

# External accounts – external debt

Arthur Silve

Paris School of Economics  
Sciences Po

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# Purpose of this sequence 1/3

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Many if not most of vulnerabilities faced by DCs are external

- Reduced demand for exports
- Price shocks on exports or imports
  - imported inflation
  - external (price) competitiveness
- official reserves
  - meeting repayment schedule
  - financing imports and investment
- external debt sustainability
- exchange rate regime sustainability and financial crises



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# Purpose of this sequence 2/3

## Main example: Vietnam

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Table 1. Selected Economic Indicators, 2008–13

	2008	2009	2010	Est. 2011	Projections 2012	2013
<b>Output</b>						
Real GDP (percent change)	6.3	5.3	6.8	5.9	6.0	6.3
<b>Saving and investment (in percent of GDP)</b>						
Gross national saving	27.8	31.6	34.9	29.3	33.5	33.1
Private	20.8	26.8	30.0	24.4	30.0	29.3
Public	7.0	4.7	4.9	5.0	3.5	3.7
Gross investment	39.7	38.1	39.0	29.9	34.3	33.8
Private	30.5	24.6	27.9	21.4	26.8	26.6
Public	9.2	13.6	11.2	8.5	7.5	7.2
<b>Prices (percent change)</b>						
CPI (period average)	23.1	6.7	9.2	18.7	10.8	7.4
CPI (end of period)	19.9	6.5	11.7	18.1	8.2	6.0
Core inflation (end of period)	16.3	6.1	8.8	12.7	...	...
<b>General government finances (in percent of GDP) 1/</b>						
Revenue and grants	28.9	27.3	27.8	27.8	27.9	27.7
Of which: Oil revenue	6.0	3.7	3.5	4.4	3.9	3.6
Expenditure	29.4	34.5	33.1	30.3	31.3	30.3
Expense	20.3	21.0	21.9	22.0	23.9	23.1
Net acquisition of non-financial assets	9.1	13.4	11.2	8.4	7.5	7.2
Net lending (+)/borrowing(-) 2/	-0.5	-7.2	-5.2	-2.6	-3.4	-2.6
Public and publicly guaranteed debt (end of period)	42.9	51.2	54.2	48.3	48.2	46.6
<b>Money and credit (percent change, end of period)</b>						
Broad money (M2)	20.3	29.0	33.3	12.1	21.6	18.1
Credit to the economy	25.4	39.6	32.4	14.3	16.8	14.4
<b>Interest rates (in percent, end of period)</b>						
Nominal three-month deposit rate (households)	8.1	10.7	11.6	14.9	...	...
Nominal short-term lending rate (less than one year)	11.5	12.7	14.0	16.4	...	...
<b>Balance of payments (in percent of GDP, unless otherwise indicated)</b>						
Current account balance (including official transfers)	-11.9	-6.6	-4.1	-0.5	-0.8	-0.7
Exports f.o.b.	69.4	61.3	69.7	79.0	81.7	84.2
Imports f.o.b.	83.6	70.2	74.7	79.3	83.5	86.2
Capital and financial account	14.0	12.2	4.4	3.0	4.1	3.5
Gross international reserves (in billions of U.S. dollars, end of period) 3/	23.0	14.1	12.4	13.5	19.0	25.7
In months of prospective GNFS imports	3.8	1.9	1.4	1.3	1.6	1.9
Total external debt (end of period) 4/	32.4	41.6	43.8	40.9	41.0	40.4
Nominal exchange rate (dong/U.S. dollar, end of period)	17,483	18,479	19,498	21,034	...	...
Nominal effective exchange rate (end of period)	92.0	80.8	81.0	67.5	...	...
Real effective exchange rate (end of period)	125.7	115.8	117.0	121.3	...	...

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The “supplementary document to the action fiche and payment dossier” requires that you

- identify main potential short term sources of instability (part 1), in particular
  - current account deficit
  - level, nature and volatility of external in- and out-flows
  - insufficient official reserves
  - unsustainable external debt dynamics
- identify the shortcomings of several aspects of economic policy (part 2), such as
  - trade and external financial policies
  - the exchange rate regime, external liquidity and competitiveness

# Course outline

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Balance of payments (BoP): record of all international transactions undertaken between a country's residents and the residents of other countries during a given period of time (usually a calendar year).

- Current account (CA): international transactions involving goods, services and factors
- Capital account (IMF: financial account): international transactions involving assets
- (IMF Capital account: unrequited transfers of ownership - unilateral)

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**Table 2. Balance of Payments, 2008–13 /1**

(In billions of U.S. dollars, unless otherwise indicated)

	2008	2009	2010	Estimate 2011	Projection 2012	2013
<b>Current account balance</b>	-10.8	-6.1	-4.3	-0.7	-1.1	-1.1
Trade balance	-12.8	-8.3	-5.1	-0.4	-2.4	-3.0
Exports, f.o.b.	62.7	57.1	72.2	96.9	111.0	125.2
Imports, f.o.b.	75.5	65.4	77.3	97.4	113.4	128.3
Nonfactor services	-0.9	-1.2	-2.5	-3.0	-0.8	-0.6
Receipts	7.0	5.7	7.5	8.9	10.3	11.6
Payments	8.0	6.9	9.9	11.9	11.1	12.2
Investment income	-4.4	-3.0	-4.6	-5.1	-6.3	-6.5
Receipts	1.4	0.8	0.5	0.4	0.3	0.3
Payments	5.8	3.8	5.0	5.4	6.6	6.8
Transfers	7.3	6.4	7.9	7.9	8.4	9.1
Private (net)	6.8	6.0	7.6	7.6	8.1	8.8
Official (net)	0.5	0.4	0.3	0.3	0.3	0.2
<b>Capital and financial account balance</b>	12.3	11.3	6.9	5.4	8.0	7.8
Direct investment (net)	9.3	6.9	7.1	7.3	7.3	7.3
Of which: Foreign direct investment in Vietnam	9.6	7.6	8.0	8.2	8.2	8.2
Portfolio investment	-0.6	-0.1	2.4	1.4	2.0	2.1
Of which: Sovereign bond issuance	0.0	0.0	1.0	...	...	...
Medium- and long-term loans	1.0	4.5	3.4	2.0	2.2	2.0
Disbursements	2.4	6.1	5.4	4.7	5.1	4.7
Amortization	1.4	1.7	1.9	2.7	2.9	2.8
Short-term capital	2.6	0.0	-6.0	-5.2	-3.5	-3.5
Net foreign assets of commercial banks	0.7	-0.3	-7.1	-6.8	-4.1	-4.1
Trade credit (net)	2.0	0.3	1.0	1.6	0.6	0.6
<b>Errors and omissions</b>	-1.1	-13.3	-3.7	-3.6	-1.4	0.0
<b>Overall balance</b>	0.5	-8.2	-1.1	1.1	5.5	6.7



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A record of all international transactions involving goods, services, factors of production

- international transactions involving the exchange of goods and services (trade balance)
- factor income (net)
- cash transfers (remittances - unilateral)





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# The trade balance – Cameroon

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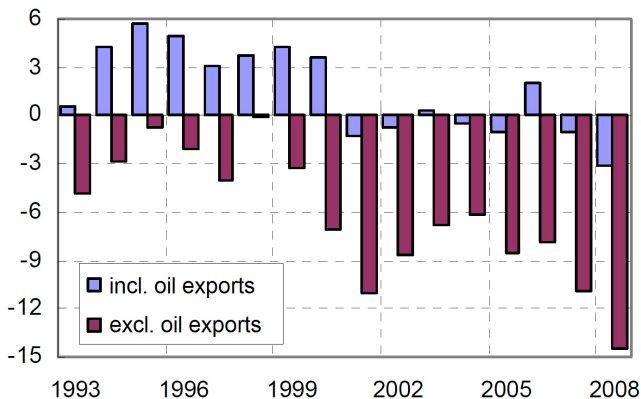
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# The current account – Vietnam

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**Table 2. Balance of Payments, 2008–13 /1**  
(In billions of U.S. dollars, unless otherwise indicated)

	2008	2009	2010	Estimate 2011	Projection 2012	2013
<b>Current account balance</b>	-10.8	-6.1	-4.3	-0.7	-1.1	-1.1
Trade balance	-12.8	-8.3	-5.1	-0.4	-2.4	-3.0
Exports, f.o.b.	62.7	57.1	72.2	96.9	111.0	125.2
Imports, f.o.b.	75.5	65.4	77.3	97.4	113.4	128.3
Nonfactor services	-0.9	-1.2	-2.5	-3.0	-0.8	-0.6
Receipts	7.0	5.7	7.5	8.9	10.3	11.6
Payments	8.0	6.9	9.9	11.9	11.1	12.2
Investment income	-4.4	-3.0	-4.6	-5.1	-6.3	-6.5
Receipts	1.4	0.8	0.5	0.4	0.3	0.3
Payments	5.8	3.8	5.0	5.4	6.6	6.8
Transfers	7.3	6.4	7.9	7.9	8.4	9.1
Private (net)	6.8	6.0	7.6	7.6	8.1	8.8
Official (net)	0.5	0.4	0.3	0.3	0.3	0.2
GDP	90.3	93.2	103.6	122.7	134.9	148.0

The consensus among economists is that trade liberalization is generally good

- trade openness is good for growth
- it favors international investment and technological transfers,

with one considerable exception

- Infant industries.

Traditional trade policies have thus included

- overall trade liberalization (WTO, FTA etc.)
- import substitution industrialization
- export promotion.

# Rodrik's heterodox trade policy recommendation

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Insulate two complementary parts of an economy

- the competitive export sector
- from the rest of the economy: nontradable and noncompetitive tradable

both from a fiscal point of view as well as on the labor market

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A record of all international financial transactions involving asset ownership:

- change in the domestic ownership of foreign assets
- change in the foreign ownership of domestic assets

There are two main types of financial instruments

- IOUs
- ownership shares

It generally distinguishes several categories of flows

- FDI (LT)
- portfolio investment (ST)
- “Other investments”: loans extended or repaid; usually involves banks (ST)
- Official reserves: foreign currency

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(In billions of U.S. dollars, unless otherwise indicated)

	2008	2009	2010	Estimate 2011	Projection 2012	2013
<b>Capital and financial account balance</b>	12.3	11.3	6.9	5.4	8.0	7.8
Direct investment (net)	9.3	6.9	7.1	7.3	7.3	7.3
<i>Of which:</i> Foreign direct investment in Vietnam	9.6	7.6	8.0	8.2	8.2	8.2
Portfolio investment	-0.6	-0.1	2.4	1.4	2.0	2.1
<i>Of which:</i> Sovereign bond issuance	0.0	0.0	1.0	...	...	...
Medium- and long-term loans	1.0	4.5	3.4	2.0	2.2	2.0
Disbursements	2.4	6.1	5.4	4.7	5.1	4.7
Amortization	1.4	1.7	1.9	2.7	2.9	2.8
Short-term capital	2.6	0.0	-6.0	-5.2	-3.5	-3.5
Net foreign assets of commercial banks	0.7	-0.3	-7.1	-6.8	-4.1	-4.1
Trade credit (net)	2.0	0.3	1.0	1.6	0.6	0.6
GDP	90.3	93.2	103.6	122.7	134.9	148.0



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# External financial policy

## Financial liberalization in the 1980s and 90s

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Initially a restrictive view of financial liberalization

- IR liberalization

Interpreted extensively

- easing of directed credit and reserve requirements
- markets were set up for public debt and for equity
- $\implies$  countries allowed the use of foreign currency instruments
- $\implies$  and opened up capital accounts

# Impact of financial liberalization on structural characteristics

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2 structural impacts of FG already encountered

**1** financial sector development

**2** institutional quality

FG may have a third structural impact:

**3** trade openness



- $FL \Rightarrow$  financial sector development
  - additional capital implying mechanical financial deepening
  - imported financial sophistication
- financial sector development  $\Rightarrow$  FL
  - more efficient allocation of foreign capital to competing projects
  - financial deepening may reduce susceptibility to sudden stops and boom-bust cycles

- $FL \Rightarrow$  institutional quality
  - imported financial management standards
  - homogenization of financial regulation procedures
- institutional quality  $\Rightarrow$  FL
  - corruption, weak public governance and cronyism may be favoured by additional sources of capital
  - weak property rights may be beneficial more to short-term investments than to capital-intensive investments

- $FL \Rightarrow$  trade integration
  - trade is facilitated by financial sophistication, deepening and integration
  - international risk-sharing addressed by FL also justifies trade expansion
- trade integration  $\Rightarrow$  FL
  - a current account adjustment is made easier by trade openness, which reduces likelihood of a financial crisis
  - trade openness also mitigates the effects of a crisis, since exports may benefit from such a crisis
  - lesser risk associated with trade integration often makes it a preliminary to financial integration

# Summary: the impacts of financial liberalization

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## Threshold effects

- Financial sector development
- Institutional quality

## Sequential liberalization

- trade liberalization should generally precede financial liberalization.

# Balancing the balance

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- accounting identity
- statistical discrepancy

Two polar cases:

- fixed exchange rate
- floating exchange rate



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# The overall balance

## Official reserves – external debt

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<b>Current account balance</b>	-10.8	-6.1	-4.3	-0.7	-1.1	-1.1
<b>Capital and financial account balance</b>	12.3	11.3	6.9	5.4	8.0	7.8
<b>Errors and omissions</b>	-1.1	-13.3	-3.7	-3.6	-1.4	0.0
<b>Overall balance</b>	0.5	-8.2	-1.1	1.1	5.5	6.7
<b>Memorandum items:</b>						
Gross international reserves 2/	23.0	14.1	12.4	13.5	19.0	25.7
In months of prospective GNFS imports	3.8	1.9	1.4	1.3	1.6	1.9
Current account balance (in percent of GDP)	-11.9	-6.6	-4.1	-0.5	-0.8	-0.7
Capital and financial account balance (in percent of GD	13.7	12.1	6.6	4.4	5.9	5.3
External debt	27.5	37.3	44.5	49.3	54.3	59.2
In percent of GDP 3/	32.4	41.6	43.8	40.9	41.3	40.6
GDP	90.3	93.2	103.6	122.7	134.9	148.0



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# Diagnosing CA Issues: Kenya

graph from IMF review

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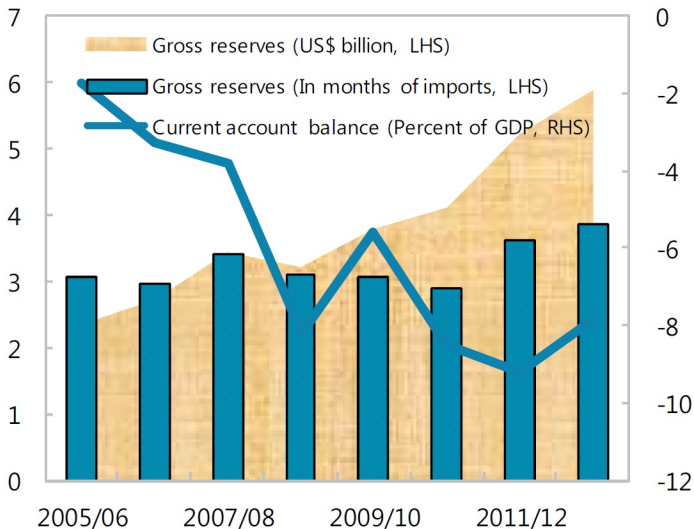
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# Diagnosing CA Issues: Mauritius

graph from IMF Article IV

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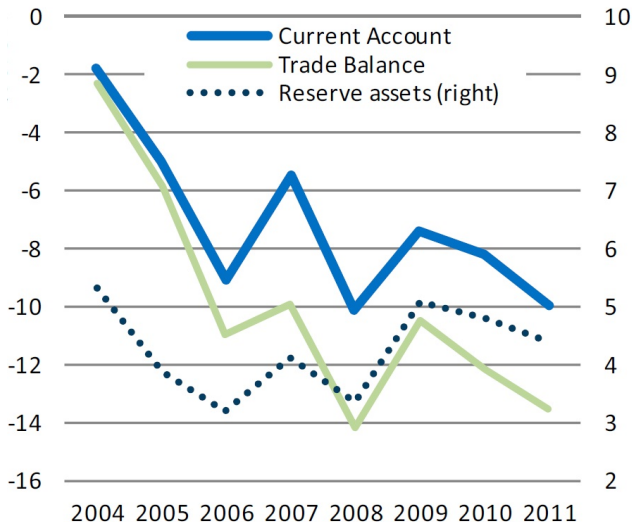
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# Diagnosing CA issues: Dominican Republic

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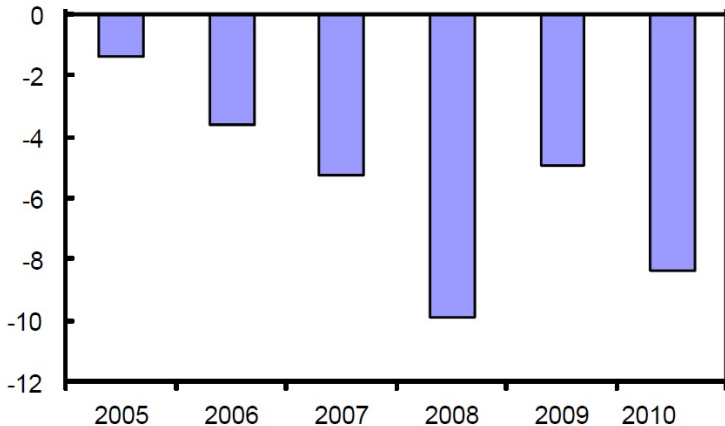
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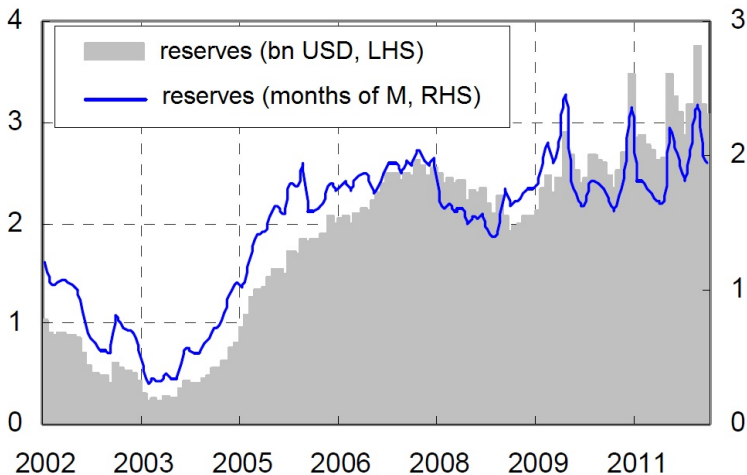
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# remittances: who is targeted? in % of the GDP of target country

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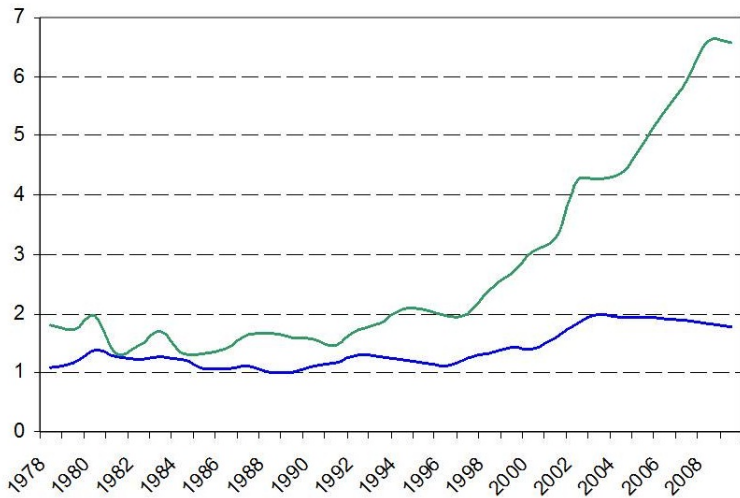
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# Equity vs. debt

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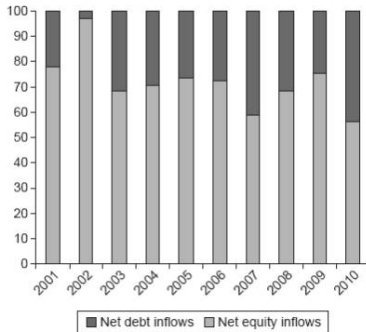
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**Figure 1. Net Capital Flows to Developing Countries, Equity and Debt-Related Flows, 2001–10**

percent



Sources: World Bank Debt Reporting System; International Monetary Fund; and World Bank estimates.

# Equity: FDI and portfolio investment

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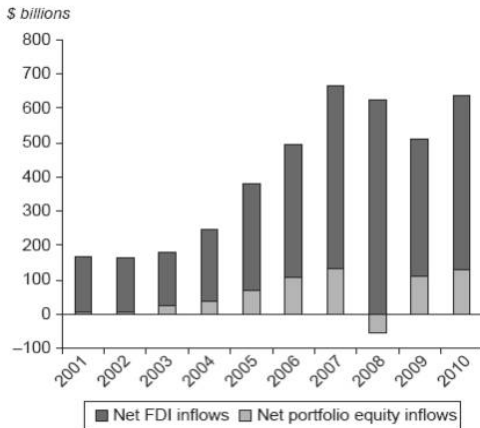
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**Figure 9. Net Equity Flows to Developing Countries, 2001–10**



Sources: International Monetary Fund and World Bank estimates.

# FDI: who is targeted? absolute figures

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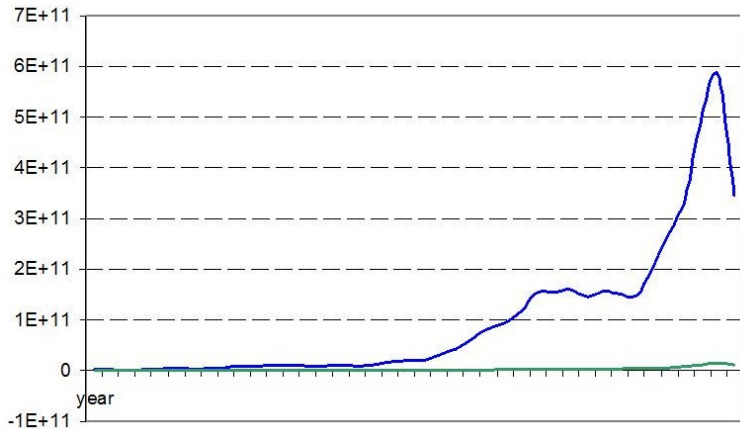
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# FDI: who is targeted? in % of the GDP of target country

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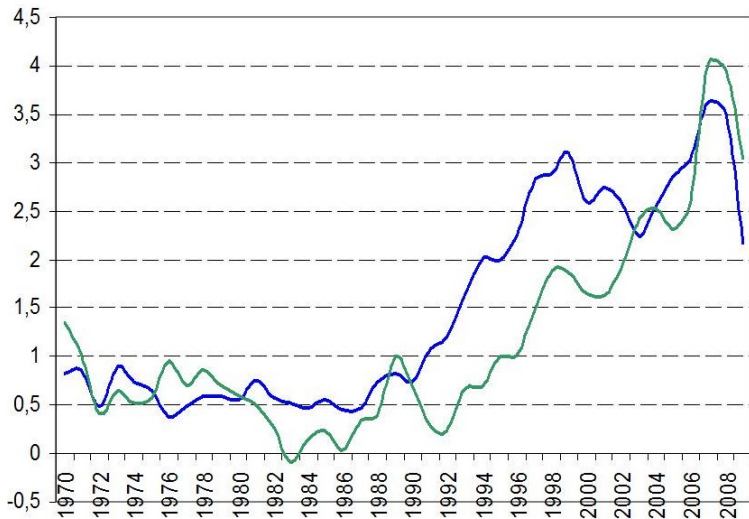
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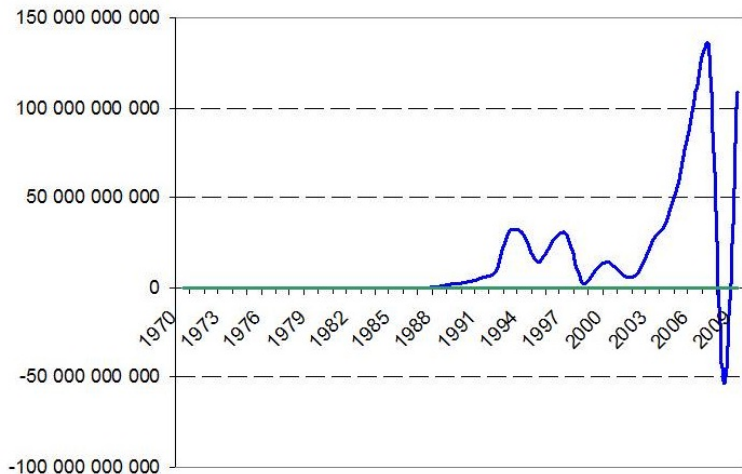
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# portfolio: who is targeted? the data

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**Table 9. Net Inflow of Portfolio Equity, Top Ten Recipients, 2005–10**

*\$ billions*

	2005	2006	2007	2008	2009	2010
China	20.3	42.9	18.5	8.7	28.2	31.4
Brazil	6.5	7.7	26.2	-7.6	37.1	37.7
India	12.2	9.5	32.9	-15.0	21.1	40.0
South Africa	7.2	15.0	8.7	-4.7	9.4	5.8
Turkey	5.7	1.9	5.1	0.7	2.8	3.5
Thailand	5.1	5.2	4.3	-3.8	1.3	3.4
Vietnam	0.1	1.3	6.2	-0.6	0.1	2.4
Russia	-0.1	6.5	18.7	-15.0	3.4	-4.8
Indonesia	-0.2	1.9	3.6	0.3	0.8	2.1
Mexico	3.4	2.8	-0.5	-3.5	4.2	0.6
Top ten recipients	60.2	94.7	123.7	-40.5	108.4	122.1
Total all developing countries	67.5	107.7	133.0	-53.4	108.8	128.4

*Sources:* International Monetary Fund and World Bank estimates.

# Measuring capital account openness

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## capital controls

- controls on inflows / outflows
- controls on quantity / prices
- restrictions on flows / stocks

IMF's AREAER

## financial flows & stocks

- gross / net flows
- gross / net stocks of foreign assets & liabilities
- as a ratio to GDP / in absolute terms



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# Measuring financial integration

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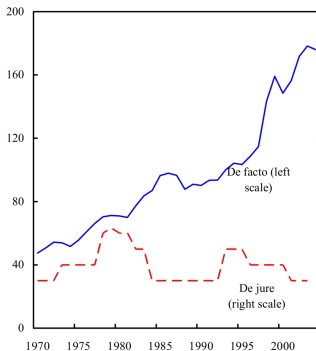
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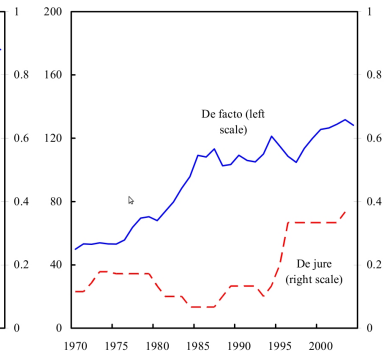
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# Decomposing financial integration

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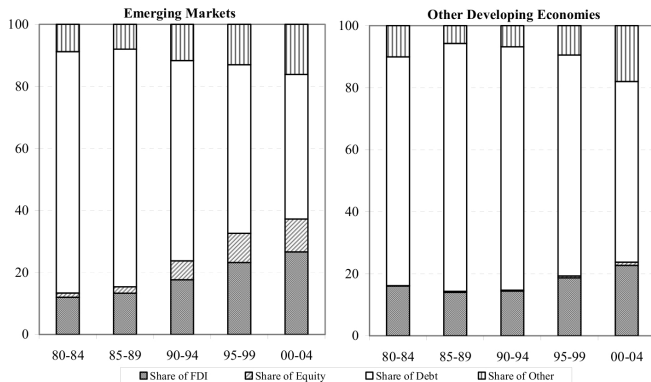
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# The Debt Sustainability Framework

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- After the HIPC-I and the MDR-I: concern to avoid overborrowing on the part of LICs
- Focus on solvency vs. overborrowing
- Joint IMF/WB DSA: Benchmark scenario
- Stress tests affecting the evolution of the debt path

# The importance of institutions in a DSA

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- The DSF sets a debt ceilings beyond which risk of default is deemed excessive
- Ceiling depends on the quality of their economic policies and institutions, as measured by the CPIA
- 3 groups: weak, medium and strong capacity with differentiated debt ceiling:

	NPV of debt stock in % of			Debt service in % of	
	Exports	GDP	Fiscal revenues	Exports	Fiscal revenues
Weak CPIA<3.25	100	30	200	15	25
3.25<MediumCPIA<3.75	150	40	250	20	30
Strong CPIA>3.75	200	50	300	25	35

$$d_t - d_{t-1} = c_t + \underbrace{\frac{r_t d_{t-1}}{1 + g_t + \pi_t}}_{IR} - \underbrace{\frac{g_t d_{t-1}}{1 + g_t + \pi_t}}_{GDP\text{ growth}} - \underbrace{\frac{\pi_t (1 + g_t) d_{t-1}}{1 + g_t + \pi_t}}_{prices\text{ and }ER}$$





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# The baseline scenario of the DSF

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	Actual					Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2021	2031
<b>Key macroeconomic assumptions</b>											
Real GDP growth (in percent)	6.3	5.3	6.8	5.9	6.0	6.3	6.9	7.3	7.5	7.5	7.0
GDP deflator in U.S. dollar terms (change in percent)	19.4	-2.0	4.1	11.9	4.3	3.1	1.9	1.0	0.6	0.6	1.1
Effective interest rate (percent) 6/	2.8	3.2	2.6	1.1	2.5	3.9	2.6	2.7	2.8	2.9	3.9
Growth of exports of G&S (U.S. dollar terms, in percent)	27.7	-10.0	26.9	32.8	14.7	12.8	13.2	13.9	13.4	7.6	8.5
Growth of imports of G&S (U.S. dollar terms, in percent)	26.7	-13.3	20.7	25.2	13.9	12.9	13.0	14.0	13.4	7.3	8.1
Grant element of new public sector borrowing (in percent)	...	...	...	20.1	21.6	26.4	22.6	21.0	20.6	13.4	4.3
Government revenues (excluding grants, in percent of GDP)	28.3	26.8	27.6	27.5	27.7	27.6	27.2	27.2	27.3	26.8	25.2
Aid flows (in billions of U.S. dollars) 7/	3.8	7.4	5.5	1.3	1.3	1.3	1.3	1.2	1.1	0.2	0.1
Of which: Grants	0.6	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Of which: Concessional loans	3.2	6.9	5.2	1.0	1.1	1.1	1.1	1.0	0.9	0.0	0.0
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	1.1	1.0	1.0	0.9	0.9	0.8	0.4	0.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	25.6	25.0	29.7	25.4	23.4	23.0	15.8	5.6

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# The baseline scenario of the DSF

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	Actual					Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2021	2031
<b>External debt (nominal) 1/</b>	<b>32.4</b>	<b>41.6</b>	<b>43.8</b>	<b>41.1</b>	<b>41.2</b>	<b>40.4</b>	<b>40.5</b>	<b>40.9</b>	<b>41.5</b>	<b>37.2</b>	<b>23.3</b>
o/w public and publicly guaranteed (PPG)	25.7	31.1	32.7	30.4	30.2	29.5	29.5	29.7	30.0	26.9	13.9
Change in external debt	1.0	9.2	2.3	-2.8	0.1	-0.8	0.1	0.4	0.6	-1.4	-1.1
Identified net debt-creating flows	-2.9	-1.2	-6.5	-7.2	-6.5	-6.2	-6.0	-5.4	-5.2	-4.8	-3.1
<b>Non-interest current account deficit</b>	<b>11.3</b>	<b>5.6</b>	<b>3.2</b>	<b>0.2</b>	<b>-0.1</b>	<b>-0.7</b>	<b>-0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>0.0</b>	<b>-0.4</b>
<b>Net FDI (negative = inflow)</b>	<b>-8.2</b>	<b>-6.8</b>	<b>-6.5</b>	<b>-5.6</b>	<b>-5.0</b>	<b>-4.6</b>	<b>-4.3</b>	<b>-4.0</b>	<b>-3.7</b>	<b>-3.1</b>	<b>-2.0</b>
<b>Endogenous debt dynamics 3/</b>	<b>-6.0</b>	<b>0.0</b>	<b>-3.2</b>	<b>-1.8</b>	<b>-1.3</b>	<b>-0.9</b>	<b>-1.6</b>	<b>-1.7</b>	<b>-1.8</b>	<b>-1.6</b>	<b>-0.7</b>
Contribution from nominal interest rate	0.7	1.0	1.0	0.4	0.9	1.5	1.0	1.0	1.1	1.0	0.9
Contribution from real GDP growth	-1.6	-1.7	-2.5	-2.2	-2.2	-2.4	-2.6	-2.7	-2.8	-2.7	-1.6
Contribution from price and exchange rate changes	-5.1	0.7	-1.6	...	...	...	...	...	...	...	...
<b>Residual (3-4) 4/</b>	<b>3.9</b>	<b>10.4</b>	<b>8.7</b>	<b>4.4</b>	<b>6.6</b>	<b>5.5</b>	<b>6.1</b>	<b>5.8</b>	<b>5.8</b>	<b>3.3</b>	<b>2.0</b>
PV of external debt 5/	39.0	37.1	37.1	35.7	35.7	35.9	36.4	32.9	20.9	20.9	20.9
In percent of exports	...	...	50.7	43.1	41.5	38.8	37.3	35.8	34.6	31.5	20.0
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>27.9</b>	<b>26.4</b>	<b>26.2</b>	<b>24.8</b>	<b>24.7</b>	<b>24.8</b>	<b>25.0</b>	<b>22.5</b>	<b>11.4</b>
In percent of exports	...	...	36.3	30.7	29.3	26.9	25.8	24.7	23.7	21.6	10.9
In percent of government revenues	...	...	101.1	96.1	94.4	89.9	90.9	91.0	91.6	84.0	45.1
Debt service-to-exports ratio (in percent)	2.9	4.9	3.3	2.8	3.5	3.8	3.2	3.2	2.6	3.1	2.9
PPG debt service-to-exports ratio (in percent)	1.6	2.1	2.0	1.4	2.0	2.4	1.8	2.0	1.5	1.9	1.9
PPG debt service-to-revenue ratio (in percent)	4.3	5.2	5.5	4.3	6.5	7.9	6.5	7.3	5.8	7.4	7.7
Total gross financing need (in billions of U.S. dollars)	5.0	4.1	4.5	2.1	3.5	4.1	5.3	7.3	7.5	12.1	24.3
Non-interest current account deficit that stabilizes debt ratio	10.2	-3.6	1.0	2.9	-0.2	0.1	-0.2	-0.1	-0.3	1.4	0.7



# Effect of solvency and liquidity indicators on the probability of a debt crisis

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## Usual solvency indicators

- ✗ GDP growth
- ✓ debt stock to GDP
- ✓ overvaluation

## Usual liquidity indicators

- ✓ short term debt to reserves
- ✓ debt service to reserves
- ✓ debt service to exports
- ✓ interest on short term debt

Source: Sturzenegger 2004

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# ODA - DAC definition

definition used by the EC

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- flows to countries and territories on the DAC List of ODA recipients and to multilateral development institutions
- provided by official agencies, including state and local governments, or by their executive agencies
- transactions with the following characteristics
  - has a purpose of economic development or of the welfare of the recipient country's citizens
  - is concessional in character



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# Grant element

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- Debt NPV: discounted sum of future debt service flows
- Discount rate: supposed to reflect the market interest rate
- Grant element:  $\frac{(\text{facevalue} - \text{NPV})}{\text{facevalue}}$
- Example: USD 100M loan. Maturity = 15 years, Grace Period = 5 years, Interest Rate = 1%. If discount rate = 5%, what is the grant element ?

Year	Capital Remaining Due	Capital Repayment	Interest Payment	Total Debt Service	Present Value
1	100	0	1	1	0,95
2	100	0	1	1	0,91
3	100	0	1	1	0,86
4	100	0	1	1	0,82
5	100	0	1	1	0,78
6	100	10	1	11	8,21
7	90	10	0,9	10,9	7,75
8	80	10	0,8	10,8	7,31
9	70	10	0,7	10,7	6,90
10	60	10	0,6	10,6	6,51
11	50	10	0,5	10,5	6,14
12	40	10	0,4	10,4	5,79
13	30	10	0,3	10,3	5,46
14	20	10	0,2	10,2	5,15
15	10	10	0,1	10,1	4,86

- $\sum NPV$ : 68,4 mns USD
- Grant element=  $(100-68,4)/100=31,6\%$
- Concessionality: a loan is regarded as concessional if:
  - IMF: the grant element is at least 35% (discount rate used is CIRR)
  - DAC: the grant element is at least 25% (discount rate used: 10%)
- Typical ODA loan: long grace period, low interest rate, long maturity
- Typical IBRD loan: 6-month Libor + spread



# Criticisms of the ODA definition

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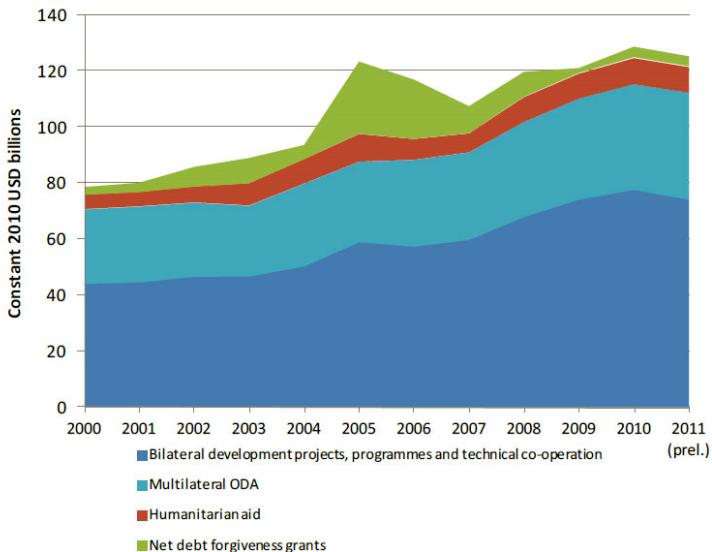
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- Over representation of concessional loans
- Concessional loans counted at their face value
- Less concessional loans are not counted at all
- Counts flows that do not reach target countries

# Decomposition of ODA by broad categories



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# Top bilateral donors

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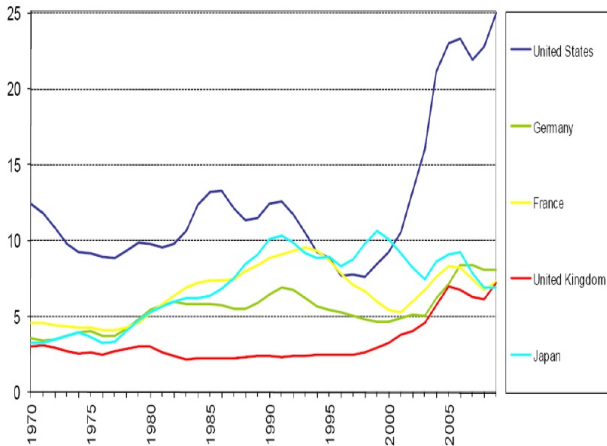
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# Top multilateral donors

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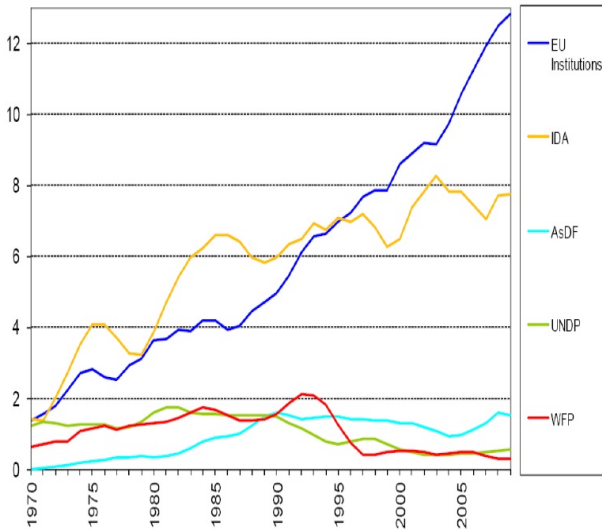
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# DAC donors and others

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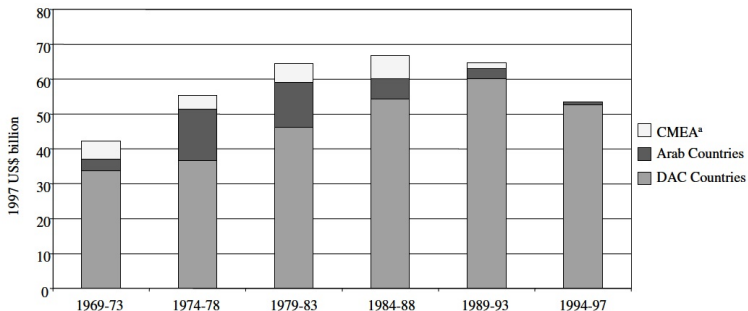
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Note: a) Council for Mutual Economic Assistance, comprising Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the USSR.

# Multiplication of donors

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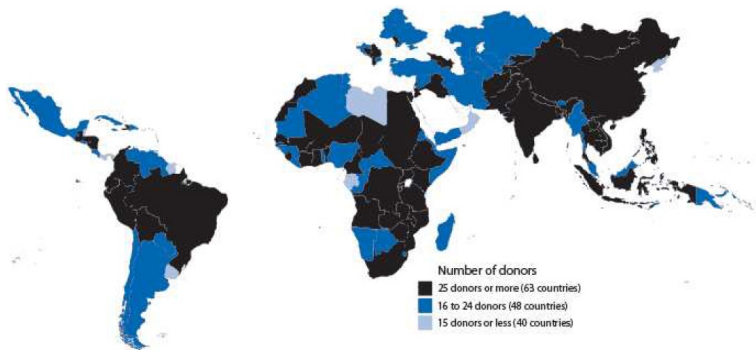
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# South-South cooperation

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- donors with links to the international consensus
  - Poland, Czech Rep., Iceland, Korea, Mexico, Chile
- traditional donors beyond OECD
  - Arab states and institutions
- emerging global and regional powers
  - China, India, Brazil
- and other donors
  - Thailand, Singapore, Israel. . .

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accounts –  
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Arthur Silve

Introduction

The balance of  
payments

Current account

Capital account

Overall balance

Empirics

Financing trends  
to DCs

Financial  
integration

External debt  
sustainability

Concessionality

Official  
Development  
Assistant

Flows

Old actors, new  
actors

Conclusion

- Rockefeller foundation, Ford foundation, Bill and Melinda Gates foundation





Commission  
européenne

# Issues associated with “new” donors

from our macroeconomic perspective

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## ■ Debt dynamics

- concessionality of loans by new donors
- temptation to use new debt-service capacity in ex-HIPC countries

## ■ institutional development

- conditional aid vs. unearmarked funding from new donors
- the Paris declaration: ownership, alignment, harmonization, results, mutual accountability
- the special issue of fragile states

## ■ transaction cost / efficiency of investment

- tied aid
- lack of experience of new aid agencies

# Operational conclusion

Part 1 of the “supplementary document to the action fiche and payment dossier” organizes ‘key indicators’

- external accounts
  - size, nature, volatility of a current account deficit
  - volume and volatility of capital flows
  - official reserves (several indicators)
- external debt sustainability
  - coherence with sovereign DSA

Part 2 discusses how relevant policies address the vulnerabilities identified in part 1

- does trade policy support growth?
- how vulnerable is the country to sudden capital inflow stops / speculative attacks?
- focus on external debt sustainability