

INDIA'S EXTERNAL DEBT: ECONOMY

NEWS: India's external debt rises to \$736 billion, 19.1% of GDP, says RBI

WHAT'S IN THE NEWS?

India's external debt rose to \$736.3 billion in March 2025, increasing risks related to currency exposure, short-term refinancing, and interest outflows. While reflecting global capital access, it raises concerns about macroeconomic vulnerability and debt sustainability.

India's External Debt as of March 2025: Overview

1. Total External Debt

- India's **external debt** rose to **\$736.3 billion**, which is **19.1% of GDP** at the end of March 2025.
- It was **\$668.8 billion** (18.5% of GDP) a year ago—indicating an annual increase of over \$67 billion.

2. Definition of External Debt

- Refers to **borrowings from foreign lenders** like:
 - Sovereign governments
 - International financial institutions (e.g., IMF, World Bank)
 - Private commercial entities (banks, investors)

3. Categories of External Debt

- **Long-term Debt:** Original maturity of **more than one year**.
- **Short-term Debt:** Original maturity of **up to one year**.

Key Trends in India's External Debt Composition (FY25)

1. Long-Term Debt Trends

- Long-term debt at end-March 2025 was **\$601.9 billion**
- Increased by **\$60.6 billion** compared to March 2024.

2. Short-Term Debt Trends

- Short-term debt share **declined** to **18.3%** of total debt (from 19.1% in FY24).
- However, **short-term debt to forex reserves ratio increased** to **20.1%**, indicating greater refinancing risk.

3. Composition of External Debt by Instrument

- **Loans:** 34% – largest component
- **Currency and deposits:** 22.8%
- **Trade credit and advances:** 17.8%
- **Debt securities:** 17.7%

4. Currency Composition

- **US dollar-denominated debt** forms the largest share at **54.2%**, exposing India to significant currency risk.

Challenges and Risks Associated with Rising External Debt

1. Currency Risk

- High exposure to **USD-denominated debt** makes repayment costlier when **rupee depreciates**.
- Increases the burden of external liabilities during currency volatility.

2. Short-Term Vulnerabilities

- Although short-term debt share declined, **its ratio to forex reserves rose**, signaling potential rollover risks.
- This is a concern during global liquidity crunches or interest rate shocks.

3. Sovereign Credit Risk

- If debt rises **without matching growth or export performance**, it could:
 - Lead to **rating downgrades**
 - Increase the **cost of future external borrowing**

4. Interest Payment Burden

- Increased external borrowing leads to rising **interest outflows**.
- Contributes to the **primary income deficit** in the current account, stressing external balances.

Way Forward: Debt Management Strategy

1. Promote Rupee-Denominated Borrowings

- Encourage instruments like **Masala Bonds** (rupee bonds issued overseas).
- Expand **bilateral currency swap arrangements** to reduce USD dependence.

2. Enhance Debt Transparency

- Create a **comprehensive monitoring framework** for:
 - **Private sector external debt**
 - Currency-wise exposure and risks

3. Regulate External Commercial Borrowings (ECBs)

- Especially monitor ECBs by **Non-Banking Financial Companies (NBFCs)** and **startups**, where risk is higher.
- Ensure prudent end-use and hedging strategies.

4. Build Forex Resilience

- Formulate an **export-oriented industrial policy** to earn more foreign exchange.
- Maintain **robust foreign exchange reserves** to cushion external shocks.

5. Maintain Fiscal Prudence

- Adhere to **FRBM (Fiscal Responsibility and Budget Management)** targets.
- Avoid excessive reliance on external borrowing to fund **domestic fiscal deficits**.

Concluding Remarks

- India's rising external debt reflects deeper global financial integration and access to capital.
- But it is a **double-edged sword**, increasing **macro-financial risks** if not carefully managed.
- India must pursue a **sustainable debt strategy** focusing on:
 - *Sustainability over scale*
 - *Resilience over risk*
 - *Stability over short-term gains*

Source: https://www.business-standard.com/economy/news/india-s-external-debt-rises-to-736-billion-19-1-of-gdp-says-rbi-125062701306_1.html