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Mukesh Kumar
Asstt. Professor Department of Economics M.M. P.G. College, Fatehabad

Correspondence
Mukesh Kumar
Asstt. Professor Department of Economics M.M. P.G. College, Fatehabad

Impact of foreign debt on India: An analyses

Mukesh Kumar

Abstract
Indian Economy is the Seventh largest economy in the world. India's economy became the world's fastest growing economy from the last quarter of 2014. The Indian economy has the potential to became the world's 3rd largest economy by the next decade. India is ranked 130th out of 189 countries in the world Bank's 2015 case of doing business index. India has 352.365 billion foreign reserves at present (2015). The long term growth prospective of the Indian economy is moderately positive. No doubt, Indian economy is a strongest economy but a big problem that Indian economy faced the burden of Foreign Debt. If we see the overall position of Indian economy then can't ignore this problem. The Burden of Foreign debt growing fast on Indian economy from last few decades. Here the controversy is that why the foreign debt's burden increased fast, what the reasons behind it are. India has good natural resources, efficient men power physical and mental capital, however depends on foreign debt, why? This is the big reason to worry. The government and the economists should be think about it. This paper focused on this problem i.e. foreign debt and tried to analyses the reasons those responsible for this with the help of secondary data.

Keywords: Foreign Debt, Burden of Foreign Debt, Factors Responsible for Foreign Debt.

1. Introduction

Foreign debt (Known as public debt) is the amount, at any given time, of disbursed and outstanding contractual liabilities of resident of a country to non-residents to repay principal, with or without interest or to pay interest with or without principal.

Foreign debt is the total debt a country owes to foreign creditors. The debtors can be the government, corporations or citizens of that country.

India's external debt rose 6.6% during the financial year ending March 2015 to $ 475.8 billion, India's external debt rose to $ 462 billion (23.2 %of GDP) in December 2014, Interestingly, valuation gains worth $ 14 billion tempered the true extent of increase in the total external stock. Without these gains, external debt would have risen by $ 30 billion, double the pace. On the positive end, while long-term debt continues to rise, short term debt has stabilized and now makes less than a fifth of overall debt. India's total and non-government external debt as a percentage of GDP are near regional averages. The biggest and fastest rising component of the non-government/private sector debt is external commercial borrowings. Significantly, relative to external debt, India's foreign reserves rank amongst the lowest in Asia.

Eichengreen, Hausmann, Panizza and Rigobon were of the view that accumulation of external debt particularly in developing countries like India may lead to problem of original sin. Original sin refers to the inability of developing countries in rising foreign loans in their own currencies, which in turn results into excessive foreign borrowings and increases vulnerability during the phases of crisis. The reasons of India's external indebtness are structural in nature. External debt accumulation in Indian is largely associated with chronic current account deficits.

The sources of Bilateral Debt, loan from IMF, Export, Credit, commercial Borrowing, Non-Resident Deposits, Rupee Debt and short term Debt. The external Debt in India also includes money owed to private commercial banks, other governments or international financial institutions such as IMF and World Bank. When a country runs a current account deficit, then to finance the deficit, it may borrow from external sources apart from encouraging foreign investment. It is normal for developing countries to run current account deficit which leads to external borrowing. India has been borrowing both from internal and external sources since independence to finance its investment programme. External debt accumulation in India is largest associated with chronic current account deficit.

Objectives of study

a. To analyse the impact of foreign debt on India.
b. To examine the growth of foreign Debt in India.
c. To analyse the impact of foreign debt on the resources of India.
d. To analyse reasons for foreign debt.
e. Some suggestions to improvements in the policy formation related to foreign debt.

The Burden of external Debt

External Debt is beneficial in the initial stages as it increases the resources available to the country. But its repayment & servicing creates a burden on the debtor country. The external debt treates direct money burden. This is because it involves transfer of funds from the Debtors country to foreign citizen.

The citizen of the debtor will have to suffer loss of economic welfare to the extent of repayment of principal amount and interest burden. When the government spends a significant portion of its resources towards the payments of foreign debt it reduces the government expenditure to that extent which otherwise would have been spent for public welfare programmes. The repayment of external debt involves an increase in the demand for the currency of the creditor country. The magnitude of external debt burden depends upon whether the debt is increase for productive purpose or for unproductive purposes, it will create a greater burden. The U.S. federal Reserves hint that it could roll back its cumulative easy money policy seems to have suddenly increased India's vulnerability to slowing capital flows in the near future.

In this context, India's short term debt maturing within a year would seem to be a matter of concern against the current backdrop of the declining rupee and the U.S. Fed's possible change of stance on easy liquidity in future short term debt maturing within a year is considered by experts as a real index of a country's vulnerability on the debt servicing front. India's short term debt maturing within a year stood at $ 172 billion and March 2013. This means the country will have to pay back $ 272 billion by March 31, 2014. The corresponding figure in March 2008 before the global financial meltdown that year was just $ 54.7 billion. The figure has gone up over three times largely. More pertinently, short term debt maturing within a year is now nearly 60% of India's total foreign exchange reserves. In March 2008, it was only 17% of total forex reserves. External commercial borrowings are now 30% of the country's total external debt. Short-term debt with one year maturity is 25% of total external debt. Corporates have managed to roll over their foreign borrowings over the past year because of the easy liquidity conditions kept by the U.S. Federal stance were to reserve, there is no knowing how Indian corporate will pay back their foreign debt at a depreciated exchange rate of the rupee.

Table Provides summary of external debt indicator from 1991 to 2002-03 that manifest significant during the period.

India Key External Debt Indicators (Ratio as percent)

Year	Total External Debt	Interest Payments to current Receipts
1990-91	35.3	15.5
1991-92	30.2	13.0
1992-93	27.5	12.5
1993-94	25.4	11.1
1994-95	25.9	10.0
1995-96	26.2	8.6
1996-97	23.0	8.0
1997-98	19.5	7.7
1998-99	18.7	7.5
1999-2000	17.1	6.6
2000-2001	16.2	5.6
2001-2002	13.6	5.1
2002-2003	13.7	3.9

International comparison:

Among top fifteen debtor countries of the world in the last decade, India improved from think after Brazil and Maxico in 1991 to eight in 1995.

International comparison of top fifteen countries, 2001.

Sr. No	Country	Total External Debt US $ Million	Debt to GDP Ratio as percent
1	Brazil	226362	46.9
2	China	170110	15.0
3	Maxico	158290	26.2
4	Russia	152649	50.9
5	Argentina	136709	52.5
6	Indonesia	135704	97.2
7	Turkey	115118	78.8
8	Korea Republic	110109	26.1
9	India	97320	20.5
10	Thailand	67384	60.4
11	Poland	62393	35.7
12	Philippines	52356	69.2
13	Malaysia	43351	54.4
14	Chile	38360	60.0
15	Colombia	36699	46.2

Debt to GNP Ratio, which shows the magnitude of external debt in relation to national income at 20.5% in the year 2001 has placed India at the second lowest after china at 15% as against third lowest in 1991 after Korea Republic and China.

India's External debt outstanding (Rs Crore)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Multilateral	77758	82199	89819	98173	105066	116904	129682	137132	145105	155633
Bilateral	50258	54580	63761	65740	62891	67104	74304	79278	74519	74762
IMF	14985	15812	13545	8152	4714	2622	1218	113	0	0
Expert Credit Commercial	13484	16307	20876	18432	21044	25783	28812	29564	27625	26110
Borrowing NRI & FC	36367	38782	40915	47642	51454	67086	89019	86963	112938	113451
Deposit Rupee	34941	39729	39006	37802	39527	47050	50048	59120	77273	83712
Debt	33149	31634	30315	28150	26978	23204	20077	19218	17345	14844
Total Long term Debt	260942	279043	298237	304091	311674	349753	393160	411388	454805	468512
Short Term Debt	19804	11375	13448	16637	24153	19929	18137	17919	16919	13396

Table shows that India's external debt increased continuously during 1993 to 2002.

India's External Debt-A status Report 2013-14. (Press Information Bureau Government of India, Ministry of Finance

The department of economic Affairs, Ministry of Finance is bringing out the twentieth issue of the annual publication 'India's External Debt. A status report 2013-14. The report presents a detailed analysis of India's external debt position at end March 2014.

India's external debt stock stood at US $ 440.6 billion at end March 2014, increasing by US $ 31.2 billion over the level at end March 2013. Long run external debt was US $ 351.4 billion, showing an increase of 12.4% over the level at end marks 2013. Short Term External debt stood at US $ 89.2 billion at end March 2014. India's external Debt has remained within manageable limits as indicated by the external debt GDP ratio of 23.3% and debt service of 5.9% during 2013-14. External debt of the country continues to be dominated by the long term borrowings.

Debt Position of the Government of India

(Press Information Bureau, Government of India, Ministry of Finance) India's external debt at end March 2015

The department of economic affairs, Ministry of Finance, Government of India has brought out the Twenty first issue of it's annual Publication 'India's External Debt: A status report 2014-15.

India's external debt stock stood at US $ $475.8 billion at end March 2015, increasing by US $ 29.5 billion (6.6%) over the level at end March 2014. The rise in external debt was due to the rise in long run debt particularly commercial borrowing and NRI deposits. At end March 2015, long term external debt was US $ 391.1 billion, showing an increase of 10.3% over the level at end March 2014. Short term external debt stood at US $ 84.7billion at end March 2015, showing a decline of 7.6% over US $ 91.7 billion at the end March 2014. Government external debt stood at US $ 89.7 billion at end March 2015. The share of Government external debt in total external debt position in recent years is given below.

India's Key External Debt Indicators

Atend March	External Debt US $ Billion	External debt to GDP	Debt Service Ratio	Concessional Debt to total Debt.
2012-13	409.5	22.3	5.9	11.1
2013-14	446.3	23.6	5.9	10.4
2014-15	475.8	23.8	7.5	8.8

The About information shows that India's foreign Debt fastly growing. India's external debt is 475.8 US $ at present which shows the picture of the future.

Factors Responsible for Foreign Debt.

The agenda of present government is related to development, But our resources used for repayment of this debt then how the development of our country is possible. A large amount goes to foreign to repay this debt either interest or principal. Now we shall try to find out the reason of this debt that why we need to foreign debt, is it compulsory?

The continued high external debt burden in India is due to many domestic and external reasons.

Domestic Reasons

i) The failure to generate adequate resources from internal rectors for financing the five year plans.

ii) The need for foreign aid to carry out the different development projects.

iii) Failure to utilize the aid property which resulted in the inability to generate adequate resources for the repayment of debts.

iv) Failure to increase expert sufficiently.

External Factors

i) Most of the aid received by India was in the from of loans while grants constituted a very small proportion.

ii) After 1991, the proportion of concessional aid has declined and India has to resort increasingly to commercial borrowings and hard loan.

iii) Trade barriers and restrictions are imposed by developed countries on imports from India.

Conclusion & Suggestions

Dr. Ram Singh of the Economics Department of Delhi University told that India's foreign debt can be reduced if there is quick increase in the foreign investment. Due to the long run debt, there has been an increase in the foreign debt. If India manages to get rid of the external debt, then the Indian Government will exempt many taxes. The government would be able to introduce various schemes that will help in improving the financial situations of the Indians.

Indian Government should increase foreign investment if need foreign exchange, not increase debt from international organizations. Government should control over public expenditure, it does not mean that not do any welfare work. Public expenditure is necessary for any country but it should be done by own wealth not by others. The political people announced many schemes or programs for own interest for the greed of chair but they did not see the resources of the country, As a results funds for these schemes comes from abroad in the form of foreign debt.

India is a old civilized country. We have many talent then why we are not using these for making money from abroad ? Many times we stands front of IMF, World Bank like a bugger, why ? We can earn much money from abroad by Yoga. Indian Yoga is famous in all over world. Indian Government should trained Yoga teachers and they earn foreign exchange. Government should take some positive steps towards this. The talent is on the hands of Indians means handicraft's business can be very popular. Information Technology, Some Agriculture products are another options to make foreign exchange.

India is a developing country and foreign debt is a barrier, not helpful because it will become harmful in the long run for Indian Economy. To pay the old debt by new debt is not a good policy. Now the time is to pay the old debt by earn foreign exchange.

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