7
	Bilateral	111.5	0.0	111.5
	Total	2900.2	530.0	3430.2
2003-2004	Multilateral	2534.2	43.9	2578.1
	Bilateral	1219.3	0.0	1219.3
	Total	3753.5	43.9	3797.4
2004-2005	Multilateral	-	9.9	9.9
	Bilateral	35.2	-	35.2
	Total	35.2	9.9	45.1