Appendix

One of the main problems affecting studies of India’s external debt has been the lack of comparability between the official RBI/MOF estimates of the total debt and the figures published by foreign financial institutions like World Bank, International Monetary Fund, the Bank for International Settlement reporting data on external debt. In 1988, an international working group on External Debt statistics provided an exhaustive definition of debt and an international framework to construct comparable set of data for various countries. In 1992, Reserve Bank’s Policy Group and Task Force on External Debt Statistics published the first report and made a serious attempt at reconciling existing differences in the computation of India’s external debt. Later in 1998, RBI appointed a Technical Group on External Debt to review the existing definitions and to recommend institutional arrangements for collecting data. The Committees recommended the acceptance of core definition of external debt provided by International Working Group on External Debt Statistics.

The Task Force suggested that Indian external debt should cover
a) all government and non-government loans from abroad, bonds raised from international capital markets, some revalued
balance under IBRD pooled loans and exchange adjustments in respect of pre-1971 IDA credits, convertible debentures, until they converted into equity, use of IMF credits, and export credit including those extended by foreign official credit agencies.

b) Non-resident deposits with an original maturity of over one year, including accrued interest on FCNR deposits.

c) Short term credits consisting of bank exposures, suppliers credit and NRI deposits up to one year maturity.

One of the sources of discrepancies observed between international and government published data on external debt was the reluctance of Indian authorities to include NRI deposit liabilities as a component of external debt. NRI deposits are liabilities of residents to non-residents notwithstanding the fact that in this case the deposits were short-term, and the depositors were of Indian origin. The massive withdrawal of NRI deposits after 1990 forced a reconsideration of this issue. Other reasons that account for different estimates of external debt include data on defense expenditure, lack of details on short-term debt including bank expenses and suppliers credit.
The problem of discrepancies in published data is further complicated by the fact that there were also differences between debt data put out by RBI and those published by MOF due mainly to differences in data sources. These differences were reconciled by the Task Force on External Debt Statistics in 1992. In 1998, the Technical Group on External Debt Statistics accepted the core definition and the characteristics of the definition of external debt in India are

i) External debt is the aggregate directly related to debt servicing and hence excludes any corresponding offsetting assets or claims. The concept of net debt should not be used.

ii) Foreign equity participation should be excluded because it is not a contractual liability involving an obligation to make specified payments.

iii) NRI deposits are also included because they are made by non-residents even if the latter are of Indian origin.

ii) Lease transactions, borrowings by commercial banks, balances of exchange houses held in India, overseas line of credits, and trade related credits of maturity less than six months should also be included under external debt.
iii) Foreign Institutional Investors in debt instruments may be shown separately in the debt statistics under a new head ‘Foreign Investment in Debt Securities’ further desegregated into government and non-government.

iv) Contingent liabilities like derivatives, Letters of Credit, Guarantees and intra entity cross border liabilities may be monitored closely although they do not form part of external debt.

v) Short-term debt will include
   a) short term deposits of NRI cross border bank claims and all trade related credits of maturity up to and including one year.
   b) Trade related credits of original maturity less than six months.
   c) Trade credits of original maturity of six months to one year to be shown separately.

**Classification of Debt**

World Bank distinguishes debt in terms of its maturity, type of guarantee, type of creditor, terms and conditions. In terms of maturity debt is classified as long term and short term. Long term is defined a
debt having an original and extended maturity of more than one year, while short-term refers to debt having a maturity of less than one year. On the basis of type of guarantee provided by the debtor, debt is classified as public, publicly guaranteed, private, non-guaranteed. Public debt implies the external debt obligation of a national government or one of its agencies to repay it. Publicly guaranteed is the external obligation of a private debtor that is guaranteed for repayment by a public body. Private non-guaranteed external debt refers to the obligation of a private debtor and its repayment is not guaranteed by any public entity.

Debt is also distinguished by the category of creditors official debt refers to credits from various governments or agencies (multilateral), from single government or agencies (bilateral) and from the World Bank. Private debt is one contracted with private commercial debtors and generally includes bonds, other debt from commercial banks and it also includes credit from manufacturers and exporters. Debt is classified as concessional and non-concessional i.e. the terms and conditions at which debt is incurred. Concessional loans are those which have longer maturity period than commercial loans and when it is contracted at a lower rate of interest than the going market rate.
The Government of India has adopted a similar classification to the one adopted by the World Bank. Still one may note some of the differences. Export credit is shown as a separate item indicating the use of credit to promote exports. The data on defense purchases has also been included in official statistics commercial borrowings correspond to the private classification of debt according to the World Bank India Development Bonds and the Resurgent India Bonds are listed as securitised borrowings, while commercial bank loans include since 1996, financial leases. Long and short term credit from NRI’s held in various types of accounts is shown separately. In case of short term debt the MoF distinguishes between deposits of NRIs and other items.

The Government of India classifies debt on the basis of creditors i.e. Long-term and short term.

**Debt and Non-debt Transfers**

As mentioned earlier, foreign investment flows are not considered as a part of external debt since they are non-debt flows. It is important, however, to have them in mind when we consider the total transfer of financial resources occurring between a country and the external world. The indicator of financial external resources are the net transfers of debt and the aggregate net transfer.
The net transfers of debt expresses the difference between the inflow of debt and the outflow of repayments to be done on account of debt contracted in a period of time (one year). This indicator measures the amount of foreign debt that remains in the country to be actually used for productive or other purposes.

The aggregate net transfers combines the debt flows and non-debt flows. Aggregate net transfers is the difference between aggregate net resources and loan interest plus FDI profits. The aggregate net resource is net resource flow on debt + Grant + FDI + portfolio equity flow.

The World Bank World Debt tables define the following terms:

1) Director Foreign Investment : The investment made to acquire a lasting managing interest in an enterprise operating in a country other than that of the investors.

2) Profits on FDI : Sum of reinvested earnings on FDI plus other direct investment income.

3) Portfolio Equity Flow: It is the sum of funds, depository receipts, and direct purchase of shares by foreign investors.

FDI and portfolio equity investments are the most important ways in which foreign capital resources are transferred to India.
Aggregate Net Resource Flows (Long-Term) and Net Transfers to Developing Countries

\[
\text{Loan Disbursements} \quad \text{minus} \quad \text{Loan Amortizations} \quad = \quad \text{Debt Service Net Resource Flows (LTDS)}
\]

\[
\text{Net Resource Flows on Debt} \quad \text{plus} \quad \text{Official Grants and Foreign Direct Investment (FDI)} \quad \text{equals} \quad \text{Aggregate Net Resource Flows}
\]

\[
\text{Net Transfers On Debt} \quad \text{minus} \quad \text{Loan Interest (LINT)} \quad = \quad \text{Net Transfers On Debt}
\]

Notes: Includes only loans with an original maturity of more than one year (long-term loans). Excludes IMF transactions.