

Status Report on INDIA'S EXTERNAL DEBT 2018-19

- At end-March 2019, India's external debt was USD 543.0 billion, registering an increase of 2.5% over the end-March 2018 level. In relation to GDP its share slightly decreased to 19.7% from 20.1% over the same period.
- The maturity structure of India's external debt is favorable with the domination of long-term debt, though there is a slight fall in its share to 80.0% in 2019 (end-March) from 80.7% in the previous corresponding period. Commercial Borrowings account for the largest share in the long-term debt, followed by NRI Deposits and Multilateral.
- The short-term debt (original maturity), whose single dominant component is trade credits, registered a marginal increase in its share of total external debt to 20.0% at end-March 2019 from 19.3% at end-March 2018. Likewise, the short-term debt on residual maturity (includes short term debt by original maturity, combined with long term debt repayments falling due within the next twelve months) as a percentage of total external debt witnessed a slight rise to 43.4 percent in 2019 (end-March) from 42.0 percent in the previous corresponding period.
- The share of concessional debt in total external debt has reduced to 8.7% in 2019 (end-March) from 9.1% in 2018 (end-March).
- The currency composition of India's External debt reveals the dominance of US dollar denominated debt at 50.5%. The share of rupee denominated debt in total external debt has slightly fallen from 35.8% in 2018 and 35.7% in 2019 (end-March).
- From the perspective of borrowers' classification, Government (Sovereign) external debt accounted for 19.1% of total external debt as at end-March 2019.
- The multilateral sources continue to be the dominant creditor of India's sovereign external debt, whereas, among the bilateral creditors, Japan remains the single largest bilateral creditor. These borrowings are long-term in nature.
- As far as the currency composition of India's Sovereign External Debt is concerned, Indian rupee has emerged as the dominant currency as at end March 2019 at 28.4% followed by US\$ denominated debt with a share of 25.8%.
- India's debt service payments are within manageable limits as indicated by the debt service ratio [proportion of total debt service payments (i.e. principal repayment plus interest payment) to current receipts (minus official transfers) of Balance of Payments (BoP)] of 6.4% in 2018-19, down from 7.5% in the previous year.

- The total external debt service payments amounted to US\$ 40.9 billion during 2018-19, recording a decrease of 8.3 per cent over 2017-18. The principal repayments accounted for 57.8 per cent of India's total debt service payments in 2018-19, while the rest was on account of interest payments. Debt service on external commercial borrowings with a share of 68.61% dominated India's debt service payments, followed by NRI deposits, and external assistance.
- Total Government (Sovereign) Debt Service Payments have increased by 8.4% to US\$ 5.5 billion in 2018-19 over the previous period. As is the case for total debt service payments, Principal Repayments constitute the bulk of Sovereign external debt servicing too. Multilateral Debt accounts for a major portion in sovereign external debt service payments. The projections for debt service payments under Government account are also within reasonable levels.
- International comparison based on World Bank's annual publication titled 'International Debt Statistics 2019' indicates that India continues to be among the less vulnerable nations and its main external debt indicators compare well with other indebted developing countries. India's key debt indicators, especially external debt to GNI, debt service ratio, foreign exchange reserves to total debt, and short term to total external debt continue to be comfortable indicating that our external debt is within manageable limits. As per the report, the average external debt to GNI ratio for India was 19.8 percent, which was 5 percentage points lower than the average of 121 low and middle income countries (25 percent). The definition and concepts relating to External Debt are indicated in Annexure I, while the time-series statistics on External Debt till end-March 2019 are given in Annexes II to XXIII.

External Debt: Definition, Concepts and Dissemination of Data

I. Definitions and Concepts

1. External Debt

Gross external debt, is a stock variable and is measured at a point in time. External debt is defined as “the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non-residents by residents of an economy” {*External Debt Statistics - Guide for Compilers and Users*, International Monetary Fund (IMF), 2003 }.

2. Original and Residual Maturity

(i) *Original maturity* is defined as the period encompassing the precise time of creation of the financial liability to its date of final maturity.

(ii) Debt by *residual maturity* (or *remaining maturity*) includes short term debt by original maturity of up to one year, combined with medium to long term debt repayment by original maturity falling due within the twelve month period following a reference date. External debt is commonly expressed in terms of original maturity.

3. Long and Short-term

One way of classifying 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 system and the investment in the Government securities by the foreign central banks and the international institutions.

4. Multilateral and Bilateral Debt

Multilateral creditors are primarily multilateral institutions such as the International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), Asian Development bank (ADB) etc. Bilateral creditors are sovereign countries with

whom sovereign and non-sovereign entities enter into one-to-one loan arrangements. Some of India's bilateral creditors who extend loans to both sovereign and non-sovereign debtors include Japan, Germany, United States, France, Netherlands and Russian Federation.

5. Sovereign (Government) and Non-Sovereign (Non-Government) debt

Sovereign debt includes (i) external debt outstanding on account of loans received by Government of India under the 'external assistance' programme, and civilian component of Rupee Debt; (ii) other Government debt comprising borrowings from IMF, defence debt component of Rupee debt as well as foreign currency defence debt and (iii) FII investment in Government Securities. *Non-sovereign* includes the remaining components of external debt.

6. Trade Credits/Export Credits

Trade credits/Export credits refer to loans and credits extended for imports directly by overseas supplier, bank and financial institution to sovereign and non-sovereign entities. Depending on the source of finance, such credits can be either *suppliers' credit* or *buyers' credit*.

(i) *Suppliers' Credit*: Such credit is extended by the overseas supplier of goods in the form of deferred payments.

(ii) *Buyers' Credit*: Such credit is provided by a bank or financial institution and is generally governed by OECD consensus terms and carries insurance from export credit agency of the concerned country.

7. External Commercial Borrowings

The definition of commercial borrowing includes loans from commercial banks, other commercial financial institutions, money raised through issue of securitized instruments like bonds (including India Development Bonds (IDBs) and Resurgent India Bonds (RIBs)), Floating Rate Notes (FRN) and securitized borrowings of commercial banks, etc. It also includes borrowings through buyers' credit & supplier credit mechanism of the concerned countries, International Finance Corporation, Washington [IFC (W)], Nordic Investment Bank and private sector borrowings from Asian Development Bank (ADB).

8. NRI Deposits

Non-Resident Indian (NRI) deposits are of three types:

(i) *Non Resident (External) Rupee Account {NR(E)RA} Deposits* were introduced in 1970. Any NRI can open an NRE account with funds remitted to India through a bank abroad. A NRE account maintained in Indian rupee may be opened as current, savings or

term deposit. The amount held in these deposits together with the interest accrued can be repatriated.

(ii) *Foreign Currency (Non Resident) (Banks) Deposits {FCNR (B)}* were introduced with effect from May 15, 1993. These are term deposits maintained only in Pound Sterling, U.S. dollar, Japanese Yen, Euro, Canadian dollar and Australian dollar. The minimum maturity period of these deposits was raised from six months to 1 year effective October 1999. From July 26, 2005, banks have been allowed to accept FCNR (B) deposits up to a *maximum* maturity period of five years against the earlier maximum limit of three years.

(iii) *Non-Resident Ordinary Rupee (NRO) Accounts* – Any person resident outside India may open and maintain NRO account with an Authorised Dealer or in authorised bank for the purpose of putting through bonafide transactions denominated in Indian Rupees. NRO Accounts may be opened/maintained in the form of current, saving, recurring or fixed deposits. NRI/Persons of Indian Origin (PIO) may remit an amount not exceeding USD 1 million per financial year out of the balances held in NRO Accounts.

9. Concessional Debt

Generally, a loan is defined as ‘concessional’ when it carries a grant element of 25 per cent or more. In India, loans from multilateral (the International Development Association (IDA), International Fund for Agricultural Development (IFAD)) and bilateral sources (including rupee debt that is serviced through exports) is categorized as ‘concessional’, based on their terms of long maturity and less-than-market rate of interest charged on them.

10. External Debt from Official and Private Creditors

External debt from multilateral and bilateral sources of finance, export credit component of bilateral credit, export credit for defence purposes and rupee debt, etc is called as official debt. External debt from private creditor denotes sources of loans raised under ECBs, NRI deposits, export credits (other than those included under official creditors), and short-term debt.

11. External Debt to GDP Ratio

The ratio of the external debt stock to GDP is derived by scaling the total outstanding debt stock (in rupees) at the end of the financial year by the GDP (in rupees at current market prices) during the financial year.

12. Debt Service Ratio

Debt service ratio is measured by the proportion of total debt service payments (i.e. principal repayment plus interest payment) to current receipts (minus official transfers) of Balance of Payments (BoP). It indicates the claim that servicing of external debt makes on current receipts and is, therefore, a measure of strain on BoP due to servicing of debt service obligations.

13. Borrower Classification of External Debt

The borrower classification of external debt provides breakup into Government (Sovereign) and non-Government debt. The latter is further categorized into financial, public and private sectors. Financial sector represents borrowings by banks and financial institutions including long-term NRI Deposits. Public sector debt represents borrowings of non- financial public sector enterprises and private sector debt represents borrowings of non- financial private sector enterprises.

14. External Debt Denominated in Rupee Currency

Unlike foreign currency denominated external debt, where the currency (exchange rate) risk is borne by the *borrower*, the characteristic feature of domestic currency denominated debt is that the *exchange rate risk* is borne by the *creditor*. The contractual liability, however, is settled in terms of the designated foreign currency (Exports in case of Rupee debt owed to Russia). This implies that the *borrower* gains (and the *creditor* loses) when the local currency depreciates since less has to be repaid in foreign currency terms and *vice versa*.

India's External Debt denominated in Rupees consists of the following categories:-

- i. *Rupee Debt*; The outstanding state credits (both defence and civilian) extended to India by the erstwhile Union of Soviet Socialist Republic (USSR). The debt is denominated in Rupees and repayment of such debt is made primarily through the export of goods to Russia;
- ii. *Rupee Denominated* NRI Deposits viz. the Non-Resident (External) Rupee Account {NR(E)RA} and the Non-Resident Ordinary Rupee (NRO) Accounts. The NR(E)RA is categorized as an external debt liability since the principal amount held in such accounts as well as the interest accrued are repatriable;
- iii. Foreign Institutional Investor's (FII) Investments in Government Treasury Bills (TBs) and dated securities; and
- iv. FII Investments in corporate debt securities.

15. Dissemination of External Debt Statistics in India

- (i) The Government of India has been publishing the Status Report on India's external debt annually since 1993. The coverage of external debt statistics has been expanded over the years to align it with the best international practices and make it more comprehensive. India has also been disseminating data on external debt under IMF's Special Data Dissemination Standards (SDDS) and Quarterly External Debt Statistics (QEDS) database jointly developed by the World Bank and the International Monetary Fund.
- (ii) The external debt statistics of India are disseminated with a lag of three months from the end of the reference quarter in both the country specific and SDDS format and are accessible at www.finmin.nic.in and www.rbi.org.in. In November 2006, India joined the 'Quarterly External Debt Statistics' database, jointly developed by the World Bank and International Monetary Fund and has been compiling external debt statistics in the QEDS format every quarter and furnishing the same for release on the World Bank's website.
- (iii) Under the present arrangement, the External Debt Management Unit (EDMU) in the Ministry of Finance (MoF), Department of Economic Affairs (DEA), Government of India compiles external debt data for the quarters ending September and December, while the Reserve Bank of India (RBI) compiles and disseminates data for the quarters ending March and June every year. In addition, an annual publication 'India's External Debt: A Status Report' is brought out by the EDMU, MoF, Government of India. Office of the Controller of Aid Accounts & Audit (CAAA) of the DEA, MoF publishes a report titled 'External Assistance' which provides a detailed account of external assistance received by the Government of India in the form of loans/credits and grants from foreign countries, international institutions and other organizations. It provides donor/country/currency-wise details along with information relating to interest rate structure and maturity profile of external debt availed from multilateral and bilateral creditors.
- (iv) The data published for the current quarter/year are termed as 'Quick Estimates'. Quick estimates data are subject to revision during the next twelve months which are labelled as 'Partially Revised' as and when they are published. The partially revised data are fully 'frozen' and released as final data with a lag of twenty four months from the reference date. Extraordinary revisions are undertaken within the cycle only in the event of methodological changes in respect of data collection and compilation procedures and/or significant changes indicated by data sources that may entail structural shifts in the data series.

- (v) External debt recording and compilation is done with the aid of the latest version of *Commonwealth Secretariat Debt Recording and Management System* (CS-DRMS) 2000+ (version 1.3) by the CAAA, DEA, MoF and (Department of Statistics and Information Management (DSIM)) Reserve Bank of India (RBI). About 60 percent of external debt is recorded in CS-DRMS 2000+, except NRI deposits and short-term debt. Besides, FII investment and defence debt and some minor portions of the external debt are also not under the purview of this computerization scheme.
- (vi) The external debt statistics are compiled using the methodology and practices prescribed in the '*External Debt Statistics: Guide for Compilers and Users*' brought out by the IMF. The coverage of India's external debt statistics particularly short-term external debt has been expanded gradually to make these statistics more comprehensive. In fact, short-term trade credits, which are not adequately captured in external debt statistics of several countries due to conceptual issues and data-related problems, are being compiled regularly and included in the short-term debt. To that extent, global comparisons may be problematic in terms of magnitudes.
