GLOBAL DEBT VS INDIA'S DEBT: INDIA PERFORMED BETTER THAN GLOBE

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Abstract

Global debt is on the rise. During the last ten years global debt has become more than double. Global debt is in trillion and the same is growing faster than global Domestic Product. The ratio of world debt to global GDP increased from 218 per cent to 266 per cent during the period of 2000 and 2010. In case of USA and Europe the ratio stood at 70 per cent of the GDP. India's external debt scenario is much better than global debt scene. India's external debt ratio to country's GDP declined during the period 2000 and 2010. The debt service ratio has improved during this period. The present paper is dealing with the emerging trends in respect of global and India's debt.

INTRODUCTION:

The clock is ticking. In every second, world over someone takes on some debt. Global figures for all Government debts world wide are in dollar terms. Overall outstanding debt worldwide has more than doubled during the last ten years. Does it matter? After all, world over Governments owe the money to their own citizens, not to the Martians. But the rising total debt is strategic for two reasons. First, when debt rises faster than economic output as global economy has been experiencing in recent years, higher Government debt results into more state interference in the economy and increased taxes in the future. Second, debt and its servicing always require it's rolling over at regular basis. This leads to a recurring popularity test for individual Governments. For instances, the Greek Government did it in early 2010, and the country can be plunged into imminent crisis. So the higher is the global government debt total, the larger is the risk of fiscal crisis and the bigger the economic impact such crises will have on the global economy in general and individual nation in particular.

Worldwide, overall outstanding debt has become more than doubled during the last ten years. In the year 2000 global outstanding debt was amounted to US $ 78 trillion. In 2010 this figure touched three digit amounts of US $ 158 trillion. Global Debt also grew faster than world's GDP over ten year period. The ratio of world debt to global GDP went up from 218 per cent to 266 per cent between 2000 and 2010.

According to an estimate nearly US $ 48 trillion of the total outstanding debt was belong to Governments and financial institutions. In two global players namely- the US and the EU, the ratio of public debt stood at more than 70 per cent of the GDP. Developed world may need to undergo years of spending cuts and higher taxes in order to get fiscal deficit in order. In the last two years, global public debt has gone up by US $ 9.4 trillion which comes to 13 percentage points of world's Gross Domestic Product (GDP). In the year 2010 alone global public debt accounted for nearly 80 per cent of the overall growth in total outstanding debt.

Many Governments world over, particularly in the developed countries, were compelled to massive stimulus steps to accelerate the growth rate in their respective economies due to the beginning of financial crisis of 2008. Global public debt outstanding amounted to US $ 41.1 trillion at the end of the year 2010, a rise of about US $ 35 trillion since 2000. The major debited countries in the world are given in **Figure 1**.

Developed economies may need to undergo years of spending cuts and higher taxes in order to get fiscal house in order. The largest public debt is on the United States of America and the lowest among major debited countries is Canada. India's rank stood at 8th. These trends are the indicators that in years to come global debt may increase further and many countries may face debt crisis on the lines of European Union. In US and Western Europe during 2010, the ratio of public debt constituted more than 70 per cent of the GDP.

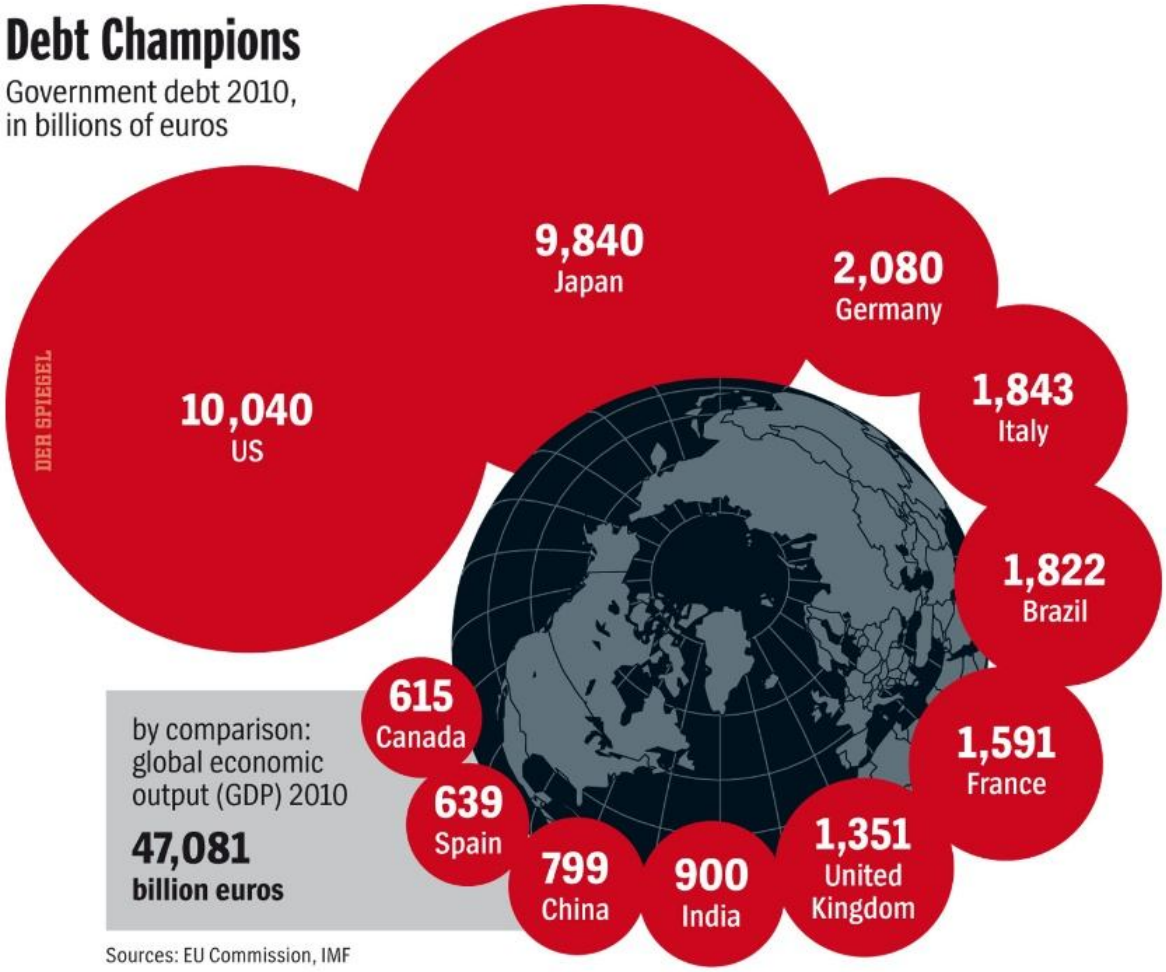

Fig.1

In 2010, Governments debt constituted 80 per cent of the overall rise in total debt outstanding. According to McKainsey report, world over Governments total debt amounted to US $ 31.7 trillion. The major contributory factors have been budget deficit, increased stimulus packages and loss of revenues because of anemic growth.

Pension and health care costs are rising as the dynamics of population is changing in terms of population age and unfunded pension and health care liabilities are not properly reflected in current Governments debt data. Without having fiscal consolidation the Governments debt would continue to increase in coming years

With budgets under heavy odds from both short-term crisis related measures and long-term pressures on growth and calls on public purse or pocket, developed economies may need to undergo years of spending cuts and higher taxes. This step may result into decline trend in the popularity of the Governments governing the economies world over.

US the biggest debited country:

US debt is pretend debt that doesn't need to be paid back since we borrowed money that we create for free from ourselves. (Also see UK, Japan, China, Canada, and Australia). ALL loans are backed by collateral which is why student loans are not dischargeable and credit card interest rates are so high. Your fiat is Monopoly money thesis is utter crap and based on a complete fabrication of whatever fantasy world in which you abide.

Look at total credit vs GDP then you will see excess credit which must be defaulted and written off. It will mean a monstrous but brief (3 – 5 years) depression but there is literally no better alternative to this point. All loans are backed by collateral this is why student loans are not dischargeable and credit card interest rates are so high. The dollar is backed by the productive capacity of the American worker. The figures are $15 Trillion/year and $280 Trillion since World War II. What collateral is behind the National Debt? The liability lies on the Government. How would the government pay it?

Indian debt scenario:

India's external scene has been improving during the last decade. India's key indicators of external debt are given as under:

Select indicators of external debt:

(i) The ratio of external debt to GDP declined to 18.9 per cent as at end-March 2010 from 20.5 per cent as at end-March 2009.

(ii) The debt service ratio increased to 5.5 per cent during 2009-10 as compared to 4.6 per cent during 2008-09.

(iii) India's foreign exchange reserves provided a cover of 106.7 per cent to the external debt stock at the end of March 2010 as compared to 112.2 per cent as at end-March 2009.

(iv) The share of confessional debt in total external debt declined to 16.8 per cent as at end-March 2010 from 18.7 per cent at end-March 2009 reflecting the sustainable increase in non-confessional private debt in India's external debt stock.

(v) The ratio of short-term debt to foreign exchange reserves at 18.8 per cent as at end-March 2010 was higher than that of 17.2 per cent in the previous year.

(vi) The share of short-term debt in total debt increased to 20.1per cent at end-March 2010 from 19.3 per cent at end-March 2009.

Major highlights in 2011:

i. India's external debt, as at end-March 2011, was placed at US $ 305.9 billion (17.3 per cent of GDP) recording an increase of US $ 44.9 billion or 17.2 per cent over the end-March 2010 level on account of significant increase in commercial borrowings, short-term trade credits, bilateral and multilateral borrowings.

ii. Excluding the valuation effects due to depreciation of US dollar against other major international currencies and Indian Rupee, the stock of external debt has increased by US$ 38.4 billion over the stock as at end-March 2010.

iii. The share of commercial borrowings stood highest at 28.9 per cent as at end-March 2011 followed by short-term debt (21.2 per cent), NRI deposits (16.9 per cent) and multilateral debt (15.8 per cent).

iv. The debt service ratio declined to 4.2 per cent during 2010-11 as compared to 5.5 per cent during 2009-10.

v. Based on residual maturity, short-term debt accounted for 42.2 per cent of the total external debt as at end-March 2011. Whereas the share of short-term debt, by original maturity, was 21.2 per cent of the total external debt stock.

vi. The ratio of short-term debt to foreign exchange reserves at 21.3 per cent as at end- March 2011 was higher compared to 18.8 per cent as at end-March 2010.

vii. The US dollar accounted for 59.9 per cent of the total external debt stock as at end-March 2011 followed by Indian rupee (13.2 per cent) and Japanese Yen (11.4 per cent).

viii. India's foreign exchange reserves provided a cover of 99.6 per cent to the external debt stock at the end of March 2011 as compared with 106.9 per cent as at end-March 2010.

India's external stock has gone up a margin of 17.2 per cent US $ 305.9 billion at the end of March 2011. The increase is of US $ 44.9 billion over the March 2010 level when it stood US $ 261 billion. This rise is mainly due to large commercial borrowings as well as short-term trade credits which is falling in line with the higher growth of Indian economy resulting into the required strong internal demand during 2010-11.

Major components of debt:

India's composition of debt has gone a radical change due to globalization of Indian economy (**See Table 1**). There has been a considerable rise in the share of commercial borrowing in the total India's debt. At the end of March 2005 the share of commercial borrowing in India's total debt was 19.7 and this share has touched a figure of 28.9 per cent at the end of March 2011. The emerging of commercial borrowing as a major component of India's total debt is an indicator that Indian economy has emerged as mature market economy as well as increase role of corporate sector in sustaining the required higher growth.

India's total long-term debt in 2010 was amounted to US $ 208.7 billion and this amount went up to US $ 240.9 billion registering an increase of more than 15.4 per cent in 2011. In case of Short-term debt the increase is of 24.2 per cent i.e. from US $ 52.3 billion to US $ 65 billion during the same period. This means short-term debt has increased faster than long-term debt during the period. The relative share of long-term debt in India's total debt stood at 78.8 per cent and the relative share of short-term debt has been at 21.2 per cent.

India's Government sovereign external debt amounted to Us $ 78.2 per cent till the end of March 2011 as compared to a figure of Us $ 67.1 billion in 2011 recorded a rise of US $ 11.1 billion or an increase of 16.5 per cent. Whereas this constituted 25.6 per cent of the total Indian's external debt, the figure 2010 was almost the same at 25.7 per cent. Indian Government guaranteed external debt we pegged at US $ 8.6 billion in 2011 as compared to US $ 7.8 billion in 2010 till the end of March 2011.

The most revealing trend is that the rise in India's total debt stock as well as changing pattern in segments, external debt remained within manageable limits. This could be testified from the fact that external debt to GDP ratio stood at 17.3 per cent and debt service ratio also stood at 4.2 per cent. These show that there is an improvement in India's external debt scenario. These trends and situation in regard to India's external debitedness has been because of necessary prudent external debt management policy adopted by by the Indian Government. This could have been possible for proper and effective monitoring of long and short-term debt, raising sovereign loans on concessional terms, along with long maturity, regulating commercial borrowings through end-use all-in-cost restrictions, and rationalizing interest rates on non-resident Indian deposits.

Debt service ratio:

This is also an important segment of India's total debt scene. Whereas the ratio of debt stock in respect of GDP is taken out by scaling the total outstanding debt stock in terms of rupee at the end of financial year by the GDP in rupees at current market prices during fiscal, the debt service payments that include principal repayment as well as interest on principal to current receipts minus official transfers of the Balance of Payments (BPO). In particular, the debt service ratio shows the claim that servicing of external debt makes on current receipts and is therefore, a measure of strain on the economy's BOP because of servicing of debt service obligations.

Currency composition:

The currency components of India's external debt indicate that the US dollar continues to remain the dominant currency, hence accounting for 53.5 per cent of the total external debt till the end of March 2011. The share of Indian rupee stood at 19.5 per cent occupying second place, followed by Japanese Yen with a share of 11.4 per cent and Special Drawing Rights units of IMF constituted 9.7 per cent. The valuation effect, because of depreciation of the greenback against major international currencies, has contributed US $ 6.5 billion to the total increase of US $ 44.9 billion till the end of March 2011 over the figures recorded in 2010.

According to the report of Global Development Finance released by the World Bank, India's global ranking in terms of absolute debt stock is 8th in the world and among top 20 developing countries is 5th.

Conclusion:

Foregoing analysis reveals that in the present decade, global debt has increased enormously especially in case of the US and EU. As a result these economies are facing debt crisis. In case of India, the trends and situation is better as compared to global debt trends and situation. India's external debt has also increased considerably especially in the component of commercial borrowings. In order to avoid any possible situation of debt crisis, India has to consolidate its fiscal deficit.

Table 1: External Debt by Component

(US $ million)

Item	End- March							
	1991	1998	2005	2006	2007	2008	2009	2010 P
1	2	3	4	5	6	7	8	9
1. Multilateral	20,900	29,553	31,744	32,620	35,337	39,490	39,538	42,733
	(24.9)	(31.6)	(23.7)	(23.4)	(20.5)	(17.6)	(17.6)	(16.3)
2. Bilateral	14,168	16,969	17,034	15,761	16,065	19,708	20,613	22,596
	(16.9)	(18.1)	(12.7)	(11.3)	(9.3)	(8.8)	(9.2)	(8.6)
3. IMF	2,623	664	1,029	981	1,029	1,120	1,018	6,041
	(3.1)	(0.7)	(0.8)	(0.7)	(0.6)	(0.5)	(0.5)	(2.3)
4. Trade Credit	4,301	6,526	5,022	5,420	7,165	10,328	14,490	16,878
	(5.1)	(7.0)	(3.7)	(3.9)	(4.2)	(4.6)	(6.5)	(6.5)
5. ECBs	10,209	16,986	26,405	26,452	41,443	62,334	62,413	70,986
	(12.2)	(18.2)	(19.7)	(19.0)	(24.0)	(27.8)	(27.8)	(27.2)
6. NRI Deposits	10,209	11,913	32,743	36,282	41,240	43,672	41,554	48,092

	(12.2)	(12.7)	(24.4)	(26.1)	(23.9)	(19.5)	(18.5)	(18.4)
7. Rupee Debt	12,847	5,874	2,302	2,059	1,951	2,017	1,527	1,657
	(15.3)	(6.3)	(1.7)	(1.5)	(1.1)	(0.9)	(0.7)	(0.6)
8. Long-term Debt (1to 7)	**75,257**	**88,485**	**116,279**	**119,575**	**144,230**	**178,669**	**181,153**	**208,983**
	(89.8)	(94.6)	(86.8)	(86.0)	(83.7)	(79.6)	(80.7)	(79.9)
9. Short-term Debt	**8,544**	**5,046**	**17,723**	**19,539**	**28,130**	**45,738**	**43,362**	**52,471**
	(10.2)	(5.4)	(13.2)	(14.0)	(16.3)	(20.4)	(19.3)	(20.1)
Total (8+9)	**83,801**	**93,531**	**134,002**	**139,114**	**172,360**	**224,407**	**224,515**	**261,454**
	(100)	**(100)**	**(100.0)**	**(100)**	**(100)**	**(100)**	**(100)**	**(100)**
P: Provisional								
IMF: International Monetary Fund; ECBs: External Commercial Borrowings; NRI: Non-Resident Indian								
Note: Figures in parentheses are percentage to total external debt.								
Source: Ministry of Finance, Government of India and Reserve Bank of India.								

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