Government of India
Ministry of Finance
Department of Economic Affairs
(External Debt Management Unit)

Press Release

Subject: *India's External Debt: A Status Report 2009-10*

The Department of Economic Affairs, Ministry of Finance is coming out with the *sixteenth* edition of the annual publication titled 'India's External Debt: A Status Report 2009-10' that analyses India's latest external debt position (at end-March 2010) based on the data released at end-June 2010 by the Reserve Bank of India.

The incorporation of two new chapters on 'Trends and Composition of India's External Debt' and 'Global and Euro Zone Debt Crisis: Perspective and Lessons' and issues relating to State Governments' back to back external debt and debt service projections for externally-aided projects make the Status report more analytical and topical in nature.

The salient features of the Report are summarized as under:

Though the India's external debt has increased in absolute terms during 2009-10, key debt sustainability indicators suggest that India's external debt remains at a comfortable level. This was made possible because of the external debt management policy of the Government of India, which focuses on monitoring long and short-term debt, raising sovereign loans on concessional terms with longer maturities, regulating external commercial borrowings (ECB) through end-use and all-in-cost restrictions, and rationalizing interest rates on Non-Resident Indian (NRI) deposits. *While the liberalization of ECB policy provided cushion against the decline in capital flows during 2008-09, the cautious approach also helped prevent the build-up of unsustainable debt burden in the pre-crisis era, which could have strained the corporate balance sheets during the crisis. The ECB policy therefore has been an effective intervention tool for managing surge and reversal of capital flows.*

India's external debt position during the years 2006-07 to 2009-10 is given below in the Table.

Table: India's Key External Debt Indicators

At end March	External Debt (US$ billion)	Ratio of External Debt to GDP (Per cent)	Debt Service Ratio (Per cent)	Ratio of Foreign Exchange Reserves to Total Debt (Per cent)	Ratio of Concessional Debt to Total Debt (Per cent)	Ratio of Short-Term Debt to Foreign Exchange Reserves (Per cent)	Ratio of Short-term Debt to Total Debt (Per cent)
1	2	3	4	5	6	7	8
2006-07	172.4	17.5	4.7	115.6	23.0	14.1	16.3
2007-08	224.4	18.1	4.8	138.0	19.7	14.8	20.4
2008-09 PR	224.5	20.5	4.4	112.2	18.7	17.2	19.3
2009-10 QE	261.5	18.9	5.5	106.7	16.8	18.8	20.1

PR: Partially Revised; QE: Quick Estimates.

India’s external debt of US$ 261.5 billion at end March 2010 reflects an increase of US$ 37 billion (16.5 per cent) over the US$ 224.5 billion at end March 2009. The rise is largely attributed to long-term components viz. external commercial borrowings, NRI deposits and Special Drawing Rights (SDR) allocation by the International Monetary Fund. The *valuation effect* arising from depreciation of the US dollar against major international currencies contributed 17.8 per cent (US$ 6.6 billion) to the total increase in India’s external debt in US dollar terms.

The maturity structure of India’s external debt is favorable with *long-term* debt at US$ 208.9 billion at end-March 2010, accounting for 79.9 per cent of the total external debt. The share of short-term debt in total external debt has increased to 20.1 per cent at end-March 2010 from 19.3 per cent at end-March 2009. The rise in short-term debt ratio in recent years is primarily due to a change in the definition of short term debt from 2005 onwards, with increased coverage.

Government (Sovereign) external debt of US$ 67.1 billion accounted for 25.7 per cent of total external debt at end March 2010 as against US$ 55.9 billion at end March 2009. Similarly, Government guaranteed external debt increased marginally to US$ 7.7 billion at end-March 2010, vis-a-vis US$ 6.8 billion at end-March 2009.

India’s external debt service payments continue to remain within manageable limits. It was in the range of 4.4 per cent to 4.8 per cent during 2006-07 to 2008-09, before increasing to 5.5 per cent in 2009-10 due to higher repayments under external commercial borrowings.

A comparative picture of India’s external debt vis-a-vis top twenty developing debtor countries for the year 2008, as brought out by the World Bank’s ‘Global Development Finance, 2010’ shows that India was the *fifth* most indebted country. All the key debt indicators, especially debt to GNI ratio (19.0 per cent), debt service ratio (8.7 per cent), short-term to total external debt (19.6 per cent) and the cover to external debt provided by foreign exchange reserves (111.6 per cent) were, however, in comfortable zone.

Analysis of India’s external debt scenario over the period 1990-2010 reveals an improvement in India’s external debt situation. Over the last two decades, external debt has increased in absolute terms, but the rise has not translated into higher debt burden. This is manifested in the decline in the debt-GDP ratio from 28.7 per cent in 1990-91 to 18.9 per cent in 2009-10 and the debt service ratio from 35.3 per cent in 1990-91 to 5.5 per cent in 2009-10.

Over the period 1990-2010, the composition of external debt has also undergone change with the share of both multilateral and bilateral components exhibiting a declining trend in the long term external debt. The share of the Government (the main borrower from bilateral and multilateral sources) in the total external debt also declined from 59.9 per cent in 1990 to 25.7 per cent in end-March 2010. The share of private players increased correspondingly from around 40 per cent in the first half of the nineties to over 70 per cent in the recent years.

The sovereign debt crisis in the Euro zone highlighted the fact that public debt numbers, seen in isolation, could be misleading. The *composition*, *maturity profile*, *refinancing requirement*, *investor base* and distribution between *domestic* and *international investors* play the critical role in determining the vulnerable level of sovereign debt. In this context, it is important to note that the nature of sovereign debt in India is *fundamentally different* from many countries facing sovereign debt risk.

The composition of the *Central Government public debt* reveals that the bulk of the sovereign debt is from domestic sources (about 89 per cent), and external debt accounts for about 11 per cent, most of which is from multilateral/ bilateral sources. Besides, banks (including co-operative banks) and insurance companies account for a sizeable share of the total domestic debt. Given the Statutory Liquidity Ratio (SLR) requirement for banks and the fact that a significant share of the banking and insurance sector remains in the public sector, the *refinancing risk* that has been at the root of the Euro zone crisis, is at best minimal.

The complete Annual Status Report is available at the website of the Ministry of Finance - www.finmin.nic.in.