

EXTERNAL DEBT

6.94 India's external debt stock at US\$ 224.77 billion (Rs. 8,98,750 crore) at end-March 2008 recorded an increase of US\$ 53.44 billion over end-March 2007. Of the total increase, long-term debt accounted for US\$ 34.6 billion and short-term debt was higher by US\$ 18.9 billion.

6.95 During 2008-09 up to December 2008, total external debt increased further by US\$ 6.1 billion

(2.7 per cent) to US\$ 230.8 billion (Rs. 11,18,565 crore). Long-term debt at US\$ 183.4 billion at end-December 2008 posted an increase of US\$ 5.6 billion and accounted for 79.4 per cent of the total external debt (79.1 per cent at end-March 2008). Short-term debt increased marginally to US\$ 47.5 billion at the end of December 2008 and constituted 20.6 per cent of the total external debt (20.9 per cent at end-March 2008) (Table 6.22).

Table 6.22 : India's external debt

Components	(US\$ billion)						
	End March				End-June	End-Sept.	End-
	2005	2006	2007R	2008 PR	2008 PR	2008 PR	December
							2008 QE
Long-term debt	115.25	118.59	143.20	177.77	175.16	173.97	183.37
Short-term debt	17.72	19.54	28.13	47.00	48.62	50.68	47.48
Total external debt	132.97	138.13	171.33	224.77	223.78	224.65	230.85
	(Rs crore)						
Long-term debt	5,04,274	5,28,989	6,24,287	7,10,826	7,52,298	8,12,587	8,88,514
Short-term debt	77,528	87,155	1,22,631	1,87,924	2,08,820	2,37,846	2,30,051
Total external debt	5,81,802	6,16,144	7,46,918	8,98,750	9,61,118	10,50,433	11,18,565
	(Ratio as per cent)						
Debt sustainability indicators							
External debt to GDP	18.5	17.2	18.1	19.0	-	-	-
Short-term debt to total external debt	13.3	14.1	16.6	20.9	21.7	22.6	20.6
Short-term debt to foreign exchange reserves	12.5	12.9	14.1	15.2	15.6	17.7	18.5
Concessional debt to total external debt	30.9	28.6	23.1	19.7	19.1	18.5	18.7
Debt-service ratio	5.9 [^]	10.1 [#]	4.8	5.4	-	-	-

Notes :

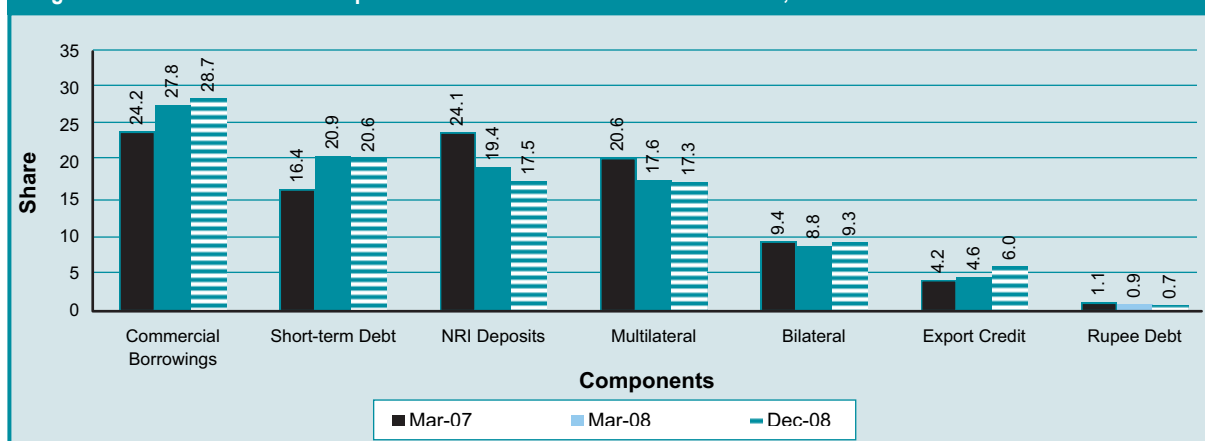
[^] Works out to 5.7 per cent, with the exclusion of prepayment of US\$ 381 million.

[#] Works out to 6.3 per cent, with the exclusion of India Millennium Deposits (IMDs) repayments of US\$ 7.1 billion and prepayment of US\$ 23.5 million.

NRO deposits are included under total external debt since 2005-06.

R: Revised; PR: Partially Revised; QE: Quick Estimates; - : Not computed for the broken year.

Figure 6.6: Share of various components of external debt at end-March 2007, end-March 2008 and end-December 2008



6.96 Commercial borrowings emerged as the largest component of external debt, with its share increasing from 27.8 per cent at end-March 2008 to 28.7 per cent at end-December 2008. Non-resident Indian deposits accounted for 17.5 per cent of the total external debt, followed by multilateral debt (17.3 per cent), bilateral debt (9.3 per cent), export credit (6.0 per cent) and rupee debt (0.7 per cent). Under the short-term debt, trade related credits at US\$ 43.8 billion constituted 92.1 per cent of total short-term debt and 18.9 per cent of total external debt at the end of December 2008 (Figure 6.6).

6.97 Government (sovereign) external debt at US\$ 56.9 billion at end-March 2008 registered an increase of 17.8 per cent over end-March 2007 and increased marginally to US\$ 57.4 billion at the end of December 2008. However, sovereign debt as per cent of GDP declined from 5.1 per cent in 2006-07 to 4.8 per cent in 2007-08 and its share in total external debt fell from 28.2 per cent at end-March 2007 to 25.3 per cent at end-March 2008 and further to 24.8 per cent at end-December 2008.

6.98 India's external debt statistics are being compiled and published on the basis of both original

and residual maturity on a quarterly basis beginning the quarter ended December 2007. Total short-term residual maturity obligations, which comprise outstanding short-term external debt (original maturity) and payments falling due in one year or less under outstanding long-term external debt, was US\$ 89.9 billion, accounting for 38.9 per cent of the total external debt at end-December 2008 (Box 6.8).

Figure 6.7 : Currency composition of India's external debt at end-December 2008 (per cent)

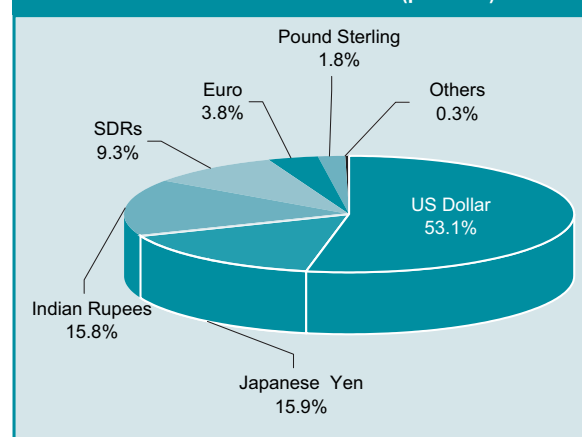


Table 6.23 : Currency composition of India's external debt (as per cent of total external debt)

Sl. No.	Currency	As at end-March					As at end of			
		2003	2004	2005	2006	2007	2008 R	June 2008 PR	Sept. 2008 PR	Dec. 2008 QE
1.	US dollar	46.6	40.5	48.0	49.2	51.4	54.4	56.5	54.0	53.1
2.	SDR	15.2	15.5	14.2	13.7	11.9	10.0	10.0	9.6	9.3
3.	Indian rupee	17.3	22.7	19.6	18.9	18.6	17.5	16.4	16.0	15.8
4.	Japanese yen	10.7	11.6	10.5	10.9	11.5	12.0	11.3	14.3	15.9
5.	Euro	6.2	5.8	4.6	4.4	3.9	3.6	3.5	4.0	3.8
6.	Pound sterling	3.0	3.4	2.6	2.6	2.4	2.2	2.0	1.9	1.8
7.	Others	1.0	0.5	0.5	0.3	0.3	0.3	0.3	0.2	0.3
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

R: Revised PR: Partially Revised. QE Quick Estimates

Box 6.8 : Short-term external debt by residual maturity

External debt by residual maturity indicates the principal components of both short- and long-term debt, maturing during a reference period. Particularly important is short-term debt by residual maturity, which comprises outstanding short-term external debt (original maturity) and principal payments falling due in one year or less under outstanding long-term external debt.

The short-term external debt by residual maturity is being increasingly used as liquidity and vulnerability indicator. It indicates the refinancing risk in the international capital markets, especially during times of crisis. The crises in the emerging market economies in the second half of the 1990s underlined the importance of using short-term debt by residual maturity as a vulnerability indicator against the backdrop that the excessive accumulation of short-term external debt vis-à-vis level of international reserves was a common characteristic of these crises (Calafell and Bosque 2000). This view was supported by economists such as Furman and Stiglitz (1998), Radelet and Sachs (1998), Greenspan (1999). The empirical research also lent support to the viewpoint that the adequacy of foreign exchange reserves of a country should be seen in the context of the ability to meet repayment obligations falling due in the near term, as measured by short-term debt by residual maturity. The IMF incorporated the ratio of international reserves to short-term external debt as one of the vulnerability indicators in its early warning system. Considering the need for comprehensive, comparable and reliable information on external debt and the importance of additional data for an assessment of potential vulnerability to solvency and liquidity problems arising from the gross external debt position, the IMF encouraged countries to compile and present data on gross external debt position on the basis of remaining maturity for analytical purposes (IMF, 2003).

The deleveraging process and its impact on capital flows to emerging markets in the recent global financial crisis have again raised concerns about the external debt refinancing needs in volatile market conditions. The IMF estimates of external debt financing needs in 2009 i.e., short-term debt at initial maturity at end-2008 plus amortizations on medium- and long-term debt link the same to reserves position of select regions and emerging market countries (Global Financial Stability Report, 2009). The ratio of external debt refinancing needs to reserves is estimated at 33 per cent for India, 14 per cent for China, 40 for Brazil and 34 per cent for Russia.

India's short-term external debt by residual maturity stood at US\$ 89.9 billion, accounting for 38.9 per cent of total external debt at end-December 2008. Total foreign exchange reserves of the country were 2.8 times of short-term external debt by residual maturity at end-December 2008. The outstanding stock of short-term debt by residual maturity included suppliers' credit of less than 6 months estimated at US\$ 18.4 billion at end-December 2008, which is not captured in external debt statistics of several countries.

Short-term external debt by residual maturity

(US\$ million)

Sl. Components No.	At the end of	
	December 2008	September 2008
I. Total External Debt	230,846	222,612
i) Sovereign Debt	2,867	2,898
ii) External Commercial Borrowings	7,789	6,961
iii) NRI Deposits	31,839	31,956
iv) Short-term Debt (by Original Maturity)	47,477	50,104
Of which:		
a) Trade Credits	43,766	46,335
II. Total Short-term debt by Residual Maturity (i to iv)	89,972	91,919
a) Short-term debt (Residual Maturity) as per cent of Total Debt	38.9	41.3
b) Short-term (Residual Maturity) as per cent of Foreign Exchange Reserves	35.1	29.7

Note: Data relating to short-term debt by residual maturity are as published in the quarterly report on "India's External Debt" released on December 31, 2008 and March 31, 2009.

Amongst the medium- and long-term debt obligations falling due in a year, NRI deposits represent the largest component with repayment obligation of US\$ 31.8 billion. However, the NRI deposits are largely renewed and are also locally withdrawn from the NRI rupee deposits accounts (NR(E)RA and NRO deposit schemes). The local withdrawals/redemptions from NRI deposits cease to exist as liability in the capital account and assume the form of private transfers in the current account of the balance of payments. During 2007-08, the share of local withdrawals in total outflows from NRI deposits was around 65.0 per cent and it is estimated at US\$ 16.2 billion, i.e., 63.3 per cent of total outflows from NRI deposits during April-December 2008 (India's Balance of Payments Developments during the Third Quarter of 2008-09 and April-December 2008, RBI Bulletin, April 2009). Sovereign debt repayment obligations at US\$ 2.9 billion represent payments to multilateral and bilateral creditors. As of now, the Government does not raise resources through the issue of sovereign bonds in the international capital markets.

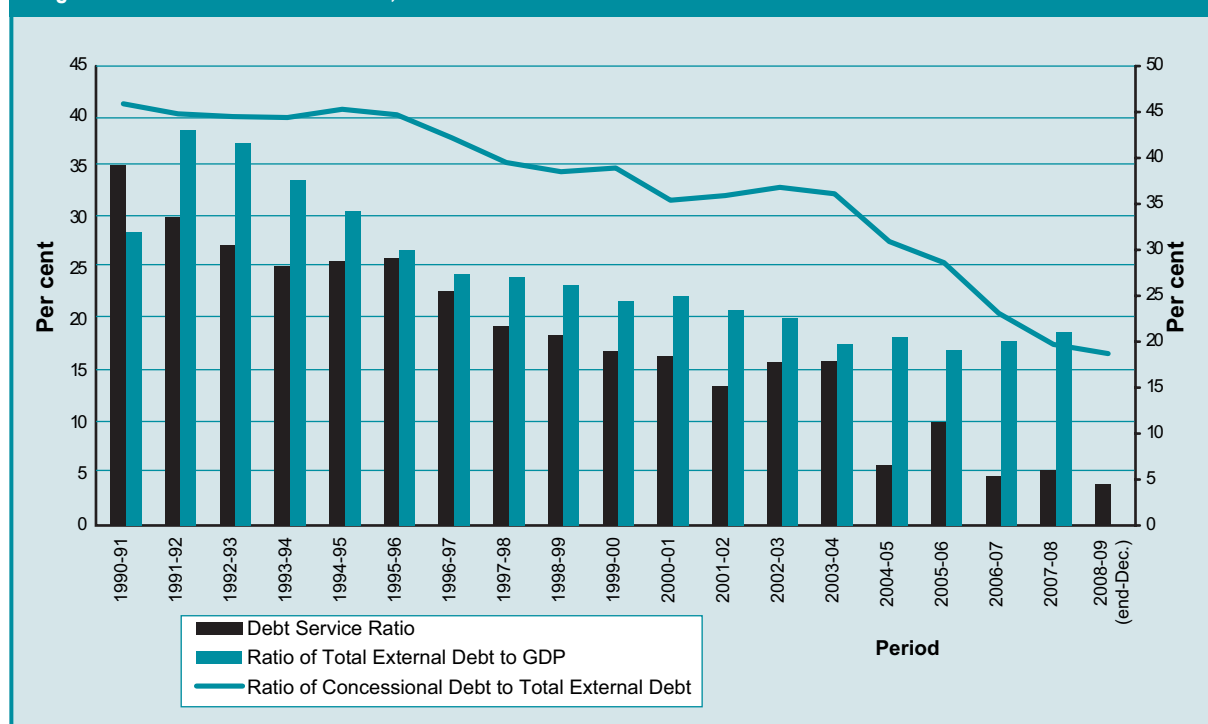
The maturing ECB obligations is the main component exposed to refinancing risk in the international financial markets. However, in terms of magnitude, it was relatively small at US\$ 7.8 billion. The terms of commercial borrowings have undoubtedly been affected due to tight liquidity conditions in the global markets and all-in-cost ceilings applicable to ECBs have therefore been gradually liberalised during 2008-09. Net external commercial borrowings have remained positive, though lower in magnitude, during April-December 2008. The conventional refinancing risk i.e., the risk related to raising of fresh bank loans/bonds to refinance maturing obligations in the international capital market is applicable essentially to ECBs.

References : Berg & Catherine Pattillo, 'The Challenge of Predicting Economic Crises' IMF, July 2000.

IMF, External Debt Statistics, Guide for Compilers and Users, 2003

Calafell & Rodolfo Padilla del Bosque, The Ratio of International Reserves to Short-term External Debt as an indicator of External Vulnerability: Some Lessons from the Experience of Mexico and other Emerging Economies.

Figure 6.8: India's debt service ratio, ratio of external debt to GDP and ratio of concessional to total external debt



6.99 In terms of currency composition of external debt, US dollar denominated debt accounted for 53.1 per cent of total external debt at end-December 2008, followed by Japanese yen (15.9 per cent), Indian rupee (15.8 per cent), SDR (9.3 per cent) and euro (3.8 per cent) (Table 6.23 and Figure 6.7).

6.100 In terms of the major debt sustainability indicators, the ratio of foreign exchange reserves to total external debt improved from 116.2 per cent in 2006-07 to 137.8 per cent in 2007-08. The ratio of concessional to total external debt has continued to

decline from 23.1 per cent in 2006-07 to 19.7 per cent in 2007-08 and further to 18.7 per cent at end-December 2008. The ratio of short-term debt to foreign exchange reserves, which had increased from 14.1 per cent at end-March 2007 to 15.2 per cent at end-March 2008, rose further to 18.5 per cent at the end of December 2008 (Figure 6.8 and Table 6.24).

International comparison

6.101 A cross-country comparison of external debt position based on the "Quarterly External Debt

Table 6.24 : India's key external debt indicators (per cent)

Year	External debt (US\$ billion)	Ratio of total external debt to GDP	Debt-service ratio	Ratio of foreign exchange reserves to total external debt	Ratio of concessional debt to total external debt	Ratio of short-term debt to foreign exchange reserves	Ratio of short-term debt to total debt
1990-91	83.8	28.7	35.3	7.0	45.9	146.5	10.2
1995-96	93.7	27.0	26.2	23.1	44.7	23.2	5.4
2001-02	98.8	21.1	13.7	54.7	35.9	5.1	2.8
2005-06	138.1	17.2	10.1#	109.8	28.6	12.9	14.1
2006-07 PR	171.3	18.1	4.8	116.2	23.1	13.2	16.4
2007-08 PR	224.8	19.0	5.4	137.8	19.7	15.2	20.9
End-June 08 PR	223.8	-	-	139.5	19.1	15.6	21.7
End-Sept. 08 PR	224.6	-	-	127.5	18.5	17.7	22.6
End-Dec. 08 QE	230.8	-	-	110.9	18.7	18.5	20.6

PR: Partially Revised; QE: Quick Estimates. - Not worked out for the broken period

Works out to 6.3 per cent, with the exclusion of India Millennium Deposits (IMDs) repayments of US\$ 7.1 billion and prepayment of US\$ 23.5 million.

Note: Debt-service ratio is the proportion of gross debt service payments to external current receipts (net of official transfers).

Table 6.25 : Gross external debt position of select countries (US\$ million)

Sl. No.	Countries	End-December 2008				Ratios as per cent			
		Short-term debt	Long-term debt	Total external debt	Foreign exchange reserves@	Short-term debt to total external debt (per cent)	Foreign exchange reserves to total debt	Short-term debt to foreign exchange reserves	External debt to GNI^
1	Russian Federation	79,779	4,04,948	4,84,726	4,27,080	16.5	88.1	18.7	29.4
2	China#	2,10,785	1,63,876	3,74,661	19,46,030	56.3	519.4	10.8	11.6
3	Turkey	50,714	2,26,120	2,76,834	74,254	18.3	26.8	68.3	38.8
4	Brazil	36,466	2,26,466	2,62,931	1,93,783	13.9	73.7	18.8	18.7
5	Poland	50,809	1,91,248	2,42,057	62,180	21.0	25.7	81.7	47.7
6	India	47,477	1,83,369	230,846	255,968	20.6	110.9	18.5	18.9
7	Hungary*	26,111	1,83,523	2,09,634	33,457	12.5	16.0	78.0	..
8	Mexico	24,218	1,76,175	2,00,393	95,298	12.1	47.6	25.4	17.7
9	Indonesia	20,488	1,34,578	1,55,067	51,639	13.2	33.3	39.7	33.9
10	Argentina	56,253	71,859	1,28,112	46,386	43.9	36.2	121.3	49.7
11	Kazakhstan	10,174	97,639	1,07,813	19,401	9.4	18.0	52.4	103.7
12	Ukraine	21,983	81,253	1,03,236	31,543	21.3	30.6	69.7	52.9
13	Malaysia	30,892	44,399	75,292	91,536	41.0	121.6	33.7	29.4
14	Thailand	20,317	44,529	64,846	111,008	31.3	171.2	18.3	26.5
15	Chile	14,251	50,517	64,768	23,162	22.0	35.8	61.5	40.3
16	Croatia	6,620	47,830	54,450	12,958	12.2	23.8	51.1	97.7
17	Philippines	7,001	46,855	53,856	37,551	13.0	69.7	18.6	41.9
18	Romania	15,900	36,066	51,966	39,343	30.6	75.7	40.4	51.5
19	Colombia	5,684	40,708	46,392	23,670	12.3	51.0	24.0	22.5
20	Venezuela RB# #	11,925	33,075	45,000	37,035	26.5	82.3	32.2	24.7

Source : Table 1 of the Quarterly External Debt Database, World Bank & IMF.

Based on information disseminated by State Administration of Foreign Exchange, Government of China

* For Hungary, External debt to GNI ratio is not available.

@ Based on Special Data Dissemination System database of IMF.

For Venezuela RB, Information is as per Global Development Finance, 2008

^ Relates to the year 2007 and is based on World Bank data

(QEDS) Database" and World Development Indicators is presented in Table 6.25. India ranked sixth in terms of total external debt stock (at end-December 2008) among select developing countries. The ratio of short-term debt to total external debt stood at 20.6 per cent and it accounted for 18.5 per

cent of total foreign exchange reserves at the end of December 2008. The ratio of external debt stock to Gross National Income as of 2007, as per World Development Indicators Database was 18.9 per cent and was the fourth lowest after that of China, Mexico and Brazil.