External Commercial Borrowings

By
K.Venkatakrishnan
State Bank of India
Foreign Investments - Indian Scenario

Foreign Investment Inflows ($ bn)

<table>
<thead>
<tr>
<th></th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>Apr-Dec07</th>
<th>Apr-Dec08</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>9.2</td>
<td>23.0</td>
<td>34.9</td>
<td>17.7</td>
<td>24.7</td>
</tr>
<tr>
<td>FII</td>
<td>12.5</td>
<td>7.1</td>
<td>29.3</td>
<td>33.2</td>
<td>-11.3</td>
</tr>
<tr>
<td>ECB</td>
<td>2.5</td>
<td>16.2</td>
<td>22.2</td>
<td>21.5</td>
<td>13.8</td>
</tr>
<tr>
<td>NRI Deposits</td>
<td>2.8</td>
<td>4.3</td>
<td>0.2</td>
<td>-0.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>27.0</td>
<td>50.6</td>
<td>86.6</td>
<td>71.5</td>
<td>29.2</td>
</tr>
</tbody>
</table>
# Foreign Investments - Indian Scenario

India’s External Debt ($ bn)

<table>
<thead>
<tr>
<th></th>
<th>Mar 06</th>
<th>Mar 07</th>
<th>Mar 08</th>
<th>Sep 08</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ECB</strong></td>
<td>26.5</td>
<td>41.5</td>
<td>62.5</td>
<td>60.3</td>
</tr>
<tr>
<td><strong>NRI Deposits</strong></td>
<td>36.3</td>
<td>41.2</td>
<td>43.7</td>
<td>40.6</td>
</tr>
<tr>
<td><strong>Trade</strong></td>
<td>5.4</td>
<td>7.2</td>
<td>10.4</td>
<td>12.1</td>
</tr>
<tr>
<td><strong>Total Long Term</strong></td>
<td>118.6</td>
<td>143.2</td>
<td>177.8</td>
<td>172.5</td>
</tr>
<tr>
<td><strong>Total Short Term</strong></td>
<td>19.5</td>
<td>28.1</td>
<td>47.0</td>
<td>50.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>138.1</td>
<td>171.3</td>
<td>224.8</td>
<td>222.6</td>
</tr>
</tbody>
</table>
## Foreign Investments - Indian Scenario

### India’s External Debt

<table>
<thead>
<tr>
<th></th>
<th>Mar 06</th>
<th>Mar 07</th>
<th>Mar 08</th>
<th>Sep 08</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Debt/GDP</strong></td>
<td>17.2</td>
<td>18.0</td>
<td>19.1</td>
<td>--</td>
</tr>
<tr>
<td><strong>ST Debt/Total Debt</strong></td>
<td>14.1</td>
<td>15.6</td>
<td>20.9</td>
<td>22.5</td>
</tr>
<tr>
<td><strong>ST Debt/Reserves</strong></td>
<td>12.9</td>
<td>14.1</td>
<td>15.2</td>
<td>17.5</td>
</tr>
<tr>
<td><strong>Reserves /Total Debt</strong></td>
<td>109.8</td>
<td>116.2</td>
<td>137.8</td>
<td>128.6</td>
</tr>
<tr>
<td><strong>Debt Service Ratio</strong></td>
<td>9.9</td>
<td>4.7</td>
<td>4.8</td>
<td>4.3</td>
</tr>
</tbody>
</table>
Global Scenario

Gross External Debt / FX Reserves

State Bank of India
With you - all the way
Pure Banking. Nothing else.
Global Market Scenario

- Global Capital Flows
- Appetite for Emerging Market Credit
- Liquidity of Funds
Global Market Scenario

Easy Money Policy

Credit Expansion

Global Capital

Credit Invst.

High Risk Investments

Sub-Prime Crisis

Losses

Loss of Capital for banks

Credit contraction

Deleveraging

Controls

Credit contraction

Disinvestment & Reverse flow of capital
Global Market Scenario

Global Liquidity Crisis

- Expansion of global banking activity

- Expansion of Banks’ Global Balance Sheets and their appetite for foreign currency assets

- Accelerated by growth of Hedge Funds and emergence of structured finance industry and the spread of “universal banking”

- Funding needs in foreign currency, especially US dollars grows hugely

- European banks’ funding needs at $1.1 - 1.3 trillion by mid-2007

- Funded thru’ borrowing in interbank market ($400 bn), non-bank market participants, central banks ($380 bn) and currency swaps ($800 bn)
Global Market Scenario

Foreign Currency Exposures scaled by world GDP

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Sources: IMF; BIS consolidated statistics (immediate borrower basis); BIS locational statistics by nationality; authors’ calculations.
Global Market Scenario

Shortage of US Dollars

- Term funds not rolled over due to disruptions in interbank markets
- Short term market tightened and became unstable
- Drying up of swap markets
- Withdrawals from Bank issued papers
- Large scale redemption of funds
- Withdrawal of reserve funds placed by Central banks with Commercial banks due to US $ crunch
- Market became illiquid for $ assets other than US Govt securities

Lines by Central Banks by co-ordinated policy with Federal Reserve thru’ reciprocal $ Swap lines.
**Current Indian Market Scenario**

- **International banks**
  - *Vast Distribution capabilities, Large funding capabilities, Limited credit appetite*
  - *Liquidity, capital, exposure issues*
  - *Large deals not possible*

- **Indian banks**
  - *Vast credit appetite, Limited funding capabilities, Limited Distribution capabilities*
  - *Liquidity issues*
Current Indian Market Scenario

• Market Revival Prospects
  - Global Capital Flows should resume
  - Demand from Corporates due to interest rate differential

• Regulations
  - Stable Policies / Guidelines
  - Control measures

• Market Structures and Instruments
  - Banks in India to develop liquidity and Distribution capabilities
  - Domestic Debt Capital market to be developed
  - Hybrid Instruments / Structured Products to be developed
THANK YOU