

INQUIRIES INTO EXTERNAL COMMERCIAL BORROWINGS

Abstract

This thesis addresses four independent issues all of which are empirical treatment of the foreign currency debt of corporate sector in India. Chapter 2 examines the determinants of external commercial borrowings and Chapter 3 deals with the balance sheet effects of such borrowings in the wake of exchange rate depreciation. The theme of Chapter 4 is the competitiveness effect of the exchange rate in the presence of underdeveloped financial markets and external commercial borrowings. Chapter 5 evaluates the nexus between the foreign exchange reserves and external commercial borrowings. The thesis considers the firm level and macroeconomic data and the period of the study varies across the themes. The thesis shows that firm-specific factors are important determinants of ECBs than that of the macroeconomic environment. The research also finds no significant effect of exchange rate depreciation on investment of firms with dollar debt. The thesis shows that level of financial sector development and share of corporate dollar debt in India hurt the competitiveness effects of the depreciation. This finding supports the propositions of third generation models of crisis that foreign currency debt by firms expose the economy to external shocks and pose challenges to macroeconomic stability. Finally, the thesis finds the causality between forex reserves and external commercial borrowings in the short-run, but the evidence is weak to support the hypothesis that reserves are incentives for the firms to borrow in foreign currency in the long-run. The thesis supports the gradualist approach to debt flows as envisaged in the policy framework. The present work calls for mandatory hedging by firms and development of offshore derivative markets. The development of domestic bond market helps the export firms to reap the benefits of depreciation. This thesis on external commercial borrowings thus makes important contributions to the literature on finance and open economy macroeconomics.

Key Words: External commercial borrowings; investment; competitiveness effect; financial sector development; foreign exchange reserves; exchange rate; macroeconomic stability; India