

28th edition of the Status Report on India's External Debt 2021-22

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In news– The External Debt Management Unit (EDMU) in the Department of economic Affairs, Ministry of Finance, has recently released 28th edition of the Status Report on India's External Debt 2021-22.

Key findings of the report-

- **India's external debt, at US\$ 620.7 billion as at end-March 2022, grew by 8.2 per cent** over US\$ 573.7 billion as at end-March 2021.
- While **53.2 per cent of it was denominated in US dollar, Indian rupee denominated** debt, estimated at **31.2 per cent**, was the second largest.
- **External debt as a ratio to GDP fell marginally** to 19.9 per cent as at end-March 2022.
- **Foreign currency reserves as a ratio to external debt** stood slightly lower at **97.8 per cent** as at end-March 2022 than 100.6 per cent in 2021.
- **The long-term debt estimated at US\$ 499.1 billion, constituted the largest chunk** of 80.4 per cent, while the **short-term debt** accounted for 19.6 per cent of the total.
- The short-term trade credit was predominantly in the form of trade credit (96 per cent) financing imports.
- **Commercial borrowings (CBs), NRIs deposits, short-term trade credit and multilateral loans together accounted for 90 per cent** of the total external debt.
- While **NRI deposits marginally contracted** during end-March 2021 and end-March 2022, CBs, short-term trade credit and multilateral loans, on the other hand,

expanded during the same period.

- The rise in CBs, short-term trade credit and multilateral loans together was significantly larger than the contraction in NRI deposits.
- As at end-March 2022, **sovereign external debt (SED) increasing by 17.1 per cent** over the level of 2021, reflecting the additional allocation of SDRs by the IMF during 2021-22.
- **Non-sovereign external debt**, estimated at US\$ 490.0 billion as at end-March 2022, posted a growth of 6.1 per cent over 2021.
- CBs, NRI deposits, and short-term trade credit accounted for about 95 per cent of non-sovereign debt., The short-term trade credit rose substantially by 20.7 per cent at end-March 2022 on the back of a surge in imports during 2021-22.
- **The debt service ratio fell to 5.2 per cent during 2021-22** from 8.2 per cent during 2020-21 due to buoyancy in current receipts and a decline in debt service payments.
- The debt service payment obligations arising out of the stock of external debt as at end-March 2022 are projected to trend downwards over the coming years.
- **In a cross-country perspective, India's external debt is modest, occupying 23th position globally.**
- In terms of various debt vulnerability indicators, India's sustainability was better than the Low-and-Middle Income Countries (LMICs) as a group and vis-à-vis many of them individually.

What is external debt?

- It refers to money borrowed from a source outside the country. External debt has to be paid back in the currency in which it is borrowed.
- External debt can be obtained from foreign commercial banks, international financial institutions like IMF,

World Bank, ADB etc and from the government of foreign nations.

- Normally these types of debts are in the form of tied loans, meaning that these have to be used for a predefined purpose as determined by a consensus of the borrower and the lender.
- Governments and corporations are eligible to raise loans from abroad. These are in the form of external commercial borrowings.
- The interest rate on foreign loans is linked to LIBOR (London Interbank Offer rate) and the actual rate will be LIBOR plus applicable spread, depending upon the credit rating of the borrower.