CHAPTER VIII
SUMMARY OF CONCLUSIONS

The need for country studies on debt servicing problems of LDCs was pointed out by Avramovic about 40 years back in his famous work on growth and external debt. The debt crisis in eighties and nineties in several countries like Mexico, Argentina and liquidity crisis in balance of payments in India in 1991 has once again underlined the importance of country specific studies on debt servicing capacity. Therefore, a study on India’s external debt problem may be considered significant.

The first chapter is an introductory one. It states the problem of external debt in India’s objectives of study and the hypotheses which have been tested. This chapter also discusses the methodology used in the study and the sources of data.

The second chapter is a review of literature on external debt problems and the debt servicing capacity, liquidity in BOP. The long term debt servicing capacity is based on improvement in productivity, growth in savings and investment.

The studies reviewed in this chapter pertain to the vertical works on LDCs as well as India. After reviewing the above mentioned literature an attempt has been made to provide justification for the present study. The present study is justified on the grounds that country specific studies in detail should be undertaken from time to time.

The growth in external debt by itself is not undesirable. The growth in debt has to be related to the performance of an economy therefore, an analytical framework is required with in which debt servicing problems and an effort debt servicing capacity be evaluated has been made in chapter three.
to identify relevant factors for assessing debt servicing capacity of a country in short as well as long run. While short term debt servicing capacity refers to identification of relevant variables for analyzing liquidity in BOP. The long term debt servicing capacity is based on improvement in productivity and growth in savings and investment.

Chapter four presents the external debt profile of India during 1970-97. The debt profile of India includes growth of debt, changing structure of external debt in terms of average maturity periods on loans, composition of debt in the form of concessional, long term and short term debt, external commercial borrowings, etc. It is observed that external debt of India rose quite sharply in the BOP in 1991.

The growth of savings & investment in relation to growth in debt are analysed in chapter five. In order to keep the burden of debt within manageable limits it is necessary that borrowed funds should be productively utilized and domestic savings should also grow to narrow down the gap between savings and investment. However, in case of India the relationship between gross domestic savings and gross external assistance has been observed to be negative during the time period of the present study. A causality test has been used to test the relationship between gross domestic savings & GDP. A two way relationship has been obtained between the two variables.

Towards the end of this chapter attempt has been made to analyse the adequacy of domestic savings from the point of view of debt servicing obligations.

Chapter sixth deals with growth in exports and imports in the context of debt servicing liabilities of India. Changes in the pattern of exports and imports have also been discussed with a view to assess the augmentation of
India’s capacity to earn foreign exchange for meeting debt service obligations. The analysis of growth in export and import is necessary because rise in domestic savings should have been accompanied by increased in foreign earnings in order to repay debt.

The chapter seven describes India’s debt servicing capacity in short as well as long run. The short run debt servicing capacity refers to capacity of the country to avoid crisis in its BOP. However, India faced liquidity crisis in its BOP in 1991. The liquidity crisis was caused due to rapid rise in external debt, bunching of repayments the rapid growth of short term & commercial debt and inability of exports to keep pace with the imports.

Increasing fiscal deficit was also considered to be a major factor for causing the liquidity crisis. Therefore, a causality these has been test the relationship between fiscal deficit and trade deficit. According to the result obtained causality runs from fiscal deficit to trade deficit and not vice versa. It has also been observed in case of India, the fiscal deficit has been supported by availability of external funds.

The long term debt servicing capacity of India has been evaluated by taking into consideration productivity of capital and growth in savings. The long term debt serving capacity of India has been indicated on the basis of marginal rate of savings which is an index of willingness and capacity to service debt obligations. This approach of pointing out changes in the debt servicing capacity has also been supplemented by using certain principal debt ratio’s also referred to as indicators approach. The indicators approach in based on movements in various ratio’s like EDT/GNP, TDS/EGS, RES/EDT, RES/MGS etc. It is inferred from the analysis that India’s debt servicing capacity declined in eighties but it improved in nineties (1990-97), because of many a steps taken by the Government. A conscious policy
decision was taken by the Government to encourage non debt creating flows, boost to be given to exports, management of debt etc. All such measures resulted in a deceleration in growth of debt in relation of the size of the economy. The possibility of facing another liquidity crisis in the economy quite became during the time period of the study on the whole, it may be concluded that the India’s capacity to service its external debt showed signs of improvement: