

*Speech***INAUGURAL ADDRESS TO TECHNICAL GROUP ON
EXTERNAL DEBT STATISTICS*****Y.V Reddy**

I have great pleasure in meeting all of you today - basically to emphasise the significance of the tasks before the Group and to assure you that your recommendations will be considered carefully and promptly. I suspect that your Report would have relevance not only to our own situations but also to other countries and multilateral institutions. I am happy that we could assemble the best technical expertise for the Technical Group on external debt constituted at the initiative of Governor, Dr. Bimal Jalan. We have high hopes and I am confident that you will live up to the expectations.

2. At the outset, let me explain the background in which the Technical Group has been constituted. Although we had a fairly well laid out framework for collection and periodical dissemination of external debt statistics based on the earlier Policy Group's recommendations, we still found that some agencies, particularly international agencies are presenting conflicting magnitudes of our external debt. There is, therefore, a need to clarify these aspects both for ourselves and the concerned institutions. In this address, I would like to give an overview of the external debt policy and the work done by the earlier

Policy Group on external debt statistics—in which I had the privilege of representing the Ministry of Finance. I will quickly recall the action taken on these recommendations and other relevant initiatives. In view of the current international context with respect to short-term debt, I would like to invite your attention to the way in which we deal with statistics on short-term debt and how other agencies deal with it. This is meant to illustrate the type of problems this Technical Group would address. I would conclude with a brief mention about the tasks ahead.

Deregulation and Data

3. At the outset, I would like to highlight the importance of data and monitoring in the context of deregulation. Often, while dismantling controls and regulations, we end up dismantling data and monitoring systems. As the Asian crisis has shown, we simply cannot afford to ignore the need for improvement of reporting systems while deregulating.

4. With the easing of restrictions on both current and capital account transactions, the availability of up-to-date and accurate

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information has assumed critical importance, both to initiate appropriate policy responses and to meet the information demand from market participants and several international agencies. As you are aware, we had constituted a Sub-Group on Reporting of Foreign Exchange Transactions by Authorised Dealers under the Chairmanship of Shri S. P. Paniyadi, which submitted its Report in 1997. The Sub-Group had recommended, *inter alia*, electronic reporting of details of foreign exchange transactions by selected bank branches and streamlining of the existing reporting arrangements. The Reserve Bank has already implemented these recommendations. The selected bank branches have started reporting details of foreign exchange transactions via the computer media since October 1997. With the institution of the proposed VSAT network, it would be possible to achieve further improvements in the data transmission system through establishment of on line connectivity between banks and the Reserve Bank. We have to recognise that technology is progressing, and markets all around operate with great speed. Our statistics and reporting systems should be constantly upgraded to cope with the developments in markets as well as policies.

External Debt Policy

5. The severe external payments crisis of 1990 resulted in a need for paying careful attention to many aspects of economic management. A High Level Committee on Balance of Payments (Chairman : Dr.C.Rangarajan) went into various issues between 1991 and 1993. Incidentally, I had the privilege of being its Member Secretary. Some of the recommendations of Rangarajan Committee relating to external debt, which has been guiding our policy all these years and which have been validated by recent international

developments are worth recalling.

(a) On external debt policy, the Committee observed: "In regard to the future directions in the structure of debt, the Committee recommended necessary policy and procedural changes to bring about the following: quick disbursement of concessional and semi-concessional flows; disintermediation of Government to the maximum extent in aid and flows; absorption of aid only when it is consistent with the requirements of the enterprise concerned or Department/State concerned; and continuation of NRI deposits at a level that would ensure no net outflow but with longer maturities profile; insistence on a minimum maturity of five years for commercial borrowings except for purposes of consolidation of short-term debt; recourse to commercial sources of financing essentially to meet foreign currency expenditures, particularly for non-tradable goods, priority sectors like oil and fertilizer, export oriented units, etc., or borrowings linked with inflow of equity; and a prudent policy of extending guarantees by sovereign or public sector financial and banking institutions."

(b) In regard to short-term debt, the report said: "In the light of past experience, the Committee recommended that the policy of the Government and the RBI in regard to the management of short-term debt should be on the following lines:

(i) Short-term debt should be permitted only for trade-related purposes and under normal terms; (ii) Recourse to short-term debt should not be taken as an instrument for protecting the reserves; (iii) No roll-over beyond six months should be resorted to in regard to any short-term facilities without careful consideration of the implications; (iv) Any short-term debt not governed by the

above considerations should be specifically approved by RBI after satisfying itself that recourse to such debt was trade-related or on genuine cost considerations; and (v) RBI should set up a monitoring system for short-term debt so that it is possible to ascertain with a reasonable amount of accuracy the extent of such debt that may be outstanding at any point of time."

(c) Referring to exchange rate policy, the Committee recommended that "consideration be given to (i) a realistic exchange rate, (ii) avoiding use of exchange mechanism for subsidisation, (iii) maintaining adequate level of reserves to take care of short-term fluctuations, (iv) continuing the process of liberalisation on current account, and (v) reinforcing effective control over capital transactions. The key to the maintenance of a realistic and a stable exchange rate is containing inflation through macro-economic policies and ensuring net capital receipts of the scale assumed in BOP projections."

(d) On the level of reserves, the Committee observed that "It has traditionally been the practice to view the level of desirable reserves as to percentage of the annual imports, e.g. reserves enough to meet three months' imports or four months' imports. However, this approach would be inadequate when a large number of transactions and payment liabilities other than those relating to import of commodities arise. Thus, liabilities may arise either for discharging short-term debt obligations or servicing of medium-term debt, both interest and principal. Hence, the Committee recommended that while determining the target level of reserves due attention should be paid to the payment obligations in addition to the level of imports."

Task Force and Policy Group (TF&PG)

6. The sensitivity to issues relating to external debt in the reform process led to the constitution of a Task Force and a Policy Group (TF&PG) on the External Debt Statistics of India, to secure uniformity in definitions, coverage and classification of external debt between the Government of India and the Reserve Bank on the one hand, and on the other, between official statistics and those of the international agencies like the World Bank (WB), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the Bank for International Settlements (BIS) and the Institute of International Finance (IIF).

Recommendations of the TF&PG

7. The TF&PG undertook an analytical examination of coverage and classification discrepancies, database management and presentational issues relating to external debt. It also held exhaustive discussions with various international agencies involved in the reporting of external debt statistics. Based on these exercises, it made several recommendations in its Report submitted in March 1992 to ensure transparency, reliability and uniformity in India's external debt statistics.

Firstly, on the definition of external debt, the TF&PG noted that prior to 1988, there was no formal and universally accepted definition of external debt. To ensure consistency of India's external debt statistics with international standards, the TF&PG recommended that the 'core' definition of gross external debt given by the International Working Group set by international agencies

in 1988 be adopted for India with exclusions proposed so as to adapt the international definition to India's specific situation.

Secondly, on coverage and classification, the TF&PG proposed a classification of external debt which was both analytical and exhaustive. It classified by type of debtor i.e., public or government, semi-government and private; by maturity, i.e., long-term and short-term; by type of transaction, i.e., deposit or trade related; and by element of concessionality, i.e., external assistance or commercial borrowing. The proposed classification had eight major categories:

(i) multilateral, (ii) bilateral, (iii) export credits, (iv) IMF, (v) commercial borrowing, (vi) NRI deposits above one year maturity, (vii) NRI bonds, etc. and (viii) short-term debt including NRI deposits of up to one year maturity.

Thirdly, in respect of analytical presentation of debt statistics, the TF&PG recommended that external debt statistics should be expressed in original currencies to give an idea of the currency mix of debt. Furthermore, they should also be expressed in local currency and in US dollars. The TF&PG also recommended monitoring of the maturity profile of the country's external debt to obtain a realistic picture of the time available for discharge of debt.

Finally, the TF&PG recommended the constitution of a unit, i.e., Debt Unit for External Sector (DUES) to co-ordinate the data on external debt between various compiling agencies, interact with international agencies, assist in the planning of future borrowing consistent with sustainability of external debt, evaluate cost effectiveness of debt, prepare sensitivity analyses and provide support in the form of

management information system to appropriate High Level Committee on External Debt.

Actions Taken on the TF&PG's Recommendations

8. The recommendations of the TF&PG have been, by and large, accepted and implemented.

First, the broad classification of external debt statistics recommended with sub-categorisation as between type of creditor and type of borrower, maturity and degree of concessionality has been adopted for presenting India's external debt statistics by the Government of India and the Reserve Bank. Some modifications have occurred over the years, mainly comprising the movement of categories recommended by the TF&PG as memo items into the main body of external debt statistics. Moreover, in the light of evolving developments, new categories of external transactions have been incorporated in debt statistics.

Second, efforts have been made to present debt statistics in terms of original currencies and this has enabled assessment of currency composition and valuation effects.

Third, an External Debt Management Unit (EDMU) has been set up in the Ministry of Finance to perform the responsibilities recommended by the TF&PG for DUES, with active co-ordination with the Reserve Bank. The EDMU has been assisting a Steering Committee constituted by the Government for gaining necessary policy perspectives on management of India's external debt.

Fourth, the data base management system of the Commonwealth Secretariat has been installed in the agencies compiling various

components of debt and useful experience has been gained for some time now. It is hoped that progress will be made towards on-line connectivity and data interchange. Recently, the World Bank has approved an IDF grant for external debt monitoring and management project which would be conducted by the EDMU.

Fifth, I humbly submit that today, compared to anytime before, there is greater transparency. We have a periodical public report on total external debt and its components. Debt on account of defence and our rupee debt due to erstwhile USSR are also indicated now in the data. We also have a well laid out policy of external commercial borrowings. Procedures are announced clearly.

Short-term Debt: Special Focus

9. In the wake of the Asian financial crisis, considerable attention and concern has come to be focused on the size and composition of short-term external debt and the impact of maturing debt on the behaviour of the foreign exchange market. There has also been a renewal of emphasis on the treatment of guarantees, derivatives and off-balance sheet items in the context of external debt statistics.

10. In the Indian presentation of external debt statistics, short-term debt is estimated at US \$ 6.7 billion at the end of March 1997 (Annual Report 1996-97, RBI); on the other hand, the BIS has placed India's short-term bank debt at the end of 1996 at US \$ 7.1 billion and the Institute of International Finance (IIF), using the BIS data in conjunction with its own estimates of non-bank debt, has published India's short-term debt at the end of March 1997 as US \$ 16.8 billion. It is necessary to understand why there is such discrepancy. Clearly, it is attributable to

varying definitions.

(a) In the Indian debt statistics, short-term debt is defined as comprising all debt obligations which have an original maturity of less than one year. The principal components are short-term deposits of non-resident Indians (NRIs) and trade related credits of maturity above six months and up to one year. Important exclusions are short-term deposits under the Non-Resident Non-Repatriable Rupee Deposit (NRNRD) Scheme, cross-border bank claims and trade related credits of maturity less than six months.

(b) The Bank for International Settlements (BIS) reports India's short-term debt as all claims of reporting banks of residual maturities up to and including one year. Reporting banks' claims include local lending in non-local currencies of their affiliates in India. It is assumed that debtor entities do not redeposit loaned funds with the reporting banks. Foreign currency claims on banks in the country of issue of the currency are included with the assumption that borrowing banks obtain funds mainly for domestic purposes and not for re-lending abroad. Thus, the BIS data relate to indebtedness only *vis-à-vis* reporting banks.

(c) The Institute of International Finance (IIF) employs a creditor reporting format, disaggregating India's short-term debt as owed to commercial banks, private creditors and bilateral creditors. Estimates of short-term debt owed to commercial banks are derived from the BIS data which are on the basis of residual maturity and exclude guaranteed bank debt. Trade credits below six months are included under debt owed to commercial banks. Private creditors consist largely of NRI deposits and some private non-guaranteed suppliers' credits. Non-Resident

Non-Repatriable Rupee deposits are included under India's short-term external debt. Bilateral short-term debt is derived from the BIS/OECD guaranteed non-bank suppliers' credits.

(d) The World Bank regards the individual reporting country as the authoritative source of information on its own external liabilities. Where information on short-term debt (defined in terms of original maturity) is not available, an estimate of short-term liabilities is derived from the BIS data which are reported residually. Combining these estimates with data on officially guaranteed short-term suppliers' credits compiled by the OECD produces a lower bound estimate of a country's short-term debt. For a few countries including India, data reported by the countries themselves are regarded as authoritative.

Tasks Ahead

11. Clearly, each organisation adopts a definition that is relevant to its role. We have to live with it, but there could be some misunderstandings and miscommunications. We have to also refine our definitions and coverage to capture larger elements and broader concerns. Illustratively, let me list major tasks ahead for this Group.

First, the Group would need to review the existing definitions, accounting procedures and institutional arrangements concerning the collection, monitoring and presentation of our external debt statistics. If necessary, it would need to evolve definitions, classifications and practices of compiling debt statistics so as to ensure easy comparisons with those of international organisations. This would necessarily involve close interaction and consultation with these organisations.

Second, it is necessary to continue publishing short-term external debt data by our current approach i.e., defining short-term debt in terms of original maturity of less than one year. In addition, and for the purpose of assessing the impact of maturing debt on the foreign exchange market, a broader approach could be adopted involving measurement of a composite of original and residual maturities. In fact, netting the two could lead to some complications.

Third, certain categories of our debt which do not involve outflows of foreign exchange and/or are in the nature of contingent liabilities can be shown as memo items.

Fourth, certain categories of our debt such as Foreign Currency Non-Resident (Banks) deposits (FCNRB) which have corresponding foreign assets or claims abroad warrant special treatment. While the liabilities would, no doubt, be included in debt, assets held abroad out of such liabilities should be reckoned when they are large and shown as a memo item.

Fifth, the Group could evolve a methodological framework for the ongoing estimation of external debt by various maturities with particular emphasis on short-term debt and residual maturity. An important prerequisite is the recommendation of specific institutional mechanisms, surveys and data modelling exercises. An area requiring your special attention would be the regular preparation and updating of debt servicing profiles.

Sixth, the Group could suggest various debt indicators with a focus on the foreign exchange market and balance of payments impact.

The Group has been constituted at a significant juncture of external sector developments. The lessons emerging from the Asian financial crisis clearly underscore the need for reliable, timely and internationally acceptable statistics on

external debt with particular emphasis on the short-term component thereof. Both policy authorities and the financial community would await the Report of the Group and I wish you all success in your deliberations.