

Debt flows

External commercial borrowings

6.52 Management of debt flows, including of the private flows like ECBs, have been guided by the overarching principles of prudent external debt management. This focuses on keeping the maturities long and servicing cost low. ECBs were approved within an overall annual ceiling that were revised upwards progressively and subject to a hierarchy of priorities for projects/sectors. Thus any inter-temporal trend analysis would be somewhat misleading. With relative stability and strong capital inflows, liberalization of the external commercial borrowings (ECBs) norms have been in the nature of allowing corporations to borrow up to a certain limit under the “automatic route”.

6.53 On a gross basis, from a low base, ECBs have grown in the last three years at high and relatively stable rates of 73.8 per cent, 57.8 per cent and 46.2 per cent, respectively, in 2004-05, 2005-06 and 2006-07. In the same period, repayments have been relatively unstable with decline of 52.3 per cent, followed by high growth of 204.2 per cent owing to a one-off effect of the redemption of India Millennium Deposits (IMD) and followed by a decline of 59.3 per cent. Thus, net inflows under ECBs have been uneven — rising by 544.1 per cent in 2006-07, following a decline of 51.7 per cent in the previous year. In 2006-07, net ECBs accounted for 34.8 per cent of total capital account net flows. In the first six months of the current financial year, gross ECBs rose, year-on-year, by 81.1 per cent to reach US\$ 14 billion. Based on a periodic comprehensive review of the ECB guidelines, a notification was issued in August 2007. The new guidelines stipulate certain end-use restrictions and foreign currency expenditure conditionality for borrowing above the threshold of US\$ 20 million per borrower per financial year and requiring RBI approval for

borrowing up to US\$ 20 billion for rupee expenditure. ECB inflows in the recent past have been enabled by favourable global liquidity conditions, rising credit needs, interest differential and currency expectations.

External assistance, short-term credits and non-resident deposits

6.54 While ECBs were the dominant source and constituted 56.0 per cent of the debt flows in 2006-07, the other debt flows comprising non-resident deposits, short-term loans and external assistance were important as they had specific functional roles in the financing of trade and development. As a proportion of total capital flows, post-reforms, external assistance had exhibited a declining trend. With payments exceeding receipts under this head, external assistance (net) after being negative in 2003-04, has since risen and grew by 3.8 per cent to reach US\$ 1.8 billion in 2006-07. In 2007-08 (April-September), external assistance (net) was placed at US\$ 729 million as against US\$ 386 million for the corresponding period in 2006-07, indicating a growth of 88.9 per cent. With the inclusion of short-term credit up to 180 days, short-term trade credit (net) was at US\$ 5.7 billion in April-September 2007, of which the suppliers' credit (net) up to 180 days amounted to US\$ 1.9 billion during April-September 2007.

6.55 Non-resident deposits, an important source of capital flows earlier, in the face of pick up in investment and commercial loans subsequently, have become smaller in relative terms, but more stable. The outstanding balance on account of the various schemes was of the order of US\$ 41.2 billion as at end-March 2007 (Table 6.15). As with any debt flows, the NR deposits are critically affected by interest differentials. With reduction in deposit rates there was a negative flow in the first six months of the current financial year.

Table 6.15 Non-resident deposits outstanding under different schemes**Panel A: Outstanding balances under different schemes***

(Rs. million)

	As at the end of							
	March 2001	March 2002	March 2003	March 2004	March 2005	March 2006	Mar-07 (PE)	Nov-07 (PE)
Foreign currency non-resident (banks)	9076	9673	10199	10961	11452	13064	15129	15293
Non-resident external rupee accounts	7147	8449	14923	20559	21291	22070	24495	26041
Non-resident (non repatriable)	6849	7052	3407	1746	232	—	—	—
Rupee deposits	—	—	—	—	—	1148	1616	2109
Total	23072	25174	28529	33266	32975	36282	41240	43443

B: Net flows under non-resident deposits^a

(US\$ million)

Schemes	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Apr-Nov (PE)	
							2005-06	2006-07
FCNR(B)	594	526	762	492	1612	2065	1181	164
NR(E)RA ^b	1626	6195	4695	84	1177	1830	1560	-915
NR(NR)RD	508	-3745	-1816	-1538	—	—	—	—
NRO					930	426	230	318
Total	2728	2976	3641	-962	3719	4321	2971	-433

Source: RBI

PE: Provisional Estimates.

^a All figures are inclusive of accrued interest.^b The inflows into NR(E)RA deposits from the year 2002-03 onwards may partly be due to crediting of maturity proceeds of the NR(NR)R deposits which were discontinued with effect from April 1, 2002.**Note:** Inflows/outflows have been calculated by taking the monthly variation in rupee denominated deposits and converting those by monthly average exchange rate. All figures are inclusive of interest and valuation changes arising on account of fluctuation in non-dollar currencies against US dollar.