CHAPTER IV

GROWTH AND COMPOSITION OF THE EXTERNAL DEBT OF GOVERNMENT OF INDIA

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4.1 NEED FOR FOREIGN CAPITAL

Capital occupies a dominant place in the economic growth of an underdeveloped or developing country. Even though labour may be abundant, the output of a less developed country remains limited by a shortage of capital. It is widely recognised that the less developed countries must make additional efforts to mobilise and muster effective capital resources. " The general rate of development is always limited by shortage of productive factors. If any one scarce factor associated with underdevelopment should be singled out, it would be capital. The final goal of development programming is therefore, to find the best way of breaking the 'vicious circle' between capital shortage and backwardness and to design the most efficient and optimum rate of capital accumulation. " [1] Many economists emphasise capital accumulation as the major factor governing the rate of development. Prof. Rostow, for example, specifies , " A rise in the rate of productive investment from, say, 5 percent or less to over 10 percent of national income as a necessary requirement for a country's take-off." [2] Similarly, in presenting his model of a Dual Economy, Sir Arthur Lewis contends that, " The central problem in the theory of economic development, is to understand the process, by which a community which was previously saving and investing 4 or 5 percent of its national income or less, converts itself into an economy where voluntary saving is running at about 12 to 15 percent of national income or more. This is the central problem because the central fact of economic development is rapid capital accumulation, including knowledge and skills with capital. " [3]

Other things are needed along with capital, yet these are seldom possible without some increase in the stock of capital. Therefore, capital accumulation may very well be regarded as the core process by which all other aspects of growth are made possible.

However, " Whether the process of economic development is financed from internal sources or external, by non-inflationary or inflationary means- the accumulation of capital in any developing economy requires the mobilisation of an economic surplus. If investment is to increase, there must be a growing surplus above current consumption that can be tapped and directed into productive channels." [4] " From internal sources, an increase of savings may be generated voluntarily through a reduction in consumption, involuntarily through additional taxation, compulsory lending to the government, or inflation, or finally, by the absorption of underemployed labour into productive work. From external sources, the financing of development may be met by the investment of foreign capital, restriction of consumption imports, or an improvement in the country's terms of trade." [5]

The classical economist very much believed in the " Laissez Faire " policy. " The term Laissez faire has come to mean a government economic policy of ' hands of '[6]. The presumption is that the private sector can function best if left free of governmental interference. This classical philosophy is based on general economic theory. According to them the State has to perform the minimum duties. For them functions like defense from external violence and justice, internal peace and justice and maintenance of those public institutions and works which may be in the highest degree advantageous to a great society. Between these three functions first two are more important and for that governments were called as " Police State ". Furthermore, classicals assumed that the ideal situation of full employment is existing in the economy. Full employment is the situation in which all the factors of production or all resources are fully used to their capacity. Say's Law explains, " Supply creates its own demand." [7] So there is no problem of overproduction or no question of unemployment. Instead of this, if unemployment may occur it may be only temporary or may be voluntary in nature or may be due to miscalculations made by the entrepreneur. Among other things, they believed perfect competition, factor mobility, and interest rate and wage rate flexibility. For interest rate and wage rate flexibility, they said, increase in demand for savings tends to raise rate of interest – which is a price for savings – which in turn increases volume of savings. Thus, investment and savings are equated. Similarly, wage rate flexibility ensures equality of demand for and supply of labour and if all is left to the nature itself, price, wage, interest flexibility could automatically bring equilibrium between supply and demand of commodity, labour and capital.

After all this explanation, the classical economists concluded that, when all things are easy to attain and automatic like this, there is no need for the government intervention in the smooth working of nature and no need to add to the functions of the State in automatically well-going economic system.

When the role of the State was so restricted only to ' unavoidable minimum duties ' then there is no need to mobilise more and more revenue by the State. Besides of this, classical economists believed that the government expenditure is unproductive and so wasteful. Money can be best utilised by the private rather than the State.

But after Great Depression of 1930s this situation had changed to a great extent. In the period of depression all writings focussed on the role of the State. The government has to make efforts and take active part to overcome the economy out of the depressed situation. For this government has to undertake various employment creative projects, public works and other productive activities to bring up the economy from the stagnation stage, to the development stage. Today in the phase of globalisation the government is performing an active role. To accelerate the economic development governments are undertaking socially welfare activities also. So these governments are called as " Welfare States ". It is now universally accepted that the major duty of the State is to provide maximum social welfare to the community by expanding its role by making provisions for education, medical facilities, housing facilities, poverty removal programmes etc. In present times, the governments undertakes various public service works to provide infra-structure facilities like railways, roads, power supply, irrigation systems, post-office services etc. This is undertaken by the governments also to avoid the malpractice made by the private and to gain welfare of the society as a whole.

This concept of " Welfare State " came into light and accepted immediately and widely after the 'I' World War and after facing Great Depression. But these governments expanded their activities after getting the strong backing from some economic writings. The role of the State was shrunk in the black shadow of Laissez Faire doctrine. After publication of " General Theory of Employment, Interest and Money " by J. M. Keynes in 1936 the radical changes took place in the economic world. Keynes vigorously attacked the 'self regulating theory' and emphasized the dynamic role of State in the economy. Keynes explained that, " Increasing employment opportunities and maintaining it at a high level is possible only through fiscal activities of the State. "[8] Adolph Wagner, the German economist presented his ' Law of the Increasing of State Activities ' in the later part of 19th Century. In this Law he said, " Comprehensive comparison of different countries and different times show that, among progressive peoples, with which alone we are concerned, an increase regularly takes place in the activity of both central and the local governments. The increase is both extensive and intensive : the central and local governments constantly undertake new functions more efficiently and completely. In this way economic need of the people, to an increasing extent and in a more satisfactory fashion, are satisfied by the central and local governments. "[9]

In later years, the theories of Peacock Wiseman, Colin – Clerk also explains the trend of rising public expenditure and this was also noticed in practice as the government expenditure increased in the post depression period in capitalist economies. By early 1950, many colonial countries in Asia and Africa got their political independence and initiated the process of planned economic development. These countries adopted the mixed economy pattern of development, under which the role of the State was important for developmental activities, creation of socio – economic infrastructure and development of the basic and heavy industries in the public sector. In addition, the welfare function also was important for poverty alleviation and employment generation. This pattern of economic development in the developing countries necessitated large public sector investment outlays for which capital, more so, foreign capital was necessary for import of capital goods, technological know-how and essential imports. It is in this context, that along with internal resource mobilisation foreign capital more in the form of external debt and external aid started coming from donor nations, international financial institutions into developing countries. In the view of Prof. Lerner, " As the attainment of full employment is the ultimate aim of every debt program, the problem of the burden of the debt should be judged in terms of the burden of unemployment which would have existed in the absence of public borrowing. "[10] Thus this inflows of foreign capital played a significant role in financing the heavy investment and employment creation programs made in the economy during the plan periods.

With globalisation and associated trade and financial sector reforms the inflows of foreign capital into developing countries has undergone a change.

4.2 CHANGING PROFILE OF FOREIGN CAPITAL INFLOWS INTO INDIA

The fiscal crisis in India has its counterpart on the external front. The current account deficits have been steadily mounting and the balance of payments has been under severe strain right since 1985-86. This has led to a contraction of our foreign exchange reserves and ever increasing of our external debt, besides exchange rate instability. For Indian economy, the composition of foreign capital inflows has been changed step by step after India faced the crisis of 1990s. In 1990, the quantum of foreign exchange reserves touched the ground level mainly and imports became so high than the export amount, which cannot be sustained by our economy. To improve this situation and to avoid further balance of payment crisis India raised loan from International Monetary Fund. By creating this loan India improved her balance of payment situation. While obtaining the loan from International Monetary Fund, it forced India also to accept some terms and conditions. At this time India opened its economy to the global markets and accepted liberlisation policy. These economic reforms brought some changes in the economy. Between these, the first and foremost is changing composition of foreign inflows as stated before. In this period - from the first phase of economic reforms till the ending year of the study – all the inflows including total foreign capital except governmental external debt showing increasing trend but with fluctuations. Still and all, foreign direct investment and portfolio investment are showing high growth, since reforms takes place in India. The improvement in India's position since 1991-92 is due to a conscious debt management policy that focused on high growth rate of exports, keeping the maturity structure as well as the total amount of commercial debt under manageable limits, limiting short-term debt and encouraging non-debt creating financial flows. The strategy that was actively put in place in the early 1990s has paid rich dividends leading to sustained improvement in external indebtedness position of the country.

Table No. 4.1 gives the details of total foreign capital inflows from 1990-91 to 1999-2000. The data given in the table reveals that :-

1. Foreign direct investment was $ 97 US Million in the initial periods of economic reforms, which rose to $ 129 US Million in the next year, 1991-92. In 1993-94, it increased by more than four times of what it was in 1991-92 and became $ 586 US Million. In 1994-95 it jumped to $ 1,314 US Million. It grew to $ 3,557 US Million in 1997-98, which is the peak level of foreign direct investment in the period under study. But further it declined in the last two years and was $ 2,155 US Million in 1999-2000.

2. Portfolio investment inflows show more fluctuations and also more growth than foreign direct investment. It was only $ 6 US Million in 1991-92, which came down to $ 4 US Million in 1992-93. But in the next year it grew by $ 240 US Million. In 1993-94 and 1994-95 it highly jumped up to $ 3,567 US Million and $ 3,824 US Million respectively. In 1995-96 it came down to $ 2,748 US Million but again increased in 1996-97 to $ 3,312 US Million. In 1997-98 it decreased to

TABLE NO. 4.1

PROFILE OF TOTAL EXTERNAL INFLWOS

(US Million $)

YEAR	(1)	(2)	(3)	(4)	5=3+4	(6)
1990-91	97	6	55,837	27,964	83,801	83,904
1991-92	129	4	55,691	29,594	85,285	85,418
1992-93	315	244	58,580	31,443	90,023	90,582
1993-94	586	3,567	57,428	35,267	92,695	96,848
1994-95	1,314	3,824	61,161	37,847	99,008	1,04,146
1995-96	2,144	2,748	57,235	36,495	93,730	98,622
1996-97	2,821	3,312	55,571	37,899	93,470	99,603
1997-98	3,557	1,828	50,926	42,605	93,531	98,916
1998-99	2,462	- 61	49,706	47,180	96,886	99,287
1999-00	2,155	3,026	49,918	48,345	98,263	1,03,444
C. G. R.	**49. 07**	**-**	**-1. 60**	**6. 18**	**1. 52**	**2. 09**

Source: - As of Table No. 3.3 & www.rbi.org.in / publications / foreign exchange reserves.

1. **F. D. I** – Foreign Direct Investment
2. **P. I.** – Portfolio Investment
3. **G.E.D.** – Governmental External Debt
4. **N.G.E.D.** – Non-Governmental External Debt
5. **T.E.D.** – Total External Debt
6. **G. T.** – Grand Total of External Inflows

$ 1,828 US Million and after one year only in 1998-99, it shows minus balance. During this year it shows a negative trend, as receipts fall short than the payments made in this account. But in the last year portfolio investment again increased to $ 3,026 US Million.

3. Though the other external inflows are growing, the governmental external debt is showing declining trend. However, it is showing some ups and downs in first five years. It was $ 55,837 US Million in 1990-91, which increased, to $ 58,580 US Million in 1992-93. It declined in the next year to $ 57,428 US Million, again rose to $ 61,161 US Million in 1994-95. But after this governmental external debt decreased continuously till the year 1998-99. It declined from $ 57,235 US Million in 1995-96 to $ 49,706 US Million in 1998-99. In the last year it increased by only $ 212 US Million. But overall it is showing declining trend than the other sources of foreign capital.

4. Non- government debt shows increase over the period but it also shows some minor fluctuations. In 1990-91 it was $ 27,964 US Million which increased ceaselessly upto $ 37,847 US Million in 1994-95. In the following year it declined by only $ 1,352 US Million. But later in last four years under study it increased constantly from $ 37,899 US Million in 1996-97 to $ 48,345 US Million in 1999-2000.

5. Total foreign inflows in India from 1990-91 to 1999-2000 also shows tremendous growth but with some fluctuations in it. It was $ 83,904 US Million in the initial period of reforms that increased continually till 1994-95 to $ 1,04,146 US Million. In the next year it

declined to $ 98,622 US Million. In 1996-97 it increased for one more time to $ 99,603 US Million which again came down in the subsequent year to $ 98,916 US Million. But in the last two years it shows increase and was of $ 1,03,444 US Million in the last year of study.

Some basic facts emerge from the changing profile of India's external inflows. First, the level of debt has been relatively stable in the decade after accepting New Economic Policy, showing only a modest increase. Secondly, external capital inflows characterized by high growth in other type of inflows in this period. Thirdly, in the total external inflows other than the external debt taken by the Government of India portfolio investment and direct investment to India are showing growth since 1992-93 upto 1999-2000. Fourthly, governmental external debt decreased over the period, yet with some fluctuations. Finally, non-governmental debt has grown notably and shows more growth than in governmental debt.

4.3 GROWTH AND COMPOSITION OF OUTSTANDING EXTERNAL DEBT OF GOVERNMENT OF INDIA

4.3.1 HISTORICAL REVIEW OF THE GROWTH OF EXTERNAL DEBT

As the volume of investment under the successive Five Year Plans increased and more and more schemes of development, using foreign exchange, were launched, India's need for foreign capital came to be accentuated. In the course of Second and Third Five Year Plans, three annual Plans and Fourth Plan increasing emphasis was laid on the development of basic industries, railways, power and manufacturing industries which compelled the public authorities in India to contract growing amounts of foreign loans and credits. Foreign credits and loans also have been utilised for the repayment of old loans.

It is essential to note that almost the entire growth of external debt during First Five Year Plan was caused by the dollar loans, while in the course of Second and Third Five Year Plan periods, dollar loans contributed 53 percent and 70 percent to the growth of our external obligations. However, over the subsequent years, although they constituted a significant source of debt growth their contribution was on the decline. The utilised loans were received from agencies, like I. B. R. D., I. D. A., A. I. D., U. S. – Exim bank and U. S. Government loans during three annual plan period and Fourth Five Year Plan period respectively.

The preponderance of dollar loans in the foreign debt of India, particularly during 1951 to 1966 was not a very healthy feature. It indicates that India's developmental plans had become dangerously dollar-financed. A political and / or economic crisis or difficulties faced by dollar-supplying country and agencies would upset Indian Five Year Plans. It is politically less risky and economically more advantageous to borrow funds from different countries. It is heartening that India's reliance on the dollar-finance has been on the decline during three annual plans and Fourth Five-Year Plan periods and further also.

4.3.2 GROWTH AND COMPOSITION OF EXTERNAL DEBT

The term external debt of the State includes all the debts payable to creditors residing outside the country in foreign exchange, goods or services by the national government or any public autonomous body (like the state governments or municipalities or port trust, project administration etc.). The debts, which are guaranteed by the State but repayable by private persons or bodies, are not included here. The creditors can be other country governments and their organisations or international organisations or even foreign private persons or bodies. The core definition of external debt is as follows :-

> **" Gross external debt is the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay with or without interest, or to pay interest with or without principal. "** [11]

The creation of external debt by a developing economy is now accepted as desirable on the theoretical as well as policy basis. External loans may help a government in difficult times, when finances are not available internally, they may help underdeveloped or developing countries in schemes of economic development and they may also help in importing foreign goods which would otherwise not be available because of an adverse balance of payment or exchange rate difficulties. Historically, most of the countries such as USA, France, Germany, Japan which developed during the last century and in the earlier part of the present century, resorted to the import of foreign capital for the development of industries in their economies. It brings with it technical knowledge and creates a definite impact on the industrial development of the country. Domestic resources by themselves are not adequate to promote rapid development of an underdeveloped economy. Of course, without 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 underdeveloped economy which is under the grip of vicious circle of poverty can achieve a real break through only with the help of external capital.

In India, tax revenue could not be sufficient to meet the ever-growing expenditure. The Government is compelled to raise financial resources from foreign financial institutions and their governments to meet the rapid development as envisaged in our plans as our internal financial resources are insufficient to cope with the required finance and what is more, external loans are necessary because of the import of machinery and capital goods for rapid industrialisation of India.

Table No. 4. 2 gives the details of external debt (outstanding) of Government of India, from 1991 to 2000. It consists of Government and non-governmental debt. The share of both is nearly same in total external debt of Government of India. But in the early period, the share of Government debt was 66.63 percent. In the same year, share of non-government debt was 33.37 percent, which in the next two years increased by 1.5 percent to 3 percent yearly. In 1994 and 1995 it is relatively stable and was 38.08 percent and 38.24 percent respectively. In the last year of the study the share of non-governmental debt became

TABLE NO. 4 . 2

ANNUAL OUTSTANDING EXTERNAL DEBT OF GOVERNMENT OF INDIA

(Rs. in Crore)

Sr. No.	ITEMS	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
A.	***Government Debt***	*1,08,600 (66.63)*	*1,65,690 (65.51)*	*1,82,444 (64.99)*	*1,79,825 (61.92)*	*1,92,496 (61.76)*	*1,95,486 (60.95)*	*1,99,761 (59.48)*	*2,01,393 (54.48)*	*2,11,269 (51.37)*	*2,17,722 (50.80)*
1.	Multilateral Debt :-	38,429 (41.85)	63,787 (43.98)	72,286 (44.45)	75,617 (44.89)	82,223 (45.92)	89,428 (50.00)	94,824 (54.00)	1,04,218 (57.43)	1,14,531 (59.30)	1,20,321 (59.99)
	i. Concessional	25,849	40,990	48,206	50,250	55,963	60,425	63,418	70,560	78,979	84,051
	a) IDA	25,221	40,017	47,167	49,238	54,897	59,349	62,343	69,392	77,725	82,721
	b) Others	628	973	1,039	1,012	1,066	1,076	1,075	1,168	1,254	1,330
	ii. Non-concessional Debt	12,580	22,797	24,080	25,367	26,260	29,003	31,406	33,658	35,552	36,270
	a) IBRD	12,161	21,134	21,602	22,518	22,442	23,721	24,354	25,438	25,747	25,343
	b) Others	419	1,663	2,478	2,849	3,818	5,282	7,052	8,220	9,805	10,927
2.	Bilateral Debt :-	23,065 (25.12)	40,371 (27.83)	42,220 (25.96)	45,387 (26.94)	52,965 (29.58)	53,119 (29.70)	49,092 (27.96)	51,420 (28.34)	57,106 (29.57)	60,920 (30.37)
	i. Concessional	23,065	40,371	42,220	45,387	52,965	52,078	48,165	50,583	56,425	59,380
	ii. Non-concessional Debt	0	0	0	0	0	1,041	927	837	681	1,540
3.	International Monetary Fund Loan	5,132 (5.59)	8,934 (6.16)	14,985 (9.21)	15,812 (9.39)	13,545 (7.57)	8,152 (4.56)	4,714 (2.68)	2,622 (1.44)	1,218 (0.63)	113 (0.06)
4.	Rupee Debt	25,199 (27.44)	31,956 (22.03)	33,149 (20.38)	31,634 (18.74)	30,315 (16.89)	28,150 (15.74)	26,978 (15.36)	23,204 (12.79)	20,077 (10.40)	19,218 (9.58)
5.	Total Long- term Debt (1 to 4)	91,825 (84.65)	1,45,048 (87.54)	1,62,640 (89.15)	1,68,450 (93.67)	1,79,048 (93.01)	1,78,849 (91.49)	1,75,608 (87.91)	1,81,464 (90.10)	1,93,132 (91.42)	2,00,572 (92.12)

6.	Total Short-term Debt	16,775 (15.45)	20,642 (12.46)	19,804 (10.85)	11,375 (6.33)	13,448 (6.99)	16,637 (8.51)	24,153 (12.09)	19,929 (9.90)	18,137 (8.58)	17,150 (7.88)
B.	***Non-Government Debt***	***54,401 (33.37)***	***87,220 (34.49)***	***98,302 (35.01)***	***1,10,593 (38.08)***	***1,19,189 (38.24)***	***1,25,242 (39.05)***	***1,36,066 (40.52)***	***1,68,289 (45.52)***	***2,00,028 (48.63)***	***2,10,833 (49.20)***
C.	**GRAND TOTAL (A+B)**	**1,63,001**	**2,52,910**	**2,80,746**	**2,90,418**	**3,11,685**	**3,20,728**	**3,35,827**	**3,69,682**	**4,11,297**	**4,28,555**

Source: - As per Table No. 3.3.
Note : - Figures in bracket of Multilateral Debt, Bilateral Debt, International Monetary Fund Loan, Rupee Debt shows percentage to Total Long-term Debt; that of Long-term Debt and Short-term Debt to Total Government Debt and that of Government Debt and Non-government Debt to Total External Debt.

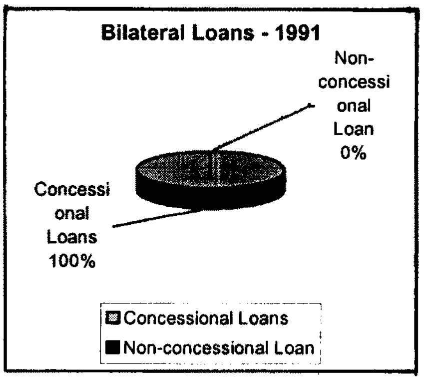
about 50 percent of total external debt of India. In 1991, Government debt was of Rs. 1,08,600 cr. while non-governmental debt was only half of this and was of Rs. 54,401 cr. The total external debt of India in this year was of Rs. 1,63,001 cr. In 1993, it increased to Rs. 2,80,746 cr., in this Government debt was of Rs. 1,82,444 cr. In 1993, non - governmental debt enhanced to Rs. 2,80,746 cr. In the next two years, total external debt increased by about Rs. 30,000 cr. and in this the share of Government debt remained relatively stable (61.92 percent to 61.76 percent). In 1997, the non-governmental debt was Rs. 1,36,066 cr. out of total external debt of Rs. 3,35,827 cr. and the percentage share of it was 40.52 percent. In the next year this share jumped up by 5 percent and became 45.52 percent. In this year Government debt was Rs. 2,01,393 cr. and its share in the total external debt was 54.48 percent. In 2000, total external debt was Rs. 4,28,555 cr., which comprised of Government debt of Rs. 2,17,722 cr. and non-governmental debt of Rs. 2,10,833 cr.

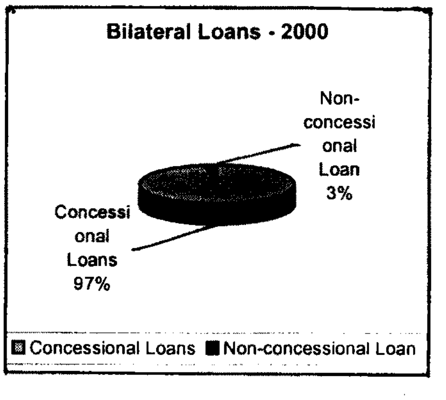
External debt of Government of India consists of long-term and short-term debt. Moreover, long-term debt includes multilateral, bilateral, IMF loans and Rupee debt. In long term debt major part is shared by multilateral debt. Multilateral debt means consortium debt financing under which two or more donor countries or organisations come together, pull their resources and provide assistance in the form of loans and grant to developing countries. This assistance may be for tied or for general purpose. Bilateral foreign assistance is negotiated between one donor nation and a recipient nation. This assistance also has a loan grant component and has terms of conditions agreed upon regarding use of assistance and mode of repayment. The nature of International Monetary Fund loan assistance is significantly different. This loan assistance is mainly given to countries to manage their international liquidity problem, which arises because of Balance of Payment crisis. This loan assistance is mainly given under the different facilities and funds of International Monetary Fund and is associated with conditionality agreements. Loan assistance from other international financial institutions such as I.D.A., World Bank, A.I.D. India Funds is mainly developmental in nature. This assistance is used for developmental purposes like infrastructure, building, development of rail and road transport, urban sanitation and drinking water projects and urban transport systems. This assistance is projected. Rupee debt is the foreign debt outstanding payments of India, specifically to Russia. Under the Indo-USSR Agreement USSR before its disintegration was to provide certain essential imports and defense equipment to India, the loan repayment of which was to be made by India in rupee terms and in the form of provision of consumer goods and services to USSR.

Further the multilateral debt can be split into concessional and non-concessional debt. Concessional debt includes I.D.A. and other loans while non-concessional debts are those loans, which are taken from I.B.R.D. and others. Total multilateral loans also show a continuous growth in the whole period from 1991 to 2000. It was

Rs. 38,429 cr. in 1991 and consists of Rs. 25,849 cr. of concessional debt and Rs. 12,580 cr. of non-concessional debt. In these both, other type of loans shared comparatively small part than the loans taken from I.D.A. and I.B.R.D. In 1992, multilateral debt jumped up to Rs. 63,787 cr. This is because concessional debt in this year reached to Rs. 40,990 cr. and non-concessional debt also grew by more than Rs. 10,000 cr. than in the previous year. In 1994, multilateral concessional debt crossed Rs. 50,000 cr. and became Rs. 50,250 cr. and non-concessional multilateral debt in the same year increased to Rs. 25,367 cr. It means that in this year still multilateral concessional debt was nearly double of non-concessional multilateral debt. In 1996, share of multilateral loans in total long-term external debt of Government of India reached to 50 percent and further it enhanced to more than half of long-term debt. It was Rs. 89,428 cr. in this year of which concessional debt was more than one third of it and was of Rs. 60,425 cr. Loans from I.D.A. of Rs. 59,349 cr. formed major part of concessional debt and remaining part of Rs.1,076 cr. is shared by other debt. Non-concessional multilateral debt of Rs. 29,003 cr. consists of I.B.R.D. loan of Rs. 23,721 cr. and other debt of Rs. 5,282 cr. In 2000, multilateral external debt increased to Rs. 1,20,321 cr. and percentage share of it became 59.99 percent. In this year, total multilateral concessional debt of Government of India (Rs. 84,051 cr.) was more than double of multilateral non-concessional debt (Rs. 36,270 cr.). In the last year under study, concessional debt increased tremendously because loans taken from I.D.A. grew to Rs. 82,721 cr. This increment is more than Rs. 20,000 cr. as compared to the loans taken from I.D.A. in the year of 1997. But comparatively concessional other debt has not increased. In non-concessional debt, loans taken from I.B.R.D. have grown slowly but steadily. It increased from Rs. 12,161 cr. in 1991 to Rs. 22,444 cr. in 1995 and further increased to Rs. 25,343 cr. in 2000. Compared to this, non-concessional other debts have increased at abundant rate. It was Rs. 419 cr. in 1991, which increased by nearly four times in the next year only and became Rs.1,663 cr.in 1992 and enhanced to Rs.10,927 cr. by 2000.

The second part of long-term debt is bilateral loans. It also





includes concessional and non-concessional loans. But in the first five years there exist only concessional debt and in later years it comprised of both concessional and non-concessional liabilities. The share of non-concessional loans is very less as compared to concessional debt in this whole period. This can be clearly seen in the above diagram. Bilateral loan was of Rs. 23,065 cr. in the first year (1991) and as noted above the share non - concessional debt was zero percent. In 1995, as non-concessional debt was playing same role as before concessional and hence bilateral debt was jumped to more than the double of 1991's and it became Rs. 52,965 cr. In 1997, bilateral loan came down to Rs. 49,092 cr. and non-concessional debt shared Rs. 927 cr. of it. The percentage share of bilateral loans of total long-term debt was 25.12 percent in 1991, which increased to 27.96 percent in 1997 and further to 30.37 percent in 2000. In 2000, it again enhanced to Rs. 60,920 cr. In this year concessional debt was Rs. 59,380 cr. and non-concessional debt was only Rs. 1,540 cr.

IMF loans taken by Government of India show increase in first four years from 1991 to 1994 and later it shows a continuous decrease till 2000. It was Rs. 5,132 cr. in 1991, it became more than triple (Rs. 15,812 cr.) in 1994 but after this growth it started to decline and in subsequent years it came down tremendously. In 1996, it was Rs. 8,152 cr. and in 2000 it touched a ground level and was Rs. 113 cr.only. As a percentage to total outstanding external loan, International Monetary Fund loans increased from 5.59 percent in 1991 to 9.93 percent in 1994, subsequently however this percentage share declined to 2.68 percent in 1997 and was only 0.06 percent in 2000.

Rupee debt is also one of the major item of long-term debt. In first three years it increased from Rs. 25,199 cr. (1991) to Rs. 33,149 cr. (1993). From 1994 to 2000 it shows a continuous decline. It was Rs. 31,634 cr. in 1994 came down to Rs. 19,218 cr. in 2000. Percentage share of rupee debt perhaps shows a continuous decrease over the period. In 1991 it was 27.44 percent, which decreased to 16.89 percent in 1995. In next two years 1996 and 1997, it was comparatively stable (15.74 percent and 15.36 percent respectively). But in the last year it came down below 10 percent and became 9.58 percent only.

In total Government debt share of long-term debt is more than short-term debt and it shows a growing trend also. It is a good sign in the external debt portfolio of India. The further explanation of the share of the long-term external debt and short-term external debt in the total external debt of the Government of India is presented in the Table No. 4.4 of the same chapter.

4.4 AUTHORISATION AND UTILISATION OF EXTERNAL DEBT IN INDIA

Every economy – then let it be developed, developing or underdeveloped - uses external finance to achieve fast and more advanced development. Some financial institutions or some other friendly nations grant this external finance to the respective countries. But all authorised amount of this external debt is not utilised by the nations in that particular year.

Table. No. 4.3 gives the details of authorisation and utilisation of external debt of India for the period 1980-81 to 1999-2000. The percentage of utilised amount in total authorised external debt from various sources, in this whole period shows very high fluctuations. In various sources, in this whole period shows very high fluctuations. In 1980-81 the authorised amount was of Rs. 3,771.2 cr. of which, Rs. 1,765.3 cr. amount was utilised. The percentage of utilisation was 46.81 percent in this year. Till 1983-84, this percentage shown increase

TABLE NO. 4.3

AUTHORISATION & UTILISATION OF EXTERNAL DEBT OF GOVERNMENT OF INDIA

(Figures in Rs.)

YEAR	AUTHORISATION (1)	UTILISATION (2)	2 AS % OF 1 (3)
1980-81	3,771.2	1,765.3	46.81
1981-82	2,766.5	1,519.4	54.92
1982-83	2,549.4	1,909.2	74.89
1983-84	1,700.8	1,962.4	115.38
1984-85	4,409.3	1,962.2	44.50
1985-86	5,337.0	2,493.1	46.71
1986-87	5,730.0	3,175.7	55.42
1987-88	8,203.1	4,574.4	55.76
1988-89	12,855.6	4,738.6	36.86
1989-90	10,105.8	5,137.8	50.84
1990-91	7,601.3	6,170.0	81.17
1991-92	11,805.8	10,695.9	90.60
1992-93	13,082.1	10,102.2	77.22
1993-94	11,618.8	10,895.4	93.77
1994-95	12,384.3	9,964.5	80.46
1995-96	10,833.2	9,958.6	91.93
1996-97	14,208.8	10,892.9	76.66
1997-98	14,865.0	10,823.4	72.81
1998-99	8,320.8	12,343.4	148.34
1999-00	17,703.7	13,330.7	75.30

Source: - As of Table No. 3.3.

and in the same year it also crossed 100 percent. It was 115.38 percent in 1983-84, implying that in addition to the current year's amount, unutilised amount of the preceding year was also utilised. In this year authorised amount was Rs. 1,700.8 cr. and utilised external debt was of Rs. 1,962.4 cr. In the next year this percentage declined to 44.50 percent. In this year authorisation was of Rs. 4,409.3 cr. & utilisation was of Rs. 1,962.2 cr. The both figures of authorisation & utilisation & the percentage of utilised amount every year, show fluctuating trend. Authorised amount of external debt was Rs. 3,771.2 cr. in 1980-81, which, declined to Rs. 1,700.8 cr. in 1983-84. It started increasing from the next year from Rs. 4,409.3 cr. to Rs. 12,855.6 cr. in 1988-89. It declined to Rs. 10,105.8 cr. in 1989-90 and further to Rs. 7,601.3 cr. in 1990-91. In 1992-93 it increased to Rs. 13,082.1 cr. but again declined to Rs. 11,618.8 cr. in 1993-94. In 1994-95 and 1995-96, it grew to Rs. 12,384.3 cr. and Rs. 10,833.2 cr. respectively. In the years 1996-97 and 1997-98, it increased to Rs. 14,208.8 cr. and Rs.14, 865 cr. in each year. In 1998-99, it came down suddenly to Rs. 8,320.8 cr. but in the last year it again jumped up to Rs. 17,703.7 cr. Utilised amount for the year 1980-81 was of Rs. 1,765.3 cr., which declined to Rs. 1,519.4 cr. in the next year. In the years 1982-83, 1983-84 and 1984-85 this amount was relatively stable. It started increasing from Rs. 2,493.1 cr. in1985-86 to Rs. 10,695.9 cr. in 1991-92. In 1992-93 it decreased to Rs. 10,102.2 cr. but in the next year it grew to Rs. 10,895.4 cr. In the years 1994 to 1996, external debt utilisation was stable but thereafter shows continuous increase to Rs. 13,330.7 cr. in 2000.

The percentage of actual utilised amount in the total authorised external debt is given in the 3rd column in the table. In 1980-81, it was 46.81 percent, which grew to 74.89 percent in 1982-83 & in 1983-84 it crossed 100 percent & became 115.38 percent. In the next year it tremendously came down to 44.50 percent. It increased to 55.76 percent in 1987-88, but again came down to 36.86 percent only after one year. Thereafter utilisation increased to 90.60 percent in 1991-92, decreased to 77.22 percent in the year 1992-93 and thereafter fluctuated between a high of 148.34 percent in 1998-99 and a low of 72.81 percent in 1997-98. Utilisation of authorised loans shows fluctuating trend during the period of study. The data in the above Table reveals that utilisation of external debt showing fluctuating trend in India. foreign debt receipts are associated with financing of major capital projects and the foreign debt amount available has to be promptly and timely used. This helps in early completion of the projects and avoids increase in cost of completion or building the project. The early commissioning of the projects also ensures the generation of revenue to the government as well as availability of goods and services in the economy. Foreign capital is always scares and has to be always manipulated or properly and fully utilised by the government. It is therefore suggested that the Government of India should monitor the end use of foreign receipts department wise and project wise, so that the utilisation of foreign debt receipts is done efficiently and timely. Such monitoring is possible with computerisation of the necessary data regarding authorisation and utilisation.

4.5 COMPOSITION OF INDIA'S EXTERNAL DEBT : LONG - TERM AND SHORT – TERM EXTERNAL DEBT

As stated before, external debt is very much essential for the rapid economic growth and advanced knowledge to the developing economies. External debt is mainly split into two categories - first is long term debt & another is short-term debt. In the composition of the external debt these two concepts are more important than the other types of external debt resources. These can be explained as below. : -

Long -Term External Debt - Long -Term External Debt is defined as debt that has an original or extended maturity of more than one year and that is owed to non - residents and repayable in foreign currency, goods, or services. Long-term debt in our study is composed of : -

1. Multilateral loans
2. Bilateral loans
3. IMF credit
4. Rupee debt taken from Russian Federation

Short -Term External Debt - The internationally agreed definition of short-term debt is debt with maturity of one year or less. Maturity relates to original maturity i.e., the period from commitment or disbursement to final repayment of the loan.

Table No. 4.4 reveals the data regarding long-term outstanding external debt and short-term outstanding external debt of Government of

TABLE NO. 4.4

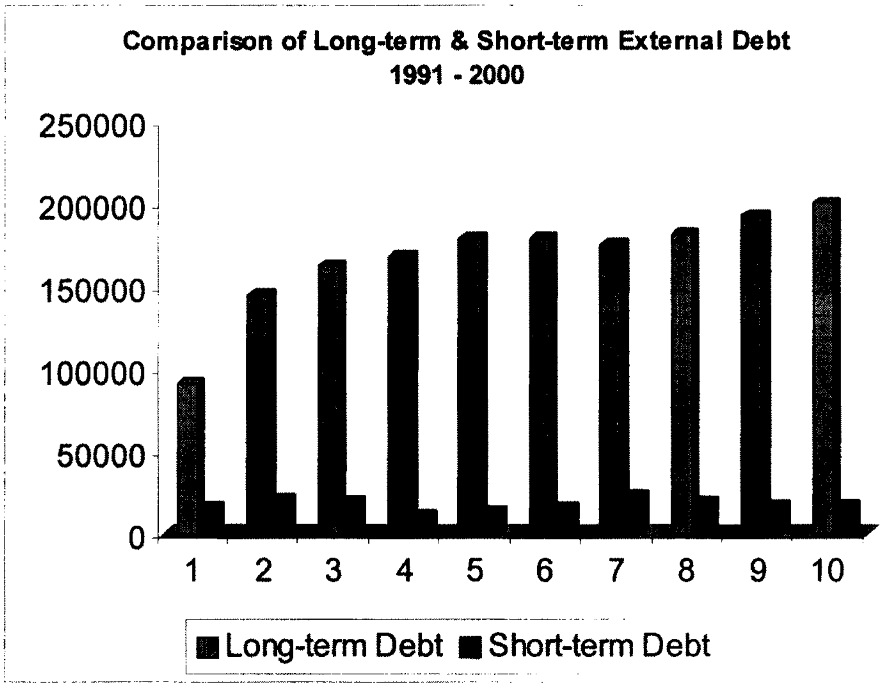
COMPOSITION OF LONG & SHORT TERM DEBT OF GOVERNMENT OF INDIA

(Rs. in Crore)

YEAR	LONG TERM DEBT	SHORT TERM DEBT	TOTAL GOVERNMENT DEBT
1991	91,825 (84.65)	16,775 (15.45)	1,08,600 (100.00)
1992	1,45,048 (87.54)	20,642 (12.46)	1,65,690 (100.00)
1993	1,62,640 (89.15)	19,804 (10.85)	1,82,444 (100.00)
1994	1,68,450 (93.67)	11,375 (6.33)	1,79,825 (100.00)
1995	1,79,048 (93.01)	13,448 (6.99)	1,92,496 (100.00)
1996	1,78,849 (91.49)	16,637 (8.51)	1,95,486 (100.00)
1997	1,75,608 (87.91)	24,153 (12.09)	1,99,761 (100.00)
1998	1,81,464 (90.10)	19,929 (9.90)	2,01,363 (100.00)
1999	1,93,132 (91.42)	18,137 (8.58)	2,11,269 (100.00)
2000	2,00,572 (92.12)	17,150 (7.88)	2,17,722 (100.00)
C. G. R.	**5.88**	**1.09**	**5.32**

Source: - As of Table No. 3.3.

India since 1991 to 2000. In this period long-term external debt has increased with some minor fluctuations in it. While short-term external debt shows relatively less growth than in long-term external debt. The figures of short-term external debt also fluctuate every time in this period. This can also be seen in the diagram given below.



In 1991, long-term external debt was Rs. 91,825 cr., which increased, tremendously in the next year to Rs. 1,45,048 cr. It continued to increase upto 1995. It was Rs. 1,79,048 cr. in this year. In the next two years it declined to Rs. 1,78,849 cr. and Rs. 1,75,608 cr. respectively. But from 1998 it again started to increase and crossed Rs. 2 lakh cr. in 2000. Total long-term external debt was of Rs. 2,00,572 cr. in this year. The compound growth of long-term external debt is also greater than short-term external debt. It grown at 5.88 percent in the period from 1991 to 2000. The percentage of long-term external debt in total external debt is high and also increased in the decade shown in the table. It was 84.65 percent in 1991, was increased to 93.67 percent in 1994. It declined in the next three years and was 87.91 percent in 1997. In 1998, 1999 and 2000 it increased continually and was 90.10 percent, 91.42 percent, and 92.12 percent respectively.

Increasing tendency with some ups and downs is also reflected in the figures of short-term external debt. Short-term external debt also increased from Rs. 16,775 cr. in 1991 to Rs. 20,642 cr. in 1992. But for the next two years it shows declining tendency, while from 1995 this trend again tends to increase, till 1997. It increased from Rs. 13,448 cr. in 1995 to Rs. 24,153 cr. in 1997. Short-term external debt from 1998 upto the last year of study again shows decline in it. In these years it declined every time and stood to Rs. 17,150 cr. in 2000. Short-term external debt is showing fluctuations, while overall it is declining. It has grown only at compound growth rate of 1.09 percent only. The percentage share of short-term external debt is also less than long-term external debt. It was 15.45 percent in 1991 that declined to 6.33 percent in 1994. In the next year it rose to 6.99 percent. It again increased in the further two years, 1996 and 1997 to 8.51 percent and 12.09 percent respectively. But as short-term external debt started to decline from 1998, the percentage share of it in total external debt also decreased in the same time. It was 7.88 percent in the last year, 2000.

Total external debt shows growing trend over the ten years except a one year 1994. It grew from Rs. 1,08,600 cr. in 1991 to Rs. 1,82,444 cr. in 1993. In 1994 it declined by Rs. 2,619 cr. and was of Rs. 1,79,825 cr. in this year. But from the next year upto the last year 2000 it rose tremendously and constantly. It was Rs. 1,92,496 cr. in 1995, which crossed Rs. 2 lakh cr. after only two years in 1998 and became

Rs. 2,01,363 cr. Total external outstanding liabilities of Government of India continued to rise in the last year to Rs. 2,17,722 cr.

The Table adequately reveals that the debt profile of India has a smaller component of short-term external debt and a larger component of long-term external debt. This profile of external debt does not bring external debt crisis, because the repayment schedule has no short-term obligations and a country with proper external debt management policy can manage the debt-servicing burden efficiently. Compared to the experience of countries like Mexico and Brazil, which faced severe external debt crisis in 1970s (Brazil) and 1994 (Mexico). The following problems noticed in the above countries are absent in case of India. The above two countries had –

a. a persistent current account deficit with rising import payment bill,
b. a high percentage of short-term external debt and commercial borrowings to total external debt in the composition profile,
c. uncomfortable the foreign exchange reserves position during the periods of debt crisis.

Associated with the above fiscal trends in the foreign capital inflows into these countries, the foreign portfolio investment component was high. When the foreign investors realised these problems would lead to foreign exchange non availability, they started withdrawing their investments. This resulted in fiscal as well financial problems emanating in these countries. In recent times the current quantum of foreign exchange reserves, low percentage of short-term external debt and comfortable position on current account, due to rise in export earnings in India make the external debt management position comfortable.

→END NOTES : -

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4. Meier, op. cit. p. 267.
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7. Say's Law of Market, as quoted in H. L. Ahuja, (2002), ' Macro Economics : Theory and Policy ', p. 30.
8. cf. op. cit. R. K. Lekhi (2000), ' Public Finance '.
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10. S. N. Lal (1978)as quoted in, ' Problems of Public Borrowing in Underdeveloped Countries ', p. 115.
11. Report by International Working Group on External Debt Statistics, 1988 cf. op. cit. Report of the Technical Group on External Debt, Reserve Bank of India (May 1998), p. 5.