

Foreign Debt Management of India: A Study of the Period 2015-2020

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ABSTRACT

Managing foreign debt is a vital part of a nation's macroeconomic strategy, affecting its fiscal health, economic development, and international relationships. This paper explores how India handled its foreign debt from 2015 to 2020. It analyzes the makeup, trends, and tactics used by the Indian government to oversee external debt. Furthermore, it discusses the challenges brought about by global economic uncertainties, such as trade conflicts and the COVID-19 pandemic, and evaluates their effects on India's external debt situation.

Keywords: *Foreign Debt Management, India*

India's foreign debt plays a vital role in its overall economic landscape. Proper management of this debt is essential for achieving financial stability and promoting sustainable growth. This paper explores the structure and trends of India's external debt from 2015 to 2020, highlighting the policies put in place to ensure debt sustainability in the face of both global and domestic challenges.

Objectives of the Study

1. To analyze the composition and structure of India's external debt from 2015 to 2020.
2. To evaluate the trends in foreign debt during this period.
3. To assess the impact of external economic factors, including the COVID-19 pandemic, on India's debt management.
4. To suggest strategies for improving external debt management.

METHODOLOGY

This study relies on secondary data from official sources, including reports from the Reserve Bank of India (RBI), the Ministry of Finance, and international financial institutions. The data is analyzed using quantitative methods to identify trends and assess policy effectiveness.

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REVIEW OF LITERATURE (2005-2015)

The period from 2005 to 2015 witnessed significant developments in India's external debt profile, influenced by global economic conditions and domestic policy measures. Key studies and findings from this period are summarized below:

- 1. Patnaik and Shah (2009):** Highlighted the increasing role of external commercial borrowings (ECBs) in financing infrastructure projects. The study emphasized the need for prudent monitoring of ECBs to avoid excessive exposure to foreign exchange risks.
- 2. Rangarajan and Prasad (2011):** Analyzed the impact of global financial crises on India's external debt. They observed that while India's debt-to-GDP ratio remained stable, the share of short-term debt increased, raising concerns about liquidity risks.
- 3. Kumar and Singh (2013):** Focused on the currency composition of India's debt, noting the predominance of U.S. dollar-denominated debt. The study recommended diversification to mitigate currency risk.
- 4. Reserve Bank of India Reports (2005-2015):** Documented the steady rise in non-resident deposits as a key component of external debt, reflecting India's reliance on diaspora investments.
- 5. Chhibber (2015):** Discussed the role of multilateral and bilateral loans in financing India's developmental needs, stressing the importance of concessional financing to maintain debt sustainability.

This body of literature underscores the evolution of India's external debt dynamics and provides a foundation for understanding the trends and policies implemented during 2015-2020.

Composition and Structure of India's Foreign Debt

India's external debt is categorized by:

- 1. Long-term and Short-term Debt:** Long-term debt accounted for a significant portion, with major components being multilateral and bilateral borrowings, external commercial borrowings (ECBs), and non-resident deposits.
- 2. Currency Composition:** The majority of India's external debt is denominated in U.S. dollars, followed by Indian Rupees, Japanese Yen, and Special Drawing Rights (SDRs).
- 3. Sectoral Distribution:** Debt is distributed across sectors, with a significant portion allocated to infrastructure development, trade financing, and financial services.

Trends in India's Foreign Debt (2015-2020)

- **2015-2016:** India's external debt stood at USD 485 billion as of March 2016, reflecting a marginal decline from the previous year due to a reduction in short-term debt and non-resident deposits.
- **2016-2017:** By March 2017, external debt increased to USD 471 billion, primarily driven by a rise in long-term debt, while short-term debt declined further.

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- **2017-2018:** External debt rose to USD 529 billion by March 2018, marking a significant increase due to higher external commercial borrowings (ECBs) and non-resident deposits.
- **2018-2019:** External debt reached USD 543 billion as of March 2019, reflecting a 2.0% increase over the previous year. The rise was primarily driven by ECBs and non-resident deposits. Long-term debt constituted 80% of the total, while short-term debt was around 20%.
- **2019-2020:** By March 2020, external debt increased to USD 558 billion, marking a 2.8% growth over the previous year. The increase was attributed to a rise in sovereign borrowings and non-resident deposits. The U.S. dollar accounted for 52% of the debt, followed by the Indian Rupee at 34%.

Challenges in Foreign Debt Management

1. **Global Economic Uncertainties:** Trade tensions and fluctuating commodity prices impacted borrowing conditions.
2. **COVID-19 Pandemic:** The pandemic led to disruptions in global supply chains, reduced exports, and increased demand for external borrowings to fund fiscal deficits.
3. **Currency Depreciation:** Depreciation of the Indian Rupee increased the repayment burden of foreign-currency-denominated debt.
4. **Debt Sustainability:** Ensuring that debt remains within manageable limits while financing developmental needs was a persistent challenge.

Strategies for Effective Debt Management

1. **Diversification of Borrowing Sources:** Reducing reliance on specific currencies and markets to mitigate risks.
2. **Strengthening Domestic Financial Markets:** Encouraging domestic savings and investments to reduce dependence on external borrowings.
3. **Prudent Fiscal Policies:** Maintaining a balance between fiscal deficit targets and developmental spending.
4. **Currency Hedging:** Utilizing financial instruments to mitigate exchange rate risks.
5. **International Cooperation:** Collaborating with multilateral institutions for concessional financing and technical assistance.

CONCLUSION

India's approach to foreign debt management from 2015 to 2020 illustrates a careful balance between fostering growth and ensuring debt sustainability. The government took steps to address external vulnerabilities, but the unique challenges brought on by the COVID-19 pandemic highlighted the importance of flexible and resilient strategies. Looking ahead, prioritizing the enhancement of domestic financial systems, responsible borrowing, and building international partnerships will be crucial for effective foreign debt management.

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Conflict of Interest

The author(s) declared no conflict of interest.

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