

CHAPTER V

EXTERNAL DEBT SERVICING

BURDEN ANALYSIS

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CHAPTER V

EXTERNAL DEBT SERVICING BURDEN ANALYSIS

5.1 INTRODUCTION

The present chapter makes an attempt to measure the external debt burden of India. Measurement of external debt burden is attempted by comparing India's position with other indebted developing nations. Financial burden analysis is made on the basis of ratio analysis – Debt – Export Ratio, Debt – GDP Ratios. Furthermore, interest burden growth and per capita debt burden is also analysed.

5.2 INTERNATIONAL COMPARISON OF FIFTEEN DEBTOR COUNTRIES

In the process of financing economic development almost all developing countries needed foreign capital. In the 1970s and 1980s inflow of foreign capital was mainly in the form of external debt assistance from donor countries and international financial institutions. The balance of payment's problems of the developing countries, more so, current account deficit resulted in severe international liquidity problems in the light of which almost all developing countries had to seek loan assistance from International Monetary Fund and other financial institutions. This also increased the external debt of these developing countries. The OPEC countries decision to raise the prices of crude oil and other petroleum products in the early 1970 increased the import bill of developing countries and this situation further aggravated

the international liquidity problem to overcome which external borrowing was again taken up by these developing countries. The external debt obligations of developing countries as well as the communist countries of East Europe and the Republics of Soviet Russia after disintegration was closely monitored by International Monetary Fund and World Bank and they started publishing annual reports in the status of external debt of various countries. Mainly the Global Development Finance Report, the World Debt Tables and World Development Reports published annual statements regarding external debt. From this data broad picture for international comparison of the external debt position can be analysed. The comparative figures of fifteen debtor countries as regards total external debt stocks (outstanding external debt liabilities) are presented in Table No. 5.1 and Table No. 5.2. In the Tables we have taken data of fifteen debtor countries and these countries are classified on the basis of external indebtedness as, -

- a. Severely Indebted
- b. Moderately Indebted
- c. Less Indebted

“ The World Bank classifies developing economies into these three broad categories, by using ‘Present Value’ based ratios. These are ratios of Present Value of total debt service to exports of goods and services and Present Value of total debt service to GNP. If either ratio exceeds a critical value – 220 percent for Present Value of debt service to exports and 80 percent for Present Value of total debt service

to GNP – the country is classified as severely indebted. If the critical value is not exceeded but either ratio is three-fifths or more of the critical value (that is, 132 percent for the Present Value of debt service to exports and 48 percent for Present Value of total debt service to GNP), the country is classified as moderately indebted. If both the ratios are less than three fifths of the critical value, the country is classified as less indebted. ”¹

On the basis of the above classification Brazil, Indonesia, Argentina are classified as severely indebted; Mexico, Turkey, Thailand, India, Philippines, Malaysia and Venezuela are categorised as moderately indebted while Russian Federation, China, Poland fall in the less indebted category. The table also gives the details of Debt- GNP ratio and the percentage of long-term and short-term debt to total external debt of these countries. In the category of severely external debt indebted countries, the total external debt stock of Brazil increased from \$ 70,975 US million in 1980 to \$ 1,16,173 US million in 1990 which further increased to \$ 2,37,953 US million in 2000. Debt- GNP ratio of Brazil during the period 1980 to 2000 increased from 31.2 percent in 1980 to 49 percent in 1985 which declined to 23.2 percent in 1995 but again increased to 41.8 percent in 2000. Composition wise analysis of the external debt of Brazil reveals a high proportion of long-term debt and long-term debt to total debt was 80.9 percent in 1980, which decreased to 80.5 percent in 1995 and stood at 87 percent in 2000. Thus the external debt composition of Brazil has a smaller percentage of

INTERNATIONAL COMPARISON OF FIFTEEN DEBTOR COUNTRIES

SR.NO./ ITEMS/ YEAR	COUNTRY	TOTAL EXTERNAL DEBT STOCK (Figures in US Million \$)					Long-term External Debt to Total External Debt Ratio (%)					Short-term External Debt to Total External Debt Ratio (%)				
		1980	1985	1990	1995	2000	1980	1985	1990	1995	2000	1980	1985	1990	1995	2000
1.	Brazil	70,975	1,05,966	1,16,173	1,60,505	2,37,953	80.9	90.9	78.9	80.5	87.0	19.1	9.1	21.1	19.5	13.0
2.	Russian Federation	Not Available	Not Available	Not Available	1,21,735	1,60,300	-	-	-	91.5	90.3	-	-	-	8.5	9.7
3.	Mexico	57,378	96,867	96,809	1,66,874	1,50,288	71.8	94.4	90.0	77.6	87.4	28.2	5.6	10.0	22.4	12.6
4.	China	4,504	16,722	52,555	1,18,090	1,49,800	100.0	61.6	87.1	81.1	88.5	0	38.4	12.9	18.9	11.5
5.	Indonesia	20,944	36,673	67,908	1,24,398	1,41,803	86.8	83.5	80.8	79.1	84.0	13.2	16.5	19.2	20.9	16.0
6.	Argentina	27,157	50,954	61,144	98,802	1,46,172	61.8	86.8	83.5	78.4	80.6	38.2	13.2	16.5	21.6	19.4
7.	Korea Republic	29,480	47,133	34,014	85,810	1,34,417	64.2	77.2	68.2	45.7	69.9	35.8	22.8	31.8	54.3	30.1
8.	Turkey	19,119	26,010	49,149	73,790	1,66,209	87.0	81.7	80.7	78.7	75.1	13.0	18.3	19.3	21.3	24.9
9.	Thailand	8,297	17,552	25,868	1,00,039	79,675	72.2	81.8	67.8	55.9	81.3	27.8	18.2	32.2	44.1	18.7
10.	India	20,610	41,210	70,115	94,469	1,00,367	95.5	92.4	93.0	94.7	96.5	4.5	7.6	7.0	5.3	3.5
11.	Poland	-	33,336	49,386	44,263	63,561	-	89.3	80.6	95.1	88.8	-	10.7	19.4	4.9	11.2
12.	Philippines	17,417	26,946	30,456	37,829	50,063	56.6	66.0	85.5	86.0	88.1	43.4	34.0	14.5	14.0	11.9
13.	Malaysia	6,611	22,709	19,502	34,343	41,797	79.5	87.1	90.2	78.8	88.9	20.5	12.9	9.8	21.2	11.1
14.	Chile	12,081	20,384	19,114	22,038	36,978	78.8	91.8	82.4	84.4	93.2	21.2	8.2	17.6	15.6	6.8
15.	Venezuela	29,330	35,334	33,304	35,538	38,196	47.0	74.7	94.0	91.4	95.4	53.0	25.3	6.0	8.6	4.6

Source: - Global Development Finance : Financing the Poorest Countries, 2000, World Bank, New York, Washington D. C., U. S. A., 2002. Relevant Country wise Pages.

TABLE NO. 5.2

INTERNATIONAL COMPARISON OF FIFTEEN DEBTOR COUNTRIES : GNP RATIO

SR.NO./ ITEMS/ YEAR	COUNTRY	INDEBTEDNESS CLASSIFICATION	TOTAL EXTERNAL DEBT STOCK				EXTENAL DEBT TO GNP RATIO (Figures in Percentage)					
			1980	1985	1990	1995	2000	1980	1985	1990	1995	2000
1.	Brazil	Severe	70,975	1,05,966	1,16,173	1,60,505	2,37,953	31.2	49.0	22.8	23.2	41.8
2.	Russian Federation	Less	Not Available	Available	Available	1,21,735	1,60,300	-	-	-	36.7	66.8
3.	Mexico	Moderate	57,378	96,867	96,809	1,66,874	1,50,288	30.5	55.2	442.1	61.2	26.9
4.	China	Less	4,504	16,722	52,555	1,18,090	1,49,800	1.5	5.7	14.4	17.2	14.1
5.	Indonesia	Severe	20,944	36,673	67,908	1,24,398	1,41,803	28.0	43.8	66.4	63.4	99.4
6.	Argentina	Severe	27,157	50,954	61,144	98,802	1,46,172	48.4	84.2	61.7	39.0	52.6
7.	Korea Republic	-	29,480	47,133	34,014	85,810	1,34,417	48.7	52.5	14.4	17.6	29.5
8.	Turkey	Moderate	19,119	26,010	49,149	73,790	1,66,209	34.3	50.5	46.3	42.9	57.7
9.	Thailand	Moderate	8,297	17,552	25,868	1,00,039	79,675	26.0	47.8	32.6	60.4	66.1
10.	India	Moderate	20,610	41,210	70,115	94,469	1,00,367	11.9	19.3	25.0	27.0	21.3
11.	Poland	Less	-	33,336	49,386	44,263	63,561	-	48.7	82.4	35.4	40.5
12.	Philippines	Moderate	17,417	26,946	30,456	37,829	50,063	49.5	83.9	65.4	49.7	63.1
13.	Malaysia	Moderate	6,611	22,709	19,502	34,343	41,797	28.0	71.9	48.3	40.6	50.7
14.	Chile	-	12,081	20,384	19,114	22,038	36,978	45.2	143.3	73.6	35.3	54.3
15.	Venezuela	Moderate	29,330	35,334	33,304	35,538	38,196	42.1	59.1	71.0	47.1	32.0

Source :- Global Development Finance : Financing the Poorest Countries, 2000,
World Bank, New York, Washington D. C., U. S. A., 2002.
Relevant Country wise Pages.

short-term debt.

In the category of highly indebted external debt countries, the external debt stock of Argentina has increased from \$ 27,157 US million in 1980 to \$ 1,46,172 US million in 2000. The external debt- GNP ratio of this country increased from 48.4 percent in 1980 to 84.2 percent in 1985 but subsequently decreased to 39 percent in 1995 but has again increased to 52.6 percent in 2000. Composition wise, the share of long-term external debt in the total external debt has also increased from 61.8 percent in 1980 to 80.6 percent in 2000, thus reducing the percentage of short-term debt in the total external debt outstanding.

In the category of moderately external debt indebted countries the total external debt outstanding liabilities of Mexico was \$ 57,378 US million in 1980 which increased to \$ 96,867 US million in 1985 but it declined in 1990 to \$ 96,809 US million. In 1995 it jumped up to \$ 1,66,874 US million and again declined in 2000 to \$ 1,50,288 US million. It shows fluctuating trend over the period under study. The External Debt-GNP ratio of Mexico also shows fluctuating tendency. In 1980 it was 30.5 percent. It increased to 55.2 percent in 1985 and came down to 42.1 percent in 1990. It grew up to 61.2 percent in 1995 and again came down to 26.9 percent in the last year, 2000. Compositionwise, the share of long-term debt increased from 71.8 percent in 1980 to 94.4 percent in 1985. But in 1990 it came down by 4.4 percent and in 1995 it severely declined to 77.6 percent and again increased to 87.4 percent in 2000. The percentage share of long-term

debt has increased in 1985 than in 1980s. It declined in 1990 and 1995 but it again increased in 2000.

The Tables also reveal the data regarding the amount of total external debt stock of India, which is moderately external debt indebted country. The total external debt stock of India shows increasing trend over the period under study. In 1985 it was \$ 41,210 US million which was about double of 1980s (\$ 20,610 US million). In 1995 it increased to \$ 94,469 US million and grew to \$ 1,00,367 US million in 2000. External debt- GNP ratio of India shows increasing trend till 1995 and it has declined in 2000. In the earlier period under study, it was 11.9 percent and jumped up to 27 percent in 1995 but came down to 21.3 percent in 2000. Compositionwise, if we see, India had not any problem of short-term debt because it constituted a very small part of total external debt. Percentage share of long-term debt is more than 90 percent in the whole period under study. In 1980 it was 95.5 percent. It came down but still more than 90 percent in 1985 and was 92.4 percent. In the next fifteen years, the percentage share of long-term external debt in the total debt of India shows increasing trend and was 96.5 percent in the last year.

There are some countries in South Asia, which were developed in 1990s. These Asian countries have highly industrialised economies and are called as ' Asian Tigers '. Though it is so, these countries are externally indebted highly or moderately. In these countries, Indonesia is severely external debt indebted country. The total external debt stock

of this country increased by about seven times over the period under study. It jumped up from \$ 20,944 US million in 1980 to \$ 1,41,803 US million in 2000. This increasing trend is also reflected in External Debt-GNP ratio. It was 28 percent in the initial period and grew to 66.4 percent in 1990. It declined by only three percent in 1995 but again highly increased to 99.4 percent in 2000. Compositionwise, the percentage share of long-term external debt in total external debt of Indonesia declined from 86.8 percent in 1980 to 79.1 percent in 1995. But it increased in 2000 to 84 percent.

In these South Asian Highly Industrialised Economies, there are two more countries which are being the moderately external debt indebted. Amongst these two, first is Philippines whose total external debt stock shows steady increase during the period under study. It increased from \$ 17,417 US million in 1980 to \$ 30,456 US million after ten years and further increased to \$ 50,063 US million in 2000. There are fluctuations in the External Debt-GNP ratio of this country. In 1980, it was 49.5 percent; it grew to 83.9 percent in 1985, after five years it came down to 65.4 percent. In 1995 it again declined to 49.7 percent but jumped up in 2000 to 63.1 percent. If we see composition of long-term and short-term external debt in total external debt of this country, the percentage share of long-term external debt in total external debt has increased from 56.6 percent in 1980 to 85.5 percent in 1990, after one decade from this it increased by only about 3 percent and was 88 percent in 2000.

Malaysia is also moderately external debt indebted country. It's total external debt outstanding liabilities shows high growth profile with increase from \$ 6,611 US million in 1980 to \$ 41, 797 US million in 2000. While in 1990 it decreased to \$ 19,502 US million over the figure of 1985's (\$ 22,709 US million). But after 1985 external debt has increased continuously. External debt - GNP ratio of Malaysia was 28 percent in 1980; it grew to 71.9 percent in 1985, but it came down to 48.3 percent in 1990. In 1995 it again showed declining trend and became 40.6 percent. But in 2000 it increased to 50.7 percent. Compositionwise, Malaysia's percentage share of long-term external debt in total external debt stock shows fluctuations during the period under study. In 1980 it was 79.5 percent, which increased to 87.1 percent in 1985 and in 1990 it again increased to 90.2 percent. But in 1995 it came down to 78.8 percent and jumped up in 2000 to 88.9 percent.

In addition to these severely and moderately external debt indebted countries, there are some less indebted economies also in existence. Russian Federation, China and Poland are less external debt indebted countries. Between these three countries earlier data of Russian Federation is not available, so we will analyse the condition of China and Poland. If we see the record of China, though it is less external debt indebted economy it's external debt stock increased tremendously from \$ 4,504 US million in 1980 to \$ 52,555 US million in 1990 and further increased to \$ 1,49,800 US million in 2000. But the

Malaysia is also moderately external debt indebted country. It's total external debt outstanding liabilities shows high growth profile with increase from \$ 6,611 US million in 1980 to \$ 41, 797 US million in 2000. While in 1990 it decreased to \$ 19,502 US million over the figure of 1985's (\$ 22,709 US million). But after 1985 external debt has increased continuously. External debt - GNP ratio of Malaysia was 28 percent in 1980; it grew to 71.9 percent in 1985, but it came down to 48.3 percent in 1990. In 1995 it again showed declining trend and became 40.6 percent. But in 2000 it increased to 50.7 percent. Compositionwise, Malaysia's percentage share of long-term external debt in total external debt stock shows fluctuations during the period under study. In 1980 it was 79.5 percent, which increased to 87.1 percent in 1985 and in 1990 it again increased to 90.2 percent. But in 1995 it came down to 78.8 percent and jumped up in 2000 to 88.9 percent.

In addition to these severely and moderately external debt indebted countries, there are some less indebted economies also in existence. Russian Federation, China and Poland are less external debt indebted countries. Between these three countries earlier data of Russian Federation is not available, so we will analyse the condition of China and Poland. If we see the record of China, though it is less external debt indebted economy it's external debt stock increased tremendously from \$ 4,504 US million in 1980 to \$ 52,555 US million in 1990 and further increased to \$ 1,49,800 US million in 2000. But the

External Debt- GNP ratio of China is relatively less and also has not increased so high. In 1980, it was 1.5 percent, which increased to 17.2 percent in 1995 but again has decreased to 14.1 percent in 2000. Compositionwise, China's short-term external debt was zero percent in the initial stages but in 1985 it grew suddenly to 38.4 percent. In 1990 it came down to 12.9 percent and in 1995 it went up to 18.9 percent. But in the last year under study it stood at 11.5 percent only. The percentage share of short-term external debt in total external debt shows fluctuating trend but covered a small portion of total external debt.

Poland is one more less external debt indebted country. External debt stock of this country shows growth with some fluctuations. It increased from \$ 33,336 US million in 1985 to \$ 49,386 US million in 1990. In 1995 it came down to \$ 44,263 US million and it again jumped up to \$ 63,561 US million in 2000. But External Debt-GNP ratio of this country shows high fluctuations. It increased from 48.7 percent in 1985 to 82.4 percent in 1990. After only five years it came down tremendously to 35.4 percent and in 2000 it grew to 40.5 percent. Compositionwise, percentage share of long-term external debt in total external debt of this country shows also some fluctuations. In 1985 it was 89.3 percent which declined to 80.6 percent in 1990. In 1995 it increased by about 15 percent but in 2000 it came down to 88.8 percent.

The above data reveals that in the developing economies external debt stock is still high. However, composition wise, short-term external debt outstanding does not share a high proportion and therefore external

debt crisis in near future seems not possible. However, in case of developing economies like Indonesia the external debt profile is on the higher side.

5.3 INTER COUNTRY COMPARISON OF EXTERNAL DEBT INDEBTED COUNTRIES : RATIO ANALYSIS

While analysing the burden of external debt of a developing country like India, it is useful to make comparison of the external debt burden with that of other developing countries. The international financial institutions like World Bank in their Global Development Finance Report present inter-country comparison of the external debt burden. While measuring the external debt burden, External Outstanding Debt-Export Earning Ratio, Total External Debt Servicing-Export Ratio, Interest on External Debt-Export Ratio and Interest on External Debt-GNP Ratio are used as variables to measure the external debt burden. External debt burden is measured with its relation to export earning of a country as export earnings bring in foreign exchange into the foreign exchange reserves of a country, where as external debt servicing burden is a outflow of foreign exchange from the foreign exchange reserves of a country. Both these variables have an impact on the international liquidity position of developing countries and hence this ratio analysis is important to measure external debt burden of especially developing countries.

In Table No. 5.3 this ratio analysis is studied for the years 1980 to 2000. As far as External Debt-Export Earning Ratio is concerned, we

find, in the year 1980 that among the fifteen countries studied Turkey had a high ratio of 333.1 percent followed by Brazil 306.6 percent. In case of Mexico and Argentina, this ratio was 232.4 percent and 242.4 percent respectively, where as for India this ratio was 141.7 percent. In the year 2000 the External Debt-Export Earnings Ratio of Turkey declined to 198.5 percent, for Brazil it grew to 343.9 percent and for Argentina it increased to 381.2 percent. In case of India, this ratio has declined to 129.2 percent and the same trend is noticed in case of Chile, Mexico, Venezuela and People's Republic of Korea.

Total Debt Servicing-Export Earning Ratios show that during the period 1980 to 2000 this ratio has increased for Brazil, Argentina and Turkey. The rise begin from 63.3 percent to 90.7 percent in case of Brazil, from 37.3 percent to 71.3 percent in case of Argentina and from 28 percent to 36.1 percent in case of Turkey. In case of India, too, this ratio has increased from 9.8 percent in 1980 to 11.8 percent in 2000. For Mexico, Republic of Korea, Thailand, Philippines, Chile and Venezuela, the Total Debt Servicing-Export Earnings Ratio shows declining trend. It declined from 44.4 percent in 1980 to 30.2 percent in 2000 for Mexico, from 20.2 percent in 1980 to 10.9 percent in 2000 in case of Republic of Korea and for Philippines, this decline was from 26.6 percent to 13.6 percent during the same period. A decline in this ratio means that export earnings are sufficient enough to meet the external debt servicing payments of a particular country.

Interest on External Debt-Export Earnings Ratio analysis reveals

Sr.No.	COUNTRY	YEAR / ITEMS															
		1980				1990				1995				2000			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
1.	Brazil	306.6	63.3	33.9	3.5	325.5	22.2	6.1	0.5	272.1	36.6	17.8	1.5	343.9	90.7	21.8	2.6
2.	Russian Federation	-	-	-	-	159.4	4.5	1.7	0.7	129.0	6.5	3.1	0.9	138.4	10.1	4.8	2.3
3.	Mexico	232.4	44.4	24.6	2.8	191.4	20.7	13.4	2.9	172.6	27.8	11.6	4.1	77.9	30.2	7.1	2.5
4.	China	-	-	-	-	91.4	11.7	5.4	0.9	77.3	9.9	3.9	0.9	51.2	7.4	2.6	0.7
5.	Indonesia	-	-	-	1.9	233.9	33.3	13.3	3.6	226.7	29.9	11.3	3.2	190.9	25.3	10.1	5.2
6.	Argentina	242.4	37.3	20.8	3.1	373.7	37.0	16.3	2.0	336.8	30.3	18.2	2.1	381.2	71.3	30.3	4.2
7.	Korea Republic	133.7	20.2	13.0	4.6	45.6	10.8	3.4	1.0	56.7	7.9	3.9	1.2	63.4	10.9	2.7	1.3
8.	Turkey	333.1	28.0	14.9	1.2	196.1	29.4	13.5	2.2	178.3	27.7	10.7	2.6	198.5	36.1	11.7	3.4
9.	Thailand	96.8	18.9	9.5	2.5	89.8	16.9	6.5	2.4	135.0	11.6	5.7	2.5	92.6	16.3	5.6	4.0
10.	India	141.7	9.8	4.4	0.4	330.9	32.4	19.0	1.5	193.7	27.8	10.1	1.4	129.2	11.8	5.0	0.8
11.	Poland	251.4	-	-	-	162.7	4.9	1.7	0.6	96.4	11.1	5.0	1.5	129.2	20.9	5.2	1.6
12.	Philippines	212.4	26.6	18.2	4.6	230.1	27.0	13.3	2.0	113.6	16.1	6.8	3.0	101.4	13.6	5.5	3.4
13.	Malaysia	44.6	6.3	4.0	2.5	44.4	12.6	2.4	2.8	39.9	7.0	1.9	1.9	36.9	5.3	2.0	2.8
14.	Chile	192.5	43.1	19.0	4.5	179.6	25.9	16.7	6.3	109.0	24.5	6.4	2.1	159.0	26.0	9.4	3.3
15.	Venezuela	132.0	27.2	13.8	4.4	154.5	23.3	15.1	6.9	157.1	22.9	10.8	3.2	99.7	15.3	6.7	2.1

Source :- Global Development Finance : Financing the Poorest Countries, 2000,

World Bank, New York, Washington D. C., U. S. A., 2002.

Relevant Country wise Pages.

Note :- Figures in percentage

1. External Debt - Export Ratio
2. Total Debt Service - Export Ratio
3. Interest on External Debt - Export Ratio
4. Interest on External Debt - GNP Ratio

TABLE NO. 5.3

INTERNATIONAL COMPARISON OF FIFTEEN DEBTOR COUNTRIES : RATIO ANALYSIS

that in the countries under study, this ratio has by and large shown a declining trend in 2000 as against the situation in 1980. It is only in the case of Argentina, where this ratio has increased from 20.8 percent in 1980 to 30.3 percent in 2000. In case of India, Interest on External Debt-Export Earnings Ratio has marginally increased from 4.4 percent in 1980 to 5 percent in 2000. Even in case of highly indebted countries this ratio has shown a declining trend.

Interest on External Debt-GNP Ratio of the countries under study reveals that, this ratio has increased for countries like Argentina, Turkey, Thailand, Malaysia and in case of India this ratio has increased from 0.4 percent in 1980 to 0.8 percent in 2000. Indonesia shows the highest growth in this ratio, the rise begin from 1.9 percent in 1980 to 5.2 percent in 2000. Countries bearing the declining trend of External Debt Interest Payment-GNP Ratio are Brazil, Mexico, Republic of Korea, Philippines, Chile and Venezuela.

The major indicator of the external debt burden is the External Debt-Export Earnings Ratio and the data in the above Table reveals that most of the developing countries have managed to reduce this ratio during the period 1980 to 2000. Even countries, which had external debt problems in 1970s and in 1980s like Mexico, Chile had reduced this ratio. In case of Brazil and Argentina, however, this ratio is more than 300 percent, which implies that the external debt outstanding of these countries, which faced severe crisis earlier still remains. In case of India, the External Debt Servicing-Export Earnings Ratio is well within

manageable limits and it is also showing a declining trend.

“ Bank of England, United Kingdom expressed the rule of the Sustainable Investment Rule which states that net public debt as a proportion of GDP, will have to be held at a stable and prudent level over the economic rate. The current rate is 40 percent of GDP. The Government focuses particularly on the rate of debt to GDP because nominal GDP is closely related to the tax base of the economy, and so to the Government’s ability to service the debt. Any current fiscal stance is considered sustainable if the Government can maintain its current spending and taxation policies indefinitely, while continuing to meet its debt servicing obligations. Here net public sector debt is defined as total central government debt (both domestic and foreign currency) less total public sector liquid assets (e.g. bank deposits, short-term assets).”²

5.4 PROFILE OF EXTERNAL DEBT SERVICING BURDEN

In the development process of any developing or under-developed country, economy needs capital flows for rapid development. If the internal capital sources fall short, then the country takes the help of external inflows. In these external capital, one major component is external debt taken by the government of respective country. This external debt accelerates the process of development but at the same time, it puts some burden on shoulders of the citizens. This debt has to be repaid in foreign currency, along with interest also has to be paid time to time. Debt servicing burden always exerts budgetary financial burden. Interest payments increase revenue expenditure and in the

process, revenue receipts have to be increasingly used to meet this committed expenditure. Similarly, repayments are made out of capital receipts and increases non-developmental capital expenditure.

Table No. 5.4 gives the details of total external debt servicing burden as well as per capita debt servicing burden in the Indian context. Total debt servicing includes interest payment on and repayment of debt. In India, it increased steadily from Rs. 622.4 cr. in 1980-81 to Rs. 8,674 cr. in 1993-94. In the next year, it came down to Rs. 7,931 cr. In 1995-96 it again increased to Rs. 10,855 cr. But in the following year it decreased by Rs. 84 cr. and in the last three years it shows increasing trend and it stood at Rs. 13,221 cr. in 1999-2000.

Interest payment shows steady growth over the period, except the years 1996-97 and 1997-98. It increased from Rs. 230.8 cr. in the first year of study to Rs. 1,241.6 cr. in 1988-89. It has increased to more than double within only three years and became Rs. 2,704 cr. in 1991-92. It increased invariably upto Rs. 4,414 cr. in 1995-96. In the two subsequent years, i.e. 1996-97 and 1997-98, interest payment on external debt came down to Rs. 4,223 cr. and Rs. 4,110 cr. respectively. But in further two years it increased and was Rs. 4,508 cr. in 1999-2000.

Repayment figures of the external debt also show steady growth. In spite of this, it showed only a decline in the year 1994-95. It was Rs. 391.6 cr. in the initial year of study, which further increased to Rs. 4,950 cr. in 1993-94. It decreased in the following year as stated above and

further till the end of the period of the study, it grown constantly. It became Rs. 8,713 cr. in the last year.

TABLE NO. 5.4

PROFILE OF EXTERNAL DEBT SERVICING BURDEN

YEAR	1	2	3 = 1+2	4	5
1980-81	230.8	391.6	622.4	5.69	9.04
1981-82	323.4	421.8	745.2	5.99	10.59
1982-83	303.7	437.7	741.4	6.09	10.31
1983-84	355.3	454.0	809.3	6.18	11.02
1984-85	459.6	487.0	946.6	6.49	12.61
1985-86	537.7	696.0	1,233.7	9.08	16.10
1986-87	766.0	1,021.0	1,787.0	13.04	22.83
1987-88	977.5	1,246.0	2,223.5	15.59	27.82
1988-89	1,241.6	1,556.0	2,797.6	19.07	34.29
1989-90	1,494.0	1,820.0	3,314.0	21.86	39.80
1990-91	1,834.0	2,158.0	3,992.0	25.34	46.87
1991-92	2,704.0	2,858.0	5,562.0	32.93	64.09
1992-93	3,529.0	4,306.0	7,835.0	48.72	88.64
1993-94	3,724.0	4,950.0	8,674.0	55.01	96.39
1994-95	4,026.0	3,905.0	7,931.0	42.35	86.02
1995-96	4,414.0	6,441.0	10,855.0	68.58	115.54
1996-97	4,223.0	6,548.0	10,771.0	68.55	112.76
1997-98	4,110.0	6,768.0	10,878.0	42.33	112.04
1998-99	4,364.0	8,095.0	12,459.0	82.05	126.28
1999-00	4,508.0	8,713.0	13,221.0	86.95	131.93

Source : - As of Table No. 3.3 and Indian Public Finance Statistics, 2000.

1 – Interest payment on External Debt

2 – Repayment of External Debt

3 – Total External Debt

4 – Per Capita Repayment Burden

5 – Per capita Debt Servicing Burden

N. B. Figures in the Columns 1, 2 and 3 are in Rs.' Cr.

Figures given in the Columns 4 and 5 are calculated in Rs.

While considering the per capita debt servicing burden, it has grown from Rs. 9.04 in 1980-81 to Rs. 46.87 in 1990-91 and further to Rs. 131.93 in last year, 1999-2000. Repayment of external debt per capita burden is showing increasing trend with some fluctuations. It was Rs. 5.69 in the first year of study, which grew to Rs. 55.01 in 1993-94. It declined in the next year to Rs. 42.35. It was Rs. 68.58 and Rs. 68.55 in the years 1995-96 and 1996-97 respectively. In the following year it again came down to Rs. 42.33. In the ending year of study it came up to Rs. 86.95. Though it is showing increasing trend during the period under study, the burden of total debt servicing as well as repayment burden of external debt is not so much high and it is not inflicting heavy burden on the people.

5.5 REPAYMENT BURDEN OF EXTERNAL DEBT OF THE GOVERNMENT OF INDIA

When the government needs to undertake capital expenditure to a great extent, it turns to the capital receipts. Government has to spend funds raised from capital receipts or debt receipts for the public works, enterprises run by the government, other capital projects etc. It means that government should invest this money in income regenerating projects the revenue of which can be utilised for the debt servicing purpose. Repayment of debt receipts is a part of the capital disbursements made in the capital account of the budget. The growth of which reduces the debt receipts available for developmental capital outlays. Hence, rise in debt servicing burden in the form of repayments

affects the developmental investments on the capital account.

TABLE NO. 5.5
REPAYMENT BURDEN OF EXTERNAL DEBT OF THE
GOVERNMENT OF INDIA

YEAR	1	2	3	3 as % of 1	3 as % of 2
1980-81	9,432	10,294	391.6	4.15	3.80
1981-82	10,156	11,254	421.8	4.15	3.75
1982-83	13,286	13,687*	437.7	3.29	3.20
1983-84	15,861	14,881 •	454.0	2.86	3.05
1984-85	17,768	18,019	487.0	2.70	4.86
1985-86	16,763	16,135 †	696.0	4.15	4.31
1986-87	19,215	19,700	1,021.0	5.31	5.18
1987-88	22,458	19,136	1,246.0	5.55	6.51
1988-89	26,365	21,493	1,556.0	5.90	7.24
1989-90	26,630	25,310	1,820.0	6.83	7.19
1990-91	38,997	31,782	2,158.0	5.53	6.79
1991-92	38,528	29,122	2,858.0	7.42	9.81
1992-93	36,178	29,916	4,306.0	11.90	14.39
1993-94	55,440	33,684	4,950.0	8.93	14.70
1994-95	68,695	38,627	3,905.0	5.68	10.11
1995-96	58,338	38,415	6,441.0	11.04	16.77
1996-97	74,728	42,074	6,548.0	8.76	15.56
1997-98	98,167	51,718	6,768.0	6.89	13.09
1998-99	1,29,856	61,947	8,095.0	6.23	13.07
1999-00	1,16,571	48,975	8,713.0	7.47	17.79

Source : As of Table No. 5.4.

1. Capital Receipts
2. Capital Expenditure
3. Repayment of External Debt

* Excludes Rs. 1,743 cr. of Special Loans to state governments to clear their deficits as on 31st March 1982.

• Excludes Rs. 400 cr. of loans given to state governments to clear their overdrafts as on March 31st 1983.

† Excludes Rs. 1,628 cr. of medium term loans of state governments to clear their overdrafts

Table No. 5.5 reveals the data regarding repayment figures of external debt. These were Rs. 391.6 cr. in 1980-81. Capital receipts

utilised for it were 4.15 percent and the share of it was 3.80 percent in capital expenditure in same year. Repayment of external debt data shows increasing trend except the year 1994-95. In this year it declined to Rs. 3,905 cr. It was Rs. 487 cr. in 1984-85, which jumped up to more than double within only two years in 1986-87. It was Rs. 1,021 cr. in this year. It increased ceaselessly till 1993-94 and became Rs. 4,950 cr. in this year. In the next year it declined but in the subsequent years upto 1999-2000 it shows steady increase in it. It was Rs. 8,713 cr. in the last year. The external debt repayment shows the high increase over the period. In spite of this growth, external debt repayment as percentage share of capital receipts and capital expenditure are very less and show the fluctuations in the entire period. Repayments of external debt from capital receipts were stable in the initial period of study. It started to decline from 3.29 percent in 1982-83 upto 2.74 percent in 1984-85. From the next year it again started to grow from 4.15 percent and this trend continued till 1992-93 with some ups and downs. It was in this year 11.90 percent. In the subsequent years capital receipts utilised for external debt repayment shows some fluctuations and it stood at 7.47 percent in the last year of the study.

The same tendency of increase with fluctuations is also can be seen in the capital expenditure used to make repayments of external debt. It was 3.80 percent in the first year and further upto 1991-92 it fluctuates between 3.05 percent of the lowest (1983-84) and 9.81 percent of the high (1991-92). It enhanced further and reached to 17.79

percent in 1999-2000.

5.6 INTEREST PAYMENT BURDEN OF THE EXTERNAL DEBT OF GOVERNMENT OF INDIA

While undertaking debt servicing management government has to make two provisions. One is repayment of debt receipts and the another is interest payment on outstanding debt. The former is included in capital expenditure and the later is considered as a part of revenue expenditure. Repayment of debt is based on the maturity profile and repayment schedule that follows it, while interest on debt is paid annually. So as the debt of the government increases the interest payment obligations of it also increases and adds to revenue expenditure obligations of the government.

Table No. 5.6 gives details of the interest payment liability of external debt and its financial burden on revenue receipts and revenue expenditure, and its share in total interest payments of Government of India. It further also shows the data regarding the percentage share of interest payments in revenue receipts and revenue expenditure. Moreover data in the table also reveals the portion covered by interest payment on external debt in revenue receipts, revenue expenditure and in total interest payment.

Total interest payments show secular growth over the period. They were Rs. 2,604 cr. in 1980-81, which enhanced to Rs. 11,252 cr. in 1987-88. It continued to increase in the further period and stood at Rs. 90,249 cr. in 1999-2000. Revenue receipts used to finance interest

payment obligations also show increasing tendency in the entire period.

20.30 percent of Revenue receipts were used to make interest payments

TABLE NO. 5.6

**INTEREST PAYMENT BURDEN OF THE EXTERNAL DEBT OF
GOVERNMENT OF INDIA**

YEAR	(1)	(2)	(3)	(4)	3 as % of 1	3 as % of 2	4 as % of 1	4 as % of 2	4 as % of 3
1980-81	12,829	14,410	2,604	230	20.30	18.07	1.79	1.60	8.83
1981-82	15,574	15,867	3,260	323	20.93	20.55	2.07	2.04	9.91
1982-83	18,091	19,345	3,937	303	21.76	20.35	1.67	1.57	7.70
1983-84	20,493	22,890	4,795	355	23.40	20.95	1.73	1.55	7.40
1984-85	24,383	27,881	5,974	459	24.50	21.43	1.88	1.65	7.68
1985-86	29,186	34,771	7,512	537	25.74	21.60	1.84	1.54	7.15
1986-87	34,768	42,544	9,246	766	26.59	21.73	2.20	1.80	8.28
1987-88	38,992	48,129	11,252	977	28.86	23.38	2.51	2.03	8.68
1988-89	45,740	56,255	14,278	1,241	31.22	25.38	2.71	2.21	8.69
1989-90	54,814	64,210	17,735	1,494	32.35	27.62	2.73	2.33	8.42
1990-91	54,954	73,516	21,498	1,834	39.12	29.24	3.34	2.49	8.53
1991-92	66,047	82,292	26,596	2,704	40.27	32.32	4.09	3.29	10.17
1992-93	74,128	92,702	31,075	3,529	41.92	33.52	4.76	3.81	11.36
1993-94	75,453	1,08,169	36,741	3,724	48.69	33.97	4.94	3.44	10.14
1994-95	91,083	1,22,112	44,060	4,026	48.37	36.00	4.42	3.30	9.14
1995-96	1,10,130	1,39,861	50,045	4,414	45.44	36.00	4.01	3.16	8.82
1996-97	1,26,279	1,58,933	59,478	4,223	47.10	37.00	3.34	2.66	7.10
1997-98	1,33,886	1,80,336	65,637	4,110	49.02	36.00	3.07	2.28	6.26
1998-99	1,49,510	2,16,460	77,882	4,364	52.09	36.00	2.92	2.02	5.60
1999-00	1,81,513	2,49,109	90,249	4,508	49.72	36.00	2.48	1.81	5.00

Source: - As of Table No. 3.3

1. Revenue Receipts
2. Revenue Expenditure
3. Total Interest Payments
4. Interest on External Debt.

Note : - Figures in Columns 1, 2, 3 and 4 are expressed in Rs. cr.

in the first year of study, which increased to 48.69 percent in 1993-94. In the following two years it declined by some points but again rose to 52.09 percent in 1998-99. In the last year it became 49.72 percent. As stated before interest payment is considered as a component of revenue expenditure. Its share was 18.07 percent of revenue expenditure in 1980-81, which grew to 33.97 percent in 1993-94. Total interest payments as a percentage of revenue expenditure show increasing trend, but in the last five years it has stabilised around 36 percent.

Interest paid for external debt obligations also show growing trend. They were Rs. 230 cr. in the initial year of study, which grew to Rs. 1,241 cr. in 1988-89. It increased to Rs. 2,704 cr. within only three years in 1991-92, which is more than the double of 1988-89's. It continued to increase and was of Rs. 4,508 cr. in 1999-2000. The revenue receipts used to pay interest on external debt shows declining trend with fluctuations, besides formed an insignificant portion of revenue receipts. They were 1.79 percent in 1980-81 which increased to 4.94 percent in 1993-94 and in the later periods it subsequently came down and stood at only 2.48 percent in 1999-2000, indicating that a lesser portion of the revenue receipts are used for interest payments on external debt. Interest payments as a percentage share of revenue expenditure also show the same trend as above. It was 1.60 percent in 1980-81, which increased continuously to 3.81 percent in the year 1992-93. Further it decreased and only 1.81 percent of revenue expenditure was shared by interest payment on external debt in the last year of study.

In the total interest payment liability the share of interest payments on external debt is minor and the same tendency of decline with fluctuations is also reflected in this. In the total interest payments the share of interest payment on external debt was only 8.83 percent in 1980-81, which rose by 2.53 percent in 1992-93. It was 11.36 percent in this year, which is the peak level of the share of interest payment on external debt in total interest payment. Further, it started to decline and came down to only 5 percent in the last year. This trend implies that internal debt interest payment liabilities are the major contributory factor to the growth of interest liabilities of the Government of India - implying rapid increase in internal debt of the Government of India.

The external debt servicing liabilities as studied in this chapter reveals that the financial burden of the external debt of the Government of India on its budgetary operations is showing a decline. This is because, out of the total interest payment liabilities of the Government of India the major share is of interest payment of internal debt. Secondly, revenue receipts used to make external debt interest payments are also decreasing and the share of interest payments on external debt in the revenue expenditure is also declining in the period of the study. In addition, on capital account also repayment obligations of external debt apply a lesser share of capital receipts and as percentage of capital expenditure this percentage share is declining.

5.7 INTEREST PAYMENTS ON VARIOUS DEBT LIABILITIES

Government always tries to get the goal of fast and rapid

TABLE NO. 5.7
INTEREST PAYMENTS ON VARIOUS DEBT LIABILITIES

(Rs. in cr.)

YEAR	1	2	3
1980-81	2,373.2 (91.14)	230.8 (8.86)	2,604.0 (100.00)
1981-82	2,936.6 (90.07)	323.4 (9.92)	3,260.0 (100.00)
1982-83	3,633.3 (92.29)	303.7 (7.71)	3,937.00 (100.00)
1983-84	4,439.7 (92.59)	355.3 (7.41)	4,795.00 (100.00)
1984-85	5,514.4 (92.31)	459.6 (7.69)	5,974.00 (100.00)
1985-86	6,974.3 (92.84)	537.7 (7.16)	7,512.00 (100.00)
1986-87	8,480.0 (91.72)	766.0 (8.28)	9,246.00 (100.00)
1987-88	10,274.5 (91.31)	977.5 (8.69)	11,252.00 (100.00)
1988-89	13,036.4 (91.30)	1,241.6 (8.70)	14,278.00 (100.00)
1989-90	16,241.0 (91.58)	1,494.0 (8.42)	17,735.00 (100.00)
1990-91	19,664.00 (91.47)	1,834.00 (8.53)	21,498.00 (100.00)
1991-92	23,892.00 (89.83)	2,704.00 (10.17)	26,596.00 (100.00)
1992-93	27,546.00 (88.64)	3,529.00 (11.36)	31,075.00 (100.00)
1993-94	33,017.00 (89.86)	3,724.00 (10.14)	36,741.00 (100.00)
1994-95	40,034.00 (90.86)	4,026.00 (9.14)	44,060.00 (100.00)
1995-96	45,631.00 (91.18)	4,414.00 (8.82)	50,045.00 (100.00)
1996-97	55,255.00 (92.90)	4,223.00 (7.10)	59,478.00 (100.00)
1997-98	61,527.00 (93.74)	4,110.00 (6.26)	65,637.00 (100.00)
1998-99	73,518.00 (94.40)	4,364.00 (5.60)	77,882.00 (100.00)
1999-00	85,741.00 (95.00)	4,508.00 (5.00)	90,249.00 (100.00)

Source :- As of Table No. 3.3

1. Interest on Internal Liabilities

2. Interest on External Liabilities

3. Total Interest Payments

• Figures in brackets show the percentage to Total Interest Payments.

economic growth and for this it always attempts to mobilise resources to accelerate developmental process. Government uses physical goods, natural resources like steel, coal or it also uses human capital to overwhelm the impoverishment of underdevelopment of the country. It raises these resources and tries to use them in very well manner as they may regenerate the sources that can be used for the further services. It also raises monetary measures for the fast progress by which it generates employment and further income sources. Government has to think about debt service while taking the loan, because have not only to pay the repayment but also interest on the loan. Repayments are paid at one time only however, interest has to be paid on the each obligatory time. Dr. A. P. Lerner also argues that “Mounting public debt will escalate its service costs. It should not be considered bad *per se*. Moreover, taxation should not be imposed for meeting interest bill, unless it is necessary to keep down private spending to prevent inflation.”³

Table No. 5.7 gives the details of interest payment liabilities on internal debt, external debt and on total liabilities of Government of India. The data adequately disclose that interest on internal liabilities expanded and is more than of external debt. It also shared an immense part in total interest payment. It was Rs. 2,373.2 cr. in 1980-81 that grew to Rs. 6,974.3 cr. in 1985-86. It continued to increase further and was of Rs. 16,241 cr. in the year 1989-90. In the first year of the second decade under study, it grew to Rs. 19,664 cr. In this decade data shows enormous growth in the amount of interest on internal debt.

It was Rs. 33,017 cr. in 1993-94, which became more than doubles in 1998-99 to Rs. 73,518 cr. In the last year of study, it enhanced to Rs. 85,741 cr. The percentage share of interest on internal debt liabilities was more than 90 percent in the first decade of study. Yet it is so, it shows some minor waves in it. However, Government of India pays most of interest payments on internal debt liabilities. It was 91.14 percent in 1980-81 that declined to 90.07 percent in the next year. For the further four years from 1982-83 to 1985-86, it relatively stabilised on 92.50 percent. It came down in 1986-87 and it again continued the trend of stabilised amount of about 91 percent till 1990-91. It declined in the next two years to 89.83 percent and 88.64 percent. From 1993-94 it again started to rise and pursued it till the year 1999-2000. It was 95 percent in this year.

However, external debt also shows continuous growth over the period. Though it is so, in total interest payments it comprises a very little part. It grew from Rs. 230.8 cr. in the first year of study to Rs. 459.6 cr. in 1984-85. In 1989-90 it augmented by about Rs. 1 thousand cr. and was of Rs. 1,494 cr., in 1992-93 increased to Rs. 3,529 cr. In 1994-95 it crossed Rs. 4 thousand cr. for the first time in the period under study and became of Rs. 4,026 cr. In last five years interest payments on external debt show some fluctuations. It was Rs. 4,414 cr. in 1995-96 that declined to Rs. 4,223 cr. and to Rs. 4,110 cr. in the both subsequent years 1996-97 and in 1997-98 respectively. In the year 1998-99 and in 1999-2000 it again increased to Rs. 4,364 cr. and to

Rs. 4,508 cr. The percentage share of interest on external debt in total interest payment is considerably not high as it shared hardly 10 percent of it. It was 8.86 percent in 1980-81, which increased, in the next year to 9.92 percent. But it declined in the year 1982-83 and further also and was about 7.40 percent in following three years till 1985-86. It grew to 8.28 percent in 1986-87 and fluctuates in this range till 1990-91. In 1991-92 and in 1992-93 it increased to 10.17 percent and 11.36 percent respectively. From 1993-94 as the percentage share of interest payments on internal liabilities shows increase, interest on external debt share in total interest payments becomes less in every year upto the last year and it stood almost 5 percent in 1999-2000.

5.8 PER CAPITA DEBT BURDEN (YEARLY)

Per capita debt burden is one more indicator to measure the debt burden, imposed on each and every person of that respective country. Whether the burden of debt has been transferred to the next generation or not is also discussed very much in the economic literature. Besides it also explains that, if the funds raised from debt are allocated in productive channels or for capital creating and employment and further income regenerating projects, then it will not impose so much burden on the people. As far as per capita debt burden is considered, the burden of external debt, on each Indian citizen, is not so much imposed yearly.

Table No. 5.8 gives details of per capita yearly debt burden of Government of India. It shows that internal debt burden and not external debt burden is growing continuously and not only this, it

TABLE NO. 5.8
PER CAPITA DEBT BURDEN (YEARLY)

(Figures in Rs.)

YEAR	POPULATION	P. C. I. D. B.	P. C. E. D. B.	P. C. T. D. B.
1980-81	68.85	119.71	11.59	136.99
1981-82	70.38	123.69	14.63	144.30
1982-83	71.89	159.88	18.83	184.81
1983-84	73.45	196.38	19.56	215.94
1984-85	75.04	216.58	20.20	236.78
1985-86	76.65	198.93	19.77	218.70
1986-87	78.27	210.94	25.80	236.73
1987-88	79.92	232.83	42.77	275.60
1988-89	81.58	284.54	30.15	314.70
1989-90	83.26	329.37	31.17	360.53
1990-91	85.17	395.41	37.35	458.08
1991-92	86.78	381.50	62.47	443.97
1992-93	88.39	349.12	60.18	409.30
1993-94	89.99	559.68	56.38	616.07
1994-95	92.20	689.25	55.81	745.07
1995-96	93.95	617.56	3.38	620.95
1996-97	95.52	751.06	31.27	782.33
1997-98	97.09	999.86	11.24	1,011.09
1998-99	98.66 *	1,296.74	19.46	1,316.20
1999-00	100.21 *	1,151.49	11.78	1,163.27

Source: - As of Table No. 3.3

P. C. T. D. B. – Per Capita Total Debt Burden

P. C. I. D. B. – Per Capita Internal Debt Burden

P. C. E. D. B. – Per Capita External Debt Burden

also shows a tremendous growth in the period under study. Total External debt per capita burden was Rs. 136.99 in the initial year of study which rose to Rs. 458.08 in 1990-91 with some fluctuations. In next two year it declined but afterwards external debt per capita burden increased and reached to Rs. 1,163.27 in the last year, 1999-2000. Though there are some ups and downs in the total external debt per capita burden, it has shown an increasing tendency over the period. As far as internal debt per capita burden is considered, it grew from

Rs. 119.71 in 1980-81 to Rs. 1,151.49 in 1999-2000. While per capita external debt burden was only Rs. 11.59 in 1980-81 and increased to Rs. 42.77 in 1987-88. In next three years from 1988 to 1991 it was fluctuating between Rs.30 and Rs. 38 and enhanced to Rs. 62.47 in 1991-92. But it has shown a sudden decrease in 1995-96 and came down to Rs. 3.38 only. It came up to Rs. 31.27 in the next year but has again came down to Rs. 11.78 in 1999-2000.

As regards per capita debt burden, per capita internal debt burden has grown continuously from 1980-81 to 1999-2000. In comparison per capita external debt burden is lesser than per capital internal debt burden.

5.9 PERCAPITA DEBT BURDEN (OUTSTANDING)

For the development of economy, government attempts to allocate the resources in productive channels. For this, government uses it's weapons like public expenditure, public revenue (in this taxation, loan finance). Government spends money to generate the income sources, while it collects it back to reallocate these sources. Government takes loan from the people and spends it on the schemes that are beneficial for the poor. People save money and invest it into government bonds and securities and this fund - governmental loan - is used by the government mostly for huge investment or more so for capital expenditure. Government raises loan internally and externally. But though it is beneficial, it also imposes some burden on the people, because loan has to be repaid and the interest on loan has also becomes

burdensome in addition to this. Moreover, it is always considered that external debt inflicts more burden than the internal debt. This is because the resources, while paying back the internal loan, remains in the domestic country. But in the case of external debt, it has to be transferred to the creditor country and this makes the underdeveloped or developing country more beggared. Even if the exports continue to rise the required imports will also be large. But during the period 1980-81 to 1999-2000, study reveals that, external debt has not imposed so much burden on the shoulders of Indian folk. However, at the same time internal outstanding debt burden is more than external outstanding debt burden and it has increased by the time taken into account. Total outstanding debt burden also increased tremendously over the period under study.

Table No. 5.9 reports the per capita burden of total, internal as well as external debt. In 1980-81, total outstanding debt burden was of Rs. 867.81 that increased to Rs. 2,127.84 in 1986-87. In 1995-96 it became nearly to triple of 1986-87 and was of Rs. 6,452.72 and lastly in 1999-2000, total outstanding debt burden imposes the amount of Rs. 10,188.89 on the head of each and every citizen of India. However, per capita internal outstanding debt burden also grown rapidly and it also inflict heavy burden. In 1980-81 it was of only Rs. 703.72 but increased enormously during the entire period of study. It rose to Rs. 2,156.38 in 1987-88, which further crossed Rs. 4 thousand in the year 1992-93 and became Rs. 4,068.94 in the same year. It continued to increase till 1998-

99 and was of Rs. 8,458.86 in this year but in the last year it declined to Rs. 7,127.57. But over the whole period it shows highly increasing trend. Now about external debt per capita burden, which is very much emerging issue of economic theory from the past to present. Most of the economists comment that most of the burden is forced by external

TABLE NO. 5.9

PER CAPITA DEBT BURDEN (OUTSTANDING)

(Figures in Rs.)

YEAR	P. C. I. D. B.	P. C. E. D. B.	P. C. T. D. B.
1980-81	703.72	164.10	867.81
1981-82	793.66	NA	NA
1982-83	990.26	190.32	1,180.58
1983-84	1,091.10	205.85	1,296.95
1984-85	1,290.03	221.71	1,511.74
1985-86	1,556.83	236.83	1,793.66
1986-87	1,868.49	259.35	2,127.84
1987-88	2,156.38	290.58	2,446.96
1988-89	2,500.92	315.59	2,816.51
1989-90	2,880.72	340.42	3,221.14
1990-91	3,323.15	370.14	3,693.30
1991-92	3,661.14	425.77	4,086.91
1992-93	4,068.94	478.21	4,547.15
1993-94	4,785.23	526.11	5,244.13
1994-95	5,289.39	552.38	5,841.77
1995-96	6,226.55	545.49	6,452.72
1996-97	6,505.84	567.82	7,073.66
1997-98	7,446.31	569.90	8,016.21
1998-99	8,458.86	580.33	9,039.19
1999-00	7,127.57	583.15	10,188.89

Source :- As of Table No. 3.3

* Provisional

debt. But while considering the case of India, there still is not so much burden imposed by external debt on the economy, even in the periods of financial crisis faced by India. Though it is showing increasing trend it is not so much problematic because internal outstanding debt burden is sharing most of the part of total outstanding debt burden. In 1980-81 it was only Rs. 164.10 that rose to Rs. 315.59 in 1988-89. It crossed Rs. 500 in the year 1993-94 and became Rs. 526.11. But in the later period per capita external debt burden have not crossed even Rs. 600. In 2000, external debt imposed burden of Rs. 583.15 on the shoulders of every resident of India.

While considering the position of India, the per capita burden of external debt both yearly and outstanding shows increasing trend. In spite of this it is not so much high as compared to burden imposed by internal debt on the people.

To conclude we can say that, as compared to other developing countries the external debt stock of India is moderate and composition wise the short-term external debt outstandings from a small share in the total external debt outstandings. The trends in debt liabilities of the Government of India, reveal a major share of internal debt receipts as a consequence of which, it is the interest on internal debt, which is a major component of burden on the revenue account. Significantly, the financial burden of external debt of the Government of India is within manageable limits and does not pose a threat in the immediate future. Increase in foreign exchange reserves in recent years makes external

debt servicing burden easy.

→ **END NOTES :-**

1. cf. Global Development Finance.
2. Raj Kumar (1999), ' Debt Sustainability Issues : New Challenges for Liberalising Economies ', p. 62, op. cit. External Debt Management : Issues, Lessons and Preventive Measures, Reserve Bank of India.
3. A. P. Lerner, Economics of Control, p.309-310, Functional Finance and Federal Debt, Readings in Fiscal Policy.