

India: Short-term external debt on the rise

Even with a fully funded current account deficit, rising short-term debt is a big concern as it has increased India's external vulnerability.

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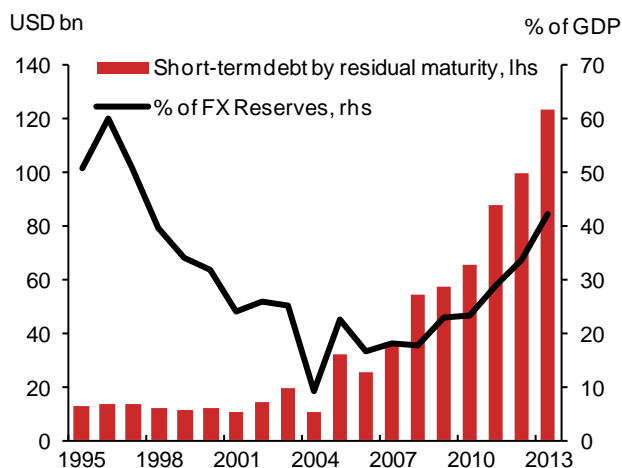
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Fig. 1: Short-term external debt (by residual maturity)*



* 2013 refers to year ending March 2013.

- Short-term residual maturity debt – short-term (ST) debt and long-term debt due in the next one year – is on the rise. According to the Reserve Bank of India (RBI), this has risen to USD172bn as of March 2013 from USD147bn a year ago.
- Excluding NRI deposits (which is closer to the Finance Ministry's definition), ST residual maturity debt stood at USD123bn, by our estimates, or 42% of total FX reserves. While nowhere near as bad as the early 1990s, this is a steep rise from a low of 16% seven years ago.
- We have highlighted India's rising external vulnerability due to the double-edged sword of debt capital inflows: they help finance the current account deficit (flow), but worsen the balance sheet (stock) (see [India's chronic balance of payments](#), 3 September 2012). With global risks on the rise, we expect difficulty in rolling over debt to put pressure on net capital inflows, which remains a bigger risk for the currency this year.

Note: We use the Finance Ministry's definition of residual maturity debt (not the RBI's). FinMin estimates exclude debt service on FII investment in government/corporate securities and NRI deposits. For FY13, we have subtracted NRI deposits (USD49bn) from the RBI's estimate of residual maturity short-term debt (USD172bn). Source: Finance Ministry, RBI, CEIC and Nomura Global Economics.

Disclosure Appendix A-1

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