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A STUDY ON PERFORMANCE OF EXTERNAL DEBT IN INDIA

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ABSTRACT

In India external assistance has taken in several forms. It includes outright grants, loans, repayable in rupees and loans repayable in foreign currencies. It is absolutely necessary for an developing country to rely to a large extent on foreign assistance for economic development. Such aid becomes necessary mainly to provide foreign exchange for purchasing capital equipment and industrial raw material from outside and for supplementing the capital and industrial raw material from outside and for supplementing the capital supply from domestic sources. India also found substantive foreign assistance when decided upon policy of planned economic development. Thus in order to cover the investment gap and the balance of payment gap the government of India has borrowed externally on a large scale. On this background the study focus on the performance of external debt in India from 2015-2016 to 2019-2020 and also examine the growth of sources of external debt by using statistical tools such as CAGR and AGR for the same period.

Keywords: *Balance of Payment gap, Investment Gap, Capital Supply, Foreign Assistance, CAGR, AGR*

Introduction

External Debt is the total debt a country owes to foreign creditors. The debtors can be the government, corporations or citizens of that country. Domestic resources of the country are not adequate to promote rapid development of a developing economy. Of course, without the external resources economic plans can be pursued, but the rate of growth of the economy will be definitely less than what it would be, if domestic resources are supplemented by external resources. An developing economy which is under the grip of the vicious circle of poverty can achieve a real break-through only with the help of external capital. The most important and the obvious function of external assistance are to bridge the gap between capital requirements and domestic capacity for savings. In India, the rate of

investment under the plans has been placed at a higher level than what the level of domestic savings permits. External financial resources required in the process of development cannot be secured only through import restriction, export promotion, but private foreign investment and foreign grants are necessary. External borrowing brings in additional capital and facilities speedy growth of the economy.

External debt includes loans taken by the government of India against the non-negotiable, non-interest bearing securities issued to international financial institutions like the International Monetary Fund, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development and Asian Development Bank, etc. Besides, the Government of India has also raised loans in friendly countries outside India. External debt also includes loans from the IMF Trust Fund. The sources of external debt are Bilateral Debt, loan from IMF, Export Credit, Commercial Borrowings, Non- Resident Deposits, Rupee Debt and Short term Debt. When a country runs a Current Account Deficit (CAD) then to finance the deficit, it may borrow from external sources apart from encouraging foreign investment. It is normal for developing countries to run current account deficit which leads to external borrowing.

Objectives of the study

- To analyze the performance of External Debt in India from 2015-2016 to 2019-2020.
- To examine the growth of sources of external debt in India
- To determine the reasons for foreign debt in India

Composition of External Debt

In India external assistance has taken in several forms. It includes out-right grants, loans repayable in rupees and loans repayable in foreign currencies. Surplus agricultural commodities have been provided generally on payments in INR and loans and grants have been from the accumulation of such counterpart funds. Deferred credits have been provided by foreign suppliers. Technical assistance had also been made available though, of course, on different terms from different countries. Short term debt has been provided by International Monetary fund to support the Balance of Payment. The Government of India has raised external loans through the issue of non-negotiable, non-interest bearing securities to the International financial institutions like the International Monetary Fund, International Bank of Reconstruction and Development Association, International fund for Agricultural Development and Asian Development Bank. Besides, the Government of India has also made borrowings in the form of (a) loans, (b) cash grants, (c) commodity grants and (d) special credits, from friendly countries like Canada, Denmark, France, Japan, Sweden, USA, USSR and UK.

Review of Literature

Shobana Nelasco (2012), focused on the external debt of South Asian Countries especially after the 2000 and the analysis was done on three major economic fronts. (i) The overall growth of external borrowing is studied using line chart and with the help of regression model and also focused on ranking of these countries among other countries of the world. (ii) The external borrowing is analysed using few indicators over a period of time from 2000. (iii) Eight economic and non economic factors were identified and these factors were regressed with dependent variable external borrowing. The study concluded that India tops the rank with nearly 62.07 percent of the total and standing in the 29th position in the world. India is in the top of all other countries in case of total debt outstanding. While analyzing the total external debt as percent of GNI India is having less debt. Further in case of total external debt as percent of exports of goods, services and income also India is in the lowest amount of debt followed by Bhutan. While analyzing the annual growth total external borrowing India's growth of total external borrowing is very high followed by Pakistan.

Eswaran.N and Meenakshisundaram.M (2017), has focused on the growth and composition of India's external debt. From the analysis the researcher has found that the top most composition of external debt was multilateral debt which was large group of financial institutions. Moreover the total external debt was steady increased throughout the study period. In the long term debt the period percentage share was declined over the period of the study (2004 to 2014). It was showed that in the case of short term debt widely fluctuated through one the study period. It was revealed that the growth of concessional debt as a percentage of total debt was registered a declining trend throughout the study period. it was also found that borrower classification of external debt was continuously increasing trend over the study period. Further it was revealed that India's external debt to GDP was increased throughout the study period.

Methodology

The study covers the period of 2015 -2016 to 2019-2020 and the data is based on secondary data which is collected from Indian Public Finance Statistics, Ministry of Finance, Government of India, Handbook of statistics on the Indian economy, RBI. To analyze the data statistical tools such as Compound Growth rate, Annual Growth Rate is used in the study. The study has analyzed the pattern and growth of India's external debt and the key debt indicators on external debt.

External Debt Indicators

The key external debt indicators show a mixed trend in 2015-2016 to 2019-2020. The share of short term debt in total external debt decreased to 17.0 percent at 2015-2016 from 18.0 percent at end of March 2015-2016. India's foreign exchange reserves provided a cover of 67.5 percent to the total external debt stock at 2015-2016. The ratio of short-term external debt to foreign exchange reserves was at 23.3 per cent at end-December 2015 as against 26.7

per cent at end-March 2015. The ratio of concessional debt to total external debt was 8.7 per cent at end-December 2015 (8.8 per cent at end-March 2015).

Table: 1 External Debt Indicators (Percent)

Year	External Debt (US \$ Million)	Debt Service Ratio	Ratio of Foreign Exchange to Total Debt	Ratio of Total External Debt to GDP	Ratio of Concessional Debt to Total Debt	Ratio of Short term Debt to Foreign Exchange Reserves	Ratio of Short-term Debt to Total Debt
2015-16	4,84,791	8.8	74.3	23.4	9.0	23.2	17.2
2016-17	4,71,012	8.3	78.5	19.8	9.4	23.8	18.7
2017-18	5,29,290	7.5	80.2	20.1	9.1	24.1	19.3
2018-19	5,43,112	6.4	76.0	19.8	8.7	26.3	20.0
2019-20	5,58,548	6.5	85.5	20.6	8.6	22.4	19.1

Source: Reserve Bank of India.

India's external debt has increased moderately by 2.8 percent as end of March 2019 which is US\$ 5, 58,548 million as at 2019-2020. This reflects various macroeconomic developments, including deceleration in the growth of India's Gross Domestic Product (GDP) at current prices on year to year basis to 7.2 percent in 2019 -2020 from 11.0 percent in the previous year and narrowing of India's current account Deficit (CAD) to 0.9 percent of GDP in 2019-2020 from 2.1 percent in 2018-2019 due to a large decline in the trade deficits to US \$ 157.5 billion in 2019-2020 from US \$ 180.3 billion 2018-2019. External debt as ratio to GDP rose marginally to 20.6 percent as at 2019-2020 from 19.8 percent a year ago. Reflecting the acceleration in the growth rate of external debt recorded during the year 2015-2016 the ratio witnessed gradual increase to 23.4 percent. Foreign Exchange reserves as a ratio to external debt stood at 85.5 percent as at 2019-2020. This ratio which was at 138 percent as at March 2008, consistently declined before 2015-16 and stabilized at March 2015-2016. India's external debt has remained within manageable limits as indicated by the 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 external debt position. The policy continues to focus on monitoring long and short-term debt, raising sovereign loans on concessional terms with longer maturities, regulating external commercial borrowings through end use, all-in-cost and maturity restrictions; and rationalizing interest rates on Non-Resident Indian deposits.

Creditor Wise – India's External Debt

Table: 2 Multilateral Borrowing (Rs. in crores)

Year	Government	AGR	Non Government	AGR	Total	AGR
2015-16	269431	0.35	58717	9.62	328148	2.01
2016-17	294122	8.39	65368	10.17	359490	8.72
2017-18	288246	-2.04	65872	0.77	354118	-1.52
2018-19	304595	5.37	67188	1.96	371783	4.75
2019-20	320330	4.91	75675	11.22	396005	6.12
CAGR		3.52		5.21		3.83

Table: 3 Bilateral Borrowing (Rs. in crores)

Year	Government	AGR	Non Government	AGR	Total	AGR
2015-16	88452	-9.57	47608	-9.00	136060	-9.37
2016-17	102925	14.06	46453	-2.49	149378	8.92
2017-18	109742	6.21	41066	-13.12	150808	0.95
2018-19	128945	14.89	35902	-14.38	164847	8.52
2019-20	141312	8.75	35828	-0.21	177140	6.94
CAGR		9.82		-5.53		5.42

Table: 4 Other Creditors (Rs. in crores)

Year	IMF	AGR	Trade Credit	AGR	Commercial Borrowings	AGR	NRI	AGR	Rupee Debt	AGR
2015-16	34350	-7.45	78915	-18.20	1128501	20.45	720997	13.44	9426	6.37
2016-17	37177	7.60	70001	-12.73	1197176	5.74	841956	14.37	8479	-11.17
2017-18	35129	-5.83	62426	-12.13	1115514	-7.32	757751	-11.11	7962	-6.49
2018-19	37716	6.86	61660	-1.24	1312756	15.03	820737	7.67	7886	-0.96
2019-20	38202	1.27	54898	-12.32	1427773	8.06	902152	9.02	8007	1.51
CAGR		2.15		-7.00		4.82		4.58		-3.21

Source: Ministry of Finance, Government of India and Reserve Bank of India.(AGR – Annual Growth Rate, CAGR – Compound Growth Rate)

Table 5: Composition of India's External Debt (Rs. in crores)

Year	Long Term Debt	AGR	Short Term Debt	AGR
2015-2016	2436397	12.53	535144	-2.96
2016-2017	2663657	8.53	553906	3.39
2017-2018	2483708	-7.53	571387	3.06
2018-2019	2777385	10.57	664575	14.02
2019-2020	3004177	7.55	749924	11.38
CAGR		4.28		6.98

Source: Ministry of Finance, Government of India and Reserve Bank of India.(AGR – Annual Growth Rate, CAGR – Compound Growth Rate)

The external debt is the two-way scheme based on duration-long and short term. Long term debt is defined as debt with an original maturity of more than one year while short term debt is defined as debt repayments on demand or with an original maturity of one year or less. The coverage of short term was redefined in 2005-06 by including supplier's credit upto 180 days and FII investment in the Government Treasury Bills and other instruments and further in March 2007 by including external debt liabilities of the banking securities by the foreign central banks and the international institutions. the share of different components of total external debt over the period 2015-2016 to 2017-2018 which shows the fall in shares of multilateral debt, bilateral debt, IMF, Rupee Debt, Export Credit, and short term debt. That is from 12.53 percent to -7.53 percent in long term debt and -2.96 percent to 3.06 percent in case of Short term debt. Further the rise of commercial borrowings and NRI deposits at the end of 2017-2018 the long term debt has increased. The share of short term debt has increased in the study period i.e., 6.98 percent while that of long term debt has fallen to 4.28 percent.

Table: 6 Net Increases in External Debt in India (US \$ in Millions)

Year	Gross External Borrowing	Repayments	Net Increase in External Debt
2015-16	4,74,675	30,888	4,43,787
2016-17	4,84,989	29,992	4,54,997
2017-18	4,71,308	30,111	4,41,197
2018-19	5,29,156	23,635	5,05,521
2019-20	5,43,112	23,160	5,19,959

Sources: Reserve Bank of India. (Computed: Net Increase in External Debt)

The Gross external borrowings of the Government of India during the year 2015-2016 were of the order of US \$ 4, 74,675 million and the Government made a repayment aggregating of US \$ 30,888 million against the external liabilities during the same period. Thus the net increase in the external debt during the year 2015-2016 was of US\$ 4, 43,787 million. It means that the net increase in external debt in a particular year is estimated after making allowance for repayments of loans only in that year, out of gross external borrowings in the year. Thus the net increase in the external debt for the year 2019-2020 was as US \$ 5, 19,959 million.

Table: 7 External Debt Servicing (US \$ million)

Year	Principal	Interest	Total Debt Servicing
2015-16	30,888	13,443	44,331
2016-17	29,992	13,352	43,344
2017-18	30,111	14,510	44,621
2018-19	23,635	17,286	40,921
2019-20	23,160	18,629	41,789

Source: RBI, SEBI, CCIL, Ministry of Finance, Ministry of Defence

External Debt of India is increasing rapidly. As a result of increase in external debt, external debt servicing payments are also increasing. The increasing payments as result of external debt servicing may create certain resources problems, since the payment of external debt has its own complexities. It is not only to transfer resources from one group to another group but the borrowing country has also to forego a certain amount of purchasing power which could otherwise be used for consumption and investment purposes. Besides it has its own impact of budgetary operations and balance of payments. the Finance Minister has to allocate the amount in the budget equivalent to the foreign exchange required for External Debt Repayment. Further when a large part of the Government revenue is utilized towards external debt –servicing the government has to curtail its investment on development programmes. The interest payment on account of external borrowings from US \$ 13,443 million at the end of 2015-2016 has increased to US \$ 18,629 million at the end of 2019-2020. The mounting interest payments obligations have imposed severe strain on the balance of payments and it is being realized that India cannot afford to borrow large sums on hard terms.

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