REPORT OF THE TECHNICAL GROUP ON EXTERNAL DEBT

RESERVE BANK OF INDIA

MAY 1998

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भारतीय रिज़र्व बैंक
केन्द्रीय कार्यालय,
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RESERVE BANK OF INDIA
CENTRAL OFFICE,
SHAHEED BHAGAT SINGH ROAD,
MUMBAI - 400 001. INDIA.

The Deputy Governor,
Reserve Bank of India,
Mumbai.

May 29, 1998

Dear Sir,

We submit herewith the Report of the Technical Group on External Debt.

Yours faithully,

M.R.Nair
Chairman

N.H. Siddiqui Member	**K.Shankar** Member	**Anil Bisen** Member
Smt. Y.U.K. Sarma Member	**Himadri Bhattacharya** Member	**Michael Debabrata Patra** Member-Secretary

LIST OF ABBREVIATIONS

BIS	Bank for International Settlements
BPM	Balance of Payments Manual
CAA&A	Controller of Aid Accounts and Audit
CRS	Creditor Reporting System
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DAC	Development Assistance Committee
DEAP	Department of Economic Analysis and Policy
DRS	Debtor Reporting System
DUES	Debt Unit for External Sector
ECB	External Commercial Borrowing
EDMU	External Debt Management Unit
FCCB	Foreign Currency Convertible Bond
FCNR(B)	Foreign Currency Non-Resident (Banks) Deposits
FII	Foreign Institutional Investor
FRN	Floating Rate Note
GDF	Global Development Finance
GDP	Gross Domestic Product
GoI	Government of India
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDF	Institutional Development Fund
IFC	International Finance Corporation
IFS	International Financial Statistics
IIF	Institute of International Finance
IIP	International Investment Position
IMF	International Monetary Fund
IWGEDS	International Working Group on External Debt Statistics
MoD	Ministry of Defence
MoF	Ministry of Finance
NR(NR)RD	Non-Resident (Non-Repatriable) Rupee Deposit
NR(E)RA	Non-Resident (External) Rupee Account
NRI	Non-Resident Indian
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PG/TF	Policy Group/Task Force
PV	Present Value
RBI	Reserve Bank of India
SEBI	Securities and Exchange Board of India
SNA	System of National Accounts
UNCTAD	United Nations Conference on Trade and Development.
WDT	World Debt Tables

CONTENTS

CHAPTER 1

INTRODUCTION

At present, India's external debt statistics could be considered to be among the best in comparison with other debtor countries in terms of coverage, comprehensiveness and transparency. In the light of recent international developments, innovations in India's international financial transactions and to cope with the prospective requirements of the emerging scenario, it was felt desirable to further refine the coverage, compilation and presentation of external debt statistics. Accordingly, on March 9, 1998 the Reserve Bank of India (RBI) appointed a Technical Group on External Debt (hereafter, referred to as the Group) comprising the following:

(i) Shri M.R. Nair, Chairman
(ii) Shri N.H. Siddiqui, Member
(iii) Smt. Y.U.K. Sarma, Member
(iv) Shri H. Bhattacharya, Member
(v) Shri K. Shankar, Member
(vi) Shri Anil Bisen, Member
(vii) Shri M.D. Patra, Member-Secretary

1.2. Sarvashri B.N. Anantha Swamy, Director, Muneesh Kapur, Research Officer and Sumit Basu, Research Officer of the Department of Economic Analysis and Policy (DEAP), RBI formed the Secretariat.

1.3. The terms of reference were :

(i) To review the existing definitions, accounting procedures and institutional arrangements concerning the collection, monitoring and presentation of India's external debt statistics.

(ii) To evolve definitions, classifications and practices of compiling debt statistics so as to ensure consistency with those of international organisations through close interaction and consultation.

(iii) To evolve a methodological framework for the ongoing estimation of external debt by various maturities with particular emphasis on short term debt and residual maturity.

(iv) To recommend an analytical basis for monitoring of debt indicators with a focus on their impact on the foreign exchange market and balance of payments.

(v) To recommend institutional arrangements for collection of data on the basis of proposed classification of external debt and liabilities.

(vi) To review the experience gained in the compilation of debt statistics through the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) and to intensify interaction with the Commonwealth Secretariat for ensuring ongoing technological upgradation.

(vii) To examine any other matter of relevance to the broad terms of reference.

1.4. The Group was required to submit its Report by the end of May, 1998. The Memorandum appointing the Group is at Annexure I.

1.5. Emphasising the significance of the tasks before the Group, Dr. Y.V. Reddy, Deputy Governor, in his address to the Group, noted that although there is a fairly well laid out framework for collection and periodical dissemination of external debt statistics based on the recommendations of the Policy Group/ Task Force (PG/TF) on the External Debt Statistics of India (1992), there are still some international agencies who are presenting conflicting magnitudes of external debt. There is, therefore, a need to clarify these aspects. He highlighted the need for improvement of data reporting and monitoring in the context of deregulation as in the process of dismantling controls and regulations there is a possibility of dismantling data and monitoring systems. With the easing of restrictions on both current and capital account transactions, the pace of technological progress and the speed with which markets operate, there is a need for constantly upgrading statistics and reporting systems so that appropriate policy responses can be initiated and information demands can be met. Dr. Reddy indicated that 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.

1.6. The Group was addressed by Dr. A. Vasudevan, Executive Director, who highlighted the need for a critical evaluation of the definition of external debt and its various categories, the institutional arrangements for monitoring external debt liabilities while reviewing the appropriate definition of short term debt, consistent with the assessment of pressures on the foreign exchange market and the advances made in payments and settlement systems and in information technology.

1.7. The Group is deeply indebted to Dr.Y.V.Reddy, Deputy Governor and Dr. A.Vasudevan, Executive Director for conceptualising the need for the Group and for providing encouragement, guidance and support.

1.8. The Group places on record its deep appreciation for the exemplary contribution made by the Secretariat comprising Sarvashri B.N. Anantha Swamy, Muneesh Kapur and Sumit Basu. The untiring efforts of these officials in preparing background papers and their participation in the deliberations greatly helped the Group in crystallising its recommendations. The Group also expresses its gratitude to all others listed in Annexure II whose contributions merit special mention. The Chairman acknowledges with thanks the sincere co-operation extended by all other Members of the Group for ensuring timely completion of the Report. He also wishes to place on record the outstanding competence and devotion shown by the Member-Secretary.

Outline of the Report

1.9. Chapter 2 of this Report addresses the progress achieved in implementing the recommendations of the PG / TF relating to India's external debt statistics and undertakes a reassessment of concepts and definitions in the present milieu. Chapter 3 sets out specific aspects of coverage of debt statistics, the methodological framework for the collection of information on various categories of debt, the relationship between debt and related stocks and flows and the institutional arrangements for the collection and monitoring of debt statistics. Chapter 4 deals with analytical and monitoring issues. A summary of recommendations is contained in Chapter 5.

CHAPTER 2

CONCEPTS AND DEFINITIONS: A REVIEW

In the aftermath of the unprecedented payments crisis of 1990, the need for transparency and consistency in the definition, coverage and classification of India's external debt statistics provided the rationale for the setting up of a PG / TF which submitted its Report in 1992. The PG / TF made extensive recommendations relating to the definition of external debt, the coverage and presentation of external debt including its structural aspects and exclusions, and institutional arrangements for collection of data and data base management. The format of presentation of external debt statistics recommended by the PG / TF has been adopted in the Economic Survey and the Status Reports on India's External Debt of the Ministry of Finance (MoF), Government of India (GoI) and in the Annual Report and the Report on Currency and Finance of the Reserve Bank of India (RBI). Since 1992-93, the coverage of the format has been progressively expanded. In pursuance of the recommendation of the PG / TF for the setting up of a permanent Debt Unit for External Sector (DUES), an institutional arrangement was made with the establishment of the External Debt Management Unit (EDMU) in the MoF with the additional responsibility of developing a full fledged management information system for providing inputs for policy formulation.

Review of the Recommendations of the PG / TF

Definition

2.2 Noting that there was no formal and universally accepted definition of external debt prior to 1988, the PG / TF adopted the core definition of gross external debt provided in 1988 by the International Working Group on External Debt Statistics (IWGEDS) which was set up jointly by the Bank for International Settlements (BIS), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the World Bank. This definition has been discussed in paragraph 2.10 of this Chapter.

Coverage

2.3 The PG/TF proposed a classification of external debt which was both analytical and exhaustive. It distinguished between type of debtor / creditor, by maturity i.e. long term and short term, by type of transaction i.e. deposit or trade related and by element of concessionality. The proposed classification had eight major categories: (i) multilateral, (ii) bilateral, (iii) export credits, (iv) IMF, (v) commercial borrowings, (vi) Non-Resident Indian (NRI) deposits above one year maturity, (vii) NRI bonds etc. and (viii) short term debt including NRI deposits of maturity up to one year. Rupee/ Rouble bilateral credits, rupee suppliers' credits, amounts outstanding under NRI (non repatriable) bonds and short term credits (less than six months) were recommended for exclusion from the total stock of external debt but were to be monitored as memo items in the debt table. Furthermore, leased transactions were recommended for exclusion from debt statistics although issues relating to exclusion were to be taken up for careful study by the DUES.

2.4 The recommendations of the PG / TF regarding the classification and presentation of external debt statistics have been accepted and implemented. Some modifications have occurred over the years, mainly comprising the movement of categories recommended by the PG / TF as memo items into the main body of external debt statistics. Specifically, civilian and defence debt contracted in convertible currencies and in roubles / rupees have been integrated into the main debt statistics against clear line entries. Short term trade related debt of six months maturity approved by the RBI are now included under short term debt in sub-category for 'trade related credits of six months and up to one year'. Furthermore, in the light of evolving developments, new categories of external transactions such as financial leasing, export credit for defence purchases in convertible currencies and foreign currency convertible bonds have been incorporated in the debt statistics.

Analytical Presentation of Debt Statistics

2.5 The PG / TF recommended that external debt statistics may be expressed in original currencies to give an idea of the currency mix of debt. Furthermore, they may also be expressed in local currency (Indian Rupees) and in US dollars. The PG / TF also recommended monitoring of the maturity profile of the country's external debt to obtain a realistic picture in the context of the time available for the discharge of debt.

2.6 Efforts have been made by the GoI and RBI to present debt statistics in terms of original currencies, i.e., currencies in which debt is denominated, thus enabling the assessment of currency composition and valuation effects. The Group observes, however, that data on trade related credits of maturity less than three years approved by the RBI are not available in terms of original currencies. In this context, the Group recommends that the RBI may institute arrangements to compile information on trade credits approved by it in terms of original currencies.

2.7 The maturity structure recommended by the PG/TF in terms of short term debt, i.e., of original maturity up to one year and long term debt, i.e., of original maturity above one year has also been adopted in the presentation of debt statistics. The Group recommends that data on trade credits of maturity less than three years approved by the RBI may be given in two distinct categories: maturity up to one year and maturity above one year.

Institutional Issues

2.8 The PG / TF recommended the constitution of DUES to co-ordinate with 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 Committees on external debt.

2.9 An External Debt Management Unit (EDMU) has been set up in the MoF to perform the responsibilities recommended by the PG / TF for the DUES, with active co-ordination with the RBI. The EDMU has been assisting a Steering Committee constituted by the GoI for taking necessary policy issues towards management of India's external debt. The data base management system of the Commonwealth Secretariat has been installed in the various agencies compiling the various components of debt and useful experience has been gained in debt database management which would enable progress towards online connectivity and data interchange. Recently, the World Bank has approved an Institutional Development Fund (IDF) grant for strengthening external debt management capabilities through more effective monitoring and management.

Concepts and Definitions

2.10 The Group reviewed the definition of external debt given by the IWGEDS and also noted that this definition was considered as comprehensive by the IWGEDS when it extended its work relating to stocks of external debt to focus on the ways in which stock data enter into the analysis of the flow of external resources between creditor and debtor countries in their report 'Debt Stocks, Debt Flows and the Balance of Payments (1994)'. The core definition of external debt given by the IWGEDS is as follows:

> **"Gross external debt is the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principal, with or without interest, or to pay interest, with or without principal"** *(External Debt: Definition, Statistical Coverage and Methodology-A Report by an International Working Group on External Debt Statistics, 1988).*

2.11 While accepting the definition, the Group recognised that none of the organisations which set up the IWGEDS have completely adhered to the core definition in their presentation of external debt. The rapid pace of financial innovations and country's specific requirements in a dynamic world may necessitate new interpretations of this definition. Nevertheless, there are important aspects of this definition which may be adhered to in the Indian context.

2.12 Gross external debt is the aggregate which is directly related to debt service and excludes any corresponding offsetting assets or claims. Employing the concept of net debt is associated with the difficulties of (i) identifying the assets to be netted i.e., foreign exchange reserves, all or part of bank assets, all or part of non-bank assets, buy-backs of external debt by residents, (ii) monitoring the changes in assets, (iii) monitoring whether or not the assets are unencumbered and, (iv) blurring the maturity structure, currency composition and risk features of liabilities and assets. This is especially true in the context of the Foreign Currency Non-Resident (Banks) [FCNR(B)] scheme in which deposits are not swapped/ sold domestically but are held in the form of deposits/assets overseas. A full assessment of foreign assets and liabilities forms a subject matter of the International Investment Position of the country, which is discussed in Chapter 3.

2.13 Contractual liabilities involve an obligation to make specified payments (equity participation is therefore excluded) i.e., principal and/or interest (debt includes interest free loans, loans with interest but without principal repayment obligations as for instance loans of indefinite maturity, without any distinction between payments in cash and in kind). In the view of the Group, recognition of this principle and the concept of 'residency' necessitates the inclusion of deposits/liabilities even though they may be non-repatriable. An example of such liabilities are deposits under the Non-Resident Non-Repatriable Rupee Deposit (NR(NR)RD) scheme for which the principal amounts are non-repatriable although interest is repatriable. The Group recommends that deposits under the NR(NR)RD scheme may be included under the external debt statistics. Furthermore, in the presentation of debt statistics, data on non-resident deposits, long term and short term, may be shown under two categories, i.e., repatriable and non-repatriable.

2.14 The Group noted that the IWGEDS was equivocal regarding the recommended concept of maturity i.e. original maturity (the period from commitment or disbursement to final repayment of loan), or residual maturity (the time remaining until the final repayment of the loan). At present, India's external debt is presented on the basis of original maturity (Annexure III). In conventional analysis, the stock of debt by original maturity expressed as a ratio to GDP has been regarded as a measure of the long-run sustainability of debt and the overall solvency of the country. As the recent experience of the Asian crisis has shown, an otherwise solvent economy, as reflected in its debt by original maturity, may suffer a serious liquidity problem when its debt servicing burden exceeds its stock of foreign exchange reserves and its ability to contract new debt or extend old debt. In the event of a shift in market sentiment, the country might experience a debt crisis which may not be signaled in the standard measure of debt sustainability. This is especially true in the context of short term debt; inability to capture roll-overs and the cross border bank liabilities imposes a downward bias on debt measured by original maturity, as was seen in the Asian crisis. Debt by residual maturity has several advantages from a practical and policy point of view:

(i) it is forward looking,

(ii) it provides a true picture of the impact of maturing debt on the foreign exchange market,

(iii) it enables authorities to prospectively fine tune debt management instruments such as ceilings, interest rates etc. to ensure sustainability of external payments,

(iv) it allows for the planning of risk management strategies more effectively, and

(v) it brings about an integration of external debt statistics with the balance of payments.

The conceptual superiority, transparency and usefulness of the residual maturity approach over original maturity in presenting external debt statistics is now being recognised among the users of this information; however, since the concept of residual maturity is relatively new, it would take some time before its advantages *vis-à-vis* original maturity estimates are fully and widely accepted.

2.15 The Group, therefore, recommends that India's external debt may be compiled and presented both on original and residual maturity bases for some time before a final shift to residual maturity is made. Residual maturities may be presented over a span of five years ahead of a reference date with the remaining maturities clubbed together. The summation of all these maturities would exactly correspond to the total stock of debt on the reference date by original maturity (Annexure IV). In making this recommendation, the Group recognises the pitfalls of parallel presentations. Recent experiences suggest that parallel presentation of external debt may lead to double counting and consequent distortion of information in this regard.

2.16 For the specific purposes of monitoring the impact of maturing debt on the foreign exchange market and short term monitoring of balance of payments, debt service profiles of various categories of debt which are valid for one month, three months, six months and one year may be prepared and updated regularly. In the existing institutional structure, a large part of the information required for the exercise is available with the various organisations dealing with separate categories of external debt. For components such as non-resident deposits, short term trade credits and cross border bank debt, institutional arrangements need to be put in place for collection of data / surveys.

2.17 In line with the standard international practice, the Group also recommends that external debt may be recorded on a cash basis, in contrast to the accruals method underlying the balance of payments compilation, the exception being non-resident deposits at present.

2.18 The Group recommends that the data on external debt statistics may be published on a quarterly basis within a quarter of the reference date.

2.19 Lease transactions, borrowings by commercial banks including nostro debits, vostro credits, balances of exchange houses held in India, overseas lines of credits, trade related credits of maturity less than six months and outstanding advances received against exports may be included under external debt. Specific recommendations relating to the collection and presentation of data/ estimates are covered in Chapter 3 of the Report.

2.20 Contingent liabilities such as derivatives, letters of credits, guarantees and intra-entity cross border liabilities may be monitored as they can impact upon the currency and maturity structure of the country's indebtedness. Specific recommendations are contained in Chapter 3.

CHAPTER 3

COVERAGE AND METHODOLOGICAL FRAMEWORK

In the recent period, particularly in the context of the role of external debt in the Asian crisis, considerable emphasis has come to be placed on the need for convergence of India's external debt statistics to international standards of coverage, methodology, reliability and timeliness. Against this background, this Chapter examines the specific components of the debt statistics with an emphasis on short term debt, the treatment of off-balance sheet items and the integration of external debt into the overall international investment position. Issues relating to database management and institutional arrangements are also addressed.

Review of Practices of International Organisations

3.2 The Group noted that major international organisations involved in the collection, classification and presentation of external debt statistics are the BIS, the OECD, the World Bank and the IMF. The Institute of International Finance (IIF) estimates external debt statistics based on information provided by the above mentioned organisations supplemented by country statistics for the use of its clients, i.e., banks, private creditors and investors. These institutions monitor external debt of countries as part of their specific requirements for assessing country performances. A review of the collection / compilation / estimation and presentation practices of these organisations is set out in Annexure V.

3.3 Based on a study of the international practices, the Group noted the following points with reference to India's external debt statistics:

(i) The BIS database is a creditor reporting system, restricted to liabilities owed to banks based in the BIS reporting area. Credits extended by bilateral and multilateral agencies (including the IMF), non-resident deposits, rupee debt obtained from the erstwhile USSR, and other cross border claims of the non-bank sector are excluded. In its semi-annual reporting, the BIS also includes information on official and officially-guaranteed or insured trade-related claims of banks and non-banks in OECD countries. Local lending in non-local currencies which is not regarded as external debt under the "core" definition, is included in the BIS data. It appears that the BIS database includes trade credits of less than six months extended by / negotiated by BIS reporting banks. The BIS data are reported by residual maturity broken up into the following categories: up to and including one year, over one year and up to two years, over two years and unallocated.

(ii) The OECD database, which is also a creditor reporting system, covers official development assistance extended by the OECD member countries, including both official lending and officially guaranteed private export credits, supplemented by data from the World Bank, the BIS and the IMF. Like the World Bank, the OECD includes the revalued balances under IBRD pooled loans and exchange adjustment in respect of pre-

1971 IDA credits. The debt data are reported on the basis of original maturity.

(iii) The IIF's estimates of India's external debt draw upon a number of sources: the World Bank for long term debt, the BIS for short term commercial bank debt, the OECD for short term trade related debt owed to bilateral creditors and Indian data for debt owed to private creditors. The IIF's estimates include balances under NR(NR)RD and, as they derive from the BIS database in respect of commercial bank debt, it could include trade credits of less than six months.

(iv) The World Bank database, which is a debtor reporting system, largely draws upon the reports submitted by borrower countries. Thus, India's external debt given by the World Bank and as published by the GoI / RBI coincide except for minor differences which may arise on account of the revaluation of balances under IBRD pooled loans and exchange adjustment in respect of pre-1971 IDA credits. The World Bank data are on original maturity basis, with the short term debt defined as debt with an original maturity of less than one year. In case of short term debt, the World Bank relies on data provided by the GoI / RBI and hence, the data are similar to those published by the GoI / RBI.

(v) As indicated in the Report of the BIS, the IMF, the OECD and the World Bank on " *Debt Stocks, Debt Flows and the Balance of Payments* " (1994), the IMF has no systematic procedure for collecting and publishing data on external debt.

3.4 The Group noted that progress in reconciliation of India's external debt statistics with the World Bank is satisfactory and recommends that the ongoing process of reporting and consultation with the World Bank may continue.

3.5 The Group also noted that although the international organisations endorsed the definition and practices evolved by the IWGEDS referred to in Chapter 2, an examination of their publications and methodologies reveals differences from the IWGEDS in content as well as coverage which are inevitable given the sources of their data, the methodologies adopted for collection/ estimation and the objectives which the organisations pursue. Therefore, developing definitive norms for country practices in compilation of external debt statistics, based on common international standards is difficult.

3.6 The recent Asian crisis has, however, shown that market participants tend to rely on data / estimates of the BIS / OECD and the IIF, particularly, in view of the relatively quicker availability of information as compared with the World Bank and country sources. Furthermore, the BIS data are more comprehensive in their coverage of bank debt including short term trade credits.

3.7 Accordingly, the Group recommends that channels of consultation with the BIS and the OECD may be established so that reconciliation of debt statistics, or at least the identification and quantification of differences, occurs on a continuous basis. For this purpose, besides the presentation of debt on a residual maturity basis, as recommended in Chapter 2, there may be simultaneous preparation of data classified separately by debtor based and by creditor based presentations. Dialogue may also be instituted with the IIF to encourage their use of the data provided by the GoI / RBI in their estimates.

Short term Debt

3.8 The Group noted that in the recent period, the size of India's short term debt has been the focus of considerable attention particularly in view of the divergences between the data published in official documents and those presented by various international organisations (Annexure VI). In this regard there is a gamut of conceptual, definitional and methodological issues.

3.9 The internationally agreed definition of short term debt is debt with maturity of one year or less. Maturity relates to original maturity i.e., the period from commitment or disbursement to final repayment of the loan or residual maturity i.e., the time remaining until the final repayment of the loan. The Group noted that in view of its recommendation for presenting India's external debt statistics in terms of residual maturity, short term debt will now comprise (i) medium and long term debt by original maturity falling due over the twelve month period following a reference date and (ii) debt with original maturity of up to one year with relation to the reference date.

3.10 The Group recommends that the components of the original maturity category of short term debt [(ii) in paragraph 3.9] may be short term deposits of non-resident Indians (NRIs), cross border bank debt liabilities and all trade related credits of maturity up to and including one year. Trade related credits of original maturity less than six months and trade credits of original maturity of six months to one year may be shown separately.

3.11 The Group recommends that the RBI may institute specific mechanisms to record and estimate trade credits of maturity of less than six months. For this purpose, returns prescribed for banks may have to be supplemented by surveys of importers and information reported for the purpose of the Census of India's Foreign Liabilities and Assets being conducted by the RBI. A suggested framework for generating estimates is given in Annexure VII.

3.12 At present, trade credits of maturity of six months and above and buyers' credits of all maturities are required to be approved by the RBI and this system has resulted in an accurate capture of information under this category of debt. It is recommended that suppliers' credits of maturity of less than six months be subjected to an indicative monitoring procedure. This will strengthen the information system and support debt management strategies envisaged for the future regulation of this category of debt. Furthermore, data on trade credits may be presented by category of creditor, i.e., banks, private creditors and bilateral creditors.

3.13 The Group also recommends that the RBI may institute a system of reporting and collection of information on cross border bank liabilities such as nostro account overdrafts and other debits, vostro account credits, lines of credits, credit balance of private exchange houses held in India and other borrowings.

3.14 The existing system of collecting information on non-resident deposits may be strengthened through the improvement of coverage and timeliness of reporting. Furthermore, periodic surveys may be conducted to authenticate the other relevant information such as maturity structure, the pattern of inflows / outflows (fresh inflows, re-investment, repatriation and local withdrawals, principal and interest) and the currency mix.

Debt and IIP

3.15 External debt is an integral element of a country's International Investment Position (IIP) which is the balance sheet of the economy's external liabilities and assets. In fact, external debt is the largest component of external liabilities recorded in the IIP although its share has been declining in recent years, reflecting the shift in policy emphasis in favour of non-debt creating flows.

3.16 The Group noted that, at present, the RBI conducts a quinquennial Census of India's Foreign Liabilities and Assets with the latest in the series having already been launched to measure the IIP as on March 31, 1997. The Census currently underway has attempted to obtain information on short term trade credits. The Group acknowledges the efforts undertaken by the RBI to conduct the Census and to improve its coverage and recommends that resources may be deployed to improve the timeliness of the Census. Specifically, annual surveys of foreign liabilities and assets may be conducted to derive annual estimates. A major catalyst in this regard is the empowering of the RBI with legal authority to collect information from entities with external assets and liabilities.

3.17 Drawing from ongoing efforts, the Group also recommends that the coverage of the Census may be expanded to include :

(i) Foreign Institutional Investment in debt instruments at market prices.

(ii) Liabilities and assets of branches of Indian banks abroad.

(iii) Liabilities and assets of branches / subsidiaries of Indian companies abroad.

(iv) Short term trade credits of less than six months separately.

(v) Assets held abroad in the form of bank balances like FCNR(B) balances held abroad, proceeds of external commercial borrowings, FCCBs etc.

(vi) Contingent external liabilities of the banking and corporate sector.

Debt Stocks and Flows: Reconciliation

3.18 While information on debt stocks helps to understand the dynamics of debt burden over time, the information on underlying debt flows helps to explain the evolution of the debt burden itself. The derivation of outstanding debt stock from corresponding debt flows or vice versa is often vitiated by valuation effects arising from the movements in the exchange rates of the various different currencies in which these flows are denominated and movement in market prices in the case of debt instruments that are traded. Reconciliation of stocks and flows is important to ensure consistency in the two sets of data. In this regard, collection of data on external debt on the basis of residual maturity is a step forward in the direction of reconciliation of stocks and flows since debt by residual maturity corresponds with amortisation of debt in the balance of payments. The Group recommends that efforts may be made to collect and analyse data on debt and capital flows in the balance of payments in terms of original currencies.

3.19 The Group also recommends that revaluation of pooled loans from the World Bank and pre-1971 IDA credits may be conducted and made available on a quarterly basis by the office of the CAA&A.

Debt Funds

3.20 Under the existing regulations, the FIIs have been allowed to invest in debt instruments through either the 100 per cent dedicated debt funds route or through the normal route wherein they are allowed to invest a maximum of 30 per cent of their funds in debt instruments. In view of this development, the Group recommends that the RBI may obtain from the SEBI information on stocks and flows relating to FII investment in debt instruments on current market valuation basis. Furthermore, the Group recommends that such data be shown separately in the debt statistics under a new head "Foreign Investment in Debt Securities" further disaggregated into government and non-government.

Convertibles and Debt

3.21 At present, Indian entities are allowed to raise debt from abroad through FCCBs. The Group recommends that the MoF may institute a mechanism to monitor the conversions of FCCBs to equities and to report the timing and magnitude of appropriate adjustments of the debt stock to the RBI.

Off-balance Sheet Items and External Debt

3.22 At present, resident entities are permitted to engage in derivative transactions like 'call' and 'put' options, interest rate options, swaps, futures, forward rate agreements (FRAs) etc. with overseas counterparties for management of their foreign currency liability. The exposure by way of derivative transactions is required to be matched by the existence of underlying, both with regard to amount as well as maturity. The Group, however, notes that derivative transactions in respect of foreign currency debt may alter their currency composition as also the maturity profile. Hence, appropriate institutional arrangements may be made for capturing information in this regard on an on-going basis.

3.23 Information on public guarantees (including performance guarantees) to non-residents issued by Government and public enterprises engaged in trading or manufacturing activities besides public sector financial entities is maintained by the MoF. The Group recommends that information on guarantees, both financial and performance, given by banks, financial institutions and corporates may be collected and maintained by the RBI.

3.24 Information on financial leases is presently captured under external debt statistics. Operational leases where the total lease payments exceed 75 per cent of the value of the underlying asset may be incorporated in the external debt statistics in a similar manner as financial leases. Information on leases may be collected and maintained by the RBI.

3.25 The Group recommends that information on derivatives used in the foreign exchange market (RBI), options imbedded in approvals of commercial borrowings (MoF), public guarantees and other guarantees may be collated and published quarterly synchronous with the release of external debt statistics.

Review of experience with CS-DRMS

3.26 The Group noted that a good computer based debt management may have the following features:

(i) User friendliness through easy data entry, validation and editing and capability of producing standard reports, ad-hoc queries / reports as also any user-defined reports.

(ii) Amenability to analytical applications with management tools to generate projections of debt profile and servicing, evaluate structural changes to the debt portfolio.

(iii) Capability of interfacing with external systems.

3.27 The two most commonly used computer based debt management systems are the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) developed by the Commonwealth Secretariat, London and the Debt Management and Financial Analysis System (DMFAS) developed by the UNCTAD. Both these systems were found to meet the criteria listed above. In addition, it was noted that many countries have developed their own debt recording systems.

3.28 The Group noted that the RBI and the GoI have been using the CS-DRMS for compiling external debt data for the past ten years. The experience with the CS-DRMS has been satisfactory. The system has been conceived for administering and managing loan portfolios and accounting functionality is not addressed. The present version of CS-DRMS cannot take care of all debt instruments. On the other hand, auto-generation of data can be conducted with greater efficiency in CS-DRMS. It provides the facilities of calculating the present value and grant elements and of adding user defined menus / reports.

3.29 The Group accordingly recommends that the CS-DRMS may continue to be the main database management system for India's external debt statistics and continuous efforts may be made to upgrade the package and to improve technical skills of users through close interaction with the Commonwealth Secretariat. Concomitantly, efforts could be made by the principal users to develop in-house database management systems to suit their particular requirements with an emphasis on capability for interfacing.

Institutional Arrangements

3.30 The Group reviewed the existing arrangements for the collection and dissemination of external debt statistics. In terms of the format of presentation of debt statistics the office of the CAA&A, MoF collects the information on (i) multilateral and bilateral debt, excluding that part of the multilateral / bilateral non-concessional debt to non-government entities for which approval needs to be sought under the ECB route, (ii) bilateral component of export credits. The EDMU, MoF collects data on rupee debt and export credit component for defence purposes. Information on all other categories of debt is collected by the RBI. The Group noted that the EDMU has been effectively performing the functions entrusted to it. The Group accordingly recommends the following institutional arrangements for collection of debt statistics:

(i) The MoF for approvals of ECB, stocks and flows of rupee debt, export credit and commercial credit for defence purposes and conversions of debt to equity.

(ii) The CAA&A for bilateral and multilateral concessional debt flows and stocks and revaluation of World Bank pooled loans and pre-1971 IDA credits.

(iii) The SEBI on FII investment in debt instruments, both stocks and flows.

(iv) The RBI for information on NRI deposits, ECBs, trade credits of less than six months and cross border bank liabilities such as (a) nostro account debits (b) vostro account credits (c) lines of credit and any other borrowings by the banks.

3.31. The Group recommends that these organisations may report data on a quarterly basis to the RBI. The RBI may undertake the responsibility of consolidating information received from the office of the CAA&A, the EDMU and the SEBI and report the consolidated information to the EDMU on a quarterly basis (Annexure VIII). The rationale for compilation and consolidation of debt statistics by the RBI emerges from (a) the declining share of official debt in total external debt, (b) the fact that the financial sector which intermediates the bulk of external debt flows, is under the jurisdiction of the RBI. Over a period of time, therefore, the Group recommends that information on approvals of ECB, Rupee debt and other defence debt may be provided by the Ministry of Finance directly to the RBI instead of to the EDMU, as at present, so that the compilation and monitoring of external debt statistics may be centralised in the RBI (Annexure IX) Furthermore, the Group is of the view that for effective co-ordination of monitoring and management of external debt, a Monitoring Group on External Debt may be set up. The Monitoring Group may meet at least on a quarterly basis prior to the release of external debt statistics.

Projects for the IDF Grant

3.32. The Group recommends that the following areas of study may be taken up under the IDF grant:

(i) Short term debt monitoring and management.

(ii) Debt management model for India.

(iii) Debt sustainability benchmarks and early warning indicators.

(iv) Financial derivatives and their effect on debt monitoring and management.

(v) Non-resident deposit monitoring.

(vi) Debt monitoring in a liberalised set-up.

(vii) Monitoring of debt under private investment flows.

(viii) Monitoring contingent liability.

(ix) Foreign currency convertible bonds and financial lease transactions.

(x) Training and skill upgradation in CS-DRMS for personnel in monitoring, debt management capabilities, international best practices and technical applications.

(xi) Interconnectivity of databases in the CAA&A, EDMU and the RBI.

CHAPTER 4

ANALYTICAL AND MONITORING ASPECTS

A critical issue in the monitoring of external debt is an analytical assessment of indebtedness. In this context, it has been recognised that the stock of external debt, viewed in isolation, can be misleading in determining the degree of external indebtedness. Therefore, the external debt stock as well as debt related flows are usually measured with reference to important macro economic indicators which provide a proxy for the debtor's capacity to repay debt without having to undertake sacrifices in terms of growth.

4.2 The conventional debt analysis, exemplified in the World Bank's World Debt Tables / Global Development Finance, which is also followed by India, focuses on the sustainability of external debt. Indebtedness is assessed by expressing the debt stock and debt service in terms of ratios to (i) GNP or GDP and (ii) exports of goods and services or the broader concept of current receipts. GNP or GDP is the broadest measure of income generation in an economy while exports / current receipts provide an indication of the foreign exchange available to the economy to service debt. By the World Debt Tables, 1989-90, a country is defined as severely indebted if three of the following four critical ratios are in occurrence: (i) debt / GNP ratio exceeds 50 per cent (ii) debt / current receipts ratio is above 275 per cent (iii) debt service payments / exports ratio exceeds 30 per cent and (iv) interest payments / current receipts ratio exceeds 20 per cent; moderately indebted if at least three of the above mentioned indicators exceed 60 per cent of their critical values; and, less indebted in all other cases. The World Debt Tables, 1992-93, introduced a new methodology of assessing indebtedness. Present (rather than nominal) values of debt and debt service, i.e., discounted streams of future principal and interest payments were used in order to account for differing borrowing terms on the various components of a country's long term borrowings. The important ratios in the new assessment of indebtedness were the ratio of present value of total debt service to GNP (or GDP) and the ratio of present value of debt service to exports of goods and services. If either of these two ratios exceeds a critical value - 80 per cent for the former criterion and 220 per cent for the latter - the country is classified as severely indebted. If either ratio is at / above three-fifth of the critical value, the country is classified as moderately indebted. If both ratios are less than three-fifth of the critical value, the country is classified as less indebted. In view of the implications for the balance of payment management arising out of abrupt changes in international market sentiments, the ratio of short term debt to total debt is also monitored. Although a critical value is not prescribed, country comparisons are made to evaluate the sustainability of the country's overall debt burden. An assessment of India's external indebtedness, in relation to select East Asian economies, in terms of these indicators is given in Annexure X.

4.3 In the light of experience gained from the recent Asian crisis, the Group noted that the conventional debt indicators in paragraph 4.2 may serve as good measures of sustainability and overall solvency and may, therefore, be continued to be employed in long term assessments of indebtedness. The use of critical values as set out by the World Bank may be interpreted with caution. A small change in an indicator close to the critical value may change the classification of indebtedness without any change in economic fundamentals. Furthermore, the information content of critical values is asymmetric in that an indicator above the critical value may trigger policy action; on the other hand, any indicator below the critical value is deficient in terms of predictive power.

4.4 The Group is also of the view that standard indicators, while being useful, do not represent an exhaustive set of information on external debt. They suffer from inadequacy of information for short term analysis as, for instance, in the case of a liquidity problem arising out of maturing debt and its servicing being higher than the ability to borrow afresh and / or the stock of foreign exchange reserves. In particular, as noted by the PG / TF, the problem of short term debt is essentially a question of liquidity and this needs to be kept in view in debt management.

4.5 Accordingly, the Group recommends that, in keeping with the presentation of external debt on the basis of residual maturity, the recent efforts to assess indebtedness in terms of present value of debt and debt servicing may be emphasised in the Indian context.

4.6 The Group recommends that as useful debt indicators, the following ratios may be monitored:

(i) The ratio of short term debt (as defined in paragraph 3.9) to unencumbered foreign exchange reserves may be employed as the operative indicator for assessment of indebtedness. Foreign exchange reserves may be measured in net terms, i.e, net of forward liabilities.

(ii) The ratio of external debt liabilities to foreign assets (comprising foreign exchange reserves, foreign assets of the banking system and assets held abroad by non-banking entities) may be developed as a debt indicator of mismatches in the country's financial transactions with the rest of the world.

(iii) In view of the Group, the debt service ratio defined as the ratio of principal and interest payments to current receipts is the most useful indicator of the flow dimension of indebtedness which has implications for balance of payments management as well as for an assessment of the foreign exchange market impact of debt. The Group recommends that the movements in the debt service ratio may not be viewed in isolation but may be seen in conjunction with the developments in the current account deficit to GDP ratio and the current receipts to GDP ratio.

(iv) In view of the fact that the debt service ratio, as conventionally defined, has a downward bias, the Group recommends that a broader measure of debt service ratio may be developed to include the principal repayments (including roll-overs) of short term debt and NRI deposits.

(v) The ratio of debt service payments to reserves may be monitored on an on-going basis.

(vi) The Group recommends that the existing efforts to monitor valuation effects, maturity structure and currency composition of debt may continue.

4.7 Complete information regarding external debt of GoI are now being kept at the Office of CAA&A for non-defence debt and the Ministry of Defence (MoD) for defence debt. The Group recommends that the information system obtaining at CAA&A and MoD may be made more effective so that compilation of statistics on GoI debt, incorporating features such as currency composition, maturity profile etc. at regular intervals could be made so that the same would be available for on-going monitoring.

4.8 At present, Public Sector Enterprises (PSEs) account for a sizable proportion of external debt. A Committee constituted by the GoI under the chairmanship of Dr. Y.V. Reddy, Deputy Governor is currently examining the whole gamut of issues relating to risk management in PSEs in respect of their foreign currency exposure with a view to formulating an appropriate framework in this regard. The Group recommends that institutional arrangements may be made for collecting external debt profiles of PSEs, particularly the large ones, so that the same could be used as one of the inputs for the Monitoring Group on External Debt.

CHAPTER 5

SUMMARY OF RECOMMENDATIONS OF THE GROUP

The following is a summary of the recommendations of the Group:

Concepts and Definitions

5.2. The Group recommends that the RBI may undertake efforts to provide information on trade credits approved by it in terms of original currencies (paragraph 2.6).

5.3. The Group recommends that data on trade credits of maturity less than three years approved by the RBI may be given in two distinct categories: maturity up to one year and maturity above one year (paragraph 2.7).

5.4. While recognising that none of the organisations which set up the International Working Group on External Debt Statistics (IWGEDS) have completely adhered to the core definition of external debt, there are important aspects of this definition which may be adhered to in the Indian context (paragraph 2.11). Gross external debt is the aggregate which is directly related to debt service and excludes any corresponding offsetting assets or claims. Employing the concept of net debt is associated with numerous practical difficulties (paragraph 2.12).

5.5. The Group recommends that deposits under the NR (NR) RD scheme may be included under the external debt statistics. In the presentation of external debt, data on non-resident deposits, long term and short term, may be shown under two categories, i.e., repatriable and non-repatriable (paragraph 2.13).

5.6. The Group recommends that India's external debt may be compiled and presented both on original and residual maturity bases for some time before a final shift to residual maturity is made. Residual maturities may be presented over a span of five years ahead of a reference date with the remaining maturities clubbed together. In making this recommendation, the Group recognises the pitfalls of parallel presentations. Recent experiences suggest that parallel presentation of external debt may lead to double counting and consequent distortion of information in this regard (paragraph 2.15).

5.7. For the specific purposes of monitoring the impact of maturing debt on the foreign exchange market and short term monitoring of balance of payments, debt service profiles of various categories of debt which are valid for one month, three months, six months and one year may be prepared and updated regularly (paragraph 2.16).

5.8. The Group recommends that external debt may be recorded on a cash basis, the exception being non-resident deposits, in contrast to the accruals method underlying the balance of payments compilation (paragraph 2.17).

5.9. The Group recommends that the data on external debt statistics may be published on a quarterly basis within a quarter of the reference date (paragraph 2.18).

5.10. The Group recommends that lease transactions, borrowings by commercial banks including nostro debits, vostro credits, balances of exchanges houses held in India, overseas lines of credits, and trade related credits of maturity less than six months may be included under external debt (paragraph 2.19).

5.11. Contingent liabilities such as derivatives, letters of credits, guarantees and intra entity cross border liabilities may be monitored (paragraph 2.20).

Review of Practices of International Organisations

5.12. The Group recommends that channels of consultation with the BIS and the OECD may be established so that reconciliation of debt statistics, or at least the identification and quantification of differences, occurs on a continuous basis. For this purpose, besides the presentation of debt on a residual maturity basis, there may be simultaneous generation of both creditor based and debtor based presentation. Dialogue may also be instituted with the IIF to encourage their use of the data provided by the GoI / RBI in their estimates (paragraph 3.7).

Short term Debt

5.13. By the definition of external debt and its important aspects endorsed by the Group, the components of short term debt will now comprise short term deposits of non-resident Indians (NRIs), cross border bank claims and all trade related credits of maturity up to and including one year. Trade related credits of original maturity less than six months and trade credits of original maturity of six months to one year may be shown separately (paragraph 3.10).

5.14. The Group recommends that the RBI may institute specific mechanisms to record and estimate trade credits of maturity of less than six months (paragraph 3.11). Suppliers' credits of maturity less than six months be subjected to an indicative monitoring procedure. Furthermore, data on trade credits may be presented by category of creditor, i.e., banks, private creditors and bilateral creditors (paragraph 3.12).

5.15. The Group recommends that the RBI may institute a system of reporting and collection of information on cross border bank liabilities such as nostro account overdrafts and other debits, vostro account credits, lines of credits, credit balances of private exchange houses held in India and other borrowings (paragraph 3.13).

5.16. The existing system of collecting information on non-resident deposits may be strengthened through the improvement of coverage and timeliness of reporting. Furthermore, periodic surveys may be conducted to authenticate the other relevant information such as maturity structure, the pattern of inflows / outflows (fresh inflows, re-investment, repatriation and local withdrawals, principal and interest) and the currency mix (paragraph 3.14).

Debt and IIP

5.17. The Group recommends that resources may be deployed to improve the timeliness of the Census of India's Foreign Liabilities and Assets. A major catalyst in this regard is the empowering of the RBI with legal authority to collect information from entities with external liabilities and assets (paragraph 3.16).

5.18. The Group also recommends that the coverage of the Census may be expanded to include :

(i) Foreign Institutional Investment in debt instruments at market prices.

(ii) Liabilities and assets of branches of Indian banks abroad.

(iii) Liabilities and assets of branches / subsidiaries of Indian companies abroad.

(iv) Short term trade credits of less than six months separately.

(v) Assets held abroad in the form of banking balances like FCNR(B) balances held abroad, proceeds of external commercial borrowings, FCCBs etc..

(vi) Contingent external liabilities of the banking and corporate sector (paragraph 3.17).

Debt Stocks and Flows: Reconciliation

5.19. The Group recommends that efforts may be made to collect and analyse data on debt and capital flows in the balance of payments in terms of original currencies (paragraph 3.18). The Group also recommends that revaluation of pooled loans from the World Bank and pre-1971 IDA credits may be conducted and made available on a quarterly basis by the Office of CAA & A (paragraph 3.19).

Debt Funds

5.20. The Group recommends that the RBI may obtain information from the SEBI on stocks and flows relating to FII investment in debt instruments on current market valuation basis. Furthermore, such data may be shown separately in the debt statistics under a new head "Foreign Investment in Debt Securities" further disaggregated into government and non-government (paragraph 3.20).

Convertibles and Debt

5.21. The Group recommends that the MoF may institute a mechanism to monitor the conversions of FCCBs to equities and to report the timing and magnitude of appropriate adjustments of the debt stock to the RBI (paragraph 3.21).

Off-balance Sheet Items and External Debt

5.22. The Group noted that derivative transactions in respect of foreign currency debt may alter the currency composition as also the maturity profile. Hence, appropriate institutional arrangements may be made for capturing information in this regard on an on-going basis (paragraph 3.22).

5.23. The Group recommends that information on guarantees, both financial and performance, given by banks, financial institutions and corporates may be collected and maintained by the RBI (paragraph 3.23).

5.24. Operational leases where the total lease payments exceed 75 per cent of the value of the underlying asset may be incorporated in the external debt statistics in a similar manner as financial leases. Information on leases may be collected and maintained by the RBI (paragraph 3.24).

5.25. The Group recommends that information on derivatives used in the foreign exchange market (RBI), options imbedded in approvals of commercial borrowings (MoF), public guarantees and other guarantees may be collated and published quarterly synchronous with the release of external debt statistics (paragraph 3.25).

Review of experience with CS-DRMS

5.26. The Group recommends that the CS-DRMS may continue to be the main database management system for India's external debt statistics and continuous efforts may be made to upgrade the package and to improve technical skills of users through close interaction with the Commonwealth Secretariat. Concomitantly, efforts could be made by the principal users to develop in-house database management systems to suit their particular requirements with an emphasis on capability for interfacing (paragraph 3.29).

Institutional Arrangements

5.27. The Group reviewed the existing arrangements and recommends the following institutional arrangements for collection of debt statistics:

(i) The MoF for approvals of ECB, stocks and flows of rupee debt, export credit and commercial credit for defence purposes and conversions of debt to equity.

(ii) The CAA&A for bilateral and multilateral concessional debt flows and stocks and revaluation of World Bank pooled-loans and pre-1971 IDA credits.

(iii) The SEBI on FII investment in debt instruments, both stocks and flows.

(iv) The RBI for information on NRI deposits, ECBs, trade credits of less than six months and cross border bank liabilities such as (a) nostro account debits (b) vostro account credits (c) lines of credit and any other borrowings by the banks (paragraph 3.30).

5.28. The Group recommends that these organisations may report data on a quarterly basis to the RBI. The RBI may undertake the responsibility of consolidating information received from the office of the CAA&A, the EDMU, the SEBI and report the consolidated information to the EDMU on a quarterly basis. Over a period of time, the Group recommends that information on approvals of ECB, Rupee debt and other defence debt may be provided by the Ministry of Finance directly to the RBI instead of to the EDMU, as at present, so that the compilation and monitoring of external debt statistics may be centralised in the RBI. Furthermore, the Group is of the view that for effective co-ordination of monitoring and management of external debt, a Monitoring Group on External Debt may be set up. The Group may meet at least on a quarterly basis prior to the release of external debt statistics (paragraph 3.31).

Projects for the IDF Grant

5.29. The Group recommends that the following areas of study may be taken up under the IDF grant:

(i) Short term debt monitoring and management.

(ii) Debt management model for India.

(iii) Debt sustainability benchmarks and early warning indicators.

(iv) Financial derivatives and their effect on debt monitoring and management.

(v) Non-resident deposit monitoring.

(vi) Debt monitoring in a liberalised set-up.

(vii) Monitoring of debt under private investment flows.

(viii) Monitoring contingent liability.

(ix) Foreign currency convertible bonds and financial lease transactions.

(x) Training and skill upgradation in CS-DRMS for personnel in monitoring, debt management capabilities, international best practices and technical applications.

(xi) Interconnectivity of databases in the CAA&A, EDMU and the RBI. (paragraph 3.32).

Analytical and Monitoring Aspects

5.30. The Group recommends that, in keeping with the presentation of external debt on the basis of residual maturity, the recent efforts to assess indebtedness in terms of present value of debt and debt servicing may be emphasised in the Indian context (paragraph 4.5).

5.31. The Group recommends that, as useful debt indicators, the following ratios may be monitored:

(i) The ratio of short term debt to unencumbered foreign exchange reserves; foreign exchange reserves may be measured in net terms, i.e, net of forward liabilities.

(ii) The ratio of external debt liabilities to foreign assets (comprising foreign exchange reserves, foreign assets of the banking system and assets held abroad by non-banking entities) may be developed as a debt indicator of mismatches in the country's financial transactions with the rest of the world.

(iii) The movements in the debt service ratio, defined as the ratio of principal and interest payments to current receipts, may be seen in conjunction with the developments in the current account deficit to GDP ratio and the current receipts to GDP ratio.

(iv) In view of the fact that the debt service ratio, as conventionally defined, has a downward bias, the Group recommends that a broader measure of debt service ratio may be developed to include the principal repayments (including roll-overs) of short term debt and NRI deposits.

(v) The ratio of debt service payments to reserves may be monitored on an on-going basis.

(vi) The Group recommends that the existing efforts to monitor valuation effects, maturity structure and currency composition of debt may continue (paragraph 4.6).

5.32. The Group recommends that the information system obtaining at CAA&A and MoD may be made more effective so that compilation of statistics on GoI debt, incorporating features such as currency composition, maturity profile etc. at regular intervals could be made so that the same would be available for on-going monitoring (paragraph 4.7).

5.33. The Group recommends that institutional arrangements may be made for collecting external debt profiles of PSEs, particularly the large ones, so that the same could be used as one of the inputs for the Monitoring Group on External Debt (paragraph 4.8).

ANNEXURE I

उप गवर्नर
DEPUTY GOVERNOR

भारतीय रिज़र्व बैंक
केन्द्रीय कार्यालय,
शहीद भगतसिंह मार्ग,
मुंबई - 400 001. भारत.

RESERVE BANK OF INDIA
CENTRAL OFFICE,
SHAHEED BHAGAT SINGH ROAD,
MUMBAI - 400 001. INDIA.

Memorandum
Reserve Bank of India
Technical Group on External Debt

In order to update the recommendations of the Policy Group/Task Force on External Debt Statistics of India (1992) with regard to the composition of external debt, monitoring and institutional arrangements, the Reserve Bank of India (RBI) has decided to constitute a Technical Group on External Debt as under:

Shri M. R. Nair Adviser, International Finance Unit, Department of Economic Analysis and Policy, Reserve Bank of India.	Chairman

Reserve Bank of India

(a) Shri N. H. Siddiqui, General Manager, Exchange Control Department.	Member
(b) Smt. Y. U. K. Sarma, Director, Balance of Payments Statistics Division, Department of Statistical Analysis and Computer Services.	Member
(c) Shri H. Bhattacharya, Deputy General Manager, Department of External Investments and Operations.	Member

2. Government of India

(a) Shri K. Shankar, Controller, Aid Accounts and Audit, Department of Economic Affairs, Ministry of Finance.	Member

(b) Shri Anil Bisen, Member
Deputy Secretary,
External Debt Management Unit,
Department of Economic Affairs,
Ministry of Finance.

3. Shri M. D. Patra, Director, Division of International Finance, Department of Economic Analysis and Policy, Reserve Bank of India, will be the Secretary.

4. The Group may co-opt any other person as deemed appropriate.

5. The terms of reference are as follows:

(a) To review the existing definitions, accounting procedures and institutional arrangements concerning the collection, monitoring and presentation of India's external debt statistics.

(b) To evolve definitions, classifications and practices of compiling debt statistics so as to ensure consistency with those of international organisations through close interaction and consultation.

(c) To evolve a methodological framework for the ongoing estimation of external debt by various maturities with particular emphasis on short term debt and residual maturity.

(d) To recommend an analytical basis for monitoring of debt indicators with a focus on their impact on the foreign exchange market and balance of payments.

(e) To recommend institutional arrangements for collection of data on the basis of proposed classification of external debt and liabilities.

(f) To review the experience gained in the compilation of debt statistics through the Commonwealth Secretariat Debt Recording Management System (CS-DRMS) and to intensify interaction with the Commonwealth Secretariat for ensuring ongoing technological upgradation.

(g) To examine any other matter of relevance to the broad terms of reference.

6. The Secretariat of the Technical Group will consist of Shri B. N. Anantha Swamy, Assistant Adviser and Shri Sumit Basu, Research Officer. Secretarial support will be provided by the Division of International Finance, Department of Economic Analysis and Policy, RBI.

7. The Group is expected to submit its Report by the end of May, 1998.

Y.V. Reddy

(Y.V. Reddy)
Deputy Governor
March 9, 1998

उप गवर्नर
DEPUTY GOVERNOR

भारतीय रिज़र्व बैंक
केन्द्रीय कार्यालय,
शहीद भगतसिंह मार्ग,
मुंबई - 400 001. भारत.

RESERVE BANK OF INDIA
CENTRAL OFFICE,
SHAHEED BHAGAT SINGH ROAD,
MUMBAI - 400 001. INDIA.

Memorandum
Reserve Bank of India
Technical Group on External Debt

In partial modification of the Memorandum dated March 9, 1998 setting out, *inter alia*, the composition and terms of reference of the Technical Group on External Debt, Shri M.D. Patra, Director, Division of International Finance, Department of Economic Analysis & Policy, Reserve Bank of India will be the Member-Secretary of the Technical Group.

(Y.V. Reddy)
Deputy Governor
March 23, 1998

ANNEXURE -II

List of Persons who Provided Help to the Technical Group

Department of Economic Analysis and Policy, RBI

1. Sunil Kumar
2. S.D. Kulkarni
3. Nivedita Deshpande
4. R. Shelar
5. K.U. Sarmalkar
6. G.S. Jadhav
7. Felcy Fernandes
8. Sunita Rajhans

Department of Statistical Analysis & Computer Services, RBI

9. A.R.Joshi
10. P. Jana
11. T. Gopinath

Department of External Investments and Operations, RBI

12. S. Harikrishnan

Exchange Control Department, RBI

13. K.G. Chaudhari
14. G.S. Bhati
15. G.Padmanabhan
16. Prashant Saran
17. H.R. Khan
18. B.S. Patel
19. N.G. Akmanchi
20. R.N. Deodhar
21. P.Oommen Joseph

Controller of Aid Accounts and Audit, MoF

22. T. Raghavendran

ANNEXURE III

India's External Debt

(US Dollar million/ Rs crore)

As at the end of March

Item

I. MULTILATERAL

A. Government borrowing

- i) Concessional
  - a) IDA
  - b) Others
- ii) Non-concessional
  - a) IBRD
  - b) Others

B. Non-Government borrowing

- i) Concessional
- ii) Non-concessional
  - a) Public sector
    - IBRD
    - Others
  - b) Financial institutions
    - IBRD
    - Others
  - c) Private sector
    - IBRD
    - Others

II. BILATERAL

A. Government borrowing

- i) Concessional
- ii) Non-concessional

B. Non-Government borrowing

- i) Concessional
  - a) Public sector
  - b) Financial institutions
  - c) Private sector
- ii) Non-concessional
  - a) Public sector
  - b) Financial institutions
  - c) Private sector

III. INTERNATIONAL MONETARY FUND

IV. TRADE CREDIT

- a) Buyers' credit
- b) Suppliers' credit
- c) Export credit component of bilateral credit
- d) Export credit for defence purposes

India's External Debt *(Concld.)*

(US Dollar million/ Rs crore)

As at the end of March

V. COMMERCIAL BORROWING

a) Commercial bank loans
b) Securitized borrowings (Inclu. IDBs and FCCBs)
c) Loans/securitized borrowings, etc. with multilateral/bilateral guarantee and IFC(W)
d) Self Liquidating Loans

VI. NRI & FC(B&O) DEPOSITS (above one-year maturity)

a) NRI deposits
b) FC(B&O) deposits

VII. RUPEE DEBT *

a) Defence
b) Civilian +

VIII. TOTAL LONG-TERM DEBT (I to VII)

IX. SHORT-TERM DEBT

a) NRI deposits (up to 1 year maturity)
b) FC(B&O)D (up to 1 year maturity)
c) Others (trade related) **
of which short-term debt of 6 months

X. GROSS TOTAL

Concessional Debt
As % of Total Debt

Short Term Debt
As % of Total Debt

Debt Indicators:

Debt Stock - GDP Ratio (In per cent)
Debt Service Ratio(%) (For fiscal year)
(Including debt servicing on non-civilian credits)

* Debt owed to Russia denominated in Rupees and converted at current exchange rates,discharged against in exports.
+ Includes Rupee suppliers' credit from end-March 1990 onwards.
**This does not include LC-based trade credit for which no estimates are available.
Note :
Multilateral loans do not include revaluation of IBRD pooled loans and exchange rate adjustment. under IDA loans for Pre-1971 credits.

ANNEXURE IV

India's External Debt

(US Dollar million/ Rs crore)

As at the end of March 1998

Item	Debt Maturing In						
	1998-99	**1999-2000**	**2000-01**	**2001-02**	**2002-03**	**Beyond 2003**	**TOTAL**
I. MULTILATERAL							
A. Government borrowing							
i) Concessional							
a) IDA							
b) Others							
ii) Non-concessional							
a) IBRD							
b) Others							
B. Non-Government borrowing							
i) Concessional							
ii) Non-concessional							
a) Public sector							
IBRD							
Others							
b) Financial Institutions							
IBRD							
Others							
c) Private sector							
IBRD							
Others							
II. BILATERAL							
A. Government borrowing							
i) Concessional							
ii) Non-concessional							
B. Non-Government borrowing							
i) Concessional							
a) Public sector							
b) Financial Institutions							
c) Private sector							
ii) Non-concessional							
a) Public sector							
b) Financial Institutions							
c) Private sector							

India's External Debt *(Concld.)*

(US Dollar million/ Rs crore)

Item	As at the end of March 1998						
	Debt Maturing in						
	1998-99	**1999-2000**	**2000-01**	**2001-02**	**2002-03**	**Beyond 2003**	**TOTAL**
III. INTERNATIONAL MONETARY FUND							
IV. TRADE CREDIT							
a) Buyers' credit							
b) Suppliers' credit							
c) Export credit component of bilateral credit							
d) Export credit for defence purposes							
V. COMMERCIAL BORROWING							
a) Commercial bank loans							
b) Securitized borrowings (including special bond schemes and FCCBs)							
c) Loans/securitized borrowings, etc. with multilateral/bilateral guarantee and IFC (W)							
d) Self Liquidating Loans							
VI. NON-RESIDENT DEPOSITS							
a) Repatriable							
b) Non-Repatriable							
VII. RUPEE DEBT *							
a) Defence							
b) Civilian +							
VIII. TOTAL LONG-TERM DEBT (I to VII)							
IX. FOREIGN INVESTMENT IN DEBT INSTRUMENTS							
a) Government							
b) Non-Government							
X. SHORT-TERM DEBT							
a) NRI Deposits							
i) Repatriable							
ii) Non-Repatriable							
b) Cross-Border Bank Debt							
c) Trade Related Credits **							
of which :							
(i) Trade Credits of six months and up to & including 1 year							
(ii) Trade credits up to six months							
X. GROSS TOTAL							

* Debt owed to Russia denominated in Rupees and converted at current exchange rates,discharged against exports.

+ Includes Rupee suppliers' credit from end-March 1990 onwards.

Multilateral loans include revaluation of IBRD pooled loans amounting and exchange rate adjustment. under IDA loans for Pre-1971 credits amounting.

ANNEXURE V

External Debt Statistics and International Organisations: A Review

The Bank for International Settlements (BIS)

The BIS was established in May 1930. It has been collecting statistical data on international banking since 1963. The BIS regularly publishes two creditor-based statistical series which contain information on a country's external debt owed to banks reporting to the BIS : a quarterly series and a semi-annual series. The quarterly series comprises reporting of the banks in individual reporting countries on their unconsolidated business with non-residents, including the banks' own affiliates; in the semi-annual system, the reporting is partly on a world-wide consolidated balance-sheet basis, with claims and liabilities between different offices of the same bank being netted out, and partly on the same basis as in the quarterly reporting system.

The data for both the quarterly and the semi-annual reporting systems are obtained through regular reports from national monetary authorities on the activities of financial institutions (essentially deposit-taking banks) which carry out international banking of any size. Most reporting countries provide data for all financial institutions that have foreign and domestic currency positions *vis-à-vis* non-residents exceeding a given minimum figure. Some institutions specialising in the direct granting, or of refinancing, of export-related credit also report. Central banks located in reporting centres do not, as a rule, report to the BIS on their international banking business, with two major exceptions- the UK, which reports the international operations of the Banking Department of the Bank of England and the US, i.e., the Federal Reserve Bank of New York , which is in charge of the international operations carried out by the Federal Reserve system. The quarterly series has a time lag of three to four months between balance sheet submission and publication; the time lag for the semi-annual series is five to six months.

Under the quarterly reporting system, the BIS reporting banks include banks residing in the Group of Ten countries, Luxembourg, Austria, Denmark, Finland, Ireland, Norway, Spain, the Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles and Singapore and the off-shore branches of US banks in Panama. Banks reporting from these inside area countries' also include in their reports, positions vis-à-vis Aruba, Barbados, Bermuda, Lebanon, Liberia, Vanuatu and the British West Indies. Under the semi-annual system, data are provided by banks in Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom and the United States (including the branches of the US banks in Panama) and the following financial centres : the Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles and Singapore. The consolidated nature of the reporting implies that the activities of a large number of banking offices outside the reporting area are also covered. Under both systems, banks report directly to their national monetary authorities, usually the central bank, which in turn transmit the aggregated data, expressed in US dollars to the BIS.

The quarterly system is based on the residence principle applied in the balance of payments accounting. This means that only banking offices actually located within the reporting countries provide data, and they do so exclusively on their own (unconsolidated) business, including any position vis-a-via affiliates (branches, subsidiaries, joint ventures) located in either other reporting countries or outside the reporting area. The quarterly system provides data on cross-border positions in both local and foreign currency. It also includes statistics on reporting banks' liabilities and assets *vis-à-vis* non-residents in non-local currency. The quarterly system provides for three overlapping breakdowns of the banks' external positions : (i) a geographical country-by-country breakdown, (ii) a currency breakdown in domestic (i.e. local) currency, in all foreign currencies taken together and in European Currency Unit (ECUs), and (iii) a sectoral breakdown between positions vis-a-vis non-banks and vis-a-vis banks.

The semi-annual system differs from the quarterly system in its content and coverage. The most important difference is that the semi-annual data are largely on a world-wide consolidated balance-sheet basis, which means that the claims or credit lines between different offices of the same bank, wherever located, are netted out. In contrast to the quarterly system, the data reported under the semi-annual system comprise only claims vis-à-vis countries outside the reporting area. First, banks with head offices in the reporting area provide world-wide consolidated data on their lending and undisbursed credit commitments to countries outside the reporting area. This also include local lending in foreign currency of affiliates located outside the reporting area. Second, bank offices in the reporting area whose head offices are located outside the area, or whose nationality cannot be identified, report on a territorial basis, as in the quarterly reporting system. These banking offices do not submit consolidated data but report their cross-border claims and undisbursed credit commitments *vis-à-vis* countries outside the reporting area. Another feature of the semi-annual system is that, in general, the outside area affiliates of banks in the reporting area also report their local assets and liabilities in local currency separately.The semi-annual system provides two separate breakdown of asset position vis-a-vis each borrowing country : (I) a residual maturity breakdown-up to and including one year, over one year and up to and including two years, and over two years, and (ii) a sectoral breakdown into claims on banks, public sector and non-bank private sector of borrowing countries.

The BIS co-operates with the OECD in aggregating the quarterly BIS figures on total bank claims with data on official and officially-guaranteed trade-related claims collected by the OECD. The stocks of indebtedness so obtained are broken down into two sub-items: external bank claims and non-bank trade related claims. External bank claims that are known to be trade-related credits benefiting from official insurance or guarantee are identified separately and pooled to eliminate double counting.

The BIS and the Core Definition of External Debt

It is clear that in its two series on external debt the BIS does not strictly follow the core definition of gross external debt given by the International Working Group on External Debt Statistics (IWGEDS) despite the fact that it is one of the members of the International Working Group on External Debt Statistics and has endorsed the definition given by the IEGWS. The BIS data essentially relates to claims of reporting banks on entities in debtor countries both bank and non-bank. These data are supplemented by data on public/publicly guaranteed trade related credits given by the OECD with a view to estimating the debtor countries' total exposure in respect of trade credits. Furthermore, the data of the BIS are reported on the basis of residual maturity.

The main element falling within the core definition of external debt which are excluded from the BIS creditor reporting system are the cross-border claims of the non-bank sector.

Trade related credit, whether supported by guarantee or not, are covered in the BIS data; the same is true of the currency of denomination (local or foreign currency). The quarterly system excludes undisbursed commitments; the semi-annual system records reporting banks' legally binding credit commitments and credit guarantees arising from the underwriting of note issuance facilities and similar papers, but these commitments and guarantees are shown as separate item, outside the debt totals.

Buyers credit, which a bank grants directly to a non-resident/customer/importer is classified by the reporting bank, as a rule, as an external claim. Suppliers' credit, which a non-bank creditor originally grants to a non-resident importer may find its way onto a bank's balance sheet. Depending on the practice followed by the reporting country concerned and on the way the bank acquired the suppliers' credit, statistical treatment would classify this suppliers' credit either as a claim in the BIS system on the local exporter (not to be reported as an external claim) or as a claim on the non-resident importer (as an external claim). Most reporting country apply the second criterion (i.e. the residence of the non-resident drawee), while a small number of countries require banks to report suppliers' credit as an external claim only when they were acquired from a non-resident.

As far as international securities held by banks for their own account are concerned, a majority of reporting countries include as external assets short term instruments, such as Treasury bills or certificates of deposit, and longer term instruments in the form of notes, bonds etc.

About half the reporting countries also include banks' portfolio investments in foreign shares and equity participations, but do not identify them separately. A small proportion of banks include holdings of gold bullion and banks' external business denominated in gold.

Under the semi-annual reporting system, the data include both cross- border claims and the local claims in non-local currencies of affiliates in countries outside the reporting area.

Inclusion of leasing transactions depend on institutional coverage or on how the subsidiary is treated for banking consolidation purposes. The BIS itself has given no special instructions regarding the treatment of leases. Similarly, it does not impose any particular approach regarding the treatment of debt reorganisation. As regards arrears, the majority of countries include both the arrears of interest and that of principal in their reported data.

The break-up of total external claims between short term and long term is done on the basis of residual maturity and is available only in the semi-annual system.

The Organisation of Economic Co-operation and Development (OECD)

Since 1960 when the Organisation of Economic Co-operation and Development (OECD) set up inter-donor Development Assistance Group, later to become the Development Assistance Committee (DAC), detailed statistics on the flow of official development assistance and other capital to the developing countries have been collected and published.

The main instrument for the collection of debt statistics by the OECD is the Creditor Reporting System (CRS) (earlier titled Expanded Reporting System). It relates to external debt arising out of (i) bilateral official development assistance (ODA) loans, including debt reorganisation classified as ODA (viz. grants and loans conveying a grant element of 25 per cent or more, using a 10 per cent discount rate) and loans repayable in inconvertible local currency, (ii) direct official export credits, (iii) official debt reorganisation lending not classified as ODA, (iv) other official lending and (v) export credits guaranteed by an official agency in the creditor country, with separate data for suppliers' credits and financial/buyers' credit, including leasing arrangements, revolving credits and lines of credits.

The OECD and the Core Definition

Under the CRS, the members of DAC, together with OECD members which are not members of the Committee, provide data on ODA, on officially -supported lending which includes both official lending and officially guaranteed private lending. The reporting entities are official aid agencies (or in some cases agencies responsible for co-ordinating the statistical reporting of several aid agencies), export guarantee agencies, and official bodies which have undertaken direct lending to a borrowing country. Breakdown of debt in terms of maturity is done on the basis of original maturity.

The debt stock on export credits are merged with the BIS data on bank claims and after adjustments to eliminate double-counting, they are published jointly by the OECD and the BIS. However, it is not possible to eliminate all the overlaps that exist between the data reported to the BIS and the OECD in respect of officially-guaranteed suppliers' credits in cases where such credits are acquired by banks and considered as external claims.

Cross-border loans repayable in local currency are included in the OECD's data even if the repayments are to the account in the lender's name in the borrowing country. However, loans out of such local currency balances, repayable in local currency, are not recorded. Claims resulting from guaranteed leasing arrangements and private/ official export credits for military purposes are automatically but indistinguishably included. Lending to overseas subsidiaries are included to the extent it is guaranteed. However, non-operational companies of a "flag-of-convenience" or " brass-plate" nature are ignored.

Under debt reorganisation, rescheduling and refinancing leave the principal outstanding unchanged, but if interest has been capitalised the amount of debt rises; write-off and forgiveness reduces the debt but repudiation does not necessarily do so. Arrears classified by the OECD Secretariat as outstanding short term debt are kept in the data until they are discharged, rescheduled or written-off.

The World Bank

The World Bank has been collecting stock and flow data for developing countries external indebtedness since 1946. Its concern with the analytical application of the data and effective assessment of developing country risk has influenced the manner of reporting presentation in the Bank's publications. In 1965, the Bank's Annual Report included for the first time summary figures and some commentary on the debt of the developing countries. In the following year, the Bank began to publish an annual statistical compendium providing key debt indicators for developing countries. The Global Development Finance (formerly The World Debt Tables), as the compendium is now called, has expanded steadily over the years in detail, scope and coverage. Debt information is also published, but in less comprehensive form, in the statistical annex of the Bank's World Development Report.

The World Bank and the Core Definition

The Bank employs the concept of the " Total External Debt" of a country, which is the sum of (i) Long Term Debt which is sub-categorised into public/publicly guaranteed debt and private non-guaranteed debt, (ii) Use of IMF credit and (iii) Short term debt.

The Bank's principal means for monitoring long-term debt is the Debtor Reporting System (DRS) , set up in 1951. It is based on the reports of long-term external indebtedness from the countries that borrow from the World Bank giving the loan-by-loan details of debt of the public sector and debts guaranteed by the public sector. Public sector is defined as central government (including ministries and other administrative departments), political sub-division (such as states, provinces and municipalities), the central bank and autonomous institutions, financial and non-financial, where (a) the budget of the institution is subject to the approval of the government of the reporting country; or (b) the government owns more than 50 per cent of the voting stock or more than half of the members of the board of directors are government representatives; or (c) in case of default, the state would become liable for the debt of the institution. Since 1970, DRS reporting has been extended to incorporate summary reports on the long term debt of the private sector that is not publicly guaranteed.

The Bank has three main methods of improving the quality of reported data, often used in combination. First, there are the cross-checks deliberately built into the DRS itself, especially between the quarterly reports and the annual summaries, and between the reports for the successive periods. The second is to supplement the data by internal action. The third involves drawing on, and cross-checking with other international organisations. The Bank also uses the International Monetary Fund data to compile its Use of IMF Credit information.

Short term debt is defined as debt with an original maturity of one year or less, measured from the date of loan agreements signed to the date on which the last payment is made. The most important source of short term debt outstanding is the information provided by the individual countries. In the case it is not available, the BIS's semi-annual series showing the maturity distribution of commercial banks' claims on developing countries is used. By deducting from claims due in one year those that that a year earlier had a maturity of between one and two years, an estimate of short term liabilities by original maturity is calculated. Combining these estimates with data on officially-guaranteed suppliers credit compiled by the OECD gives a "lower bound" estimate of a country's short term debt, which is than adjusted in the light of any available additional information.

In the case of private non-guaranteed debt that is not reported, the standard estimation approach starts from the calculation of the stock of debt outstanding, using available credit source data. Figures on guaranteed export credit, obtained from the CRS, are supplemented by loan-by-loan information on official lending to private borrowers and by information on non-insured commercial bank lending to the private sector.

As a subset of its data on flows, the Global Development Finance publishes detailed debt service information, on the basis of the payments actually made during a reporting year. It publishes projections of future debt service on the outstanding debt using information on undisbursed commitments, future principal repayments and future interest payments.

Published figures for debt - both long term and short term- incorporate known arrears of principal but of interest , unless and until it is capitalised under the debt reorganisation agreement. Although the Bank regards financial leases as debt to be reported through the DRS, it has not laid down any definition of financial lease.

Similarly, marketable foreign currency debt such as convertible bonds, portfolios investment in debt securities etc. raise potential problem in adhering to the core definition. Such debt is reported through the DRS at the time of issue, and remains fully outstanding in the database until partial or full repayment takes place. Transfer of ownership through market transactions which result in part of the debt being held by the residents in the country of issue are not currently captured in the data.

The Bank's interest in debt reorganisation is to capture accurately the effect of different types of reorganisation of both debt stocks and debt flows -forgiveness, refinancing, rescheduling and consolidation of short term debt into long term debt- consistent with the circumstances under which the reorganisation takes place.

The International Monetary Fund

Collection of data on external debt within the Fund follows two different paths- collection of comprehensive data on a country-specific basis for use in consultations and negotiations with countries and collection of data by the Fund's Statistics Department for publication. The data collected by the Fund's area departments for individual country debt are not published but are used to prepare global debt analysis such as those presented in the World Economic Outlook (WEO). The Fund's Statistics Department does not collect comprehensive data on external debt but collects data in following areas which provide important debt components: balance of payments statistics (BOP), government finance statistics (GFS), monetary and banking statistics (MBS), and international banking statistics (IBS).

The financial institution section of the International Financial Statistics (IFS) country pages presents as full a picture as data availability permits of the foreign liabilities of a country's financial sector. The foreign liabilities' position of deposit banks, other than monetary authorities, are presented in a world table. The international liquidity section of the IFS country pages provide a summary of the external position of a country's financial institutions. Data are presented for monetary authorities, deposit money banks, and , where available, other financial institutions and offshore banking units. On the country page, the "Fund Position" section presents total liabilities to the Fund in the form of use of Fund credit with details of outstanding purchases under the various Fund policies and facilities. Liabilities to the IMF Trust Fund are shown separately. Information on external debt from the Fund's International Banking Statistics (IBS) as published in the IFS include (i) liabilities of deposit banks in a country to deposit banks in the rest of the world, (ii) liabilities of deposit banks in a country to non-banks in the rest of the world, and (iii) liabilities of non-banks in a country to deposit banks in the rest of the world. The WEO series includes short and medium term forecasts of global external debt and debt service payments.

The Fund's published statistics include only outstanding liabilities and exclude off-balance sheet contingent liabilities such as letters of credit, guarantees, undrawn loans, and unactivated loans or loan facilities. Financial lease is defined according to the BOP methodology of 75 per cent of the cost of the goods, together with the carrying charges. On the treatment of the residence concerning emigrant workers (individuals located abroad more than a year but retain substantial interest in their country of origin) and offshore banking units (units limited mainly to transaction with non-residents under special licences or regulations), the Fund prefers separate reporting on these liabilities.

Some of the major international banking centres include equity holdings in their reports on claims on other countries. As these are not reported separately and as a given country's debt to foreign banks is measures as a total of reported claims on that country, the debt to banks might include some element of equity type liabilities where they exist. Conversely, when a loan or security has become non-performing, the value of that claim is reduced or eliminated from the balance sheet of the bank concerned even though the claim on the debtor still exists. This will result in an understatement of the actual claims on the country which has the non-performing debt and the period in which the adjustment is made it will appear, other things being equal, that the debtor country has made a repayment.

Source : *External Debt: Definition, Statistical Coverage and Methodology - A Report by an International Working Group on External Debt Statistics, 1988.*

ANNEXURE VI

Short Term Debt, Definitions and Coverage : A Comparative Position

Our Current Approach	BIS Approach	IIF Approach	World Bank Approach
■ **Definition**: All debt obligations with original maturity of less than one year. ■ **Coverage:** 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. ■ **Exclusions:** are short term deposits under the NR(NR)RD scheme, cross border bank claims and trade related credits of maturity less than six months.	■ **Definition:** All claims of banks in the BIS reporting area of residual maturities up to and including one year. ■ **Coverage:** All reporting banks' claims on India including local lending in non-local currencies, foreign currency claims on Indian banks abroad and local currency claims of foreign banks on banks in India. ■ **Exclusions:** Non-bank debt and debt owed to banks outside the BIS reporting system.	■ **Definition:** Short term debt owed to commercial banks, private creditors and bilateral creditors, presumably combining claims in original maturities as well as in residual maturities. ■ **Coverage and Exclusions:** Short term debt owed to commercial banks (derived from the BIS data) excluding guaranteed bank debt, trade credits below six months, NRI deposits (including NR(NR)RD deposits), some private non-guaranteed suppliers' credits and bilateral short term debt (derived from the BIS/OECD data).	■ **Definition:** Debt with an original maturity of one year or less. ■ **Coverage and Exclusions:** Consistent with our current approach.

ANNEXURE - VII

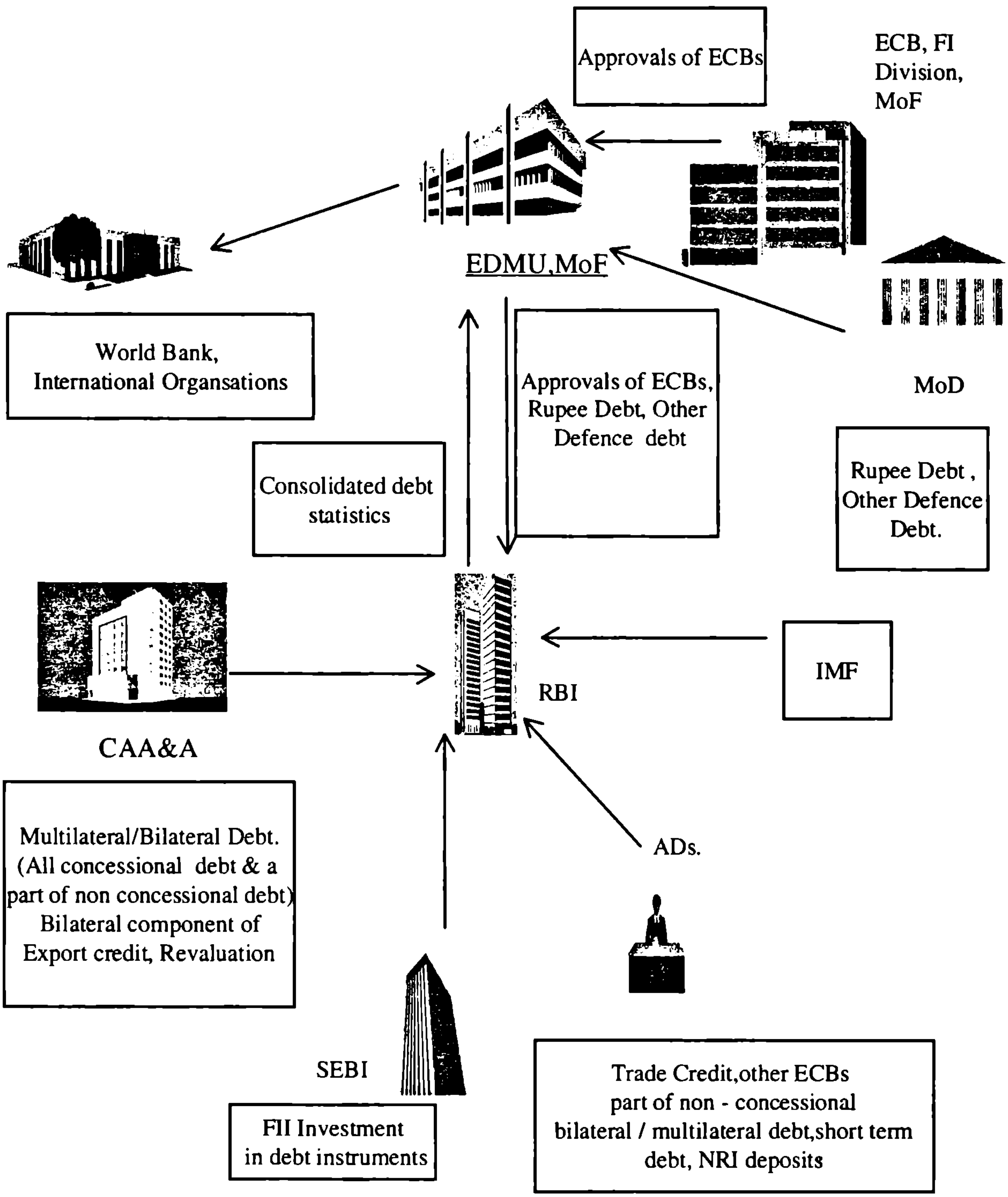
Capturing Short-Term Credits of Less Than Six Months

Under the existing exchange control rules, data on buyers' credits are captured in the RBI database. Suppliers' trade credits of less than six months are not captured in the data as such credits do not need control approvals. Such suppliers' credits could be availed of under (i) letters of credit (L/C) on documents against payment (D/P) or sight bills, (ii) L/C on documents against acceptance (D/A) or usance bills, (iii) non-L/C confirmed orders on D/P basis, and (iv) non-L/C import bills on D/A basis. In case of (i) and (ii), the source could be banks themselves and the data could be captured by adapting the fortnightly reporting mechanism recently introduced by the RBI. For (iii) and (iv), which are quite substantial in amount, banks are not involved until the importer approaches the banker at the time of retirement of the bills; accordingly, periodic surveys of the importers availing of such facilities would be the best source. The Survey would address (a) the period of credit defined as the difference between the point of payment and the point of import (b) advance payments, (c) the terms of credit, (d) the proportion of such credit-financed imports to total import payments, etc.

The Census on India's Foreign Liabilities and Assets launched by the DESACS, RBI with March 31, 1997 as the reference date captures all short-term credit of less than 12 months but without a separate identification of the component which is less than six months; however, such component could be roughly identified as data on credits of 6-12 months are separately available. This Census could serve as a supplement to the institutional arrangements set out above.

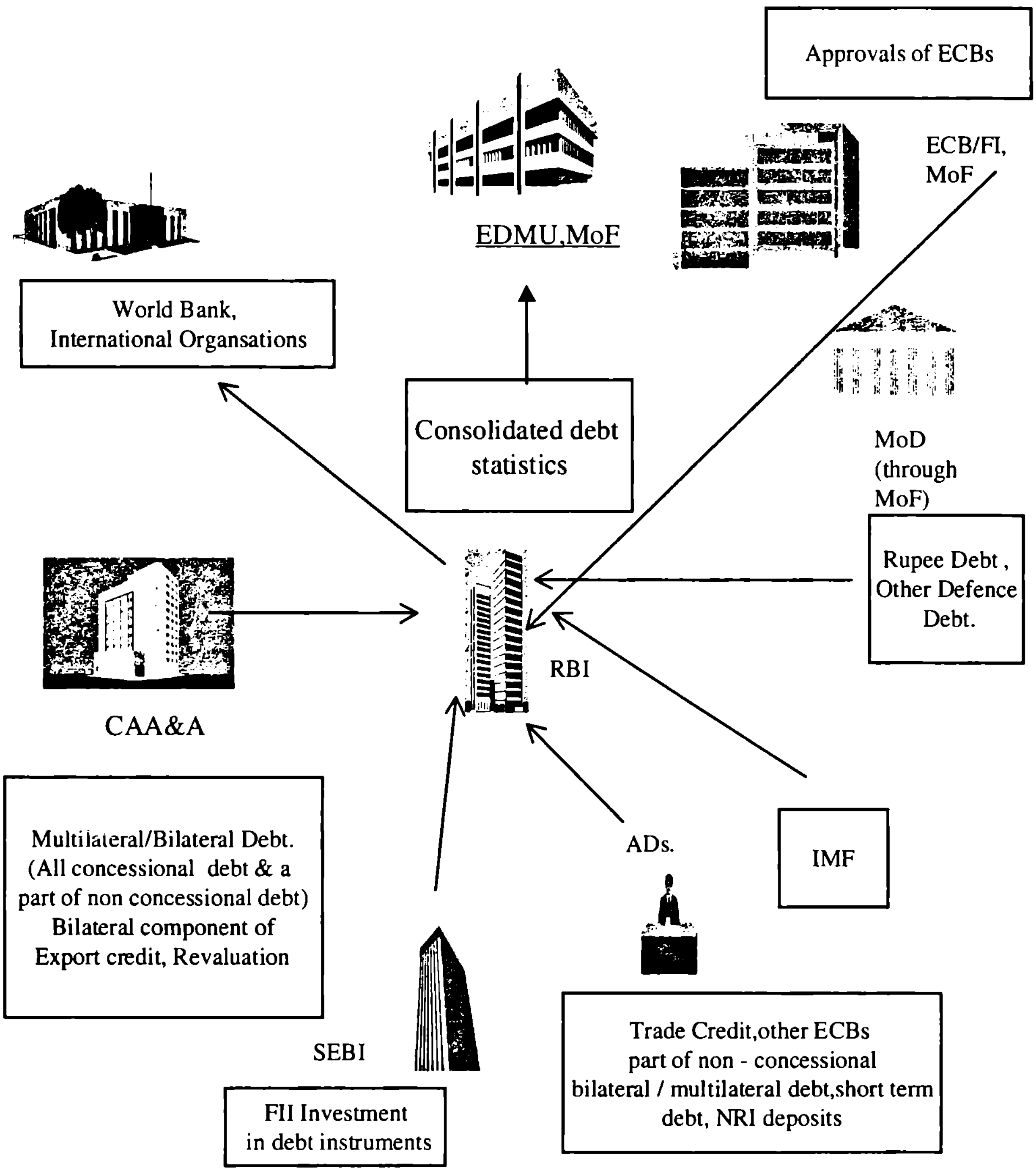
ANNEXURE VIII

Flow Chart of Institutional Arrangement for Collection & Compilation of External Debt Statistics



ANNEXURE IX

Proposed Long-term Arrangement : Flow Chart of Institutional Arrangement for Collection & Compilation of External Debt Statistics



ANNEXURE - X

Debt Sustainability Indicators : 1994-96

Country	India	Thailand	Phillipines	Indonesia	Malaysia
EDT/XGS	194	131	124	245	48
PV/XGS	152	131	116	236	50
EDT/GNP	28	56	54	67	49
PV/GNP	22	56	51	64	52
TDS/XGS	27	12	17	41	9
INT/XGS	10	6	7	13	2
Short term/EDT #	7.8	41.4	19.3	25.0	27.8

#: Refers to 1996

Note:
EDT/XGS is total external debt to exports of goods and services.
PV/XGS is present value of debt service to export of goods and services
EDT/GNP is total external debt to gross national product.
PV/GNP is present value of debt service to gross national product.
TDS/XGS is total debt service to exports of goods and services.
INT/XGS is total interest payments to exports of goods and services.
Short term/EDT is short term debt to total external debt.

Source: Global Development Finance, 1998