

## External debt

6.72 India's external debt stock stood at US\$126.4 billion at end-March 2006, reflecting an increase of US\$3.2 billion over the year. After increasing by US\$5.8 billion in the first quarter of 2006-07, it increased by a further US\$4.3 billion in the second. The total external debt of the country stood at US\$136.5 billion (Rs. 638,181 crore) at the end of September 2006 (Table 6.14). The rise in external debt stock during this period was brought about essentially by a rise in ECBs, NRI deposits and short-term debt. As compared to end-March 2006, long-term debt at US\$125.9 billion and short-term debt at US\$10.6 billion at the end of September 2006 were higher by 7.0 per cent (or US\$8.2 billion) and 21.7 per cent (or US\$1.9 billion), respectively.

6.73 Debt servicing as a proportion of gross external current receipts rose from 6.1 per cent in 2004-05 to 10.2 per cent in 2005-06, mainly due to the one-off redemption payments of India Millennium Deposits. With rapidly rising imports and import-related trade credit, short-

term debt rose both as a proportion of total debt as well as a proportion of foreign currency assets. While external debt has increased in absolute terms, as a proportion of GDP, it has dropped from 17.3 per cent at end-March 2005 to 15.8 per cent at end-March 2006. Furthermore, according to the Global Development Finance 2006, (World Bank), India was eighth in position among the top ten debtor countries in 2004 after China, Brazil, Russian Federation, Argentina, Turkey, Indonesia and Mexico (Table 6.15). This contrasts with India being the third largest debtor country in the world in 1991.

6.74 The cautious external debt management policy pursued by the Government focuses on raising funds on concessional terms and from less expensive sources with longer maturities, monitoring of short-term debt, prepaying high-cost loans, restricting end-use and enforcing limits on ECBs and encouraging non-debt creating capital flows. This has helped in containing the accumulation of external debt and maintaining external debt within manageable

**Table 6.14 : India's external debt**

	End-March				End June	End Sept.
	2003R	2004R	2005R	2006R	2006R	2006QE
<b>(US \$ million)</b>						
Long-term debt	100,245	107,214	115,680	117,695	123,098	125,937
Short-term debt	4,669	4,431	7,524	8,696	9,105	10,579
<b>Total external debt</b>	<b>104,914</b>	<b>111,645</b>	<b>123,204</b>	<b>126,391</b>	<b>132,203</b>	<b>136,516</b>
<b>(Rupees crore)</b>						
Long-term debt	476,624	471,827	506,467	525,392	568,969	589,565
Short-term debt	22,180	19,251	32,922	39,199	41,960	48,616
<b>Total external debt</b>	<b>498,804</b>	<b>491,078</b>	<b>539,389</b>	<b>564,591</b>	<b>610,929</b>	<b>638,181</b>
<b>(Ratio as per cent)</b>						
External debt to GDP	20.4	17.8	17.3	15.8	*	*
Short-term debt to total external debt	4.5	4.0	6.1	6.9	6.9	7.7
Short term debt to foreign currency assets	6.5	4.1	5.6	6.0	5.8	6.7
Debt service ratio	16.0(12.4)	15.9(8.1)	6.1(5.7)	10.2(6.1)	*	*
Concessional debt to total debt	36.8	36.1	33.0	31.2	30.1	29.3
R : Revised      QE : Quick Estimates      * : Not computed for the broken year.						
Note : Figures in brackets indicate debt service ratios excluding exceptional transactions such as prepayments for 2002-03 and 2004-05, and prepayments as well as redemptions of Resurgent India Bonds (RIBs) for 2003-04 and pre-payments as well as redemption of India Millennium Deposits in 2005-06.						

**Table 6.15 : International comparison of external debt– 2004**

Sl. No.	Country	Total external debt (US \$ billion)	Debt sustainability indicators			
			Debt to GNI	Debt service	Short term debt to total external debt	Concessional debt to total debt
(ratio as per cent)						
1	China	248.9	12.9	3.5	47.2	15.5
2	Brazil	222.0	38.0	46.8	11.4	1.5
3	Russian Federation	197.3	34.7	9.8	17.8	0.0
4	Argentina	169.2	117.4	28.5	16.2	0.8
5	Turkey	161.6	53.6	35.9	19.7	2.9
6	Indonesia	140.6	56.5	22.1	17.4	27.7
7	Mexico	138.7	20.8	22.9	6.6	1.0
8	<b>India*</b>	<b>122.7</b>	<b>17.9</b>	<b>6.1**</b>	<b>6.1</b>	<b>35.0</b>
9	Poland	99.2	41.7	34.6	17.0	6.4
10	Hungary	63.2	66.8	25.2	19.5	0.3

\* According to World Bank data.  
\*\* As World Bank did not provide debt service ratio for India for 2004, information has been taken from India's External Debt: A Status Report

Source : Global Development Finance 2005, The World Bank.

limits.

6.75 In the Report of the Committee on Fuller Capital Account Convertibility (Tarapore Committee II), there are several recommendations on external debt management (Box 6.9).

6.76 As part of the Special Data Dissemination Standards of IMF, the member countries disseminate data on external debt on a quarterly basis in different formats. To facilitate cross-country comparisons, World Bank and IMF developed jointly a centralized

database system called 'Quarterly External Debt Statistics (QEDS)' prescribing certain standard formats of debt data reporting. India formally joined QEDS during the year (in November 2006) by supplying external debt data for the quarter ending June 2006 to World Bank in the prescribed format. As per their request, similar details were also furnished subsequently for the period of end-March 2006. The external debt data for India in the QEDS main table provides quarter wise data on calendar year basis (Box 6.10).

**Box 6.9 : Committee on Fuller Capital Account Convertibility (Tarapore Committee II) - Recommendations concerning external debt**

- Overall ECB ceiling as also the ceiling for automatic approval should be gradually raised. Rupee denominated ECB (payable in foreign currency) should be outside the ECB ceiling. ECBs of over 10-year maturity in Phase I\* and over 7-year maturity in Phase II\* should be outside the ceiling. End-use restriction should be removed in Phase I.
- Volume of trade credit should be a matter of concern, as there could be sudden changes in the availability of such credit. Furthermore, adequate coverage of trade credit figures, even while noting that suppliers' credit of less than 180 days are excluded from these data, should also be a matter of concern. Import-linked short-term loans should be monitored in a comprehensive manner. The per transaction limit of US\$20 million should be reviewed and the scheme revamped to avoid unlimited borrowing.
- The banks' borrowing facilities are at present restrictive, though there are various special facilities which are outside the ceiling. The limits for borrowing overseas should be linked to paid-up capital and free reserves, and not to unimpaired Tier-I capital, as at present, and raised substantially to 50 per cent in Phase I, 75 per cent in Phase II and 100 per cent in Phase III\*. Ultimately, all types of external liabilities of banks should be within an overall limit.
- At present only NRIs are allowed to maintain FCNR(B) and NR(E)RA deposits. Non-residents (other than NRIs) also should be allowed access to these deposit schemes. Since NRIs enjoy tax concessions on FCNR(B) and NR(E)RA deposits, it would be necessary to provide FCNR(B)/NR(E)RA deposit facilities as separate and distinct schemes for non-residents (other than NRIs) without tax benefits. In Phase I, the NRs (other than NRIs) could be first provided the FCNR(B) deposit facility, without tax benefits, subject to Know Your Customer/Financial Action Task Force (KYC/FATF) norms. In Phase II, the NR(E)RA deposit scheme, with cheque writing facility, could be provided to NRs (other than NRIs) without tax benefits after the system has in place KYC/FATF norms. The present tax regulations on FCNR(B) and NR(E)RA deposits for NRIs should be reviewed by Government.
- The present FII limit for investment of US\$2 billion in G-secs (Centre and States) as a percentage of total gross issuances of Centre and States for 2005-06 amounts to only 4.8 per cent. Rather than an *ad hoc* fixation of ceiling, the ceiling should be calibrated as a percentage of annual gross issuance and this ceiling should be gradually raised.
- The limit for FII investment in G-secs could be fixed at 6 per cent of total gross issuances by the Centre and States during 2006-07 and gradually raised to 8 per cent of gross issuance between 2007-08 and 2008-09, and to 10 per cent between 2009-10 and 2010-11. The limits could be linked to the gross issuance in the previous year to which the limit relates. The allocation by Securities and Exchange Board of India (SEBI) of the limits between 100 per cent debt funds and other FIIs should be discontinued.
- The FII ceiling for investments in corporate bonds of US\$1.50 billion should in future be linked to fresh issuances and the present absolute limit should be retained for the year 2006-07 and be fixed at 15 per cent of fresh issuances between 2007-08 and 2008-09 and at 25 per cent between 2009-10 and 2010-11. The allocation by SEBI of the limits between 100 per cent debt funds and other FIIs should be discontinued.

\* Phase I: 2006-07, Phase II: 2007-08 & 2008-09 and Phase III: 2009-10 & 2010-11

**Box 6.10 : World Bank/IMF's QEDS - Gross external debt position by sector**

(in US \$ million)

	2006Q1	2006Q2	2006Q3
<b>General Government</b>	<b>45236.0</b>	<b>45877.0</b>	<b>46396.0</b>
<b>Short-term</b>	0.0	0.0	0.0
Money market instruments			
Loans			
Trade credits			
Other debt liabilities			
Arrears			
Other			
<b>Long-term</b>	<b>45236.0</b>	<b>45877.0</b>	<b>46396.0</b>
Bonds and notes	270.0	375.0	538.0
Loans	43906.0	44435.0	44797.0
Trade credits	1060.0	1067.0	1061.0
Other debt liabilities			
<b>Monetary Authorities</b>	0.0	0.0	0.0
<b>Short-term</b>	0.0	0.0	0.0
Money market instruments			
Loans			
Currency and deposits			
Other debt liabilities			
Arrears			
Other			
<b>Long-term</b>	0.0	0.0	0.0
Bonds and notes			
Loans			
Currency and deposits			
Other debt liabilities			
<b>Banks</b>	<b>35809.0</b>	<b>36254.0</b>	<b>37161.0</b>
<b>Short-term</b>	0.0	0.0	0.0
Money market instruments			
Loans			
Currency and deposits			
Other debt liabilities			
Arrears			
Other			
<b>Long-term</b>	<b>35809.0</b>	<b>36254.0</b>	<b>37161.0</b>
Bonds and notes	40.0	41.0	41.0
Loans	635.0	562.0	557.0
Currency and deposits	39134.0	35651.0	36563.0
Other debt liabilities			
<b>Other Sectors</b>	<b>45346.0</b>	<b>50072.0</b>	<b>52959.0</b>
<b>Short-term</b>	<b>8696.0</b>	<b>9105.0</b>	<b>10579.0</b>
Money market instruments			
Loans			
Currency and deposits			
Trade credits	8696.0	9105.0	10579.0
Other debt liabilities			
Arrears			
Other			
<b>Long-term</b>	<b>36650.0</b>	<b>40967.0</b>	<b>42380.0</b>
Bonds and notes	9397.0	11605.0	11919.0
Loans	26507.0	28627.0	29743.0
Currency and deposits			
Trade credits	746.0	735.0	718.0
Other debt liabilities			
Direct investment: Intercompany lending			
Debt liabilities to affiliated enterprises			
Arrears			
Other			
Debt liabilities to direct investors			
Arrears			
Other			
<b>Gross external debt position</b>	<b>126391.0</b>	<b>132203.0</b>	<b>136516.0</b>

The data on external debt of India as well as of other countries, on a comparable basis is available at the website [www.worldbank.org](http://www.worldbank.org) of the World Bank.