

INDIA'S EXTERNAL DEBT – MAGNITUDE AND TRENDS

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ABSTRACT

Rising external debt of India, specially after 1980s, had been a matter of concern for the Government. The problem of debt was on its peak during early 1990s. In fact, the problem of external debt is closely associated with the problem of balance of payments. A deficit in balance of payments situation during planning period compelled India to resort to external borrowings leading to increase in external debt, which further put pressure on balance of payments position in the subsequent years as the payments on the previous debt fell due. Many factors had been responsible for the worsening of debt problem. Consequently a number of measures have been taken by the Government to ease the situation, specially during the decade of 1990s. Present chapter attempts to study India's external debt problem in a comprehensive manner.

Key words : concessional, debt, debt service, long term.

After independence India opted a model of development which stressed self-reliance. The volume of investment increased as the schemes of development were launched. However, this raised the need for foreign capital in the five year plans. In the Second and Third Five Year Plans, three Annual Plans and Fourth Plan, increasing emphasis was laid on the development of basic industry, railways, power and manufacturing industries which compelled public authorities to contract growing amounts of foreign loans and credits (Ghuge, 1977; P.130). The execution of various projects under the plan was to depend on the availability of external resources. Consequently, external debt on India started accumulated over the years and became a cause of concern for the government. Rising external debt of India, specially after 1980s,

had been a matter of concern for the Government. The problem of debt was on its peak during early 1990s. Many factors had been responsible for the worsening of debt problem.

Consequently, a number of measures have been taken by the Government to ease the situation, specially during the decade of 1990s. Present chapter attempts to study magnitude and trends in India's external debt problem in a comprehensive manner with the following objectives:

- To study the magnitude and trends in external debt of India
- To study the extent of gravity of the problem
- To suggest policy measures to make the extent of debt sustainable

For this purpose, the paper has been divided into 2 sections. Section I concentrates on the

magnitude and trends in external debt including the trend in the various debt indicators so as to know about gravity of the problem. Section II summarise the study and suggest policy measures to solve the problem.

The study examined Indian experience with respect to burden of external debt and changes therein since 1970. Therefore, data for the period 1970 to 2004-05 were collected at 5 points of time viz. 1970, 1980, 1990, 2000, 2004-05 from the various World Bank sources like Global Development Finance, World Debt Tables etc. Data were also supplemented by the information collected from various issues of India's External Debt - A Status Report, published annually by Department of Economic Affairs, Ministry of Finance, Government of India and various issues of Economic Survey, published annually by Economic Division, Ministry of Finance, Government of India. Some data regarding the foreign exchange reserves of India were collected from the latest issues of RBI Bulletin, published by Reserve Bank of India.

Section I

The present section attempts to explain the trends in the external debt of India since 1970. Various debt variables and standardised indicators have been used in

this context to have a comprehensive view of the external debt problem of India and changes in it over time.

Magnitude of Total External Debt

Table 1 presents the behaviour of external debt of India since 1970. External Debt of India comprises multilateral and bilateral borrowings, export credit, external commercial borrowings IMF borrowings, non-resident deposits and rupee debt. These borrowings are both long term and short term. With the growing deficit in the current account of balance of payments, India's external debt registered a substantial increase over the years. The total magnitude of debt increased from just \$8.4 billion in 1970-71 to \$123.2 billion in 2004-05. It has also been observed that long term debt constituted the maximum share out of total debt and therefore, showed almost the similar behaviour as that of total debt. Long term debt, on the average, remained around or above 95 percent of the total debt except during 1990-91 when reliance on short term debt was increased to the extent of around 10 percent of the total debt.

Table 1
Composition of Cumulative External Debt of India (Billion US \$)

| Year | Long Term Debt (including IMF Credit) | Short-Term Debt | Total Debt Stock |
|------------|--|-----------------|-------------------|
| 1970-71 | 8.1 (96.4) | 0.3 (3.6) | 8.4 (100.00) |
| 1980-81 | 19.5 (93.7) | 1.3 (6.3) | 20.7 (100.00) |
| 1990-91 | 75.1 (89.8) | 8.5 (10.2) | 83.6 (100.00) |
| 2000-01 | 95.6 (96.4) | 3.5 (3.6) | 99.1 (100.00) |
| 2004-05(R) | 115.7 (93.9) | 7.5 (6.1) | 123.2 (100.00) |

Note: Figures in parentheses are percentages to total
R- Revised Estimate

Source: 1. World Bank, *Global Development Finance*, Various Issues.
2. Govt. of India, *India's External Debt*: External Debt Management Unit, Minister of Finance March, 2006.

Composition of Long Term Cumulative Debt of India

Long term debt constitutes the borrowings having an original or extended maturity of more than one year. It can be either Public or Publicly Guaranteed (PPG) or Private Non-Guaranteed (PNG). PPG debt comes from multilateral, bilateral sources or from private creditors. Table 2 shows that bilateral debt had the maximum share in the total long term debt of India during 1970s with the share on an average around 70 percent. Later shares

of multilateral sources, bilateral sources and that of private creditors revolved around 30 percent each. However, in early 2000s, the share of private creditors remained above 35 percent and that of bilateral sources declined to below 20 percent. Share of PNG sources in the total long term debt remained low, with share below 5 percent except in the late 1990s when its share started increasing and reached 14.6 percent in 2004-05.

Table 2
Composition of Long Term Cumulative Debt of India (Billion US \$)

| Year | Public & Publicly Guaranteed | | | Private Non-Guaranteed | Total Long Term Debt |
|-------------|------------------------------|----------------|-------------------|------------------------|----------------------|
| | Multilateral | Bilateral | Private Creditors | | |
| 1970-71 | 1.6 (19.7) | 6.2 (76.5) | 0.2 (2.6) | 0.1 (1.2) | 8.1 (100.0) |
| 1980-81 | 6.1 (33.1) | 10.4 (56.5) | 1.7 (8.8) | 0.3 (1.6) | 19.5 (100.0) |
| 1990-91 | 21.8 (30.0) | 26.6 (36.6) | 22.6 (31.3) | 1.5 (2.1) | 75.1 (100.0) |
| 2000-01 | 30.5 (31.8) | 20.2 (21.1) | 32.5 (34.0) | 12.5 (13.1) | 95.6 (100.0) |
| 2004-05 (R) | 31.7 (27.4) | 16.9 (14.6) | .. | .. | 115.7 (100.0) |

Note: R- Revised Estimate .. Not Available
Data do not include IMF credit

Source: 1. World Bank, *Global Development Finance* Various Issues.
2. Govt. of India, *India's External Debt* – External Debt Management Unit, Ministry of Finance, March 2006.

Long Term Disbursements

Disbursements include the drawing from the loan commitments each year. Disbursements may also be from multilateral sources, bilateral sources, private creditors or these may be from private non-guaranteed sources. Table 3 shows that bilateral sources had maximum share among all the sources in total long term disbursements to India during 1970s, although their relative share declined from 82.1 percent in 1970-71 to 8.3 percent in 2000-01. However, private creditors assumed importance since mid

1980s till the end of 1990s. The relative share of this source in total disbursements on an average remained above 40 percent. While that of bilateral sources declined to below 20 percent on average during the same period, although it fluctuated in-between. The share of multilateral disbursements seemed to have declined after early 1980s but still the share moved around 30 percent, indicating a sizeable proportion in the total disbursements.

Table 3
Source-wise Disbursements of Long Term Debt of India (Million US \$)

| Year | Public and Publicly Guaranteed | | | Private Non-Guaranteed | Total Disbursement |
|-----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------------------|
| | Multilateral | Bilateral | Private Creditors | | |
| 1970-71 | 100.5 (10.8) | 763.7 (82.1) | 41.2 (4.4) | 25.0 (2.7) | 930.4 (100.0) |
| 1980-81 | 863.1 (34.9) | 648.2 (26.2) | 672.7 (27.2) | 285.0 (11.7) | 2469.0 (100.0) |
| 1990-91 | 2210.5 (33.5) | 1361.1 (20.6) | 2804.3 (42.5) | 214.0 (3.4) | 6589.9 (100.0) |
| 2000-01 | 2370.8 (22.5) | 871.3 (8.3) | 6985.3 (66.3) | 300.0 (2.9) | 10527.4 (100.0) |
| 2004-05 | 2057.9 (43.4) | 2573.2 (54.2) | 113.4 (2.4) | .. | 4744.6 (100.0) |
| Linear Slope 1970-80 (T-Value) | 67.8* (9.5) | -11.2 ^{NS} (-0.62) | 33.16** (2.2) | 16.3** (2.96) | 106.0* (3.2) |
| Linear Slope 1981-90 (T-Value) | 138.9* (3.7) | 113.3* (7.09) | 407.4** (2.96) | -26.17** (-3.11) | 633.4* (4.25) |
| Linear Slope 1991-05 (T-Value) | -17.5 ^{NS} (-0.99) | -29.2 ^{NS} (-0.81) | -36.9 ^{NS} (-0.27) | 111.4 ^{NS} (1.31) | -148.0 ^{NS} (-1.18) |
| Linear Slope 1970-05 (T-Value) | 74.5* (11.1) | 27.1* (4.12) | 124.6* (4.76) | 43.3* (3.5) | 218.8* (6.54) |

Note: Figures in parentheses represent percentages of total.

* Significant at 1 percent level ** Significant at 5 percent level.

^{NS} Not Significant . (T values are based on Time Series data for the corresponding period)

Source: 1. World Bank, *Global Development Finance*, Various Issues.

2. World Bank, *World Debt Tables*, Various Issues.

Private Non-Guaranteed disbursements remained a less important item in total disbursements although its share increased occasionally. The linear trend of disbursements from each of the sources was found to be positive and significant during 1970-2005. The trend was also found to be positive and significant for all the sources except bilateral sources during 1970-80. For

1981-90 period too, the trend was positive and significant in case of all the sources, however, in case of private creditors it was found to be negative. The trend was found to be negative for the period 1991-2005 though was insignificant except for private non-guaranteed sources in case of which, the trend was positive.

Net Flows on Debt

Table 4 shows that in net flows on debt (Disbursements – Principal Repayments) in a single year, the share was maximum in case of bilateral sources till mid 1970s. However, the share of multilateral sources increased later and remained positive except in 2002-03 and 2003-04 when the figure became negative. The Table also shows substantial share of private creditors in the net flows to India with the

relative share increasing to above 50 percent in the second half of 1980s. Occasionally there were negative net flows, especially in case of private creditors and bilateral creditors (after mid 1990s), indicating that the Principal repayments to be more than disbursements from these sources in specific years. It was also observed that on the whole there were negative net flows to India after 2000.

Table 4
Composition of Long Term Net Flow on Debt in India (%)

| Year | Public and Publicly Guaranteed | | | Private Non-Guaranteed | Total |
|---------|--------------------------------|-----------|-------------------|------------------------|----------|
| | Multilateral | Bilateral | Private Creditors | | |
| 1970-71 | 10.3 | 91.7 | -2.0 | 0.0 | 100.0 |
| 1980-81 | 45.7 | 7.9 | 35.0 | 11.4 | 100.0 |
| 1990-91 | 40.6 | 18.6 | 43.4 | -2.6 | 100.0 |
| 2000-01 | 16.3 | -22.4 | 104.8 | 1.3 | 100.0 |
| 2004-05 | 44.2 | 41.0 | -50.1 | -135.1 | (-)100.0 |

Note: Data do not include IMF credit

Source: 1. World Bank: *Global Development Finance*, Various Issues .
2. World Bank, *World Debt Tables*, Various Issues.

Debt Service Payments

Details of debt service payments against long term debt to various sources have been presented in Table 5. The table shows a persistent increase in the total debt service payments since 1970-71 from \$542 million to \$20249 million in 2003-04. However, large debt service payments have been made since 1990. The table also shows that maximum debt service payments were made to bilateral sources during 1970s, with share above 65

percent, this share although declined but remained maximum till mid 1980s. Subsequently, the share of private creditors (Guaranteed) increased and their share remained above 40 percent with one or two exceptions till 2003-04.

Table 5
Composition of Long Term Debt Service Payments (US \$ millions)

| Year | Public & Publicly Guaranteed | | | Private Non-Guaranteed | Total Debt Service Payments |
|------------------------------------|------------------------------|-------------------|-------------------|------------------------|-----------------------------|
| | Multilateral | Bilateral | Private Creditors | | |
| 1970-71 | 74 (13.7) | 362 (66.7) | 75 (13.8) | 31 (5.8) | 542 (100.0) |
| 1980-81 | 187 (14.6) | 767 (60.0) | 203 (15.8) | 121 (9.4) | 1278 (100.0) |
| 1990-91 | 1347 (20.9) | 1388 (21.5) | 3241 (50.4) | 453 (7.0) | 6429 (100.0) |
| 2000-01 | 2575 (24.1) | 2327 (21.8) | 4850 (45.5) | 906 (8.6) | 10658 (100.0) |
| 2004-05 | 1323 (11.7) | 2129 (18.9) | 4183 (37.1) | 3651 (32.3) | 11287 (100.0) |
| Linear-Slope 1970-80 (T-values) | 10.75* (12.1) | 42.71* (17.16) | 7.01** (2.49) | 8.62* (7.45) | 63.4* (13.6) |
| Linear-Slope 1981-90 (T-values) | 130.8* (11.5) | 73.97* (5.09) | 301.7* (8.4) | 24.1 (1.88) | 530.6* (10.5) |
| Linear-Slope 1991-05 (T-values) | 225.4* (3.29) | 61.34** (6.35) | 282.8** (2.52) | 109.98** (2.61) | 508.1* (3.6) |
| Linear-Slope 1970-05 (T-values) | 118.1* (9.63) | 78.95* (10.33) | 215.3* (11.1) | 39.15* (5.83) | 422.2* (11.4) |

Note: * Significant at 1 percent level

**Significant at 5 percent level

T values are based on time series data for the corresponding period.

Source: 1. World Bank, *Global Development Finance*, Various Issues.

2. World Bank, *World Debt Tables*, Various Issues.

The more share of private creditors in total debt service also indicated the high external debt contracted from this source in the past alongwith the high cost of debt. Linear trend was worked out for debt service payments to all the sources at four periods of time viz. 1970-80, 1981-90, 1991-2005 and 1970-2005. The trend was found to be positive and significant for all the sources and for all the time periods taken into consideration except for PNG during 1981-90. However, the trend value of multilateral sources was highest during 1991-2005 and of bilateral, private

creditors (guaranteed) and total debt service payments were higher during the eighties.

Concessional Debt

Concessional debt constitutes the loans with an original grant element of 25 percent or more. However, loans from international financial institutions are classified as concessional according to each institution's classification. Table 6 presents data on the cumulative concessional debt of India and its corresponding share in the total external debt since 1970. The concessional debt in absolute terms although increased

from \$6.7 billion in 1970-71 to \$41.0 billion in 2004-05, however, in relative terms i.e. as a percentage of total debt its share declined persistently from 79.8 percent in 1970-71 to 33.3 percent in 2004-05. It has also been

observed that concessional debt remained above 80 percent of the total debt during 1970s. But the share sharply reduced to half in the late 1980s.

Table 6
Share of Concessional Debt in Total External Debt of India (Billion US \$)

| Year | Total Concessional Debt | Total Debt | Concessional Debt/ Total Debt (%) |
|------------|-------------------------|------------|-----------------------------------|
| 1970-71 | 6.7 | 8.4 | 79.8 |
| 1980-81 | 15.4 | 20.7 | 74.2 |
| 1990-91 | 38.7 | 83.6 | 46.2 |
| 2000-01 | 37.5 | 99.1 | 37.9 |
| 2004-05(R) | 41.1 | 123.3 | 33.3 |

Note: R- Revised estimate.

Sources: (i) World Bank, *Global Development Finance*, Various Issues.

(ii) Govt of India, *India's External Debt*, External Debt Management Unit, Ministry of Finance, March, 2006.

Multilateral and Bilateral Concessional Debt

Multilateral as well as bilateral sources are two major sources of concessional debt. Multilateral sources include international financial institutions while bilateral sources include the government to government debt. Table 7 provides cumulative figures of concessional debt from both these sources along with the share of concessional debt in the total debt of India from these sources. The Table shows persistent and gradual increase in the concessional debt of India from multilateral sources from \$1.1 billion in 1970-71 to \$23.9 billion in 2004-05. Absolute Concessional debt from bilateral sources was not only more than that from multilateral sources throughout the period (except during 2000s) but it also showed sudden increase

and doubled itself to \$22.6 billion in 1989-90 and remained above \$20 billion during whole of 1990s. It was also observed that the concessional debt in total bilateral debt remained above 90 percent throughout the period 1970-2005, except for 2004-2005 while concessional debt in total multilateral debt to India on the whole declined from the level above 80 percent during early 1980s to around 60 percent in 1990s.

Table 7**Share of Concessional Debt in Multilateral and Bilateral Debt of India (%)**

| Year | Multilateral Concessional/ Total Multilateral(%) | Bilateral Concessional/ Total Bilateral(%) |
|-------------|---|---|
| 1970-71 | 68.7 | 91.9 |
| 1980-81 | 85.2 | 97.1 |
| 1990-91 | 62.8 | 94.0 |
| 2000-01 | 62.9 | 90.6 |
| 2004-05 (R) | 75.4 | 76.9 |

Note: R- Revised Estimate

Sources: (i) World Bank, *Global Development Finance*, Various Issues.

(ii) Govt of India, *India's External Debt*, External Debt Management Unit, Ministry of Finance, March, 2006

Debt Service to Exports and Debt Service to GNI Ratio (TDS/XGS and TDS/GNI)

Debt to Exports ratio, also called debt service ratio, shows the proportion of debt service payments as a percentage of total exports of goods and services. Table 8 showed a persistent fall in debt service ratio of India from 26.8 percent in 1970-71 to 9.4 percent in 1980-81, however, during 1980-90, the figure increased, reaching 31.9 percent in 1990-91, indicating severe payment problems. Corrective measures adopted by

the Government since early 1990s brought a gradual decline in it to 12.1 percent in 2001-02. However, later on it increased to 18.1 percent in 2003-04. Debt service to GNI ratio, on the other hand, showed somewhat different trend. The ratio fluctuated during 1970s but remained around one percent till 1980-81 but later sharply increased to 3.4 percent in 2003-04.

Table 8**Debt Service to Exports and Debt Service to GNI Ratio of India (%)**

| Year | TDS/XGS (%) | TDS/GNI (%) |
|---------|----------------|----------------|
| 1970-71 | 26.8 | 1.2 |
| 1980-81 | 9.4 | 0.8 |
| 1990-91 | 31.9 | 2.6 |
| 2000-01 | 14.9 | 2.4 |
| 2003-04 | 18.1 | 3.4 |

Sources: (i) World Bank, *Global Development Finance*, Various Issues.

(ii) World Bank, *World Debt Tables*, Various Issues.

Section II

The growing external debt and debt service payments have been a cause of concern for India since 1970s and especially during the 1980s and during the Gulf Crisis at the onset of 1990s, when the problem became severe.

An analysis of the previous section brings forth the fact that till 1980s, external debt was not a major problem and it was during the decade 1980-90 that external debt indicators showed severe deterioration, specially in the later half of 1980s. A relative shift from official sources to external commercial borrowings played an important role. Until 1980, the two major sources of external capital for India were bilateral (government to government) loans and borrowings, largely concessional, from international financial institutions. Only in the 1980s, when fiscal prudence of the previous decades gave way to profligacy, the Government borrowed from private sources on commercial terms (Srinivasan, 2001; P.18), which led to sharp increase in debt during the late 1980s. The increasing debt was cause of concern as there was increase in average cost of debt due to declining share of concessional finance which had high ratio in debt basket of India before 1980. The decline in concessional finance alongwith a similar reduction of foreign assistance from bilateral sources led India to depend largely upon the

definitely costlier source of finance namely the external commercial borrowings.

Although private savings financed most of India's investment prior to 1980s, but by mid 1980s, further growth in the private savings seemed difficult, it already being at a high level. Keeping in view the level of developments, India relied increasingly on borrowing from foreign sources. Thus due to global developments in 1980s such as perceptible decline in availability of official concessional flows in relation to external financing needs of developing countries and the compulsory payments to IMF during late 1980s, the recourse to external debt on commercial terms became inevitable.

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