

## Exchange Rate Policy and the Burden of External Debt

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The recent controversy regarding the quantum of India's external debt has highlighted the accelerating pace at which it is growing during 1980s. Even with officially accepted definition, India's external debt/GNP ratio has increased from 12.3% in 1980-81 to 18.9% in 1987-88. The order of increase in external debt and the present level of Debt Service Ratio (24% of current receipts) would indicate that India's external debt is rising rapidly and the risks associated with high and increasing external debt could increase further. Along with the increasing quantum of debt, the harder terms at which debt is raised is also a cause for concern. The share of lower interest, longer maturity debt is giving way for funds raised at market related higher cost having a much shorter maturity. This change in the composition of external debt brings out the problem associated with external debt in sharp focus as debt service burden is higher and the debt redemption would be quicker. This, in the context of external debt, necessitates a swift and sustained increase in export earnings which alone enable fulfilment of the obligations arising from external debt.

India's external debt has increased persistently as her trade account remained in deficit. During 1980-81 to 1987-88 exports have increased at 12.9% p.a. while imports have registered a growth of 8.6% during the same period. While surplus on account of services has partly helped to finance trade deficit, the sustained deficit on current account would, and has, led to a rise in external debt. Balance of trade often turns adverse when imports of essential goods (edible oils, food etc.) become necessary particularly in the face of exogenous supply shocks like monsoon failure. But the sustained level of trade and current account deficit can hardly be described in terms of such exogenous factors alone. To some extent the trade deficit is policy-induced in that the policy of transforming the Indian economy and to make it modern, competitive through easier access to imported capital goods, equipments and technology had led to high and increasing imports. It is hypothesized that Indian industrial sector operating as it was in a sheltered domestic market, became, over time, inefficient and technologically obsolescent. Such a sector can hardly compete in the world market and raise the domestic growth rate through increased exports. Thus the strategy to open up economy is indeed aimed at raising exports.