DEBT STOCKS, DEBT FLOWS AND THE BALANCE OF PAYMENTS

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— to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
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— to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The original Member countries of the OECD are Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries became Members subsequently through accession at the dates indicated hereafter: Japan (28th April 1964), Finland (28th January 1969), Australia (7th June 1971), New Zealand (29th May 1973) and Mexico (18th May 1994). The Commission of the European Communities takes part in the work of the OECD (Article 13 of the OECD Convention).

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Abbreviations

BIS	Bank for International Settlements
BOPSY	*Balance of Payments Statistics Yearbook*, published by the International Monetary Fund
BPM	*Balance of Payments Manual*, published by the International Monetary Fund
CEEC	Central and Eastern European Countries
CCET	Centre for Co-operation with Economies in Transition
CRS	Creditor Reporting System maintained by the OECD
DAC	Development Assistance Committee of the OECD
DCD	Development Co-operation Directorate of the OECD
DRS	Debtor Reporting System maintained by the World Bank
FDI	Foreign Direct Investment
Fund	International Monetary Fund
IFS	*International Financial Statistics*, published by the International Monetary Fund
IIP	International Investment Position - statement of end-of-period stocks of external assets and liabilities including reconciliation factors
IWGEDS	International Working Group on External Debt Statistics
NIS	Newly Independent States of the Former Soviet Union
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
SNA	System of National Accounts
WDT	*World Debt Tables*, published by the World Bank
WEO	*World Economic Outlook*, published by the International Monetary Fund

INTRODUCTION

Developed countries have been providing financial assistance to countries in earlier stages of development for nearly half a century. The measurement of the flow of external resources is essential for the formulation of development strategies and the evaluation of assistance programmes. Up-to-date, accurate data on debt and financial flows in turn facilitate the measurement of resource flows. The debt component of resource flows is the focus of this report.

The report extends the discussion of stocks of external debt contained in an earlier report[1/] by focusing on the ways in which stock data enter into the analysis of the flow of external resources between creditor and debtor countries. The sponsoring institutions, cooperating in the International Working Group on External Debt Statistics (IWGEDS), are the Bank for International Settlements (BIS), the International Monetary Fund (the Fund), the Organisation for Economic Co-operation and Development (OECD), the World Bank and the Berne Union.

During the 1970s many countries began accumulating large amounts of external debt. In the early 1970s, a significant part of external economic assistance took the form of official financing, including official support of export credits. By the late 1970s, the emphasis had shifted towards financing provided by private creditors, notably commercial banks, which began to recycle petrodollars by lending large amounts to developing countries at low nominal interest rates. As a result, developing countries acquired a growing proportion of short-term debt and it became necessary to extend the compilation of debt data beyond the usual long-term financing items. Many of these short-term loans financed uneconomic projects. Others financed balance of payments deficits which countries should have addressed with more prudent economic policies instead of increased borrowing. A dramatic change in the emphasis on debt-financed economic assistance came in 1982, when Mexico announced that it was unable to meet its current debt servicing obligations. This action led to the realisation that the accumulated debts of many developing countries had reached a magnitude that threatened the stability of the international financial system. At that stage, and in the negotiation process that followed, the compilation of accurate data on outstanding debts became critically important.

Four of the multilateral organisations that are members of the IWGEDS[2/] play a significant role in gathering and maintaining information on external debt and resource flows which serves as source data for external debt analysis. These organisations and the broad objectives of their data systems for monitoring external debt are the following:

1/*External Debt: Definition, Statistical Coverage and Methodology*, Bank for International Settlements, International Monetary Fund, Organisation for Economic Co-operation and Development and World Bank, OECD, Paris, 1988. Copies may be obtained from OECD publications, 2 rue André-Pascal, 75775 Paris Cedex 16, No. 44263 1988.

2/ The Berne Union is also a member of the IWGEDS, but it does not publish data relating to external debt or debt flows.

- ***Bank for International Settlements (BIS).*** The BIS aggregates data collected by official monetary institutions on the international assets and liabilities of commercial banks. It evaluates changes in financial positions in order to meet the needs of its member central banks for information relevant to monetary policy, prudential regulation and general economic analysis. The BIS also gathers data on international bonds, Euronote issues and certain derivative instruments. Much of this information is published in the BIS quarterly report *International banking and financial market developments.*

- ***International Monetary Fund (the Fund).*** The emphasis of the Fund is on gathering accurate information on the overall financing of the balance of payments of developing countries. This is part of the Fund's responsibility for compiling and analysing global balance of payments data. It also compiles debt data in the course of consultations with individual member countries. Furthermore, the Fund combines BIS banking data with data from other sources and publishes international banking statistics.

- ***Organisation for Economic Co-operation and Development (OECD).*** The OECD focuses on a comprehensive measurement of official and private resource flows to developing countries, the countries of Central and Eastern Europe (CEECs), and the newly independent states of the former Soviet Union (NISs) in support of its Development Assistance Committee (DAC) and Centre for Co-operation with Economies in Transition (CCET). Towards this objective, the OECD provides "DAC" statistics which include data it receives through the DAC and Creditor Reporting Systems.

- ***World Bank.*** The Bank, as a major creditor, maintains a full record of the external debt of its member countries. It also compiles data on the total flow of external capital to developing economies for use in economic analysis.

The above institutions regularly produce a variety of reports on the subject of external debt, as well as more general analyses of international financial developments (see Annex I). Recognising the need for dialogue to reconcile differences in debt compilation systems, the four institutions and the Berne Union formed the IWGEDS in 1984. In 1988, the IWGEDS published a report which discussed the definition of external debt, its statistical coverage and the methodology for its analysis. The present report takes this discussion further and considers the ways in which external debt data enter into analyses of the flow of external resources between creditor and debtor countries.

The structure of the report is as follows:

- the summary reviews the major topics covered, with cross-references to specific chapters;
- *Chapter I* defines some of the key terms used in debt analysis, describes the various debt classification systems and outlines methodologies for reconciling differences in debt stocks and debt flows;
- *Chapter II* compares and contrasts the debt and debt-related data systems of the Fund, the OECD and the World Bank;
- *Chapter III* provides the user with two case studies on data analysis problems and examples of debt restructuring;
- *Chapter IV* outlines the conclusions of the IWGEDS.

SUMMARY OF FINDINGS

Definitions and classification systems

The report begins by defining some key terms useful for the discussion of the various debt classification systems of the members of the IWGEDS. A glossary of terms is also provided at the end of the report for the reader who may not be familiar with all of the concepts and terms relating to external debt, international economics and finance.

The report then discusses the different debt classification systems. Each of these systems contains information on the geographical distribution of debt flows, but there is considerable variation in the country coverage and in the allocation of the data among the various categories used. The systems of the BIS and the Fund attempt to be comprehensive. The Fund's published data include all member countries and some other economic units. The BIS collects, in extensive country detail, data covering the external assets and liabilities of commercial banks in virtually all countries where international banking business is significant. The OECD and the World Bank collect similar data but on somewhat different groups of countries. The OECD covers those countries that the DAC defines as developing countries, as well as Eastern Europe and the newly independent states of the former Soviet Union, Andorra and South Africa. The World Bank includes all countries within the low or middle income range according to specified income criteria. Consequently, an aggregation of the data from these two institutions across groups of "developing countries" produces substantially different totals (see Chapter II).

In addition to data on debt per se, the Fund, the OECD and the World Bank collect data on debt service payments, i.e. amortisation of principal and interest payments. Both the OECD and the World Bank compile debt service payments data pari passu with the other debt data, so that, in these systems, there is a continuous record of the interest status for each of the identified debt instruments. The Fund collects data on interest payments and interest accruals as part of the investment income section of the balance of payments accounts, but these data are not usually identified separately from other investment income or related to specific debt instruments.

Relationship between debt flows and stocks

The report considers the relationship between debt stocks and debt flows from two main perspectives. The first is the reconciliation of data on debt stocks with that on debt and resource flows, using OECD data based on creditor sources, including inter alia the BIS statistics on bank claims, and World Bank data based mainly on debtor sources. The second is the relationship between debt flows, debt stock data and the data on capital flows, which the Fund records according to the principles of the balance of payments statistics that it publishes. The reconciliation of flow data with stock data involves a large number of elements which are discussed in detail in Chapter I. Some of these elements, such as reports of cash disbursements and repayments on loans, are part of the data collection systems. Others require calculation or estimation, such as the conversion of currencies into a common numeraire or the elimination of the effects of changes in market values.

Traditionally, the basis of the balance of payments statistical system has been transactions between residents of a country and non-residents, focusing primarily on flows. More recently, however, growing attention has been paid to the scope for establishing statements of international investment positions. The international investment position incorporates reconciliation factors such as valuation or coverage changes that are of significance in reconciling transactions during a period with changes in the end-of-period values of stocks of external assets and liabilities. These international investment positions are more comprehensive than data on debt stocks, since they cover all external financial assets and liabilities, including, for example, equity investment, which is not a debt item.

Chapter II discusses the problems in reconciling debt stock and flow data within the World Bank's Debtor Reporting System, and between the Debtor Reporting System and the balance of payments system. Complementing this discussion are two case studies on data reconciliation, which are detailed in Chapter III. Data reconciliation within the Debtor Reporting System is relatively clear-cut because most of the necessary ingredients are built into the accounting system. However, comparisons of debt data as they appear in the World Bank's *World Debt Tables*, OECD publications and the Fund's *Balance of Payments Statistics Yearbook (BOPSY)* are more problematic. This is partly because of differences in timing, classification, etc., but is also due to the lack of coordination between the agencies in the debtor countries that report debt data only to the World Bank and the agencies that report the balance of payments accounts to the Fund.

Coverage of financial debts

Both the OECD's Creditor Reporting System and the World Bank's Debtor Reporting System have, over the years, expanded the range of their statistics to cover a wider spectrum of external liabilities (or assets viewed from the creditor side), in order to keep up with new developments in international capital markets. The original concentration on long-term debt between "official" creditors and "public sector" debtors, including officially guaranteed debt, has become less indicative of the flow of financial resources to developing countries as short-term financing by commercial banks has become more important. Borrowing by the private sector, including trade finance, has also grown significantly with the gradual deregulation of capital markets and the relaxing of exchange controls.

This widening of the spectrum of financial assets covered by the Creditor Reporting System and the Debtor Reporting System has been especially important in the measurement of capital flows, or resource flows, between creditor and debtor economies. Indeed, as the coverage of instruments in these systems broadens, it begins to approach the coverage of capital flows, on the liabilities side, registered in the balance of payments accounts of debtor countries. The two systems are increasingly becoming more consistent in their coverage of financial instruments as the objective becomes a more comprehensive coverage of resource flows.

Data interconnections

As mentioned earlier, each member of the IWGEDS, drawing on different sources, has developed a set of statistics appropriate for its own purpose. This diversity is to some extent an element of strength since, in practice, no one institution collects all the data required. For a comprehensive compilation of either debt stocks or debt flows, each can rely on one or more of the others for part of the data it records, making the necessary allowances for differences in definitions and conventions. However, overlapping categories require special attention. For example, OECD reporters report officially guaranteed suppliers credits in the Creditor Reporting System. These are credits which are extended to importers abroad. However, some of these are later acquired by banks (for example through the discounting of trade bills). In most countries suppliers' credits purchased by banks are treated as external claims and included in the figures reported to the BIS. This is a potential source of double-counting when OECD combines its external debt data with BIS bank claims. This example illustrates how the use of multiple sources typically makes adjustments necessary to arrive at consistent comparisons. As will be seen, it is already possible to make many of these adjustments, but others must await further refinement of the statistical systems of the data-gathering institutions, or the sources reporting to them.

The role of the Fund is somewhat different with regard to debt data. Unlike the OECD and the World Bank, the Fund does not compile debt stock statistics for inclusion in its statistical publications. However, the Fund collects debt data in the context of consultations with member countries. It combines these data with the data it obtains through the OECD and the World Bank. These data are useful in country analyses and the Fund compiles and publishes regional debt aggregates and projections in its *World Economic Outlook.*

The members of the IWGEDS collaborate closely in the preparation of data and of reports on the data and in the analytical aspects of external debt. They confer periodically to compare the information that countries report to them, to coordinate estimating procedures, and to review the interpretation of data and the analytical treatment of particular types of transaction. This collaboration is especially important when dealing with the complex arrangements sometimes involved in debt restructuring. So the systems of these institutions are closely aligned at the level of detailed inputs, although composite debt and debt-related statistics may differ in their publications.

Relationship to balance of payments statistics

The Fund is the international institution with the responsibility for organising the collection and publication of worldwide and national balance of payments statements. In carrying out this role, it has become concerned with the emergence of large discrepancies in summing the worldwide tabulations of current and capital accounts. Each tabulation should net to zero at world level. However, the sum of national current accounts averaged -$76.3 billion (annually) in the 1985-91 period, while the sum of recorded net capital flows averaged +$72.1 billion (annually). The Fund organised two working parties of experts to examine these deficiencies and recommend measures to improve this very important set of statistics. These were the Working Party on the Statistical Discrepancy in World Current Account Balances and the Working Party on the Measurement of International Capital Flows. The report of the Working Party on the Measurement of International Capital Flows[3/] addressed the problems in measuring international capital flows, and, in that connection, compared the data on debt flows produced by the World Bank with data covering approximately the same category in the national balance of payments statistics. It was hoped the detailed database on external debt would help explain and reduce the discrepancies observed in balance of payments reporting. Although the initial results were not encouraging, a number of initiatives are underway to increase coordination among the data systems of the IWGEDS so as to improve the consistency of the data on capital flows. The Working Party noted the

3/ *Report on the Measurement of International Capital Flows,* International Monetary Fund, September 1992.

need for greater coordination between national balance of payments compilers and the offices responsible for the preparation of debt data for submission to the World Bank. Specifically it recommended that:

"National balance of payments compilers in developing countries clearly should be more intimate with the details of debt statistics compiled for their individual countries, because the debt databases are broad, detailed, and perhaps informative."

"The OECD and World Bank should cooperate in making every effort to ensure that the debt statistics they compile can be reconciled with balance of payments data."

The IWGEDS has developed a work programme in pursuit of the above objective. The present report and the earlier report on external debt stocks are two important building blocks towards a better understanding of the relationships among these data sets.

A principal theme throughout this report is that the various data systems of the IWGEDS are closely interrelated and, with few exceptions, have a common structure of data inputs. There are, however, many features of the systems that can lead to discrepancies, particularly when the data relate to flows during a specific period of time. A comparison of the data in both the Creditor Reporting System and the Debtor Reporting System with balance of payments data raises a different set of difficulties. The balance of payments data use a variety of source materials and present data in different categories. Moreover, the basis of the balance of payments is the accruals method, as distinct from the cash transactions measured by both the Creditor Reporting System and the Debtor Reporting System. As for the banking data collected by the BIS, there is some overlap with the data compiled by the other agencies, but taken as a unit, the BIS data fill a gap in information which the Creditor Reporting System and the Debtor Reporting System do not cover.

It is possible to reconcile the data on debt stocks and debt flows in the Debtor Reporting System, because the data in the system are available on a loan-by-loan basis. Similarly, the Creditor Reporting System, in principle, is internally consistent, but the loan-by-loan component is smaller and the database is less readily amenable to reconciliation. The balance of payments system is not based on such detailed inputs. Moreover, few countries construct a reconciliation of their capital flow data in the balance of payments with the estimates they may compile for their international investment position. The BIS does not collect debt flow data as such, but prepares, as a proxy for flow data, estimates of changes in the external position of reporting countries' banks with adjustment for exchange rate fluctuations.

Comparisons of data on aggregate annual resource flows, reported by the Fund, the OECD and the World Bank show substantial differences. These result, in large part, from differences in the countries that these organisations identify as "developing", but also, to a lesser extent, from the diverse types of flow included. For example, the OECD, unlike the World Bank, includes technical cooperation grants as a flow. Given sufficient information about these differences, it is possible to reconcile the results for any individual country reasonably well.

Many adjustments are required to reconcile debt stocks and flows within the individual systems. The most important is the adjustment for the effect of shifts in exchange rates on the valuation of debt, especially in periods when exchange rates tend to fluctuate widely. The change in the value of a country's outstanding debt, when expressed in a common numeraire (usually the US dollar), may often reflect changes in the US dollar value of the debt in the absence of any specific financial transactions. Other major adjustments are those that may be necessary to reflect changes in market value where a country's debt is traded or changes in outstanding debt resulting from a debt restructuring, which may shift the debt between the official and private sector without affecting the total. Considering the magnitude of some adjustments, one objective of this report is to draw the attention of users of the data to the need for caution in making inferences about flows or transactions from reported changes in outstanding debt stocks.

A particularly complex aspect of reconciling debt stocks, or deriving debt flows from debt stock data, is the effect on the reported data of debt restructuring. Chapter III elaborates on these effects, but the main consideration to be borne in mind is that the reported flows may be the result either of a cash transaction, such as an actual loan disbursement or repayment, or of other kinds of transaction, such as debt restructuring, which represents an agreement between the parties concerned that may change the amount or character of the debt.

The principal definitions and concepts used by the various systems in compiling external debt stocks and flows are consistent with the conceptual framework of the *1993 System of National Accounts*.[4/] However, these standards are now under review and there may be some changes that will affect the compilation of debt statistics. In the case of the balance of payments, the present report uses the existing methodology which appears in the fourth edition of the Fund's *Balance of Payments Manual*. A fifth edition was published in September 1993 and, where necessary, the report makes reference to that edition. But for some time to come, the reported and published balance of payments statistics will conform to the fourth edition of the *Balance of Payments Manual*.

Since the organisations responsible for the various data systems have different objectives, their presentations of debt data, especially within the broader context of resource flows, may differ in content and in coverage. Each user of the data must decide which form is most appropriate to a particular analysis. While the diversity of presentations may require reconciliation work, it also provides the analyst with a broader menu of analytical options.

Since the IWGEDS was set-up in 1984, its members have made considerable progress in improving the accuracy and coverage of their information on debt stocks and flows, and they will continue to refine and enlarge their respective databases. In addition, they will encourage the statistical and administrative offices of individual countries to improve their data compilation systems and to provide ready access to the information which compilers of debt and balance of payments statistics need.

4/Published jointly in 1993 by EUROSTAT, the International Monetary Fund, the OECD, the World Bank and the United Nations Statistics Division (UNSTAT).

CHAPTER I

Some key definitions

External debt; residence; debt flows; transactions; international investment position.

Classification of external debt

Discussion of the methodology for classifying external debt, noting important classification differences between the World Bank's Debtor Reporting System, the OECD's Creditor Reporting System and the Fund's balance of payments accounting.

Main elements of stock and flow reconciliations

Discussion of the main elements to be examined when reconciling data on stocks of external debt with those on flows of capital or resources in the data systems of the IWGEDS. These are: exchange rate conversions; changes in market value; debt cancellation or forgiveness; provisions and write-offs; restructuring agreements; rescheduling agreements; refinancing; debt buybacks; the treatment of arrears of principal or interest; and the treatment of interest and fees.

Other reconciliation factors

Discussion of factors, to be borne in mind in reconciliations, which are not the major causes of discrepancies but which it is nevertheless important to take into account in order to develop an accurate database. These factors are: differences in the timing of data recording; the tendency for countries to understate military debt; the shifting of debt among sectors; and inadequate data.

CHAPTER I

MEASUREMENT AND RECONCILIATION OF EXTERNAL DEBT STOCKS AND FLOWS

This chapter presents the major definitional and conceptual conventions used by members of the IWGEDS in their work on external debt stocks and flows. It first defines some terms and concepts which are important to the measurement and reconciliation of external debt stocks and flows. It then examines the elements involved in reconciling data on debt flows and stocks, describing how the different members of the IWGEDS treat these elements in their statistical systems. The definitions and concepts used by the members of the IWGEDS are generally consistent with the analytical framework of the System of National Accounts, except for variations in accounting treatment which reflect the different approaches of the compiling agencies.

DEFINITIONS

The following are some key terms important to the discussion of debt classification, measurement and data reconciliation. Also, for the convenience of the reader, a glossary of relevant economic and financial terms appears at the end of the report.

External debt

The most important conceptual issue for the compilation of debt statistics is to establish an agreed definition of "external debt". In its first report, the IWGEDS arrived at a "core" definition as follows:

"Gross external debt is the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principal, with or without interest, or to pay interest, with or without principal."

The wording of the definition was carefully chosen to take into account a number of possible ambiguities. For example, the term "gross external debt" makes explicit the exclusion of any corresponding offsetting assets or claims. The term "contractual liabilities" is intended to cover a broad range of obligations, but to exclude equity participations, which do not involve a requirement to make principal or interest payments. The specification "principal and/or interest" indicates that the definition encompasses all classes of obligation. It includes those with no maturity requiring retirement of principal as well as those that might involve payments in kind rather than cash. The term "disbursed and outstanding" makes clear that the definition does not cover undisbursed portions of existing loans. In practice, new interpretations of the definition may be necessary given the rapid pace at which innovations in financial market instruments and practices have been taking place.

Residence

In the balance of payments statistics published by the Fund in its *Balance of Payments Statistics Yearbook* the concept of residence is as defined in the fourth edition of the *Balance of Payments Manual*, and is essentially the same as that in the System of National Accounts. It states that:

"...The residents of an economy comprise the general government, individuals, private nonprofit bodies serving individuals, and enterprises, all defined in terms of their relationship to the territory of that economy. Included with the territory of an economy are its territorial waters over which the economy has or claims to have exclusive jurisdiction; overseas territories or possessions may or may not be regarded as separate economies."

Furthermore, the *Balance of Payments Manual* provides an extensive explanation of the different aspects of residence that are applicable in a balance of payments context.

The World Bank specifies, in the *Debtor Reporting System Manual*, that countries should report all long-term external debt owed by residents of the reporting country to non-residents. The definition of the term "non-residents" for purposes of reporting to the Debtor Reporting System generally accords with that which appears in the fourth edition of the *Balance of Payments Manual*. It is as follows:

"...The term nonresidents includes besides nonresident individuals, all foreign public bodies, foreign corporations (except branches thereof in the reporting country), and international organisations; in short, any individual or organisation that is not physically located in the reporting country."

The basis of the reporting directives for the OECD Creditor Reporting System is the *Balance of Payments Manual* concept of residence. In practice, some reports on export credits in the Creditor Reporting System include, indistinguishably, small amounts of credit which lenders in other countries extend but the reporting agency guarantees. In addition, the OECD's published data do not adhere to the concept of residence in the case of debt or resource flows to banks in offshore banking centres, or to "flag of convenience" countries, because it is considered that, in both cases, the immediate borrower is often not the ultimate borrower.

Debt flows

The underlying conceptual framework of the System of National Accounts is the starting point for definitions and concepts used in the measurement of international debt flows. However, the terminology which the various organisations use is not entirely uniform. The *1993 System of National Accounts* provides the following definition:

"Economic flows reflect the creation, transformation, exchange, transfer or extinction of economic value; they involve changes in the volume, composition, or value of an institutional unit's assets and liabilities. Mirroring the diversity of the economy, economic flows have specific natures as wages, taxes, interest, capital flows, etc, that record the ways in which a unit's assets and liabilities are changed. — Economic flows are of two kinds. Most flows are transactions. Flows included in the System that do not meet the characteristics of transactions as described below are called 'other flows.' — A transaction is an economic flow that is an interaction between institutional units by mutual agreement or an action within an institutional unit that it is analytically useful to treat like a transaction, often because the unit is

operating in two different capacities. Other flows are changes in the value of assets and liabilities that do not take place in transactions."[5]

It is essential to clarify the definition of debt flows, and to distinguish between them and other factors that need attention in reconciling changes in the value of outstanding external debt from one period to another. The terms "flows" and "transactions" are synonymous in the context of this report and are consistent with the capital flows that enter into the capital account of the balance of payments. The fourth edition of the *Balance of Payments Manual* defines the capital account as that:

"...which comprises all transactions - in the restricted sense of changes of legal ownership, including the creation and liquidation of claims - in an economy's foreign financial assets and liabilities, together with some specified changes of other kinds that may affect its foreign assets and liabilities and the counterparts to those changes."

The reference to "specified changes of other kinds" concerns elements of changes in the value of reserve assets and liabilities that enter into the balance of payments accounts but are not "transactions". There are, however, several types of transaction, especially involving the renegotiation or refinancing of external debts, that may change the form, payment schedules or ownership of debt, and that may be treated differently in the balance of payments accounts and in the statistics of different members of the IWGEDS. These issues are discussed in Chapter II.

Components of changes in the value of outstanding external debt are assigned to one of two primary categories to avoid confusion: transactions, as defined in the balance of payments accounts; and valuation and other adjustments, which cover all factors causing changes in the reported values of outstanding debt flows. This division is consistent with the System of National Accounts in practice; however, in the System of National Accounts the term "economic flow" is used to encompass both of the above elements.

The term "gross flows" refers to the totals, respectively, of loan disbursements and repayments, or the equivalent credits and debits connected with other forms of debt. The term "net flows" refers to the combined effect of gross disbursements and repayments, and is the only measure of capital flow available when deriving flow data from changes in reported stocks, as is the case for the external positions of banks. The term "net flow" does not refer to a netting of assets against liabilities.

In summary, there is a major distinction between flows that involve actual cash or financial transactions (on both a cash and an accrual basis) and other flows that do not. These other flows include changes in the amount or ownership of debt that may result from an agreement, such as forgiveness of a debt, and they must be taken into account in compiling debt flow statistics.

It is useful to consider three broad subdivisions of flows and also to identify those changes in stocks that do not entail flows. The first subdivision, which the Creditor Reporting System and the Debtor Reporting System clearly identify, covers loan disbursements and repayments. The second involves primarily changes in debt that result from agreements between creditors and debtors, such as debt forgiveness, which may change total debt or shift the debt between categories. The third would be other changes, such as rephasing a debt to shift current obligations to future obligations. Chapter III provides

5/ *1993 System of National Accounts*, Chapter II, Overview.

examples of how the Creditor Reporting System, the Debtor Reporting System and the balance of payments statistics treat these changes. By contrast, there are other changes in the amount of debt stocks reported by compilers that are not flows, which result from market or external forces, such as changes in exchange rates, changes in market values, or unilateral changes such as write-offs or repudiations.

When the objective is to measure flows of resources the first two categories of flows referred to above would clearly be included; the third would be questionable. If the purpose is to measure capital flows in the balance of payments, all of the first three categories mentioned would be relevant. In order to convey clearly to the users of the balance of payments which of these activities is taking place, a schedule of "exceptional financing" is most useful (see Attachment IV). In the statement of a country's international investment position the non-flow types of change in debt arising from causes other than actual transactions serve as a link between the capital flow data in the balance of payments and changes in reported debt stocks.

CLASSIFICATION

This section provides background information on debt classification systems as a framework for later discussion of the measurement and reconciliation of debt stocks and flows. It begins with a review of the categories in the *1993 System of National Accounts* since they serve as a standard accounting framework, of which debt information is an integral part. This is followed by a description of the capital account classifications as they appear in the *Balance of Payments Manual*. The remainder of the section selectively reviews the treatment of debt in the World Bank's Debtor Reporting System, the OECD's Creditor Reporting System and the *Balance of Payments Manual*, highlighting similarities and differences which are important to the treatment of debt stocks and debt flows.

The three main categories for classifying both debt and debt flows are: type of creditor or debtor (e.g. official, private, international agency); type of credit (e.g. official development assistance (ODA), export credits, bonds); and the original contractual maturity (one year or less, over one year, unstated). Within these broad categories, there are many possible subcategories. The following discussion does not attempt to cover all the possibilities but indicates some of the usual categories employed by the members of the IWGEDS.

The *1993 System of National Accounts* classifies the types of financial assets and liabilities in the case of both transactions and holdings as follows[6/]:

SNA classification of financial assets and liabilities for transactions and holdings

1. Monetary gold and SDRs

2. Currency and deposits
   a. Currency
   b. Transferable deposits
   c. Other deposits

3. Securities other than shares
   a. Short-term
   b. Long-term

4. Loans
   a. Short-term
   b. Long-term

5. Shares and other equity

6. Insurance technical reserves
   6.1 Net equity of households on life insurance reserves and on pension funds
   6.2 Prepayments of premiums and reserves against outstanding claims

7. Other accounts receivable/payable
   7.1 Trade credit and advances
   7.2 Other

Memorandum items:
Direct foreign investment
  Equity
  Loans
  Other

Note: The recommended breakdown of items (2), (3) and (4) into (a), (b) and (c) is optional.

6/ The categories shown encompass the full range of transactions in financial assets to be found in a national economy, and can be linked to the categories used in the measurement of cross-border financial transactions, though a precise matching of categories may not always be possible.

The fourth edition of the *Balance of Payments Manual* recommends five subcategories for classifying all financial items in the capital account: functional category; assets and liabilities; type of instrument; domestic sector; and original contractual maturity (long-term and short-term capital). The functional classification distinguishes four broad subdivisions of capital: direct investment; portfolio investment; reserves; and a residual category, which it designates as "other capital". There is a further subdivision of this "other capital" category according to the sector of the domestic creditor or debtor, viz. resident official sector, deposit money banks and other sectors.

The resident official sector comprises the general government and the central bank. Deposit money banks are banks that have liabilities in the form of deposits, payable on demand, that may be transferred by cheque or otherwise used in making payments. Included in this sector are all public and private monetary enterprises except the central bank. The "other" sector is a residual category, which includes public and private enterprises, development banks, non-bank financial institutions, private non-profit bodies and individuals.

The definition of long-term capital is capital which has an original contractual maturity of more than one year, or capital with no stated maturity (e.g. corporate equities). Short-term capital is capital payable on demand or with an original contractual maturity of one year or less, and includes currency. Countries report most data on debt flows under the "resident official sector" or the "other" sectors. Most flow data are reported on a net basis, but drawings and repayments on long-term loans are shown separately. The various subcategories in the capital account are shown in Attachment I. The standard balance of payments components which appear in the fifth edition of the *Balance of Payments Manual* differ in several respects as shown in Attachment II.

The World Bank's Debtor Reporting System, in principle, requests information on all long-term debt, which consists of debt with an original maturity of more than one year owed to non-residents. The classification of external long-term debt has two categories: debt of the public sector and private debt with a public sector guarantee; and all other private, non-guaranteed debt. The classification of long-term public and publicly guaranteed debt has two sector categories: a borrower sector and a creditor sector.[7] The borrower category, according to the *Debtor Reporting System Manual*, has seven subcategories. The first is the central government, which covers the government of the country and includes related administrative departments. The second is the central bank, the monetary authority that issues currency and holds the country's international reserves. The third consists of public corporations, which are incorporated or unincorporated entities owned by the government. These corporations usually cover most of their expenses by selling goods or services to the public, such as railroads and public utilities. The third subcategory includes both non-financial and financial corporations, except for official development banks, which have a separate listing; commercial banks are also included if wholly owned by the public sector. Mixed enterprises make up the fourth subcategory. These are incorporated or unincorporated entities, financial and non-financial (excluding development banks), in which the public sector has more

7/ Although creditor and debtor classifications are requested from reporting countries, World Bank staff create the classifications used by the Debtor Reporting System for long-term public and publicly guaranteed debt on the basis of detailed information supplied by the reporting countries. However, for private non-guaranteed debt, the Debtor Reporting System uses the classification supplied by reporting countries.

than 50% (but less than 100%) of voting power. If public ownership is 50% or less, the enterprise is considered private. The fifth category covers official development banks, which are financial intermediaries primarily engaged in making long-term loans beyond the capacity of conventional institutions. They do not accept monetary deposits. Local governments constitute the sixth subcategory, which comprises all the country's political subdivisions - states, provinces, municipalities, etc. The seventh category consists of private entities. It should be noted that reports on individual loans are required only for loans to private sector borrowers that benefit from a guarantee of payment by a public sector agency. The *Debtor Reporting System Manual* recommends the exclusion of private debts which a public entity guarantees only in the form of a commitment to provide foreign exchange when needed to service the debt. These types of debt should be reported together with private debt which does not have a guarantee.

The Debtor Reporting System uses the following creditor classification for long-term public and publicly guaranteed debt: exporters; commercial banks or other financial institutions; international organisations; governments or public agencies; bonds; and nationalisation. The exporter category consists of direct credit extended by an exporter, often known as a "supplier's credit". The category for commercial banks or other financial institutions includes all commercial banks, whether or not publicly owned, as well as other financial institutions, such as finance companies, merchant banks and insurance companies. International organisations comprise all official intergovernmental organisations. The government or public agency category includes loans from central, provincial or local governments, central banks (but not government-owned commercial banks) and public enterprises (notably, government export-financing institutions, development banks, etc.). The bond category consists of all bond issues, whether publicly offered or privately placed. Finally, there is a "nationalisation" category which includes only bonds or other forms of indebtedness issued to previous owners of nationalised properties. Loans which debtors have obtained from other creditors in order to reimburse owners of nationalised properties should not be reported in the nationalisation category.

Long-term, private, non-guaranteed debt is the only category which countries report to the Debtor Reporting System in aggregate form rather than on a loan-by-loan basis. The debtor classification for this debt consists of the following categories: commercial banks; direct investment enterprises; and all other enterprises. Commercial banks comprise those institutions which the Fund defines as deposit money banks, for statistical purposes, in lines 20-27 of the country pages in its *International Financial Statistics*. Foreign-owned commercial banks, including branches of foreign banks, also appear in this category. Direct investment enterprises are those enterprises, other than commercial banks, which have non-residents either as sole owners or as investors with significant equity participation sufficient to exercise an effective voice in the management of the enterprise. Except for commercial banks under foreign ownership, it is important that an enterprise which appears as a direct investment enterprise in the balance of payments reports to the Fund should have the same classification in reports to the Debtor Reporting System. Entities not included in the preceding categories appear under the category "all other enterprises".

There are four categories in the creditor classification of private, non-guaranteed debt in the Debtor Reporting System: private banks and other financial institutions; foreign parents and affiliates; suppliers and other private creditors; and official agencies and international organisations. The category for private banks and other financial institutions includes commercial banks (private and publicly owned) and other financial institutions, such as investment banks, insurance companies and the like. Publicly issued bonds also appear in this category. The category of foreign parents and affiliates consists of parent companies, home offices, sister companies and other affiliates of the foreign entity whose interest in the domestic enterprise leads to its classification as a direct investment enterprise. For short-term debt, there is no classification by creditor or by type of instrument. The data on this type of debt consist either of data which debtor countries report to the World Bank or estimates from creditor sources. Interest in arrears on long-term debt is added to the estimates of short-term debt and this item appears as a separate line in the *World Debt Tables.*

The debtor classifications in the *Debtor Reporting System Manual* and in the *Balance of Payments Manual* are not exactly equivalent; but in principle, it is possible to relate the Debtor Reporting System's debtor classifications for long-term public and publicly guaranteed flows to *Balance of Payments Statistics Yearbook* classifications. World Bank staff use detailed information provided by reporting countries in order to make the debtor and creditor classifications for long-term public and publicly guaranteed debt in the Debtor Reporting System's database.[8/]

The OECD has several standard breakdowns for long-term claims. The first, which appears in *Financing and External Debt of Developing Countries,* identifies OECD creditor countries and capital markets, multilateral sources, and other, non-OECD creditor countries. The OECD creditor countries and capital markets sector consists of: official development assistance (ODA); official and officially supported claims such as official export credits, guaranteed supplier credits and guaranteed bank credits; financial markets, which include banks and bonds; and other private financial credits. In the publication *External Debt Statistics,* there is a division of the OECD creditor country and capital markets category into four subcategories: ODA; non-bank trade claims (supplier and official export credits); guaranteed bank claims (financial credits); and other (mainly non-guaranteed) bank claims, including bonds.

The report *Geographical Distribution of Financial Flows to Developing Countries* contains data on gross and net disbursements for individual developing countries, which the creditor or source countries report as transactions; there are no figures for debt stocks in this publication. For each recipient country, there is a classification of gross and net disbursements according to the origin of the resources, e.g. DAC member countries, multilateral agencies and the Arab countries which are aid donors.

In other OECD tabulations from the Creditor Reporting System, data for individual borrowing countries appear in a classification by categories of creditor, often with a breakdown between claims with an original maturity of one year or less and those at over one year.

International investment position

Many countries collect and publish data on their international investment position, covering all their outstanding external assets and liabilities, including both equity and debt in the liabilities category. The fifth edition of the Fund's *Balance of Payments Manual* gives the production of such statements much greater attention and incorporates a reconciliation statement showing the major elements affecting the values of the items in the international investment position between statement dates (see Attachment III).

8/For private non-guaranteed debt, the creditor and debtor classification in the Debtor Reporting System is provided directly by the reporting country.

The present discussion focuses primarily on the debt elements of the international investment position, and their relationship to the elements reported by creditors in the Creditor Reporting System and by debtors in the Debtor Reporting System. However, for broader analytical purposes, as Chapter II notes, members of the IWGEDS widen the scope of the financial flows, plus transfers, which they take into account when relating external finance to the economic situation of borrowing countries. For this purpose, the information base includes both flows that do not generate debt, in particular the non-debt portion of foreign direct investment (FDI), and the grant component of unrequited transfers. Also, there may be a further subdivision of grants into "financial grants" - the provision of goods and services which support fixed capital formation in the recipient country - and "technical co-operation", which enhances human capital by providing training and education.

MAIN ELEMENTS OF STOCK AND FLOW RECONCILIATIONS

This section is primarily concerned with the reconciliation of data on stocks of external debt with data on flows of capital or resources in the reporting systems of the member organisations of the IWGEDS. Information on outstanding stocks of debt is important for many analytical purposes, including the understanding of the evolution of debt burdens over time. But the basis for most analyses of current economic developments affecting developing countries, burden-sharing by creditor countries and shifts in the type and sources of financing is information on gross and net resource flows. There may be variations in the definitions and measurement of resource or capital flows. These concepts involve flows other than those discussed in this report, such as direct investment or unrequited transfers, particularly the grant component. It is therefore important to have the capability to refine debt data to yield agreed measures of the provision of resources, excluding factors that merely affect the stated value of debt stocks.

The relative significance of different types of adjustment to reconcile debt stocks and flows depends on the configuration of each of the four systems. Both the OECD Creditor Reporting System and the World Bank Debtor Reporting System collect and publish comprehensive and detailed information on debt stocks and debt flows. In principle, they can fully integrate their stock and flow figures because they collect or prepare their own estimates for non-flow factors (see Chapter II). By contrast, the BIS bases its system for bank activities primarily on end-of-period position data, but information on the currency composition of assets and liabilities makes it possible to prepare estimates of stock changes, taking into account the exchange rate adjustment. The Fund's position is mixed. Although the Fund systematically collects relevant flow data when compiling countries' balance of payments statistics, not all countries compile a statement of their international investment position. There are opportunities for relating stocks to flows, but only for those countries that provide both sets of data.

The OECD and World Bank receive detailed reports from creditor and debtor countries respectively on a major portion of the debt outstanding, and add information from other data sources, as Chapter II notes, in order to construct a comprehensive picture of each country's external debt. For BIS banking data, there is no adequate source of data for verifying the accuracy of the estimates of flows derived from stock data. From the Fund's point of view, the accurate measurement of flows is a principal concern. But the Fund is increasingly recognising that the compilation of international investment position data (especially when based on sources different from the flow data) provides an important means of evaluating the accuracy of the flow data. Indeed the international investment position data are sometimes the only source for quantifying flows that, for one reason or another, are omitted from countries' balance of payment returns to the Fund.

There is a further dimension in the case of the Fund -- the relationship between reported data on capital flows and reported data on the current account, both for individual countries and for regional and global aggregates. A comparison can be made between the capital flow balance and the current account balance for each country; in principle, the amounts of these balances should be equal but with opposite signs. Any large discrepancies between the current and capital account balances may indicate problems with the data. These discrepancies can serve as the basis for a review of the debt flows and other transactions being reported in the international accounts.

Many of the problems in reconciling stocks and flows are common to all compilers of debt data. The subsections below identify the major reconciliation elements and their general characteristics and provide a description of how each compiling institution, in principle, handles them.

Exchange rate conversions

In all of the compilation systems it is necessary first to convert data received in a variety of currencies to a common numeraire, which is usually the US dollar. Secondly, it is important to reconcile the value of outstanding stocks of assets and liabilities, at given dates, with the value of the intervening accumulated reported (or estimated) transactions data. In the case of loans which creditor and debtor countries report to the Fund, the OECD and the World Bank, these concern, respectively, disbursements and repayments. Creditors and debtors also provide data to the OECD and the World Bank on outstanding balances at the end of each period. The Fund receives aggregate debt stock data from some countries as part of their international investment position statements.

Flow data are usually converted into US dollars using the appropriate **average** exchange rate for the period, while the stock of debt is evaluated using the exchange rates prevailing at the **end of each period**. When estimating net flows from debt stock figures, the change in debt between two end-of-period reporting dates produces a distorted estimate of net flow, reflecting differences in the exchange rates used. It is possible to eliminate this effect by reconverting the data into national currencies, calculating the change in debt stocks and reconverting the result into US dollars at the average exchange rate for the period. The above information is available for individual transactions. It is also available, albeit in less detail, for guaranteed private export credits, for which the data on flows and stocks relate to aggregates of sets of transactions.

It is necessary to allow for differences between the currency in which data are presented and the currency of the transaction. If there are variations in the US dollar exchange rate for converting non-dollar transactions, the US dollar amount of debt will change, creating an apparent flow even if none has taken place. This can cause difficulties in reconciling data on debt stocks and debt flows. For example, a debt of DM300 will appear as US$200 if the exchange rate is US$1 = DM1.50. But if the DM rate has declined to US$1 = DM2, the same debt will appear as US$150. In the absence of information on the original transaction in DM, a debt data compiler may conclude, on the basis of the US dollar debt figure, that a repayment of US$50 has taken place. Similarly, in using flow data to estimate outstanding debt, a loan of DM300 which appears as a gross disbursement when the exchange rate was US$1 = DM2 will raise the amount of debt outstanding (ceteris paribus) by US$150. But if at the end of the period the exchange rate is US$1 = DM1.50, there will be an apparent increase in the debt US$200, against a reported flow of US$150.

BIS data on bank credits relate only to stocks, but estimates are made of "flows" that result from changes in stocks over given periods. The BIS publishes independently, and jointly with the OECD[9], estimates of the exchange rate adjusted changes in bank claims which are obtained by, first, calculating the US dollar equivalent of the stock of debt at the start of each period, using the exchange rates prevailing at the end of the period, and, secondly, comparing the result with the end-of-period total obtained using the same exchange rates. This procedure immediately identifies the amount by which claims would have risen (or fallen) had there been no changes in the exchange rate during the period. It is possible to attain reasonable accuracy with this procedure since most reporting countries disaggregate their claims on each individual borrowing country into a minimum of four and sometimes as many as nine major currencies plus the ECU.

A relatively new factor that may complicate the available information on the currency composition of debt stocks and flows for a given country is the growing use of currency swaps. With this device, the creditor or debtor may arrange to shift the currency in which it makes payments of principal or interest, in order to minimise, or lock in, the amount of potential loss or gain that may arise when there are fluctuations between the national currency and the currency of repayment of the particular debt. In such a case, the available record of the currency of repayment may no longer be accurate. It may be noted that in the fifth edition of the *Balance of Payments Manual* derivative instruments such as currency swaps appear as separate, reportable financial instruments.

Members of the IWGEDS treat exchange rate conversions in several ways. In reporting capital flows to the Fund, for example, countries may express their flow statements in whatever unit of account they have adopted for their own use. The fourth edition of the *Balance of Payments Manual* recommends, in principle, the use of the exchange rate prevailing at the time of the contract as the basis for conversion. However, for practical purposes, the *Balance of Payments Manual* recognises that the foreign exchange rate prevailing at the time of the contract may not be available, and consequently suggests the use of an average of the market rates that prevailed during the period in which the transactions occurred. When deriving flow statistics from stock data, the Fund recommends a procedure similar to that of the BIS.

In the Debtor Reporting System, the usual currency for reporting is that in which the debts are repayable or in which transactions took place. As a result, the loan-by-loan data are maintained in diverse currencies. The flow figures, that is, disbursements and debt service payments, are converted into US dollars using average exchange rates for each currency during the period in which the transaction took place. Stock figures are converted into US dollars using the exchange rate in effect at the end of the period.

The member countries of the DAC report their DAC flow statistics to the OECD in US dollars, noting the exchange rates applied to convert the data they maintain in their national currency into US dollars. The data which reporting countries supply to the Creditor Reporting System are normally in

9/ *Statistics on External Indebtedness*: Bank and trade-related non-bank external claims on individual borrowing countries and territories (semi-annual).

national currencies, with a note of the currency of repayment, or the currency of the claim, in cases where this currency is different from the national currency. When two or more currencies are involved, which is rare, the reporting instructions require conversion of the amounts into a single currency using the average rate for that period that applies to the reporting to the DAC or, if this rate is unknown, the most representative average rate available.

It should be added that an increase in the US dollar equivalent value of outstanding debt does not signify an increase in the debt servicing burden. If the currency of the indebted country is appreciating, the gains in its terms of trade will reduce the future real burden of debt servicing. If the debt is repayable in currencies that are neither the US dollar nor the local currency and these currencies appreciate against the US dollar, the effect on the debtor will depend on the currency composition of its international transactions. In either case, exchange rate changes in the future may greatly change the implication of the current measurement of a country's debt.

Changes in market value

In addition to changes that occur as a result of exchange rate fluctuations, movements in market prices can also cause problems in comparing reported values. Changes in market value can affect both the derivation of flows from stocks and the comparison of data reported by both creditors and debtors. This issue does not normally arise for government-to-government credits. It does, however, arise in the case of debt which is tradeable in the market, such as securities and some bank loans, and is further complicated by debt-for-equity swaps or unilateral action by debtors or creditors.

Large changes in the market valuation of bank lending may also occur. Information on bank claims is provided by the BIS data, which both the OECD and the World Bank use. To the extent that banks adjust the reported amounts of claims that they regard as marketable to the current value of each asset in the market, these apparent debt stock changes must be eliminated to arrive at both a true nominal debt stock figure and a "flow" figure. Moreover, the adjustments made by creditor banks may not appear in the accounts of debtor countries, so that the two sets of data can give conflicting prima facie indications of movements in bank claims on developing countries. The amounts that banks report for statistical purposes may also differ from other accounts they maintain to comply with regulatory or tax requirements. Thus, banks may adjust the book value of assets to reflect market changes or regulatory requirements but may not necessarily carry through such changes to the reports they provide to statistical agencies.

There is some active trading of bank claims in the market. If a reporting bank sells a claim to a non-reporter, the debt of the issuing country will show a decrease in creditor-based statistics. If a reporting bank sells a claim to another reporting bank, the aggregate data will show a decline in the holdings of the seller and an increase in the holdings of the buyer. The two transactions will only cancel out if, by rare coincidence, the price obtained by the seller was the price at which he was carrying the claim on his books. Because of these features, differences in debt stocks may give a distorted estimate of net flow in a period in which there has been a large volume of activity or change in prices in the secondary markets.

Individual agencies have different approaches to the market valuation problem. In the balance of payments statistics, the basis of capital flow entries and stock data should be, and usually is, the market prices of the financial transactions concerned. The concept of market prices in the *Balance of Payments*

Manual is the same as that in *1993 System of National Accounts*: the amount of money that a willing buyer pays to acquire something from a willing seller, given that the two parties making the exchange are independent entities that base their decisions solely on commercial grounds. For financial items traded on organised markets, including debt of developing countries traded in secondary markets, the price established in the market meets this definition. For non-marketable financial items, primarily loans, the imputed market price is the face value. In practice, most debtor countries report data at face value.

The Debtor Reporting System does not address the question of market valuation explicitly. However, for some transactions, such as repayments of bonds or debt repaid or repurchased at other than face value, the *Debtor Reporting System Manual* requires reporting countries to record the actual amount repaid and, in addition, to show, in a footnote, the nominal value of the debt redeemed.

The Creditor Reporting System records loan commitments at their face value. For export credits, the face value is defined as the amount of credit extended, excluding any cash payments made by the buyer. An important point to note is that the Creditor Reporting System records the value of grants as the cost to the donor. This value may or may not correspond to world market prices (see the subsection on debt forgiveness immediately below) or to the value reported by the recipient country. The one significant exception to this rule is food aid grants and loans, which are valued at market prices.

Debt cancellation or forgiveness

In this subsection the following paragraphs consider situations in which debt is reduced or eliminated by mutual agreement between two parties. When such an agreement eliminates all or part of the outstanding debt or debt service, it becomes a transaction, which should appear in financial records as a resource flow. The annual effect of the cancellation is measured by the principal and interest payments, other than future interest payments, that would otherwise have been due. Balance of payments statistics, World Bank data and OECD statistics on the flow of resources to developing countries use this convention. In stock data, when debt cancellation becomes effective, there is an immediate withdrawal of the full amount of outstanding debt from the record.

A reconciliation between stocks and flows requires full information on the status of each cancelled loan when the cancellation occurs. Since no movement of funds has taken place, it is necessary to make a counter-entry, that is an imputed flow, to retain the relationship between the change in debt stocks and the flow figures. This principle applies to debt reorganisation in general, and, more specifically, to refinancing and rescheduling.

In the balance of payments context, debt forgiveness occurs when a creditor forgives all or part of a debtor country's debt. The accounting for debt forgiveness differs according to the period in which the now-forgiven debt service obligations were originally due. For forgiveness of obligations past due, that is, when arrears are forgiven, the accounting for the debtor country reflects a reduction in arrears which is recorded as a debit in the capital account and a credit under unrequited transfers. Forgiven interest due in the current period is recorded as a debit under investment income. For the forgiveness of principal due in the current period, the accounting reflects a decrease in liabilities associated with an existing loan and is recorded as a debit in the capital account and a credit under unrequited transfers. In the case of forgiveness involving obligations not yet due, a credit entry appears under unrequited transfers for the amount of outstanding principal, not including future interest. Since future principal payments forgiven do not constitute an obligation for the current year, no exceptional financing entry is required for balance of payments purposes. Exceptional financing is defined as financing obtained to meet a balance of payments financing need. Attachment IV provides information on the components of exceptional financing.

In the Debtor Reporting System, as in the balance of payments, debt forgiveness occurs when a creditor forgives all or part of a debtor country's debt. The full amount of the outstanding debt forgiven is withdrawn from the record of debt outstanding and treated as an adjustment to the stock of debt. A counter-entry or imputed flow is recorded for principal in arrears, principal due in the current year, the sum of future principal payments, interest in arrears and interest duc in the current year. As a result, the effect of the debt forgiveness on both stocks and flows is clearly identified in the Debtor Reporting System, and a reconciliation with balance of payments data is possible.

In the OECD debt forgiveness consists of a creditor's renunciation, in agreement with the debtor country, of a legally enforceable claim in respect of one or more maturities of principal and interest giving rise to a grant from the creditor to the debtor. When debt forgiveness is granted for the purpose of promoting the development or welfare of the recipient, it is recorded as an ODA grant. Cancellation of debt by the official sector that is not eligible for inclusion in ODA is recorded as a grant in the category other official flows.

In debt stock statistics, the full amount of outstanding debt (principal and arrears of interest) cancelled is subtracted immediately from the outstanding amount, whereas in flow statistics only the forgiveness of the amount of principal and interest due or in arrears are recorded immediately; forgiven amounts of principal and interest due in the future are recorded in the year in which they become due. The forgiveness is recorded as a disbursement of an ODA grant, equivalent to the amount of principal and interest forgiven, with a counter-entry equivalent to the amount of principal forgiven under amortisation in the sector of the forgiven loan (ODA, other official flows or private sector). Amounts equivalent to the forgiven interest are also recorded as imputed interest payments. In addition, the full amount forgiven, including the present value of future interest payments foregone (discounted at 10 per cent per annum), is reported as a commitment when the forgiveness is agreed. A reduction in the rate of interest charged on a loan is also treated as the forgiveness of interest, giving rise to a grant, with no counter-entry under amortisation.

Provisions and write-offs

A unilateral decision by either the creditor or the debtor to exclude all or part of a debt from the reported accounts can create large discrepancies between debt data reported by creditors and debtors, since such an action affects the reporting of only one of the two parties concerned. In the presence of potential losses, creditors may think it prudent to reduce the value of their claims in their accounts. They can do this either by setting up provisions or reserves against possible losses, or by writing the claims off. At an early stage in the estimation of potential losses, creditors are likely to set up reserves rather than change the carrying value of assets. In that case, there is no visible effect on the data entering the debt statistics, either as a stock or as a flow reported by banks or by non-bank creditors, when claims are reported gross of provisions. In most countries, banks report their claims gross of provisions. If the likelihood of potential losses persists, banks, more than other creditors, are likely to reduce the carrying value of their claims directly. This write-down immediately affects the amount of credit outstanding that banks report and therefore requires an adjustment to derive flow data from the BIS stock data on international banking. In the extreme case, when a bank decides to write off the full amount of an unguaranteed claim as irrecoverable, it will omit the amount it previously recorded in its reports, and the data user may infer wrongly that payment has duly been made. On the debtor side, repudiation of debt might cause reported external debt to decline, but this is an infrequent problem. As with a creditor write-off, this unilateral action would in principle not be considered a transaction.

In the balance of payments, when creditors unilaterally adjust their balance sheets through specific or general provisioning in respect of their asset portfolio, a partial (write-down) or total (write-off) removal of a given claim from the balance sheet may occur. These kinds of adjustment are not recorded as transactions in the balance of payments accounts since there has been no contract with another party involved in the claim. Accordingly, there is no recording of provisions, write-downs and write-offs in the balance of payments statistics. Similarly, these types of creditor action do not appear in the Debtor Reporting System since they do not affect the debtor's records. However, the international investment position should take account of such actions to the extent that they reflect changes in the market value of the financial instruments concerned. A reconciliation entry should identify the nature of the change in the value of the outstanding instruments.

Write-offs and write-downs are reflected in both the stock data supplied by the BIS and those reported in the Creditor Reporting System for official loans and officially guaranteed export credits. In the flow statistics creditors may report write-offs by the official sector as other official grants in the same way as debt forgiveness is recorded as an ODA grant. There is no specific provision for reporting private sector write-offs. However, to the extent that data on private flows are based on changes in stocks a write-off does have an effect. Thus, write-offs enter OECD data but have no effect on the flow data in the Debtor Reporting System or in balance of payments records.

Restructuring

Restructuring covers many types of agreement involving a change in existing debt through rescheduling, refinancing or other arrangements which modify the debtor's obligation to pay principal, interest or both. Setting aside the capitalisation of interest, these agreements do not change the principal amount of the debt, but there may be an extension of the repayment schedule or a change in the creditor or debtor sector or type of debt. When interest payments due are part of a restructuring agreement, there is often a provision to add the amount of interest, and, on occasion, penalty interest, to the outstanding principal of the debt.

Refinancing usually transforms one set of loans (or identified portions of a set of loans) into a single loan. The official sector may make a single loan to refinance debts which originally resulted from the acquisition of private export credits. On the recipient side, the repayment obligation may shift from the original importer or debtor to the central bank or a government department which is responsible for transferring the corresponding amount of foreign exchange. These changes appear in the statistical data of creditor countries as an increase in claims on the government and a decrease in claims on the private sector. In each instance, there is a related change in the sectoral debt stock but the aggregate measure of resource flows will not indicate a refinancing unless there is a special entry to record a shift between sectors and facilitate a reconciliation between debt stocks and debt flows. There may also be a sectoral shift in the debtor country if the official sector assumes a private debt. It should be emphasised that the entries made refer to a change in ownership within the boundaries of the creditor or debtor country, and not an international movement of funds. The same principles apply to the rephasing of maturities of external loans, or "rescheduling" in the technical sense. In this case, however, since the loans remain in existence, the problem of inter-sectoral shifts does not arise.

Rescheduling

In the balance of payments framework, the definition of debt rescheduling is a formal deferment of debt service payments with the application of new maturities to the deferred amounts. The balance of payments accounting for rescheduling depends on the accounting period in which the debt service obligations fall due. For rescheduling of obligations past due, that is, when arrears are rescheduled, the accounting reflects a reduction of arrears and the creation of a new loan. In the detailed presentation of the *Balance of Payments Statistics Yearbook*, the entries comprise a debit under short-term capital (other liabilities) for the amount of the rescheduled arrears and a credit under long-term capital (drawings on loans received). The aggregate presentation of the *Balance of Payments Statistics Yearbook* records a change in the nature of exceptional financing -- i.e. a reduction in arrears financed by a new long-term loan.[10/]

For the rescheduling of current obligations, that is, interest and amortisation as they fall due, the accounting entries in the detailed presentation of the balance of payments are, for interest, a debit in the current account under other investment income (interest) and, for amortisation, a debit in the capital account under short or long-term capital (repayments on loans received), depending on the maturity of the original loan. Both amortisation and interest payments rescheduled appear as a credit under long-term capital in the capital account (drawings on loans received). In the aggregate presentation, the credit is recorded under the exceptional financing category. This accounting framework reflects the reduction of liabilities associated with an existing loan and the creation of a new loan, which appears as a balance of payments financing item.

For the rescheduling of obligations not yet due, entries must reflect the change in maturities. In principle, the entries should reflect the total amount of future obligations rescheduled in the consolidation agreement. However, in the case of a multi-year agreement, a rescheduling of obligations due in the future often depends on the fulfilment of certain conditions when the obligations fall due. In this case, the recommendation for balance of payments accounting is to record entries only in the period after fulfilment of the particular conditions. Because the definition of balance of payments need does not extend to the rescheduling of obligations not yet due, there is no distinction between the entries in the detailed presentation and the aggregate presentation appearing in the *Balance of Payments Statistics Yearbook*. The entries for a rescheduling involving the conversion of a short-term loan into a long-term

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10/The balance of payments is presented in two formats in the *Balance of Payments Statistics Yearbook*, viz. the detailed and the aggregated presentations. The former shows the balance of payments components according to the standard classification recommended in the Fund's *Balance of Payments Manual* (see Attachment I) and the latter according to certain analytic concepts. The aggregated presentation identifies, inter alia, exceptional financing, which denotes any other arrangement by the authorities (or by other sectors encouraged by the authorities) to finance balance of payments needs.

loan would be a debit under short-term capital and a credit entry under long-term capital. For the rescheduling of a long-term loan, both the credit and debit entries would fall under long-term capital.[11]

Debt rescheduling in the Debtor Reporting System consists of an agreement between the debtor and the creditor to a new schedule of amortisation and interest terms, applicable to obligations past due or due during a specified future period. In the compilation and presentation of the debt data there is a distinction between cash flows and imputed flows. Imputed flows reflect rescheduled debt service payments, changes in creditor and debtor status and the shift in liabilities from one financial instrument to another as a result of rescheduling and are recorded separately in the Debtor Reporting System. Also, in published form, in the *World Debt Tables*, they appear in a special section (Debt Restructuring) to complement the cash-basis information.

The methodology which the Debtor Reporting System has established for recording debt rescheduling differs from the standard methodology for recording these transactions in the balance of payments statistics. In the Debtor Reporting System, maturities rescheduled in the context of a multi-year rescheduling agreement are recorded as they fall due. By contrast, in the balance of payments statistics, unconditional rescheduling of obligations due in the future, should appear under the period during which the agreement was signed. However, a conditional rescheduling which affects obligations due in the future is not recorded in the current accounting period but in the period during which the debtor fulfils the necessary conditions. This difference in the accounting rescheduling hampers the comparability of debt-related flows between the *Balance of Payments Statistics Yearbook* and the Debtor Reporting System.

The OECD[12] defines debt rescheduling (rephasing) as the technique under which legal effect is given to a revised schedule which defers principal and interest payments on one or more loans, each of which retains its identity, while the creditor remains unchanged. The use of the term multiple rescheduling occurs when the same creditor incorporates the maturities (including arrears) of more than one loan in a single new loan to the same debtor. For statistical purposes, a multiple rescheduling receives treatment similar to a refinancing loan. In the OECD's debt database, account is taken of the rescheduling (rephasing) by altering the repayment schedule of the particular loans. Reporters are asked to notify the action in their reports to the Creditor Reporting System.

Refinancing

In the balance of payments framework, debt refinancing is defined as the conversion of arrears and all or part of the original debt into a new loan. When a debt is refinanced out of a balance of payments

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11/An agreement that not only includes past and current maturities but also provides for the rescheduling of maturities that will be due in the future.

12/For DAC reporting, the net amounts rescheduled, which include capitalised interest, are reported as a commitment. Since the principal amounts rescheduled were outstanding and remain outstanding, no actual disbursement takes place, while the net flow of principal is zero by definition. Therefore, no disbursement entries are required in respect of rescheduled principal. However, as capitalised interest is a new obligation of the borrower, its amount should be shown as an amount disbursed, typically under the official sector, although private sector credits too may be rescheduled (in the sense of rephasing).

need, debit entries for refinanced interest payments due in the current period are recorded in the current account and principal payments refinanced are recorded under short or long-term capital. The credit entries are shown under exceptional financing in the aggregated presentation of the *Balance of Payments Statistics Yearbook* and under long-term capital in the detailed presentation.

The Debtor Reporting System follows the balance of payments convention for defining refinancing but makes a distinction between "voluntary" and "involuntary" refinancing. Voluntary refinancing takes place when countries with free access to international capital markets take advantage of favourable borrowing conditions to prepay existing debts incurred on less advantageous terms and replace them with new loans at current market rates. These transactions are regular financial transactions and both the prepayment of the loan refinanced and the disbursement of the new loan are recorded in the Debtor Reporting System: the established conventions for debt restructuring do not apply.

Involuntary refinancing occurs when a country is short of foreign exchange; it is equivalent to the Fund's concept of refinancing out of balance of payments need. In this case, refinancing is an alternative to rescheduling and is the result of an agreement between debtor and creditor to avoid imminent default. In the Debtor Reporting System, involuntary refinancing is synonymous with rescheduling and is treated in the same way in the compilation and presentation of debt statistics. Debt service payments, changes in creditor and debtor status and the shift in liabilities from one financial instrument to another resulting from an involuntary refinancing are located as imputed flows. These flows are entered separately in the Debtor Reporting System to complement the cash-basis information recorded.

The OECD defines refinancing as an agreement by a lender to extend a new loan to cover identified maturities from earlier borrowing. Typically, this new loan covers arrears, but does not always do so. The new loan is a distinct entity from the loans refinanced, which remain in existence (unless it so happens that their final maturities have been refinanced) with their original terms. The amount of principal and interest currently due and past due is recorded as a disbursement, offset by a counter-entry under amortisation, to reflect the corresponding extinction of claims of principal. Where the refinancing loan covers future maturities, there is a disbursement entry (along with a counter-entry under amortisation) for the corresponding amounts due in each future reporting period when that period is reached. The refinancing of debt arising from earlier loans for military purposes and short-term debt capitalised in long-term debt and interest arrears on commercial debt generates a disbursement entry in DAC flow statistics without a corresponding amortisation entry. This is because, by convention, DAC flow statistics do not cover loans for military purposes or short-term loans. Therefore, it is only when these are refinanced that the corresponding disbursements enter the DAC data for the first time. In OECD statistics refinancing of short-term debt and loans for military purposes, as well as interest, generate net flows. Total debt stocks are not affected by refinancing as the amounts owed remain part of the borrower's debt.

Debt conversion

Difficult statistical problems arise when a claim becomes a non-debt asset. Several schemes are available for this purpose, such as debt-for-equity swaps, debt-for-nature swaps and purchases of debt at a discount for reinvestment in the debtor country. The transaction may involve a bank or the official sector, or the purchase of debt by a third party, such as a country providing foreign assistance.

With minor exceptions, reported debt stocks will decline under debt-for-equity swaps. Creditors report a decrease in the valuation of the claim in their books. This may or may not coincide with the reduction in debt reported by the debtor country; the basis of this debt will normally be the face value of the cancelled obligation. Leaving aside the inconsistencies that can result from the need to use creditor and debtor statistics separately for various facets of information, debt stocks will show a decline equal to the amount of debt that is converted. Transactions in the balance of payments accounts are recorded at market prices; the market valuation of a debt-for-equity swap is established as the price at which a claim is exchanged between the creditor owning the claim and the equity investor, whereas the original face value of the debt will be removed from the international investment position data and replaced by the market value of the substituted equity. In view of the difference in valuation between the debt stock and the amount recorded as a flow, a reconciliation entry will also be needed in the international investment position. In the case of debt-for-bond swaps the value of the transaction reducing the loans as recorded in the balance of payments accounts should equal the market value of the bonds being acquired, not the face value of the retired loans.

The Debtor Reporting System defines debt conversions as restructuring techniques for converting external debt outstanding into other financial instruments. The system records two such debt conversions: debt-for-equity swaps, where outstanding debt is converted into equity, reducing the debt outstanding by the nominal value of the debt swapped; and the exchange of exit bonds, which are financial instruments, for outstanding debt. If the nominal value of the bonds is lower than the nominal value of the retired debt, there is a reduction in the debt outstanding by the amount of the discount.

In the data published by the World Bank, the nominal value of a debt-for-equity swap appears in the line "debt stock reductions". The Debtor Reporting System identifies only the nominal value of the debt-for-equity operation. Therefore, the Debtor Reporting System and balance of payments debt flows would not be fully reconcilable for countries that use this type of transaction. In the case of debt-for-bond swaps, published Debtor Reporting System data show the nominal value of the retired debt under the line "principal rescheduled".

The OECD treats debt-for-equity conversion as the exchange of a contractual debt claim in return for an equity holding. This type of debt conversion eliminates the stated amount of the debt, since the concept of debt does not include equity investment. In the aggregate flow statistics, the decrease in debt appears as an imputed repayment. To balance this payment, the system records the increase in the external ownership of equity, which appears as an inflow in the aggregate flow statistics. Since equity is not debt, it will appear that a repayment has taken place when only debt flows are considered. If the flows are estimates derived from data on changes in debt stocks, as they are in the case of banking claims, the use of the raw data without adjustment can lead to erroneous conclusions where there has been a significant volume of debt/equity conversion.

In the published DAC statistics, there are entries for the purchase of equity by the official sector (positive flow) and the amortisation (negative flow) of the corresponding amount of debt. If the official sector has bought the swapped debt at a discount, the difference between the book value of the claim and its market value (discount) appears as an amortisation of a private sector claim (write-off of a portion of a private sector claim), and there is no counter-entry for the (involuntary) private grant. A debt/equity swap, therefore, induces a negative net flow for the value of the private sector write-off in the aggregate data.

If a creditor country converts an existing claim on a borrowing country expressed in foreign currency into a claim expressed in local currency the debt remains unchanged. However, as repayments will be made into an account in the borrowing country that country will no longer need to find the corresponding foreign exchange. If the funds reaching the account are to be used for development purposes, the OECD treat them as a grant-like flow, i.e. in ODA statistics the conversion is recorded as a grant although there is no change in debt. As a consequence, when repayments are made in local currency, the stock of debt declines but no amortisation is entered into ODA flow statistics.

Debt buybacks

The accounting treatment is similar in the case of a debt buyback, that is, when a debtor purchases all or part of an outstanding debt in the market, usually at a discount.[13/]

In the balance of payments, there should be entries for the market value of the transaction, with a debit entry under the appropriate item of the capital account and a credit entry under the external assets used for payment, which in most cases would be reserves. In the case of the international investment position, the nominal value of the debt will be deducted and the amount paid will reduce the amount of foreign exchange held. Any difference between the value of the debt that was outstanding and the actual price of the transaction will appear as an adjustment in the international investment position.

In the Debtor Reporting System, when there is a debt buyback the outstanding debt will decline by the nominal value of the debt that has been bought back. This amount will appear in the published statistics in the *World Debt Tables* in the line "debt stock reductions" and is also separately identified. The reporting instructions in the *Debtor Reporting System Manual* are the following: "...if bonds, or any other debt are repaid or repurchased at other than face value, show the actual amount paid and the nominal value of the debt redeemed in a footnote." Therefore, in principle, it should be possible to compare debt-related flows in the *Balance of Payments Statistics Yearbook* with cash flows which appear in the Debtor Reporting System since the market value of the debt buyback is also identified in the Debtor Reporting System.

In OECD flow statistics the only type of buybacks recorded are those financed by DAC donors. Where a bilateral donor makes a grant to a multilateral institution for the purpose of financing debt buyback operations this grant will appear indistinguishably in ODA grants to multilaterals. Where a donor country directly finances a buyback it is reported as an ODA grant and an imputed repayment is recorded under the private sector. In both cases the amount recorded as a disbursement is the amount actually paid, that is the market value. OECD debt stock statistics also capture some buybacks of debt which are not financed by DAC donors, since BIS data reflect the face value of any reduction due to buybacks from reporting banks.

13/ Some national terminologies also use the term buyback when a creditor is "indemnified" for a default and a guarantor takes over the claim. This use of the term is not relevant to the present discussion.

Arrears

An important element of the OECD and World Bank debt accounting systems is the treatment of arrears of principal or interest. Generally, when amounts of principal or interest that are due and payable have not been serviced, the past-due amount of interest becomes part of the outstanding debt. To account properly for items in arrears, data on service payments should distinguish between principal paid on time, interest paid on time or incurred, principal arrears discharged and interest arrears discharged. This level of detail appears in the reporting forms used by the OECD for official sector transactions and, as from 1991, also for guaranteed private export credits. The reporting forms used by the World Bank provide the same level of detail. Without these additional data, there will be no complete reconciliation of the figures for debt flows and outstanding debt. In practice, reporters do not always give the full detail described above and it is necessary to make some estimates. The usual assumption is that the creditor will apply service payments in the first instance to discharge arrears of interest.

In the balance of payments, debt service payments should be recorded as if the debtor had made them when due, with the creation of a corresponding liability representing arrears. The balance of payments methodology for recording interest arrears of the debtor economy consists of a debit entry in the current account (investment income) and a credit entry in the short-term capital account. The recording of principal arrears consists of a debit entry under short-term or long-term capital, depending on the original maturity of the loan, and a credit entry under short-term capital, irrespective of the original maturity of the loan. It should be noted that arrears, by definition, are short-term until consolidated. After the settlement of arrears, whether through repayment, rescheduling or forgiveness, the recording includes a debit entry under short-term capital and a credit entry under foreign exchange assets or long-term capital.

The Debtor Reporting System's database includes information on the cumulative stock of arrears of principal and interest and the rescheduled amount of principal and interest arrears in any given year. The World Bank publishes these data in the *World Debt Tables*. Reporters are asked to provide, separately, the cumulative amount of principal due but not paid and the cumulative interest due but not paid, including interest on the amount of the principal arrears. Reporters are also asked to provide information on rescheduled arrears of principal and interest in any given year.

The accounting method for arrears in the Debtor Reporting System does not readily lend itself to reconciliation with balance of payments statistics for debt flows to countries with payments arrears. One way of reconciling debt flows in such cases would be to compare the sum of interest payments, net disbursements and the net change in arrears in the two systems. However, this is difficult to achieve in practice because in the Debtor Reporting System principal and interest payments include amounts in respect of arrears that have been extinguished by payment. These payments are also included, indistinguishably, in the net change in arrears.

Arrears of principal and interest are reported separately by most creditors in their reports to the Creditor Reporting System. Both principal and interest arrears are treated as part of outstanding short-term debt, regardless of the original terms of the loan. When arrears on long-term debt are incurred the amount of arrears are shifted from long-term to short-term debt. In data reported to the BIS arrears of principal and interest are, in most cases, included indistinguishably in claims reported by BIS reporting banks. Arrears are reduced by payment, debt reorganisation, write-off or forgiveness by the creditor. In OECD flow statistics payments of interest arrears are treated in the same way as interest payments made on time and do not give rise to a flow. By contrast, the consolidation of interest arrears give rise to a disbursement but there is no flow when principal arrears are consolidated. When arrears are consolidated into long-term debt, total debt stocks are unaffected but the amounts are transferred from short-term debt to long-term debt.

Interest and fees

The treatment of interest, especially the effect of agreements that change the amount or timing of interest, also affects the comparison of debt stocks and flows as they appear in the balance of payments statistics, the Creditor Reporting System and the Debtor Reporting System.

In the balance of payments statistics, interest consists of income on loans and other debt instruments including discounts in lieu of interest. Interest is payable according to a binding agreement between the creditor and the debtor. Any issue premiums or discounts on debt securities, such as bonds, notes and bills, should be entered as adjustments under investment income in the current account (negative in the case of premiums and positive in the case of discounts). As noted above, the *Balance of Payments Manual* recommends recording interest on the date that it falls due rather than on the date of actual payment.

The balance of payments methodology set out in the fourth edition of the *Balance of Payments Manual* classifies interest earned or paid by the compiling country under "other investment income", a component of the investment income item in the current account. Since "other investment income" also includes dividends on equity securities, it is not possible, under the current classification scheme, to identify interest as an individual component in the balance of payments for the purpose of reconciliation with data recorded in the Creditor Reporting System and the Debtor Reporting System.[14] In the balance of payments, there is no recording of reductions in future interest payments in the context of debt reorganisations. Interest is, in principle, recorded before the withholding of any tax. Taxes withheld are recorded as transfers.

In the Debtor Reporting System, interest includes not only actual interest payments but also commitment charges, front-end fees and similar payments made by the debtor during the period. The term front-end fees includes management, participation, legal and registration fees and similar charges payable by the debtor. Interest payments are recorded on the basis of the interest paid in foreign currency or goods.

The Creditor Reporting System does not treat commitment fees and other front-end charges on official loans and credits as part of debt service. The system makes adjustments to the reported data if they include these charges. For officially supported credits, the definition of interest excludes any payment, through a premium or other charge, for insuring or guaranteeing supplier credits or financial credits as well as any other payments, such as banking fees or commissions, associated with the export credit other than annual or semi-annual amounts payable throughout the repayment term. As noted above,

14/The fifth edition of the *Balance of Payments Manual* has a separate entry for interest, but this is on an accrual basis rather than the cash basis used by the OECD and the World Bank, and excludes the liquidation of interest arrears.

interest payments are recorded on a cash basis, that is, payments actually received during the period, including the liquidation of interest in arrears. Outstanding arrears of interest are reported separately.

OTHER RECONCILIATION FACTORS

Timing

Discrepancies between the timing of reports on transactions and changes in end-of-period stocks may cause gaps in the reconciliation of the two types of data. In the Creditor Reporting System and the Debtor Reporting System, timing problems are most likely to stem from debt renegotiations, when the restatement of a debt, in terms of either its amount or classification, may appear as a change in the amount of disbursed or outstanding credit at a date different from any actual transfer of funds. Such a timing problem can occur both within the respective systems and in a comparison of the data supplied by creditors and debtors.

The use of different accounting methods is another element that may cause differences in the time of debt data recording. These methods include cash, due-for-payment and full accrual. The Creditor Reporting System and the Debtor Reporting System maintain records on a cash basis so that the time of recording a transaction corresponds to a payment or receipt of funds. It should be noted that it may take some time for a cheque to clear, or for the account of the payee to acknowledge the payment, so that timing may differ because of the normal "float." The *Balance of Payments Manual* recommends making entries in the balance of payments statistics when a change in the ownership of financial items takes place. A reasonable approximation of this timing is when the parties concerned enter the transactions in their books. For interest payments and loan repayments, however, it is advisable to use scheduled dates rather than actual payment dates for payments that do not take place on their due date, that is, when arrears must be recorded in the flow accounts.[15] On a due-for-payment basis, the recording of any transaction would be in advance of a cash accounting whenever arrears occur.

While the due-for-payment basis is the standard for balance of payments accounting, it is likely that, in practice, compilers of balance of payments statistics will have to rely on data which the agencies or banks involved in lending or borrowing report to them. Furthermore, it may not always be clear what standards are followed in the data being supplied or how any necessary adjustments should be made.

The time of recording for debt reorganisation in the balance of payments is when the arrangement becomes binding on both creditor and debtor, or the time of the signing of the bilateral agreement.

The World Bank asks reporters to the Debtor Reporting System to submit, annually, all the transactions that have occurred during each calendar year and the currency in which they took place. Such transactions include disbursements, principal repaid, interest repaid, principal and interest due in the current year and rescheduled, debt forgiven, and the cancellation of any undisbursed balances. Reporters are also asked to provide data on the stock of debt outstanding, the undisbursed balance and the cumulative stock of arrears of principal and of interest. The time of recording for debt reorganisation is

15/The *1993 System of National Accounts* and the fifth edition of the *Balance of Payments Manual* specify that accounts should be maintained on a full accrual basis.

when the arrangement becomes binding on both creditor and debtor, as in the balance of payments statistics.

The directives of the Creditor Reporting System specify that the recording of disbursements should take place on the same basis as the corresponding transactions in the balance of payments statistics. Nevertheless, the recording of interest payments and principal payments in respect of official development assistance (ODA) transactions and other official flows (OOF) is on a cash basis rather than on the due-for-payment basis used for the balance of payments statistics; this means that the data relate to payments actually received during the period, including repayments of principal and interest past due (i.e. the clearance of arrears). Outstanding arrears of principal and interest are separately recorded where possible.

Military debt

The OECD flow data exclude loans and credits for military purposes, whereas both the OECD and the World Bank data on outstanding debt include military debt to the extent possible. Except in the case of ODA debt stocks, the immediate consequence is that the differencing of OECD debt stock figures, with due allowance for exchange rate effects, debt forgiveness and so on, yields a net flow estimate that includes disbursements of military credits and repayments of principal on earlier military credits, whereas these elements are absent from the published flow statistics. As a result, the published aggregate flow data understate the increase in a borrowing country's debt if it arises through military borrowing, and the decrease if the country is making net repayments on its military borrowing. Since outstanding military debt of US$10-20 billion (and more) is not uncommon, this is a major reconciliation adjustment for certain borrowing countries, and for aggregate groupings which include these countries. External military debt is covered in the balance of payments statistics published by the Fund and in the international investment position, but is subject to under-reporting.

Sectoral shifts

Each of the external debt data systems allocates the statistics to a number of cross-categories. These categories identify types of credit, types of borrower and maturities, with many additional subcategories. In the course of time, any given credit may change category, possibly on several occasions. For example, the public sector may assume debts of the private sector; a government export credit guarantee agency may take over a commercial bank credit; or negotiations may result in the consolidation of a short-term liability into a long-term debt. The respective reporting systems account for all of these shifts. Using the previous example, the following would result: an inflow to the public sector and a matching outflow from the private sector; an outflow from the creditor's public sector and a reduction in bank lending; and, an outflow of short-term capital offset by an inflow of long-term capital. All of these entries are necessary in order to indicate to the user of the statistics that transactions have taken place which affect the character of the debt. The proper recording of these sectoral shifts in stocks and flows is important, but they do not affect the net aggregate flow of capital or resources measured by the statistics.

Inadequate data

All systems measuring debt stocks and flows are subject to errors or gaps in the incoming data, potentially causing discrepancies in the measurement of stocks and related flows, either within each system, or between systems. One such difficulty is double-counting. To the extent that the Creditor

Reporting System and Debtor Reporting System compilations draw on data from external sources, there is a possibility that there will be some overlapping in the coverage of the respective data series. An important example of this is the OECD's use of BIS data on bank claims, which include, indistinguishably, guaranteed and non-guaranteed buyers' credits. When the OECD combines data on guaranteed export credits with data from the BIS, it uses the Creditor Reporting System data on buyers' credits to measure and, as far as possible, eliminate the overlap.

Another overlap occurs when BIS reporting banks purchase securities issued by debtor countries. The dangers of duplication where marketable securities are concerned were not significant as long as most debtor countries did not have ready access to this source of financing, but that situation has been changing. The BIS has taken steps to identify bank holdings of securities separately, which should help to avoid duplication. The OECD incorporates available data on debt securities sold in the market into debt data reported by creditor countries and debtor countries respectively. The amounts shown for securities receive some adjustment for double-counting, made possible by the separate identification of bank holdings.

Breaks in series are another potential source of error in the Creditor Reporting System and the Debtor Reporting System. For example, reporters begin including an old existing debt for the first time, or recognise a debt they had previously omitted for some reason. Conversely, reporters may omit a debt that they had previously included. The OECD and the World Bank have developed procedures for minimising this kind of inconsistency; however, if it does occur it will affect the data on debt stocks, and will implicitly enter into any attempt to derive flows by differencing stocks. In the absence of adjustments, the flow data will include spurious outflows or inflows.

The BIS has a somewhat different procedure for dealing with this problem because it derives its "flows" entirely from stock data. As a result, the BIS obtains two separate observations - one on the old basis and another on the new basis -- when a break in series takes place. Up to the point in time at which the break in series occurs the BIS uses the "old" basis to compute changes. The "new" basis is used to compute changes thereafter.

Chapter I
Attachment I

BALANCE OF PAYMENTS: PRINCIPAL STANDARD COMPONENTS
Fourth edition of the *Balance of Payments Manual*

DETAILED PRESENTATION

CURRENT ACCOUNT

GOODS, SERVICES AND INCOME:
1. Merchandise: exports f.o.b.
2. Merchandise: imports f.o.b.
3. Shipment: credit
4. Shipment: debit
5. Passenger services: credit
6. Passenger services: debit
7. Other transportation: credit
8. Other transportation: debit
9. Travel: credit
10. Travel: debit
11. Reinvested earnings on direct investment abroad
12. Reinvested earnings on direct investment in the reporting country
13. Other direct investment income: credit
14. Other direct investment income: debit
15. Other investment income of resident official: credit
16. Other investment income of resident official: debit
17. Other investment income of foreign official: credit
18. Other investment income of foreign official: debit
19. Other investment income: credit
20. Other investment income: debit
21. Interofficial, n.i.e.[16/]: credit
22. Interofficial, n.i.e.: debit
23. Other resident official, n.i.e.: credit
24. Other resident official, n.i.e.: debit
25. Other foreign official, n.i.e.: credit
26. Other foreign official, n.i.e.: debit
27. Labour income, n.i.e.: credit
28. Labour income, n.i.e.: debit
29. Property income, n.i.e.: credit
30. Property income, n.i.e.: debit
31. Other goods and services: credit
32. Other goods and services: debit

16/n.i.e. = not included elsewhere

UNREQUITED TRANSFERS:
33. Migrants' transfers: credit
34. Migrants' transfers: debit
35. Workers' remittances: credit
36. Workers' remittances: debit
37. Other private transfers: credit
38. Other private transfers: debit
39. Interofficial transfers: credit
40. Interofficial transfers: debit
41. Other transfers of resident official: credit
42. Other transfers of resident official: debit
43. Other transfers of foreign official: credit
44. Other transfers of foreign official: debit

CAPITAL ACCOUNT

CAPITAL EXCLUDING RESERVES

Direct investment outward
45. Equity capital
46. Reinvestment of earnings
47. Other long-term capital
48. Short-term capital

Direct investment inward
49. Equity capital
50. Reinvestment of earnings
51. Other long-term capital
52. Short-term capital

Portfolio investment
Public sector bonds
53. Assets
54. Liabilities constituting foreign authorities' reserves
55. Other liabilities
Other bonds
56. Assets
57. Liabilities constituting foreign authorities' reserves
58. Other liabilities
Corporate equities
59. Assets
60. Liabilities constituting foreign authorities' reserves
61. Other liabilities

Other long-term capital of the resident official sector
62. Drawings on loans extended
63. Repayments on loans extended
64. Other assets
65. Liabilities constituting foreign authorities' reserves
66. Drawings on other loans received
67. Repayments on other loans received
68. Other liabilities

Other long-term capital of deposit money banks
69. Drawings on loans extended
70. Repayments on loans extended
71. Other assets
72. Liabilities constituting foreign authorities' reserves denominated in national currency
73. Liabilities constituting foreign authorities' reserves denominated in foreign currency
74. Drawings on other loans received
75. Repayments on other loans received
76. Other liabilities

Other long-term capital of other sectors
77. Drawings on loans extended
78. Repayments on loans extended
79. Other assets
80. Liabilities constituting foreign authorities' reserves
81. Drawings on other loans received
82. Repayments on other loans received
83. Other liabilities

Other short-term capital of resident official sector
84. Loans extended
85. Other assets
86. Liabilities constituting foreign authorities' reserves
87. Other loans received
88. Other liabilities

Other short-term capital of deposit money banks
89. Assets
90. Liabilities constituting foreign authorities' reserves denominated in national currency
91. Liabilities constituting foreign authorities' reserves denominated in foreign currency
92. Other liabilities

Other short-term capital of other sectors
93. Loans extended
94. Other assets
95. Liabilities constituting foreign authorities' reserves
96. Other loans received
97. Other liabilities

RESERVES

Monetary gold
98. Total change in holdings
99. Counterpart to monetisation/demonetisation
100. Counterpart to valuation changes

Special drawing rights
101. Total changes in holdings
102. Counterpart to allocation or cancellation
103. Counterpart to valuation changes

Reserve position in the Fund
104. Total change in holdings
105. Counterpart to valuation changes

Foreign exchange assets
106. Total change in holdings
107. Counterpart to valuation changes

Other claims
108. Total change in holdings
109. Counterpart to valuation changes

Use of Fund credit and loans
110. Total change in holdings
111. Counterpart to valuation changes

AGGREGATED PRESENTATION

A. **Current Account (excluding Group E)**
Merchandise: exports f.o.b.
Merchandise: imports f.o.b.
Services: credit
Services: debit
Income: credit
Income: debit
Total: goods, services, and income
Private unrequited transfers
Total, excluding official unrequited transfers
Official unrequited transfers

B. **Direct Investment and Other Long-Term Capital (excluding Groups E, F, and G)**
Direct investment
Inward
Outward
Portfolio investment
Other long-term capital
Resident official sector
Deposit money banks
Other sectors

Total, Groups A plus B

C. **Other Short-Term Capital (excluding Groups E, F, and G)**
Resident official sector
Deposit money banks
Other sectors

D. **Net Errors and Omissions**

Total, Groups A, B, C, and D

E. **Exceptional Financing**

Total Groups A, B, C, D, and E

F. **Liabilities Constituting Foreign Authorities' Reserves**

Total Groups A, B, C, D, E, and F

G. **Reserves**

Monetary gold
SDRs
Reserve position in the Fund
Foreign exchange assets
Other claims
Use of Fund credit and loans

Memorandum items
Total change in reserves
of which: revaluations

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook*.

Chapter I
Attachment II

BALANCE OF PAYMENTS: PRINCIPAL STANDARD COMPONENTS
Fifth edition of the *Balance of Payments Manual*

1. CURRENT ACCOUNT

A. Goods and services
- a. Goods
- b. Services
  1. Transportation
  2. Travel
  3. Communication services
  4. Construction services
  5. Insurance services
  6. Financial services
  7. Computer and information services
  8. Royalties and license fees
  9. Other business services
  10. Personal, cultural and recreational services
  11. Government services, n.i.e.[17]

B. Income
1. Compensation of employees
2. Investment income
   - 2.1 Direct investment
   - 2.2 Portfolio investment
   - 2.3 Other investment (interest)

C. Current transfers
1. General government
2. Other sectors

2. CAPITAL AND FINANCIAL ACCOUNT

A. Capital account
1. Capital transfers
   - 1.1 General government
     - 1.1.1 Debt forgiveness
     - 1.1.2 Other

17/n.i.e. = not included elsewhere.

1.1.3 Migrants' transfers
1.1.4 Debt forgiveness
1.2.3 Other
2. Acquisitions/disposals of nonproduced nonfinancial assets

B. Financial account
1. Direct investment
1.1 Abroad
1.1.1 Equity capital
1.1.1.1 Claims on affiliated enterprises
1.1.1.2 Liabilities to affiliated enterprises
1.1.2 Reinvested earnings
1.1.3 Other capital
1.1.3.1 Claims on affiliated enterprises
1.1.3.2 Liabilities to affiliated enterprises
1.2 In reporting economy
1.2.1 Equity capital
1.2.1.1 Claims on direct investors
1.2.1.2 Liabilities to direct investors
1.2.2 Reinvested earnings
1.2.3 Other capital
1.2.3.1 Claims on direct investors
1.2.3.2 Liabilities to direct investors
2. Portfolio investment[18]
2.1 Assets
2.1.1 Equity securities
2.1.2 Debt securities
2.1.2.1 Bonds and notes
2.1.2.2 Money market instruments
2.1.2.3 Financial derivatives
2.2 Liabilities
2.2.1 Equity securities
2.2.2 Debt securities
2.2.2.1 Bonds and notes
2.2.2.2 Money market instruments
2.2.2.3 Financial derivatives
3. Other investment
3.1 Assets
3.1.1 Trade credits
3.1.2 Loans
3.1.3 Currency and deposits
3.1.4 Other assets

18/Portfolio and other investment are broken down into transactor categories: monetary authorities, general government, banks and other sectors.

3.2 Liabilities[19]
- 3.2.1 Trade credits
- 3.2.2 Loans
- 3.2.3 Currency and deposits
- 3.2.4 Other liabilities

4. Reserve assets
- 4.1 Monetary gold
- 4.2 Special drawing rights
- 4.3 Reserve position in the Fund
- 4.4 Foreign exchange
  - 4.4.1 Currency and deposits
    - 4.4.1.1 With monetary authorities
    - 4.4.1.2 With banks
  - 4.4.2 Securities
    - 4.4.2.1 Equities
    - 4.4.2.2 Bonds and notes
    - 4.4.2.3 Money market instruments and financial derivatives
- 4.5 Other claims

19/A breakdown between short and long-term is provided.

Chapter I
Attachment III

INTERNATIONAL INVESTMENT POSITION: MAJOR COMPONENTS AND RECONCILIATION ENTRIES
Fifth edition of the *Balance of Payments Manual*

		Change in position during the year due to:				
	Position at beginning of year	Transaction	Price changes	Exchange rate changes	Other adjust-ments	Position at end of year
A. Assets						
1. Direct investment abroad						
1.1 Equity capital and reinvested earnings						
1.1.1 Claims on affiliated enterprises						
1.1.2 Liabilities to affiliated enterprises						
1.2 Other capital						
1.2.1 Claims on affiliated enterprises						
1.2.2 Liabilities to affiliated enterprises						
2. Portfolio investment						
2.1 Equity securities						
2.1.1 Monetary authorities						
2.1.2 General government						
2.1.3 Banks						
2.1.4 Other sectors						
2.2 Debt securities						
2.2.1 Bonds and notes						
2.2.1.1 Monetary authorities						
2.2.1.2 General government						
2.2.1.3 Banks						
2.2.1.4 Other sectors						
2.2.2 Money market instruments						
2.2.2.1 Monetary authorities						
2.2.2.2 General government						
2.2.2.3 Banks						
2.2.2.4 Other sectors						
2.2.3 Financial derivatives						
2.2.3.1 Monetary authorities						
2.2.3.2 General government						
2.2.3.3 Banks						
2.2.3.4 Other sectors						
3. Other investment						
3.1 Trade credits						
3.1.1 General government						
3.1.1.1 Long-term						

Chapter I
Attachment III

	Position at beginning	(continued) Change in position during the year due to: Transaction	Price changes	Exchange rate changes	Other adjust-	Position at end of year
3.1.1.2 Short-term						
3.1.2 Other sectors						
3.1.2.1 Long-term						
3.1.2.2 Short-term						
3.2 Loans						
3.2.1 Monetary authorities						
3.2.1.1 Long-term						
3.2.1.2 Short-term						
3.2.2 General government						
3.2.2.1 Long-term						
3.2.2.2 Short-term						
3.2.3 Banks						
3.2.3.1 Long-term						
3.2.3.2 Short-term						
3.2.4 Other sectors						
3.2.4.1 Long-term						
3.3 Currency and deposits						
3.3.1 Monetary authorities						
3.3.2 General government						
3.3.3 Banks						
3.3.4 Other sectors						
3.2.4.2 Short-term						
3.4 Other assets						
3.4.1 Monetary authorities						
3.4.1.1 Long-term						
3.4.1.2 Short-term						
3.4.2 General government						
3.4.2.1 Long-term						
3.4.2.2 Short-term						
3.4.3 Banks						
3.4.3.1 Long-term						
3.4.3.2 Short-term						
3.4.4 Other sectors						
3.4.4.1 Long-term						
3.4.4.2 Short-term						
4. Reserve assets						
4.1 Monetary gold						
4.2 Special drawing rights						

Chapter I
Attachment III

(continued)

	Position at beginning	Change in position during the year due to:				Position at end of year
		Transaction	Price changes	Exchange rate changes	Other adjust-	
4.3 Reserve position in the Fund						
4.4 Foreign exchange						
4.4.1 Currency and deposits						
4.4.1.1 With monetary authorities						
4.4.1.2 With banks						
4.4.2 Securities						
4.4.2.1 Equities						
4.4.2.2 Bonds and notes						
4.4.2.3 Money market instruments and financial derivatives						
4.5 Other claims						
B. Liabilities						
1. Direct investment in reporting economy						
1.1 Equity capital and reinvested earnings						
1.1.1 Claims on direct investors						
1.1.2 Liabilities to direct investors						
1.2 Other capital						
1.2.1 Claims on direct investors						
1.2.2 Liabilities to direct investors						
2. Portfolio investment						
2.1 Equity securities						
2.1.1 Banks						
2.1.2 Other sectors						
2.2 Debt securities						
2.2.1 Bonds and notes						
2.2.1.1 Monetary authorities						
2.2.1.2 General government						
2.2.1.3 Banks						
2.2.1.4 Other sectors						
2.2.2 Money market instruments and financial derivatives (short-term)						
2.2.2.1 Monetary authorities						
2.2.2.2 General government						
2.2.2.3 Banks						
2.2.2.4 Other sectors						
2.2.3 Financial derivatives						

Chapter I
Attachment III

(continued)

	Position at beginning	Change in position during the year due to: Transaction	Price changes	Exchange rate changes	Other adjust-	Position at end of year
2.2.3.1 Monetary authorities						
2.2.3.2 General government						
2.2.3.3 Banks						
2.2.3.4 Other sectors						
3. Other investment						
3.1 Trade credits						
3.1.1 General government						
3.1.1.1 Long-term						
3.1.1.2 Short-term						
3.1.2 Other sectors						
3.1.2.1 Long-term						
3.1.2.2 Short-term						
3.2 Loans						
3.2.1 Monetary authorities						
3.2.1.1 Use of Fund credit and loans from the Fund						
3.2.1.2 Other long-term						
3.2.1.3 Short-term						
3.2.2 General government						
3.2.2.1 Long-term						
3.2.2.2 Short-term						
3.2.3 Banks						
3.2.3.1 Long-term						
3.2.3.2 Short-term						
3.2.4 Other sectors						
3.2.4.1 Long-term						
3.2.4.2 Short-term						
3.3 Currency and deposits						
3.3.1 Monetary authorities						
3.3.2 Banks						
3.4 Other liabilities						
3.4.1 Monetary authorities						
3.4.1.1 Long-term						
3.4.1.2 Short-term						
3.4.2 General government						
3.4.2.1 Long-term						
3.4.2.2 Short-term						
3.4.3 Banks						

Chapter I
Attachment III

	Position at beginning	(continued) Change in position during the year due to: Transaction	Price changes	Exchange rate changes	Other adjust-	Position at end of year
3.4.3.1 Long-term						
3.4.3.2 Short-term						
3.4.4 Other sectors						
3.4.4.1 Long-term						
3.4.4.2 Short-term						

Source: Fifth edition of the *Balance of Payments Manual*.

Chapter I
Attachment IV

EXCEPTIONAL FINANCING TRANSACTIONS
Fifth edition of the *Balance of Payments Manual*

Exceptional financing transactions

2.1 Transfers
- 2.1.1 Debt forgiveness
- 2.1.2 Other intergovernmental grants
- 2.1.3 Grants received from Fund subsidy accounts

2.2 Direct investment
- 2.2.1 Investment associated with debt reduction
- 2.2.2 Other

2.3 Portfolio investment: borrowing by authorities or other sectors on authorities' behalf: liabilities[1]

2.4 Other investment: liabilities[1]
- 2.4.1 Drawings on new loans by authorities or other sectors on authorities' behalf
- 2.4.2 Rescheduling of existing debt
- 2.4.3 Accumulation of arrears
  - 2.4.3.1 Principal on short-term debt
  - 2.4.3.2 Principal on long-term debt
  - 2.4.3.3 Original interest
  - 2.4.3.4 Penalty interest
- 2.4.4 Repayments of arrears
  - 2.4.4.1 Principal
  - 2.4.4.2 Interest
- 2.4.5 Rescheduling of arrears
  - 2.4.5.1 Principal
  - 2.4.5.2 Interest
- 2.4.6 Cancellation of arrears
  - 2.4.6.1 Principal
  - 2.4.6.2 Interest

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[1] Specify sector involved and standard component in which the item is included.

CHAPTER II

COMPARATIVE COMPILATION SYSTEMS AND ANALYSES

Description of compilation systems

Description of the basic features of the major international systems that collect external debt data and financial statistics related to debt: the Creditor Reporting System of the OECD; the Debtor Reporting System of the World Bank; the international banking data collected by the BIS; and the data collected by the Fund in the compilation of balance of payments statistics and statements of international investment positions.

Comparisons of debt data

Discussion of factors giving rise to differences in the data on debt stocks and flows collected in the various reporting systems and ways of reconciling them. Some of these factors are: different definitions of certain terms; country coverage; timing of transactions; treatment of arrears; treatment of refinancing.

Analytical use of flow data

Discussion of how members of the IWGEDS use debt flow data in determining the economic situation of indebted countries and in assessing their medium-term economic prospects. Description of the analytical objectives of each member of the IWGEDS and how each uses the information that it collects.

CHAPTER II

COMPARATIVE COMPILATION SYSTEMS AND ANALYSES

This chapter first describes the debt compilation system and analyses of each institution. Following this description is a discussion of the derivation and analytical use of flow data by the members of the IWGEDS and the form in which they present the data on resource flows to recipient countries.

COMPILATION SYSTEMS

The OECD system

The OECD collects debt statistics through its Creditor Reporting System. The OECD and the World Bank jointly sponsored and designed this system in the mid-1960s, with the OECD's Development Co-operation Directorate taking responsibility for the system's operation. By design, the Creditor Reporting System and the World Bank's Debtor Reporting System are complementary to the extent possible. For example, their coverage is, in principle, identical for debt owed by public sector borrowers or private sector borrowers with public sector guarantees to OECD member countries reporting to the Creditor Reporting System. Thus the Creditor Reporting System figures not only offer a useful means of cross-checking the Debtor Reporting System, but can also provide supplementary information on debtor countries that do not report to the World Bank's Debtor Reporting System.

The 19 member countries of the Development Assistance Committee that report to the Creditor Reporting System supply data on official development assistance (ODA), and its equivalent in the case of the Central and Eastern European countries (CEECs) and the newly independent states of the former Soviet Union (NISs), on officially supported lending with the same recipient coverage (including both official lending and officially guaranteed private lending), and on the corresponding debt. A distinctive feature of the Creditor Reporting System is that it obtains detailed information on individual transactions, which means that it lends itself to an extremely wide range of analyses. The aggregated information derived from the Creditor Reporting System is supplemented by, and can be checked against, the aggregated information provided in other systems, including those of the other organisations referred to in this report -- in particular the BIS and the World Bank -- as well as the "DAC" reporting system on flows to developing, CEEC and NIS countries that the OECD also maintains.

The Creditor Reporting System involves reporting on three sets of forms. The first set, Form 1, reports commitments of each official sector grant and each loan with a maturity exceeding one year in the case of official sector loans and five years in the case of guaranteed private export credits. These reports are submitted continuously to the OECD, with a separate form for each commitment sent within two months of the commitment date. A special form notifies commitments to reorganise debt.

The second set, Form 2, deals with the status of outstanding official loans and grants at the end of each year. A separate entry is made for each transaction showing its status, including the outstanding disbursed amount and, in the case of loans, arrears of principal and interest at the end of the year and disbursements, amortisation and interest payments and any debt reorganisation carried out during the year. Loans remain on each annual Form 2 until they are repaid, forgiven, rescheduled or cancelled.

Form 3 completes the Creditor Reporting System with details of official and officially supported export credits. These reports are semi-annual and, unlike Forms 1 and 2, are aggregated at borrowing country level. Medium and long-term export credits are reported by type of export credit and by sector of the borrower, official or private. Thus, there are entries for official, supplier and financial credits, respectively, to the official and private sectors in each borrowing country. The data supplied include outstanding amounts of principal and interest (with overdue amounts identified) at the end of the six-month period, and disbursements, amortisation and interest payments and debt reorganisation carried out during the period, along with a schedule of future payments. Short-term credits are reported separately with a single entry for each borrower showing the total amount outstanding at the end of the period.[20/]

The DAC Reporting System is designed to measure flows from DAC members and deals only with annual resource flows. It contains detailed breakdowns of flows by sector of lender and borrower. Commitments, gross flows and net flows (disbursements less repayments) are reported. The main categories are:

official development assistance (ODA),
other official loans and grants,
official export credits,
private export credits,
private portfolio investment, and
foreign direct investment.

The OECD Secretariat also collects data or estimates in respect of loans to or by OPEC and Eastern European countries, inter-company lending and multilateral lending.

In the process of compiling estimates of debt the OECD makes various checks on and adjustments to its own raw data as well as drawing on external data sources. The first step in estimating debt data for each borrowing country is the integration of BIS data on banks' external assets and OECD data on

20/ Readers familiar with the previous report published by the IWGEDS. *External Debt: Definition, Statistical Coverage and Methodology*, should note that there have been several changes to the Creditor Reporting System since that report was published. Form 1DR which is used to notify commitments related to the reorganisation of debt, is new. Columns for debt reorganisation, undisbursed amounts outstanding, service payments received on time, and overdue amounts and unrecovered claims included in outstanding debt have been added to Form 3. Other changes to reporting forms have been made but do not affect the measurement of debt stocks and flows.

officially supported export credits. The results are published in the joint OECD-BIS semi-annual publication *Statistics on External Indebtedness* covering bank and export credit debt. There are two main estimating procedures at this stage. The first involves estimating outstanding export credit debt from the Creditor Reporting System data. On Form 3 outstanding amounts are reported according to each export credit agency's definition and accounting system. For example, some agencies include undisbursed credits or credit lines in outstanding amounts or include interest due in the future over the entire life of the credits. Estimates must be made to exclude these. The second involves the elimination of double-counting in the combination of OECD and BIS data. The financial credits reported to the OECD are known, by definition, to be held by banks as external assets since they are extended directly by banks to external entities. Some suppliers' credits reported to the OECD are also held by banks. In some countries these are viewed as domestic assets and are, therefore, not reported to the BIS. In other countries they are viewed as external assets.

These BIS and OECD data serve as a nucleus for more comprehensive external debt estimates including lending from other private and all official sources. In addition to further OECD data on ODA and other official flows the OECD incorporates Fund data on its own lending, data on outstanding international bonds from the BIS and data from the World Bank's Debtor Reporting System. The data from the Debtor Reporting System are used both to complement and to cross-check the data from the Creditor Reporting System. For example, they include lending by multilateral institutions and non-OECD creditor countries, private export credits which are not officially guaranteed in the lending country but are taken up by or guaranteed by the public sector of the borrowing country, and certain private sector borrowing that is not covered by guarantee in either the borrowing or lending country, none of which are covered by the Creditor Reporting System.

The World Bank system

The World Bank's Debtor Reporting System was set up in 1951 and is its principal means of monitoring long-term debt. The data in this system are derived from reports on the long-term external indebtedness of countries that borrow from the World Bank. There are currently 129 countries in this system.[21/] The Debtor Reporting System has evolved considerably over time, expanding the range of information required and the number of countries it covers.

The reporting countries prepare two kinds of reports: loan-by-loan data on long-term debt of the public sector and debts guaranteed by the public sector; and summary reports on long-term debt of the private sector that is not publicly guaranteed.

Within one month of the end of each calendar quarter, countries should in principle submit Forms 1 and 1A for new loans signed during that quarter. Form 1 asks for a range of data on new loan commitments which makes it possible to organise statistics in a variety of formats for analytical purposes. The Debtor Reporting System uses this information to set up a loan record. Within three months of the end of each year, countries should file Form 2, giving information on the status of each outstanding loan, including all transactions during the year.

21/ This number was reached in the 1993-94 edition of the *World Debt Tables*, primarily as a result of including the separate republics of the former Soviet Union.

In 1970, the Debtor Reporting System was extended to incorporate private, non-guaranteed long-term debt. More than half of the countries reporting through the Debtor Reporting System have either negligible amounts of private non-guaranteed debt or none at all. For the rest, data collection difficulties have resulted in incomplete reporting. World Bank staff use other information sources to generate the missing debt numbers for all countries that have a significant amount of private non-guaranteed debt.

As the example of private non-guaranteed debt indicates, considerable additional work is needed in order to arrive at reliable and comprehensive figures on total external debt. This work focuses primarily on improving the quality of the reported data and filling gaps in country coverage or content.

The World Bank has three main methods of improving the quality of reported data, which it often employs in combination. First, the Debtor Reporting System itself has an internal system of cross-checks, especially between the quarterly commitment reports and the annual transaction summaries, and across reports for successive periods. Secondly, the World Bank supplements reported data with its own information base on the loans it makes to member countries and data collected by staff during visits to individual countries. The third method is to draw on information collected by other organisations and cross-check it with the World Bank's own database. In some cases, the World Bank incorporates the outside information into the Debtor Reporting System. The format of the loan records at the Inter-American Development Bank and the Asian Development Bank is similar to that at the World Bank; this simplifies the transfer of information. The World Bank also uses data directly from the Fund to compile information on the use of Fund credit and loans. In other cases, an indirect transfer of data takes place. For example, the World Bank uses data from the OECD's Creditor Reporting System, which provides loan-by-loan reports on official lending which, in principle, mirror the Debtor Reporting System's reporting Forms 1 and 2. The World Bank also uses statistics from annual DAC reports.

The World Bank uses staff estimates to fill some of the gaps in the Debtor Reporting System's coverage of a given country's external debt position. In fact, the World Bank does this for all countries in the case of short-term debt (debt with an original maturity of one year or less), since the Debtor Reporting System reporting requirements cover long-term debt only. The preferred source of short-term data is the debtor country, and in many cases staff from the Fund and the World Bank are able to obtain the information from central bank data in the countries they visit. When direct debtor country information is not available, however, the World Bank assembles creditor source data which gives an order-of-magnitude indication of short-term debt outstanding. The most important source of this data is the BIS's semi-annual series showing the maturity distribution of commercial bank claims on developing countries. By deducting from claims due in a given year those that a year earlier had a maturity of between one and two years, it is possible to obtain an estimate of short-term liabilities by original maturity. Combining such estimates with data on claims under officially guaranteed short-term suppliers' credits, which the OECD compiles, gives a "lower bound" estimate of a country's short-term debt. The Debtor Reporting System may subsequently adjust its estimates in cases where additional information becomes available.

For private, non-guaranteed debt which is not reported to the World Bank by the reporting country, the standard estimation approach starts from a calculation of the outstanding debt stock, using available creditor source data. The World Bank supplements the figures it obtains from the Creditor Reporting System on guaranteed export credits with loan-by-loan information on official lending and private borrowers and information on non-insured commercial bank lending to the private sector. Balance of payments flow data provide useful guidelines in the process of building a time series. By these means, a picture of total external debt emerges for countries reporting under the Debtor Reporting System. This picture is comprehensive except to the extent that the coverage of the Debtor Reporting System differs from the core definition (see Chapter I). For developing countries outside the Debtor Reporting System reporting net, the World Bank relies on the information compiled by the OECD to support its estimate of the total debt of all developing countries published in the *World Debt Tables*.

The BIS system

International banking data on stocks. The Bank for International Settlements (BIS) administers two separate reporting systems for international banking activity and publishes various sets of statistics, one of which is issued jointly with the OECD. National banking authorities from 24 countries supply data that cover over 90% of the cross-border positions of their banking sectors. The basis of both reporting systems at the BIS is the balance sheets of the reporting banks. Assets and liabilities are recorded on a gross basis. In other words, assets and liabilities are shown separately and not set off one against the other. These stocks are essentially the net result of disbursements and repayments of loans and the making and withdrawing of deposits between two reporting dates. The BIS collects no specific information on debt flows, though the data on the currency composition of external assets and liabilities make it possible to compute figures showing changes in stocks adjusted for the fluctuation in exchange rates (see below).

Quarterly reporting system. The first and oldest reporting system is the quarterly reporting system. This system contains unconsolidated data on bank assets and liabilities according to the location of the banking office and according to the ownership or "nationality" of the bank. The concept of residence used in the data based on the location of the banking office is analogous to that employed in the balance of payments statistics. In 1986, the BIS initiated efforts to obtain information on bank holdings of long-term international securities, according to the issuer's country of residence. Although most countries now report these data, there are still gaps in coverage. Moreover, the definition of "securities" is not completely uniform. For example, the reported data include, in some cases, holdings of equity, while in other cases they exclude them.

The BIS uses the quarterly reporting system to prepare three separate sets of data. The first, which is based on a concept of residence similar to that used in the balance of payments, provides a detailed breakdown of external assets and liabilities by individual country, by currency and by sector. The second set of data, the nationality statistics, shows external positions according to the country of the parent bank by currency and sector, but without a country-by-country listing of assets and liabilities. In the third publication, issued jointly with the OECD, data on banks' claims are pooled with statistics on officially supported export credits to obtain stock and flow figures on countries' external debt.

Semi-annual system. The second reporting system is semi-annual and covers mainly the consolidated claims of banks. It also contains breakdowns by maturity and sector as well as information on unused credit commitments and facilities. Most of the data are from the consolidated accounts of banks with head offices in 17 industrial reporting countries, but the system supplements these data with unconsolidated data on the business of branches and affiliates in the BIS reporting area of banks which have head offices outside the reporting area. The data in this reporting system therefore deviate from the balance of payments concept of residence.

International Banking data on "flows". The BIS does not collect data on flows. It does, however, compute and publish figures for exchange rate adjusted changes in stocks. These changes reflect a wide variety of factors such as disbursements of new credits, repayments of loans, the build-up of arrears, the sales of claims, debt-for-equity swaps, other debt conversions, the exercise of guarantees granted by export credit insurance agencies, and write-offs. Whenever there is a change in concept or coverage leading to a break in series, the BIS collects two observations for the same date, one according to the old definition and coverage and another on the new basis. In this way, changes in reporting practices do not distort changes in stocks. Furthermore, the BIS encourages reporting institutions to report claims at their full value, without any allowance for provisions.

When computing changes in stocks, the BIS makes adjustments for movements in exchange rates between the currency of denomination of the claim and the US dollar, the unit which the BIS uses in its statistical systems. The exchange rate adjusted changes are computed in the following manner. Non dollar stocks outstanding at the end of a given quarter are converted into dollars using the exchange rate prevailing at the end of the subsequent quarter. The dollar amounts are then subtracted from stocks outstanding at the end of the subsequent quarter converted into dollars using the same end of quarter exchange rates.

Data on international securities. The BIS has developed an extensive database on bonds issued in the international bond market. The BIS database on international bonds consists of two separate but complementary blocks. The first or micro block includes the main characteristics of all individual international bonds issued to date. The second or macro block is derived by aggregating information contained in the first block on certain pre-selected criteria, such as the nationality and country of residence of the issuer, currency and type of issue and issuer. The BIS updates the data in both blocks every quarter, or more frequently in the case of revisions, to take account of new issues and repayments. The BIS has developed in-house programmes to read, modify and aggregate individual issues according to any of the various characteristics, and has set up standard routines to generate selected series for the macro block.

The micro block contains information on the main characteristics of all individual international bonds. It covers all foreign currency issues by residents and non-residents in a given country (Euro issues) as well as all domestic currency issues by non-residents in a given country (foreign issues), with the exception of bonds which are part of debt rescheduling packages. It excludes all domestic bonds, whether purchased by residents or non-residents, as well as ECU-denominated bonds issued by residents of a given country which, although not denominated in the currency of the borrower, are explicitly targeted for domestic investors. Data on ECU-denominated bonds are, however, stored in a separate database. At the end of 1993, there were 30,300 issues in the micro block, including those launched in the 1960s, each with full name identification. Of this total, more than 13,200 were still outstanding.

The macro block contains aggregate quarterly flow data on announced issues, completed issues, scheduled repayments, early repayments and net issues. In addition it contains data on net amounts outstanding at the end of the quarter. Series exist for various types of issue (fixed, floating or equity related), country of residence and nationality of issuer, currency of denomination, sector of the issuer and market type (Euro or foreign issues).

The BIS has a similar macro database for Euronote facilities. It contains information on new programmes announced and net issues completed during a given quarter and amounts outstanding at the end of that quarter. This database also has series on the type of issue (Euro-commercial paper, other short-term Euronotes and medium-term notes) currency of denomination, sector of the issuer and country of residence of the issuer.

The databases on international bonds and Euronotes will be increasingly useful as a check on the data covering securities issued and outstanding which form part of the debt stock statistics published by the OECD and the World Bank. The data on Euronotes will provide very useful information as developing countries draw more heavily on market sources for financing.

The Fund system

Strictly speaking, the Fund has no systematic procedure for collecting and publishing data on external debt as such. However, it collects a great deal of information that relates to external debt, and prepares several sets of statistics that contain elements of external debt. It also can help to fill in the gaps in other debt compilations. The Fund collects data through the work of its area departments and its Statistics Department. The area departments collect country-specific information for use in consultations and negotiations with member countries. The Statistics Department collects data for publication in several forms, in particular the Fund's compilation of national and global balance of payments accounts and statements of international investment positions.

The Fund collects, from each member country, detailed statements of external current and capital accounts, including detailed data on the capital flows relevant for measuring changes in external debt. Countries submit these data at least once a year; many report on a quarterly basis and some on a monthly basis. The Fund organises the data in two formats. The first, the "detailed presentation", shows data for all the available standard components of the balance of payments. The second format, the "aggregated presentation", organises the standard components into analytical groups, and identifies exceptional financing. The data are provided by debtor and creditor member countries, and other international organisations. To prepare global balance of payments statistics, the Fund makes estimates for missing or late reporters.

The Fund seldom makes estimates for specific country observations in the data that it publishes. Several estimating techniques are used, including extrapolation or carry-forward from the most recent observations and interpolation for periods between actual observations, as well as specific estimates by staff. These techniques generate estimates for countries which the Fund includes in published data on country groupings, but the Fund does not normally publish individual country estimates.

The only case in which the Fund does publish estimates for individual countries is when small components of a total are not available but past performance indicates that they are relatively stable. Such estimates are clearly marked in statistical publications. The principle underlying this policy is that users of data should have the most timely and accurate data available and can then make their own estimates of missing components or periods.

COMPARISONS OF DEBT DATA

The preceding section has highlighted a number of differences in the procedures used by members of the IWGEDS for compiling debt data; the differences in these procedures affect the reporting of both debt stocks and debt flows. With regard to the stock data, there are differences, inter alia, in definition, coverage, timing and treatment of arrears. These differences, taken together, can result in significant variations in the statement of debt outstanding for any given debtor. Also, when various sets of debt flow data are compared these differences become more pronounced, because other elements, such as differences in the timing of transactions or the treatment of refinancing, may create additional discrepancies. Moreover, whereas the Creditor Reporting System and the Debtor Reporting System focus on debt issues, the debt information in the balance of payments data is supplied by national compilers with a broader focus, using information sources that do not concentrate mainly on debt accounting. This difference in source materials is thought to be a major reason for data discrepancies. This section discusses several ways of reconciling the available data on debt stocks and flows.

Comparison of World Bank and OECD debt stocks

The Debtor Reporting System of the World Bank covers 129 countries. The OECD includes all these countries, except Portugal, in the 170 countries that it covers. The OECD and the World Bank have made a detailed comparison of debt stock data for 116 countries common to both the Creditor Reporting System and the Debtor Reporting System. The World Bank publishes the Debtor Reporting System data in the *World Debt Tables*; the OECD publishes its data in the *External Debt Statistics*.[22/]

The figures for the total outstanding debt of the 116 countries combined are in close agreement. In 1990, the total combined debt outstanding was US$1,346 billion in both the Creditor Reporting System and the Debtor Reporting System, and in 1991 the comparable figures diverged by less than 1% at US$1,407 billion for the OECD and US$1,418 billion for the World Bank. However, an examination of data on different types of lending and that on individual countries reveals considerably more variation. The Debtor Reporting System records about 25% less short-term debt than the Creditor Reporting System and slightly more long-term debt (5.7% in 1990 and 7.3% in 1991). This is partly due to debt classification. The OECD includes arrears of principal on long-term export credits in short-term debt, whereas the Debtor Reporting System maintains these arrears as part of the record on long-term debt.

22/ The OECD does not publish the data on a few small countries; these data are available on request.

The individual country comparisons are for 1990, a year for which data in both the Creditor Reporting System and the Debtor Reporting System are complete. For the most recent reported period, there are often major revisions in both systems, and the use of data for the current year tends to overstate the apparent discrepancies. Although the analysis gives the impression that the two data systems yield quite similar pictures of the overall debt situation, there are some sizable differences at the individual country level. However, these differences reflect a variety of special cases rather than a major systemic difference.

Stock and flow data in the Creditor and Debtor Reporting Systems

The main factors affecting the size of the aggregate debt of an individual country in the Creditor Reporting System and the Debtor Reporting System are:

Valuation of claims. The amounts of commercial lending (cross-border bank claims, bonds) are progressively adjusted to market value in creditors' reports, but are recorded at face value in debtors' reports.

Debt cancellation and rescheduling transactions. Creditors report these transactions when they actually take place, but debtors may report them when they make the rescheduling arrangements.

Claims that arise from the supply of military equipment and services. Creditors and debtors, reporting to the OECD and the World Bank respectively, do not always include these claims.

Interest arrears. Creditors often report interest arrears only when they are capitalised. Debtors report the cumulative stock of interest arrears at the end of the reporting period.

Claims denominated in the borrower's currency and held in the borrowing country. The OECD reports have hitherto excluded these claims but steps are being taken to remedy this omission. This change would have an impact on the amounts which the OECD shows for a number of Latin American countries, as well as for India and Pakistan.

Amounts channelled to the bank sectors of offshore centres. OECD reports assume that amounts channelled to the bank sector of offshore centres have been onlent to other countries. In the case of offshore financial centres that report to the BIS (Aruba, the Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Singapore and the branches of US banks in Panama), inclusion of the BIS data in the OECD record secures adequate coverage, and it is possible to compare the amounts concerned with the records of countries that report to the Debtor Reporting System. In the case of offshore financial centres that do not report to the BIS (Barbados, Bermuda, Lebanon, Liberia and Vanuatu) the onlent amounts, absent from the OECD data, are in principle present in the records of the Debtor Reporting System for the reporting countries concerned; however, the amounts onlent to borrowing countries that are not Debtor Reporter System reporters vanish from the record.

Recording of cancelled debt. Debt cancellation, in principle, removes the full amount of the debt from the data for the stock of debt. Creditors may, however, reduce the claims in their books progressively, as each due date is reached. Therefore, in the estimation of debt stocks using flow data there is a built-in upward bias in debt statistics due to the residue of cancelled debt which the creditor has not yet removed from his books.

At the end of 1990, 74 countries out of 116, accounting for 84% of the total debt, showed differences of less than 10% in the stock of debt recorded by the OECD and the World Bank respectively. For 41 of these countries, accounting for 45% of total debt, the difference was less than 5%. There are 33 countries with over US$10 billion in outstanding external debt, accounting for 84% of the total; the OECD and the World Bank figures for 27 of these countries diverge by less than 10% or are within 10% of each other. Of the remaining six countries the World Bank shows a higher number for four countries, and the OECD has the higher figure for the other two. The following table summarises the data comparison.

Table 2.1

Comparison of selected data in the Creditor Reporting System and the Debtor Reporting System at end-1990

	No. of countries	Total stock of debt (US$ billion)	Percentage of total debt stock (%)
DRS higher by 10% or more	11	96	7.1
DRS lower by 10% or more	31	115	8.6
Difference between 5% & 10%	33	528	39.2
Difference within 5%	41	608	45.1

Differences also result from certain types of country groupings:

Countries for which the Debtor Reporting System and OECD measures of debt stocks diverge by less than 10%. There are 74 countries in this category, accounting for 84% of the total debt stock. For several of them, although the total debt figures are relatively close, the breakdown between short-term and long-term debt is very different in the records of the OECD and the World Bank. This may have repercussions on flow data since, by definition, flows on long-term debt are disbursements less repayments of principal, whereas flows on short-term debt are often defined as changes in stocks. Furthermore, when an increase in principal arrears occurs, the Creditor Reporting System records it as an increase in short-term debt, offset by a negative long-term flow. In the Debtor Reporting System, no flow entry arises since the arrears remain recorded as long-term.

Countries for which the Debtor Reporting System's measure of debt stocks is more than 10% lower than the OECD measure. Although there are 31 countries in this group, they account for only 8.6% of the total debt outstanding according to OECD figures at end-1991. Many of these countries have relatively small amounts of external debt, so that large percentage differences between the OECD and the World Bank records translate into quite small absolute amounts. By far the largest debtor country in this group is Korea, which holds 40% of the total. The government of Korea does not accept responsibility for the outstanding obligations of Korean multinational companies operating abroad and the reports that Korea provides to the Debtor Reporting System therefore do not include this debt. By contrast, most creditors reporting to the Creditor Reporting System, but not those reporting to the BIS, treat loans to foreign subsidiaries of Korean firms as loans to the head office and, therefore, include them in their claims on Korea. Cyprus, Malta and Oman owe a further 10% of the debt in this country group. In these countries, it is the borrowing by the private sector in the international capital markets that causes the discrepancy between the records of the OECD and the World Bank. The Debtor Reporting System of the World Bank does not always cover non-guaranteed private sector borrowing completely. A third source of discrepancy is the difference in treatment, by the OECD and the World Bank, of debt which the former East Germany and the former Soviet Union extend to countries such as Ethiopia and Romania.

Countries for which the Debtor Reporting System's measure of debt stocks is more than 10% higher than the OECD measure. For both Peru and Venezuela, the claims reported by creditors to the OECD (and the BIS) have consistently been lower than the liabilities these countries have reported to the World Bank. It is believed that Venezuela's estimates of bank debt have regularly overlooked some anticipatory unofficial repayments by private borrowers. For Peru the amounts in the Creditor Reporting System for export credits have always been lower than the amount the country reports as received from the same creditors in the Debtor Reporting System. Also, Peru reports higher interest arrears in the Debtor Reporting System. The Creditor Reporting System, unlike the Debtor Reporting System, does not cover private loans between Latin American countries. For another country in this group, Sudan, there are large amounts of arrears, some of which do not appear in the Creditor Reporting System or in the BIS data, owing in part to debt write-offs and write-downs. Most of the countries in this group have had a history of payment problems and have experienced at least one rescheduling in the Paris Club forum. Such events inevitably result in discrepancies between creditor and debtor records, in large part because the creditors often write down the value of their claims.

A second type of reconciliation of debt stock and flow data takes place within each of the data systems that compile both types of data on external debt. The World Bank prepared a reconciliation for the 1990-91 period, and quantified the relationship between flows and changes in the stock of outstanding external debt over this period. The flow data in the Debtor Reporting System encompass both data relating to the capital account in the balance of payments and other adjustments that are to be excluded from the balance of payments statistics. Most of the data are taken from the 1992-93 edition of the *World Debt Tables* and the reconciliation covers a comparison of stocks and flows as they are defined and recorded in the Debtor Reporting System.

The increase in the stock of debt is the net result of the following factors: net long-term flows to developing countries; net flows of short-term debt; net use of Fund credit and loans; voluntary debt reduction operations, including debt buybacks, debt-for-bond swaps, debt-for-equity swaps and outright debt forgiveness; the capitalisation of interest through debt rescheduling; the accumulation or clearance of interest arrears; and valuation changes associated with the movement of the major currencies against the US dollar, the unit used by the World Bank to express data in all its publications. Table 2.2 shows the change in the stock of debt outstanding and the flow data, as well as other adjustments that account for the change in stocks. for the years 1990 and 1991.

Table 2.2

Reconciliation of DRS stocks and flows, total for 116 countries (US$ billions)

Stock data	1990	1991
Total debt outstanding	1345.7	1417.5
Change in debt outstanding	91.8	71.7
Reconciliation elements:		
Flow data, total	31.5	63.2
Long-term, net disbursement	40.0	40.6
Net short-term flow	7.4	17.5
Net use of Fund credit and loans	0.1	3.1
Debt reduction	-37.4	-9.7
Interest capitalisation	5.9	16.9
Arrears accumulation	15.5	-5.2
Other adjustments, total	60.3	8.5
Exchange rate change	59.0	8.4
Unexplained residual	1.3	.1
Total reconciliation factors	91.8	71.7

Net flows to developing countries

Gross flows form the basis of reports to the Debtor Reporting System on most long-term debt transactions, with separate recording of disbursements and principal and interest payments. Both the gross flows and the stock of debt outstanding appear on record at the individual loan level and are recorded in the currency in which the loan is to be repaid. There are two exceptions. One is private, non-guaranteed debt, which constituted approximately 6% of the total long-term debt outstanding at end-1991 for the 116 developing economies which the *World Debt Tables* cover. The other concerns multi-currency loans, such as those of the World Bank.

As in the case of public and publicly guaranteed debt, the basis for recording private, non-guaranteed debt is gross flows; however, these flows appear in aggregate, using the US dollar as the numeraire, rather than on a loan-by-loan basis. From the submissions by member countries, which include detailed information on rescheduled amounts, it is possible to infer the exchange rate adjustment, but not to verify it.

The following subsections discuss the accounting problems for loans extended in multiple currencies, particularly those of the multilateral institutions.

Use of Fund credit and loans

Data on the operations of the Fund come directly from the Fund's Treasurer's Department and are recorded on a gross basis with purchases and repurchases identified separately. The data provided are converted from special drawing rights (SDRs) into US dollars according to the method for currency conversion described below in the subsection on valuation changes.

Short-term debt

The Debtor Reporting System treats short-term debt and long-term debt differently. The World Bank regards the individual reporting country as the authoritative source of information on its external debt liabilities. But for short-term debt, defined as debt with an original maturity of one year or less, accurate information is not widely available from debtors. Where information from debtors is not available, the Debtor Reporting System uses data from creditors to indicate the magnitude of a country's short-term debt, in particular the BIS semi-annual series showing the maturity distribution of commercial bank claims on developing countries.

It is difficult to monitor short-term debt since the volume of individual transactions is large and loan-by-loan registration is normally impractical. Most reporting arrangements involve periodic returns to a country's central bank from its banking sector. Furthermore, the contracting and liquidating of individual short-term debts may take place within the period between reporting dates for the stock of debt. This means that for short-term transactions, it is difficult to interpret any figure purporting to measure gross flows derived from data on debt stocks.

Valuation changes

The debt data which the World Bank receives from its member countries are expressed in the currencies in which the debts are repayable or in which transactions took place. For aggregation, the World Bank converts these amounts into US dollars using, as appropriate, the market, principal or official rates published in the Fund's *International Financial Statistics*. Debt service payments and disbursements are converted into US dollars at the average rate for the year. Debt outstanding is converted at the rate in effect at the end of the year. The currency valuation problem takes on special importance at a time when the most widely used currency of measurement is fluctuating strongly against the others.

Loans repayable in multiple currencies present a particular problem. All World Bank loans are denominated in US dollars and the amortisation schedules are expressed in US dollars. Actual disbursements and repayments are made in any of the currencies available to the Bank, and the amount owed to the Bank corresponds to the currencies withdrawn or sold by the Bank to obtain the currencies disbursed. Exchange rate movements between the dates of disbursement and the dates of repayment result in a change in the US dollar value of debt owed to the World Bank. The consequent changes in stocks are significant. Between 1985 and 1991, the net flow of funds from the World Bank to the developing countries totalled US$29 billion. By contrast, the stock of outstanding debt to the World Bank rose by US$49.6 billion, from US$50.7 billion at end-1985 to US$100.3 billion at the end of 1991.

Most international organisations conduct multi-currency lending operations similar to those of the World Bank; these institutions report their claims at both face value and current market value to the Debtor Reporting System.

Arrears and interest capitalisation

The Debtor Reporting System collects information on arrears of both principal and interest. Principal in arrears is included in the stock of debt outstanding. Interest in arrears is recorded for each loan and included in the stock of short-term debt outstanding. If and when interest is capitalised under a debt reorganisation agreement, the amount of interest rescheduled is capitalised and added to the stock of long-term debt and the corresponding deduction made from the amount of short-term debt outstanding.

Debt restructurings

The Debtor Reporting System attempts to capture the effects of the different kinds of restructuring on both debt stocks and debt flows so as to accurately reflect the circumstances under which the restructuring takes place. In the compilation and presentation of data, the Debtor Reporting System makes a distinction between cash flows and imputed flows. Based on this criterion, rescheduled debt service and the shift in liabilities from one financial instrument to another that result from rescheduling are thus recorded as imputed flows. Chapter III gives examples of the treatment of debt restructuring in the Debtor Reporting System records.

The Debtor Reporting System records imputed flows separately and reflects changes in creditor and debtor status. For example, in the case of rescheduled insured commercial credits, the creditor classification shifts from private sources to official bilateral sources. This reflects the assumption of the assets by the official credit insurance agencies of the creditor countries. The debt owed to the original creditor is reduced by the amount of principal rescheduled, and an obligation to the official creditor insurance agency is created. This practice also extends to private, non-guaranteed debt which, as a result of rescheduling, is converted into public and publicly guaranteed debt owed to official creditors. On the debtor side, when a government accepts responsibility for the payment of rescheduled debt previously owed by private enterprises a change in the category of the debtor takes place and is recorded in the Debtor Reporting System. Similarly, when short-term debt is part of a restructuring agreement, the rescheduled amount shifts from short-term debt to long-term debt.

As noted earlier, the World Bank publishes detailed information on debt restructuring transactions in the *World Debt Tables*. These transactions capture the imputed flows associated with debt restructuring and debt reduction, including the forgiveness of debt.

The principal elements of debt restructuring are:

debt stock rescheduled, which is the amount of debt outstanding rescheduled in any given year;

principal rescheduled, or the amount of principal due or in arrears that was rescheduled in any given year;

principal forgiven, which is the amount of principal due or in arrears that was forgiven by the creditor in any given year;

interest rescheduled, which is the amount of interest due or in arrears that was rescheduled in any given year;

interest forgiven, which is the amount of interest due or in arrears that was forgiven by the creditor in any given year;

debt stock reductions, which represent of the amount by which the stock of debt has been reduced using debt conversion schemes such as debt buybacks and debt-for-equity swaps or the discounted value of long-term bonds that were issued in exchange for outstanding debt.

Conventions for recording transactions in debt restructuring

Rescheduling. Each rescheduling scheme consists of two distinct elements: the debt service payments rescheduled on each loan covered by the rescheduling agreement; and the new, consolidated rescheduling loan which results from the agreement, with new repayment terms. There are no cash flows associated with these transactions. For the loans rescheduled there is a reduction in the stock of outstanding debt equal to the amount of principal rescheduled, including any principal in arrears rescheduled. The new consolidated rescheduling loan is equal to the sum of principal and principal in arrears rescheduled plus the amount of interest capitalised. Debt rescheduling can also result in changes in creditor status. The new consolidated rescheduling loan for which the creditor is a bilateral agency, includes rescheduled debt owed to private creditors that had been insured by an official credit insurance agency. In the *World Debt Tables* the published lines "interest rescheduled" and "principal rescheduled" include rescheduled debt service payments on debt owed to private sources (the creditor of the original loan), whereas the new consolidated loan will be captured as part of the stock of debt owed to official, bilateral creditors.

Short-term debt. The consolidation of short-term into long-term debt in a debt reorganisation appears as a transfer from one type of liability to another. The increase in long-term debt balances the decrease in the stock of short-term debt.

Private non-guaranteed debt. A similar recording procedure to the above applies to that part of the private non-guaranteed debt that was included in a debt restructuring agreement.

Other changes

This is essentially a catch-all, "errors and omissions" category that covers all changes in stocks other than those mentioned above. These include: errors in reporting; understatement or overstatement of valuation changes, particularly for short-term debt and multi-currency loans; and insufficient information about the imputed flows associated with debt restructuring.

In theory, the sum of the rescheduled principal and interest for each of the original loans covered by the debt restructuring arrangement should equal the consolidated amount on record in the debt restructuring agreement. However, the rescheduling process itself often reveals gaps in the database; this is particularly true in the case of military debt, or understatement of interest and charges, especially late interest and penalties. As a result, the consolidated amount, or imputed inflow, resulting from the rescheduling is frequently larger than the rescheduled debt service payments. Table 2.2 above notes these inconsistencies as the Debtor Reporting System has identified them.

The conventions and reported data on rescheduling used in the Debtor Reporting System differ in several respects from the conventions and data in the balance of payments. The resulting differences in the measurement of debt-related flows are discussed below.

Balance of payments flows and stocks

Integration of balance of payments and international investment position data. In recent years, the development of national statements of the international investment position has received much attention. Such data can serve to verify and improve the quality of the flow data. Of course, a circular relationship develops if flows are used to build up accumulated stock figures, or stock data to derive flow data. However, a growing number of industrial countries now conduct independent surveys to establish the value of the outstanding stock of certain types of assets and liabilities at given reporting dates. There are indications that developing countries are doing more work to compile stock data.

The international investment position of a country is as comprehensive as possible, covering all the external assets, liabilities, equities and reserves of the private and official sectors. Attachment III of Chapter I provides a summary of the stock and reconciliation items covered by the international investment position. The breakdowns of assets and liabilities are the same as in the balance of payments statistics, according to both the fourth and fifth editions of the *Balance of Payments Manual*. As elsewhere in this report, the discussion here is implicitly based on the fourth edition of the *Balance of Payments Manual*, except where noted, because, at the time of writing, countries report data to the Fund in accordance with the fourth edition. The conversion of the database to accord with the fifth edition is expected to be carried out over a number of years, as was the case with earlier versions of the *Balance of Payments Manual*.

With the expansion in the external debt of developing countries in recent years, there is a widespread perception that data for both debt flows and debt stocks are necessary to monitor trends adequately. Moreover, some knowledge of the stock of financial liabilities (and assets) is helpful to understand the behaviour of many items in the balance of payments such as investment income flows, debt forgiveness and debt-for-equity swaps.

In the balance of payments system, as in the Creditor Reporting System and the Debtor Reporting System, a number of adjustments, or reconciliation items, are necessary to relate flow data to changes in the value of the outstanding stock of assets and liabilities. Of course, for present purposes the focus is on that part of the international investment position that relates to the external debt of developing countries. Furthermore, the following subsections will not elaborate on those elements affecting the balance of payments system which have already been dealt with in connection with the Creditor Reporting System and the Debtor Reporting System.

Valuation

The *Balance of Payments Manual* specifies the use of market values as the basis for the valuation of both flows and stocks. The value of flows or transactions is the actual price on which the transacting parties have agreed. The conversion of transactions denominated in foreign currencies into domestic or other currencies should be at the exchange rate prevailing at the transaction date or, where this is not available, the average rate for the shortest period available (week, month, quarter, etc.).

The value of stocks should be the current market value and exchange rates prevailing for the reference period, though debtor countries usually report stock data on the basis of the face value. The recording of international investment position stock data is usually undertaken at less frequent intervals than the recording of flows. In fact, it often takes place only at year-end or upon the completion of specified benchmark surveys. The valuations will frequently differ from those applicable at the time the underlying transactions occurred. Thus, the change in stocks between two periods will reflect price changes and exchange rate changes that are not recorded in the flows.

External debt purchased by residents

Among the cross-border transactions that have an impact on the level of stocks are buybacks of debt in the secondary market by the debtor (including bond issues held by the country's Treasury) and foreign debt purchases by other residents. The latter lowers the stock of external debt without reducing the level of debt shown in the books of the debtor country. Transactions should appear in the balance of payments at market values; therefore, if a country purchases the debt in the market at a discount from the face value, a reconciliation will be necessary since the international investment position will reflect a decline in debt equivalent to the full value.

Debt forgiveness

When a foreign creditor formally agrees, by contractual arrangement with the debtor, to forgive all or part of the debtor's obligations, the debtor records the forgiven amount as a credit transfer, with an offsetting debit entry in the capital account to show a reduction in liabilities. This results in the removal from the international investment position of the full value of the forgiven debt. It is important to note that debt forgiveness differs from unilateral action by a foreign creditor to write off all or part of a debtor's obligation because he believes that the debtor will ultimately not repay or because of regulatory accounting requirements. Since the write-off by the creditor does not extinguish the debtor's repayment obligations, no entries for it should appear in the debtor's balance of payments statistics.

Debt conversions

Debt conversion may involve the transformation of existing debt into equity, or into another form of debt such as bonds. In the balance of payments, such conversions should take place at market prices. Where the value of the debt instrument swapped for equity is at a discount from its face value, the international investment position will reflect the removal of the debt instrument's full value. The discrepancy between the change in debt stocks over the period, as shown in the international investment position, and the recorded transaction is referred to as a valuation adjustment. It should be identified as such in the international investment position statement.

Debt rescheduling

For the rescheduling of interest payments due in the current period a debit appears under the item "investment income", with a credit entry in the capital account to record the creation of a new debt obligation. The rescheduling of amortisation payments leads to a debit entry in the capital account to reflect the repayment of the existing obligation -- short-term if the repayment was in arrears -- and a credit entry recording the creation of a new obligation. The international investment position stock data will show, in the appropriate categories, the replacement of the rescheduled principal amount by the acquisition of new debt.

The accounting treatment will be similar for interest or principal that has fallen into arrears, except that the new debt incurred will, by definition, appear under "other short-term capital" in both the flow data and the international investment position. The rescheduling of arrears of interest or principal is recorded as a debit under "other short-term capital" flows and a credit under the appropriate long-term capital item. The international investment position will reflect this change in classification.

Problems in compiling the international investment position

Nearly all countries have in place a standardised system for the regular collection of balance of payments data, but relatively few countries have a comparably organised system for the collection of the data that enter into the international investment position. The following subsections outline several problems in the compilation of data for the international investment position.

Statistical authority. Most countries have laws or regulations that require the submission, to a central authority, of data on international current and capital transactions, sometimes as a formal exchange control requirement. Few countries have established such a strong legislative or regulatory basis for the collection of international investment position data, so that the compiler is often handicapped by a lack of authority to collect such data from the private sector, or even the public sector.

To a considerable extent, the data necessary for the international investment position require surveys of resident holders of each major type of external asset, as well as of residents with debt or equity held abroad. Many countries lack experience in conducting such surveys or establishing the necessary concepts and definitions.

Adequacy of source data. With the liberalisation of financial markets and the dismantling of controls in many countries, it has become more difficult for compilers to accurately identify all the domestic economic units that have stocks of cross-border assets and liabilities. For instance, in its research on international banking flows, the Working Party on the Measurement of International Capital Flows identified numerous countries -- both industrial and developing -- where the net capital flows derived from the BIS and Fund international banking statistics for the non-bank domestic sector were considerably larger than those that could be identified in the national balance of payments figures. Part of the problem is that the universe of domestic transactors may be large and compilers may not have sufficient information to identify all of the holders of debt stocks. This may be the case especially for short-term foreign liabilities and assets. Even in industrial countries that employ sophisticated compilation methods, there are glaring gaps in the coverage of short-term accounts (e.g. trade credit and short-term and derivative financial instruments). Indeed, components of "other short-term capital" often turn out to be a residual or balancing item in capital account compilations. This weakness enters into any estimation of stocks.

Compilers must at times rely on information gathered by other government departments or private agencies. This is commonly the case for information on the external debt of the official sector and for data on the external claims and liabilities of resident banks. Administrative records and information collected by regulatory bodies may also be useful sources of information but they seldom accord with balance of payments definitions.

Use of offshore financial centres

In recent years, a growing volume of international financial transactions has moved through offshore financial centres, including depositing and redepositing via banking entities in these centres.

In addition, special financing affiliates have emerged. These affiliates operate as channels for the financing of multinational corporations. The use of offshore centres causes several kinds of problem for both balance of payments flow and international investment position compilations. In the first place, these centres seldom compile adequate data on financial flows that merely pass through and have a negligible effect on the domestic economy. Such an information gap prevents an effective compilation of global capital flows and obscures the geographical allocation of such flows between the ultimate creditor and debtor countries. Moreover, a transformation takes place in the categories of capital flows. For example, a finance subsidiary established in such a centre by a multinational corporation may issue bonds in world financial markets and pass the proceeds to its parent company. In the absence of relevant data from the offshore centre, world capital flows (and corresponding data on world stocks) will show an increase in holdings of bonds in creditor countries balanced by a direct investment capital inflow to the country of residence of the parent company.

Financial innovations

Over the past several years there has been an upsurge in the creation of new types of financial instrument tailored to the special needs of market participants. In addition, regulatory and market pressures have induced a shift in banks' activities, causing them to reduce their lending operations and switch to business such as the arrangement or guaranteeing of credit and the conversion of loans to collateralised securities. These changes in market practices make it more difficult for balance of payments compilers to collect data on cross-border capital flows and stocks.

The term "derivatives" covers a wide variety of financial instruments linked to an underlying security or loan. Some derivatives, such as warrants, are marketable and are normally treated in standard accounting as on-balance-sheet. The status of these new instruments is evolving in terms of standard accounting practice. Furthermore, data on transactions in derivatives may not be available through the usual channels. They are often not appropriately identified in existing data collection systems, and practices, where they exist, differ among countries. Derivatives are not separately discussed in the fourth edition of the *Balance of Payments Manual* and they are not identified in the Fund's *Balance of Payments Statistics Yearbook*. However, the fifth edition of the *Balance of Payments Manual* addresses issues relating to the treatment of derivative financial instruments.

Similarly, as banks have reduced their role as direct lenders, direct lending by non-bank financial organisations or other entities has increased. As a result, data on direct lending that in the past were readily available from banking sources are becoming much more difficult to collect. Even when information is available, it is unlikely that there will be appropriate geographical allocation of the sources and uses of funds.

To date, these difficulties have applied mainly to flows and stocks among developed countries, but governments and enterprises in developing countries may be expected increasingly to take advantage of the flexibility and risk-reducing features of these newer instruments.

Establishing correct values

In principle, as noted above, all transactions and stocks involving external financial assets and liabilities should be measured at current market prices for the reference period. This is normally not a particular problem for transaction data, since the valuation is at the transaction price, but there are considerable problems in the valuation of stocks in the international investment position. Many practical difficulties arise in deriving market valuations for stocks, especially when the basis of the information from surveys or administrative records is the book value. In cases where compilers estimate market values, the level of detail available will, to a large extent, determine the quality of the data. For example, the valuation of debt securities with foreign currency denominations in organised markets should take account of exchange rates prevailing on the reference date and also of the appropriate market price indices for those instruments. Similar problems arise in the case of loans which are subject to heavy discounting in secondary markets. In conformity with the market value principle, such loans should be valued on the basis of secondary market quotations.

In fact, several types of valuation are used in the international investment position for stock data. Book or balance-sheet values apply to equity or debt in respect of foreign direct investment. Face values are the basis for an adjustment for securities market price indices in the case of portfolio investments[23/] as well as for other capital items[24/] unless they have been subject to secondary market transactions, thus establishing a market price. For reserve assets, current values apply because they are, in principle, easily transferable or marketable, with current prices available. Practice varies with regard to gold stocks, which may be valued at market price or at national values.

International investment position and debt stock data

The "core" definition of debt is consistent with the concept of external debt liabilities used in international investment position accounts. The liabilities side of the international investment position accounts covers a broad spectrum of instruments held by non-residents and includes, as a major component, the stock of outstanding external debt. As noted above, however, there are many differences in practice, such as variations in timing, conversion conventions, and coverage. In particular, there are differences in the basic source materials used by the various compiling organisations. The OECD and the World Bank use similar sources, which differ from those used by both the Fund and national balance of payments compilers. There are considerable advantages to be gained by reducing the differences between these two presentations of external debt, or carrying out regular consistency checks, although differences will persist in practice.

One difficulty that is likely to remain relates to the classification of transactors and types of instrument in the various data systems. For example, the categories of liabilities which the Fund has established for the balance of payments (Attachment I of Chapter I) do not identify separately those liabilities that represent ODA or that might be guaranteed in the creditor or debtor country by some official agency.

23/These include equity and debt securities, including financial derivatives.

24/ These consist mainly of loans, deposits, current accounts receivable and payable and the use of Fund credit and loans.

Comparison of data in the balance of payments and the Debtor Reporting System

Attempts have been made to reconcile the data in the World Bank's Debtor Reporting System with those in the Fund's balance of payments statistics. Such a reconciliation could help to verify the accuracy of both data sets and could assist in the analysis of the external resources available to developing countries.

The Fund's Working Party on the Measurement of International Capital Flows has attempted such a reconciliation with the assistance of Fund and World Bank staff. Despite considerable effort, discrepancies could not be fully explained. In part they result from conceptual differences, variations in categories and reliance on different source materials as noted above. In addition to specific differences, a basic conceptual difference is that the Debtor Reporting System is a foreign exchange liabilities system and records transactions on a payment-made rather than a payment-due basis. This approach recognises only those transactions that result in the transfer of cash. Balance of payments accounts, by contrast, are on an accrual basis and recognise all transactions that give rise to a change of ownership or obligation, regardless of whether a transfer of cash takes place. All these differences mean that the two forms of data can present a single event differently in terms of timing and value and may report it in different categories. However, very detailed inquiries at the country level can explain the differences, as is shown in the case study for Chile presented in Chapter III.

The Working Party on the Measurement of International Capital Flows was not able to make individual country comparisons of data in the Debtor Reporting System and the balance of payments at a sufficient level of detail to match the two sets of data. At a more aggregate level, Fund and World Bank staff regularly compare data on external financing of developing countries, inter alia in connection with statistics on such financing reported in the Fund's *World Economic Outlook*.

ANALYTICAL USE OF FLOW DATA

Data on debt flows, or resource transfers, are an essential element in determining the current international economic situation of indebted countries and in assessing their medium-term prospects. All international organisations concerned with the evolution of these countries base their appraisals, in part, on the relationship between the external debt burden and economic performance indicators, the prospects for exports and the commitment of external financial support. Creditor countries have similar concerns, and they need to coordinate and measure their individual and collective contributions to the economic progress of developing countries. Moreover, it is possible to integrate the debt flow data with economic transactions data and financial statistics within the framework of the System of National Accounts.

Each of the members of the IWGEDS approaches these analytical issues from the perspective of its own objectives and obligations, resulting in a variety of statistical practices and applications of the debt flow data. The following are brief descriptions of each organisation's objectives and how it uses the information that it collects.

OECD

The OECD's external debt reporting systems form part of a complex designed to monitor economic developments in general and to prepare analyses related to the specific interests of individual OECD committees. This analytical work covers such topics as the formulation of development cooperation policy, the analysis of resource flows and the relationships between trade, its financing and indebtedness with respect to individual countries or groups of countries. These groups of countries include, in addition to the developing countries, other non-OECD countries, in particular the CEEC and NIS countries. The OECD also examines trade policy, creditworthiness and risk analysis, competition, and developments in capital markets. Debt is a focus of concern not only as a constraint on economic growth and social progress in developing countries but also because of its implications for the functioning of the international financial system and the impact of debt-related phenomena on trade flows.

The part of the OECD Secretariat which is most active in the collection and publication of information on external debt is the Development Co-operation Directorate (DCD), but several other directorates also analyse pertinent segments of the database. The DCD's use of the debt statistics relates, first, to the economic situation of developing countries which are the principal recipients of the aid and other financial flows from the member countries of the Development Assistance Committee (DAC) and, secondly, to the CEEC and NIS countries, for which the Directorate acts as the compiler of data on debt and financial flows.

Other committees of the OECD are also closely concerned with the debt problem and participate actively in the OECD's work on the subject. These include Working Party No. 3 in the preparation of global balance of payments projections; the Trade Committee's Group on Export Credits and Export Credit Guarantees in carrying out studies concerning particular groups of countries; the Committee on Financial Markets in its work on international financial markets; and the Centre for Co-operation with Economies in Transition (the CCET), which covers both the CEECs and the newly independent states of the former Soviet Union.

The World Bank

The World Bank's interest in debt statistics is both analytical and operational. At the analytical level, debt is clearly of major concern to the Bank in its capacity as a leading international source of information and analysis on the economic situation of the developing countries. The World Bank is unique in receiving primary information on the long-term external debt of developing countries in the form of loan-by-loan data reported by its borrowing members.

The evolution of the World Bank's debt expertise stems from its operational needs. The Bank raises the bulk of the funds needed for its operations on world capital markets. Continued access to the capital markets depends, to a great extent, on the institution's ability to maintain its reputation as a reliable borrower. This in turn demands close monitoring not only of the individual projects it finances but also of the overall financial situation of each borrowing country.

The primary use of debt statistics within the World Bank is for the analysis of the debt servicing capacity of member countries in relation to its own lending activities. There is also extensive use of debt statistics in analysing the economic prospects, including external financing constraints, of the developing economies. World Bank staff prepare balance of payments projections under alternative assumptions about country performance, world economic prospects, financial market conditions and prospective terms on new borrowing. The World Bank publishes detailed data and survey, annually, in the *World Debt Tables*, and also uses these data in its *World Development Report*.

BIS

The prime objective of the BIS reporting systems is to gather information on international banking and financial market activity for its member central banks and the public in general. Obtaining information on individual countries' external indebtedness is only one purpose of these systems. They are also used to analyse the macroeconomic implications of international banking activity, to monitor the international interbank market, to analyse the role of different national banking systems, to keep track of ongoing changes in the structure of international financial markets and to meet the needs of the other central banks in the reporting countries relating to the workings of the international banking system. The only components of external debt covered by the BIS data relate to the claims of creditor banks and securities issued by debtors.

The BIS regularly publishes two creditor-based statistical series which contain information on the external debt of reporting countries: a quarterly series and a semi-annual series. The quarterly system involves reporting by the banks in individual reporting countries on their unconsolidated business with non-residents, including their own affiliates. In the semi-annual system, the reporting is partly on a worldwide, consolidated balance-sheet basis, netting out claims between different offices of the same bank, and partly on the same basis as in the quarterly reporting system. Central banks use the information on the external banking debt of reporting countries contained in the BIS statistics to monitor the international debt situation, both collectively (for example, in the Euro-currency Standing Committee) and individually. In addition, national compilers of balance of payments accounts use the BIS data to supplement data available from national sources, as the Fund's Working Party on the Measurement of International Capital Flows recommends.

The Fund

The Fund has, from its inception, collected a wide range of financial information. Its Articles of Agreement state that "*It shall act as a centre for the collection and exchange of information on monetary and financial problems.*" The heightened problems related to external debt that have developed in recent years, as well as the Fund's own role in the alleviation of these problems, have highlighted the need for additional, more detailed data concerning external debt.

The Fund uses the comprehensive statistics on external debt that it collects on a country-specific basis mainly for the purpose of consultation with members, without a formalised, integrated methodology or set of definitions specific to this activity. These data are not published. The Statistics Department of the Fund compiles and publishes balance of payments statistics which contain a comprehensive coverage of investment income and capital account transactions, including all debt-related flows, as well as operations in financial instruments which lie outside the core concept of debt.

In addition to capital flows, the Fund also collects and publishes stock data covering capital account categories for 34 countries. These sets of data do not provide comprehensive statistics on total external debt but they do identify many of its major components.

The analytical uses of the Fund's external debt data fall into three categories: analysis of economic developments in individual member countries; analysis of global economic developments relevant to Fund policies; and economic research in areas of interest to the institution. These uses are both internal, with a direct impact on the analysis underlying the Fund's policies, and external, through numerous publications and through collaboration with other organisations. In the country analysis by the Fund, data on external debt and debt-related flows, including debt service payments and financing transactions, are an important element in evaluating the country's external position. The Fund places emphasis both on analysing recent economic developments in a country and projecting the impact of current and alternative policies in the medium term. When countries have a financial programme with Fund support, their acquisition of new debt is of major concern to the Fund. The Fund's programmes therefore often contain quantitative targets or performance criteria in connection with the contracting of new external financing.

The Fund analyses and projects global economic and financing trends in the *World Economic Outlook*. The *World Economic Outlook* provides recent historical data and short and medium-term forecasts for global external debt with an allocation by regions and various analytical groupings of countries. For this purpose, the Fund uses debt data from a variety of sources and the resulting figures represent the Fund's best estimate of gross external debt.

Resource flows

Three members of the IWGEDS -- the World Bank, the OECD and the Fund -- produce an annual aggregated statement of resource flows, or external financing, to developing countries. Attachment I, Attachment II and Attachment III to this chapter give examples of these composite statements. There are considerable differences in the presentation of the data, stemming from the analytical orientation of each agency, but there is a common underlying set of country debt stock data, as well as common sources for some of the data, including the BIS banking statistics.

In the case of the World Bank (Attachment I), the data cover only long-term finance, but they are derived from a wide range of sources, as the footnote to the table indicates. The total given for aggregate net resource flows does not include technical cooperation grants or the use of Fund credit and loans. However, for recent years, these flows include estimates of external issues of equities. Thus, the World Bank's view of external resource flows has expanded somewhat, but remains focused, for the most part, on long-term credit and equity flows to developing countries, with a basic division between official and private sources of financing. The World Bank, in its presentation of aggregate resource flows, does not deduct interest and dividend payments to arrive at a "net transfer" concept.

The OECD (Attachment II) arrives at a total net resource flow that is quite comprehensive in measuring all types of official and private capital flows, including grants from OECD member countries to developing countries. The OECD totals are larger than the World Bank totals partly because of broader coverage, but this is only one of several factors, as noted below. The OECD presents export credit as a separate heading. The OECD tabulation also shows, as memorandum items, the net acquisition of external assets (except reserve assets) by developing countries and the amounts of interest and dividends paid. A similar presentation is used for a statement of resource flows to the CEEC and NIS countries.

The Fund's presentation of net external financing, as published in the World Economic Outlook, is closely linked to the framework of the balance of payments statistics. As shown in Attachment III, the data used by the Fund are mainly derived from developing countries' balance of payments statements. The item "net external financing" is made up of the current account balance plus changes in reserves, asset transactions and errors and omissions in the balance of payments accounts. The breakdown of external financing sources is less detailed than in the OECD or World Bank presentations, but there is a comparison of major financing categories at the country level with corresponding data compiled by the World Bank.

The apparently large differences between the published measures of resource flows have caused concern among users of the data. The staff of the Fund, the OECD and the World Bank collaborated in an analysis of these differences which they presented in the Fund's *World Economic Outlook* for May 1991. The statistical results of that investigation are shown in the table below (Table 2.3). The major sources of discrepancy identified were the following:

Geographical coverage. Each institution provides estimates for a different set of countries, and, depending on the source, treats certain countries as either donors or recipients. Countries which one source treats as donors may be included by other sources as recipients. The Fund's group of 130 countries includes estimates for a number of non-industrial countries that are net creditors to the rest of the world.

Information sources. The Fund and the World Bank obtain data from the recipient countries, while donor countries supply the data to the OECD.

Accounting for official and private transfers. Donor countries value grants at their cost to the source country, including administrative costs. Only OECD statistics include, fully, grants by non-governmental organisations and technical assistance grants. Many developing countries show only a fraction of grant value in their balance of payments and often omit technical assistance components or record them at a lower value.

Table 2.3

Reconciliation of OECD, World Bank and Fund estimates of the net flow of financial resources to developing countries, 1988-89
(US$ billion)

	1988			1989		
	OECD	World Bank	Fund	OECD	World Bank	Fund
A. Published aggregates	106.4	60.9	62.6	116.4	63.3	69.1
B. Geographically adjusted [1]	68.7	56.7	68.4	75.9	53.3	72.1
C. Other adjustments:						
1. Technical cooperation	-	8.4	..[2]	8.5	..[2]	-
2. Foreign direct investment [3]	7.0	-	-	2.8	-	-
3. Other private flows [4]	-	11.9	4.2	-	14.4	4.2
D. Total allowing for adjustments B and C	75.7	77.0	72.6	78.7	76.2	76.3

Sources: OECD, DAC Chairman's Report, Table 3-1; World Bank, *World Debt Tables 1990-91*, p.16; Statistical Appendix Table A40.

1. Adjusted for differences in geographical coverage from a larger number of countries OECD, 155; World Bank, 108; Fund, 130) to a common set of 105 net debtor developing countries.
2. Fund data for unrequited transfers distinguish between official and private grants, and in principle include technical cooperation; however, technical cooperation is not separated out from other grants and therefore an adjustment cannot be made. If technical assistance grants were fully captured in recipient country statistics, the Fund aggregate flow figures would be higher than shown.
3. OECD data cover foreign direct investment by DAC countries only, whereas the Fund and the World Bank include flows received by host countries from all sources.
4. For the Fund and the World Bank, includes grants by private non-governmental organisations; for the World Bank, securities and short term capital.

There are major differences between the three institutions in the way they measure and analyses resource flows. From the Fund's point of view, the starting-point is the contribution of external factors to bridging the gap between domestic savings in the borrowing countries and the need for domestic investment. This gap is evident in the current account balance. The means of financing this balance and the problems in obtaining such financing and meeting the obligations of debt service are naturally also a prime focus of Fund concerns. For the OECD and the World Bank, the measurement of external resources available to developing countries centres on the financing itself. They construct detailed information, as described above, on the debt flows entering these countries, together with grants, direct investment and some other factors. The OECD obtains much of this information from data supplied by creditor countries, whereas the World Bank receives comparable data from debtor countries.

The user of these data on debt flows, or the broader concept of resource flows, will need to determine which of the statistics available best suit his specific requirements. This is perhaps a lesser problem when the situation of a particular debtor country is under review, but the case studies in Chapter III show that there are many factors which cause discrepancies. At the aggregate level, the analyst would have to decide on the appropriate set of countries for inclusion in an aggregate grouping such as "developing countries". The OECD covers a comprehensive set of external financing sources, including grants. But analysts using a published table should take care to ascertain whether the data refer only to resources provided by DAC members, or to resource flows reaching the borrowing country from the OECD area[25] or from the category "all sources", which also includes non-OECD countries. The Fund and the World Bank measure the provision of external resources on the basis of the records of the debtor countries, and therefore implicitly include financing from all creditor countries.

The World Bank measures external resource flows in several formats. Usually, the content of "aggregate net resource flow" concerns only long-term borrowing, grants obtained or guaranteed by official agencies of debtor countries and foreign direct investment (FDI). However, the World Bank also uses a broader concept, sometimes including long-term private loans and portfolio equity investment.

In the case of the Fund's *World Economic Outlook*, the capital account of the balance of payments statistics of debtor countries shows the net inflow of all types of capital from external sources, and the measure of net external financing which appears in the Fund's *World Economic Outlook* includes official transfers.

The BIS banking data contain information on changes in banks' positions vis-à-vis debtor countries adjusted to exclude the valuation effects arising from movements in exchange rates. The data reflect primarily the positions of commercial banks reporting to the BIS vis-à-vis banks and non-banks located in debtor countries. The BIS also collects data on securities issued in international markets. However, the BIS does not attempt to measure external resource flows comprehensively.

25/These include flows from banks in offshore centres, most of which are branches of banks located inside the OECD area.

Chapter II
Attachment I

World Bank: Aggregate net long-term resource flows to developing countries, 1985-92
(US$ billion)

	1985	1986	1987	1988	1989	1990	1991	1992p
Aggregate net long-term resource flows	73.4	64.8	68.0	76.1	82.7	98.0	115.2	134.3
Official development finance	40.7	45.1	44.8	41.8	42.4	58.8	59.4	62.0
Official grants	16.1	16.7	17.5	19.1	19.9	28.2	31.3	31.1
Official loans (net)	24.6	28.4	27.2	22.7	22.5	30.6	28.2	30.9
Bilateral	11.8	13.3	12.7	11.6	10.7	15.8	13.8	13.4
Multilateral	12.8	15.0	14.5	11.1	11.8	14.8	14.4	17.5
Private loans (net)	21.8	9.8	9.5	14.5	13.5	11.4	14.2	25.9
Commercial banks	8.5	1.7	1.6	9.4	6.3	-4.1	3.9	--
Bonds	6.0	1.5	1.0	3.9	4.5	3.2	7.6	--
Suppliers	-0.2	0.8	0.3	-1.3	-1.1	2.1	-3.2	--
Others	7.5	5.8	6.6	2.6	3.8	10.3	6.0	--
Foreign direct investment	11.0	9.9	13.7	19.7	23.3	24.0	33.9	38.3
Portfolio equity investment (equity)	0.0	0.0	0.0	0.0	3.5	3.8	7.6	8.1
Memorandum item								
Private grants	2.9	3.3	4.0	4.2	4.0	4.9	5.2	5.5
Net use of Fund credit	-0.2	-2.9	-6.3	-5.5	-2.3	0.1	3.1	-0.2
Technical assistance grants	8.5	8.7	10.5	11.8	9.4	10.3	10.5	11.4
Real aggregate net resource flows (long-term)	96.5	84.1	83.1	87.8	92.7	102.3	115.9	134.3
Import unit value index	176.1	77.0	81.8	86.6	89.2	95.8	99.4	100.0

p. Projection.

Note and sources: For loans the source is the Debtor Reporting System; FDI data are derived from the Fund's balance of payments figures, and include reinvested profits. Portfolio equity investment data are World Bank staff estimates (available from 1989 onwards only), which are derived from reported market transactions and are often available only on a gross flow basis. Official and private grants are OECD data. Officially guaranteed export credits are included under private loans and direct export credits under official bilateral loans. Import unit value index from the Fund's *World Economic Outlook*: 1992 values are based on World Bank staff estimate.

Source: World Bank, *World Debt Tables 1992-93*, Vol. I

Chapter II
Attachment II

OECD: Total net resource flows to developing countries

(US$ billion)

	1983	1984	1985	1986	1987	1988	1989	1990	1991p
I. OFFICIAL DEVELOPMENT FINANCE (ODF)	42.3	47.4	48.6	56.4	61.6	65.4	63.7	80.1	79.0
1. Official development assistance (ODA)	33.7	34.7	37.0	44.5	48.4	51.5	51.4	63.0	62.0
of which:									
Bilateral disbursements	26.2	27.1	28.8	35.0	38.3	40.2	39.7	49.5	48.0
Multilateral disbursements	7.5	7.6	8.2	9.5	10.1	11.3	11.7	13.5	14.0
2.									
Other ODF	8.6	12.7	11.6	11.9	13.2	13.9	12.3	17.1	17.0
of which:									
Bilateral disbursements	1.4	4.5	3.7	4.1	6.5	7.4	5.4	6.9	7.0
Multilateral disbursements	7.2	8.2	7.9	7.8	6.7	6.5	6.9	10.2	10.0
II. TOTAL EXPORT CREDITS	4.6	6.3	4.6	-0.7	-1.6	-2.5	9.4	4.5	3.1
1. DAC countries	3.9	5.3	4.0	-0.9	-1.9	-2.5	9.5	4.4	3.0
of which: Short-term	-3.5	0.3	3.2	3.0	4.1	2.0	4.8	4.5	–
2. Other countries	0.7	1.0	0.6	0.2	0.3	x	-0.1	0.1	0.1
III. PRIVATE FLOWS	47.0	31.6	30.2	26.5	33.7	43.9	48.6	52.6	55.4
1. Direct investments (OECD)	9.3	11.2	6.5	11.2	20.7	24.7	29.3	26.9	28.4
of which:									
Offshore centres	3.7	3.8	3.7	6.2	12.6	11.4	8.0	7.0	7.0
2. International bank lending	35.0	17.2	15.2	7.0	7.0	7.8	10.5	15.0	7.0
of which: Short-term	-25.0	-6.0	12.0	-4.0	5.0	4.0	8.0	7.0	7.0
3. Total bond lending	1.1	0.3	4.4	1.2	-0.2	2.2	1.5	0.2	9.0
4. Other private	0.2	0.3	1.2	3.8	2.2	5.0	3.3	5.6	6.0
5. Grants by non-governmental organisations	2.3	2.6	2.9	3.3	4.0	4.2	4.0	4.9	5.0

Chapter II
Attachment II

OECD: Total net resource flows to developing countries **(continued)**

(US$ billion)

	1983	1984	1985	1986	1987	1988	1989	1990	1991p
TOTAL NET RESOURCE FLOWS (I+II+III)	94.8	85.3	83.4	82.2	93.7	106.8	121.7	137.2	137.5
Memorandum items									
Total net credits from Fund	12.4	5.3	0.5	-2.0	-4.9	-4.4	-2.1	-2.2	1.0
Acquisition of assets by LDCs, net	-8.3	-19.7	-8.7	-12.4	-8.7	-21.1	-18.9	-29.3	-30.2
Interest and dividends paid by LDCs, gross	-90.6	-89.5	-92.8	-80.3	-73.6	-93.4	-95.7	-93.3	-96.1
Total official grants	21.7	23.8	35.9	30.2	32.3	35.3	36.3	48.2	49.2

At 1990 prices and exchange rates

	1983	1984	1985	1986	1987	1988	1989	1990	1991p
Total net resource flows	158.3	144.8	139.4	111.4	110.8	118.0	135.6	137.2	133.0
Total official development finance	70.6	80.5	81.2	76.5	72.8	72.2	71.0	80.1	76.4
Total ODA receipts from all sources	56.3	58.9	61.8	60.3	57.2	56.9	57.3	63.0	60.0
Total DAC ODA (bilateral and multilateral)	46.1	48.7	49.3	49.7	49.4	53.2	52.7	56.7	57.8

p. Provisional

Source: OECD, *Financing and External Debt of Developing Countries*, 1991 Issue, 1992, p.28

Chapter II
Attachment III

Fund: External financing
(US$ billion)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Developing countries										
Balance on current account, excluding official transfers[1]	-42.5	-39.4	-61.9	-21.3	-39.1	-32.4	-25.1	-74.5	-65.9	-66.3
Change (increase = -) in reserves[2]	-10.8	-12.6	-7.3	-51.9	4.5	-23.0	-51.6	-55.2	-52.1	-41.2
Asset transactions and errors and omissions, net[3]	-7.5	-1.8	-8.7	2.5	-20.2	-9.9	-22.6	27.3	-16.9	-23.6
Total, net external financing[4]	60.7	53.8	77.9	70.6	54.7	65.3	99.3	102.5	134.9	131.1
Non-debt-creating flows, net	22.7	23.0	24.4	30.1	31.4	34.6	31.6	27.7	50.6	51.9
Official transfers	8.9	12.8	13.7	15.8	15.2	16.4	10.9	-3.7	14.1	13.4
Direct investment	13.8	10.2	10.6	14.3	16.3	18.2	20.7	31.4	36.5	38.4
Reserve-related liabilities[5]	3.7	0.8	-0.7	-4.0	-3.6	-1.0	-4.4	1.2	0.3	-0.5
of which:										
Net credit from Fund[6]	4.2	0.3	-2.2	-4.7	-4.1	-1.5	-1.9	1.1	–	–
Net external borrowing[7]	34.2	30.0	54.2	44.5	26.9	31.7	72.1	73.5	84.0	79.8

Source: International Monetary Fund, *World Economic Outlook*, October 1992.

[1] Official transfers are in this table as non-debt-creating financial flows.
[2] Positioned here to reflect the discretionary nature of many countries' reserve transactions (a need to increase the level of official reserves).
[3] Includes export credit, recorded changes in private foreign assets, the collateral for debt-reduction operations, and unrecorded capital transactions.
[4] Equals, with opposite sign, the sum of transactions listed above; it is the amount required to finance the deficit on goods, services, and private transfers, the increase in the official reserve level, the net asset transactions underlying the net errors and omissions. It reflects the net inflow of financial resources from the rest of the world.
[5] Comprises, in addition to net credit from IMF, short-term borrowing by monetary authorities from other monetary authorities.
[6] Includes use of IMF credit under the General Resources Account, Trust Fund, structural adjustment facility (SAF), and enhanced structural adjustment facility (ESAF).
[7] Residually derived. Includes disbursements of short- and long-term credits as well as exceptional financing from both official and private creditors.

CHAPTER III

CASE STUDIES OF RECONCILIATIONS AND EXAMPLES OF DEBT RESTRUCTURING

Case studies

Examination of case studies in debt data reconciliations using data for Bolivia and Chile. In the case of Bolivia, the focus is on the similarities and differences between the information which creditor countries report for Bolivia to the Creditor Reporting System and debt data which Bolivia reports to the Debtor Reporting System for the same creditors. In the case of Chile, the emphasis is on a comparison between entries in the balance of payments data and equivalent entries in the Debtor Reporting System and the records of the Central Bank of Chile.

Examples of debt restructuring

Illustration of the different accounting procedures used by members of the IWGEDS with respect to debt restructuring. The examples deal with: initial rescheduling of official debt; rescheduling with consolidation of arrears; rescheduling of previously rescheduled debt; refinancing of bank debt; debt/bond conversion; debt/equity swap; debt buyback; and debt forgiveness.

CHAPTER III

CASE STUDIES OF RECONCILIATIONS AND EXAMPLES OF DEBT RESTRUCTURING

The preceding chapters have addressed the problem of data reconciliation in general terms; the purpose of the case studies presented below is to show compilers and analysts of balance of payments data how reconciliations work in practice. Two case studies of attempts to reconcile debt data from different sets of statistics are discussed. The first compares, in detail, the debt data for Bolivia collected in the Creditor Reporting System with corresponding data in the Debtor Reporting System. The second study, concerning Chile, compares data from the Debtor Reporting System and the balance of payments accounts which that country has compiled. These case studies well illustrate the complexities involved in comparing different systems and the numerous elements entering into data reconciliation, as the previous chapters have indicated. Such a reconciliation usually requires access to data on individual credits or loans. In the absence of this level of detail, reconciliations between the various data systems are likely to be no more than approximations. This is especially true in the case of data derived from balance of payments statistics, for which neither the national compilers nor the Statistics Department of the Fund may have sufficient disaggregation of debt information. In the case of the BIS banking data, only certain aggregates of reporting banks' cross-border assets and liabilities are available, permitting some comparisons with national data. However, the possibility of verifying the accuracy of the data by reference to particular credits and loans is limited.

Following these two case studies of data reconciliation, the chapter goes on to show how data analysts handle some of the accounting problems connected with various types of debt renegotiation, or restructuring, with examples of their treatment in the balance of payments accounts and in the Debtor Reporting System. The accounting treatment in the Creditor Reporting System is in most cases the same as that in the Debtor Reporting System.

CASE STUDIES

1. BOLIVIA

Overview

Bolivian debt history has much in common with that of other Latin American countries and the data provide a good illustration of the similarities and differences between the Creditor Reporting System and the Debtor Reporting System. In this case study the bilateral claims of creditor countries which report data to the OECD's Creditor Reporting System and to the BIS are compared with the data which the Bolivian authorities report to the World Bank's Debtor Reporting System for the same creditors. The debt involved amounts to about 40% of Bolivia's total outstanding debt.

For the purpose of this comparison, data from the Debtor Reporting System were classified into the standard categories used in OECD publications.

Debt stocks. Tables Table 3.1 and Table 3.2 compare data reported by creditors in the Creditor Reporting System with the corresponding data in the Debtor Reporting System. As these tables indicate, the aggregate debt stock figure in the Debtor Reporting System is 7% higher in 1990 and 14% higher in 1991 than the comparable OECD aggregate. Detailed examination discloses divergences that reflect systemic characteristics of the two reporting systems.

ODA. Total ODA debt stock figures in the Creditor Reporting System and the Debtor Reporting System are very similar. Minor differences for individual creditors are essentially due to differences in definition. In the Debtor Reporting System, all loans with a grant element of 25% or more appear as ODA. In the Creditor Reporting System, there is the double condition that not only must the grant element be 25% or more, but the donor must declare the transaction as ODA, designating it for use primarily for developmental purposes.

Non-ODA debt. Table 3.3 summarises the data on non-ODA debt. The considerably greater estimate of total non-ODA debt in the Debtor Reporting System is almost entirely due to bank debt which the OECD's reporting system has not allocated to one of the major creditor countries. Leaving aside this category, the claims of each creditor country in the two systems are extremely close in 1990 (within 1%) and are still within 10% in 1991. However, there are major differences in the classification of official and private lending. The Creditor Reporting System shows private creditors holding much higher amounts and, correspondingly, the debt reported as owed to official creditors is much lower.

Table 3.1
Bolivia

Comparison of debt stocks for end-1990

(US$ million)

COUNTRY	ODA CRS	ODA DRS	OOF[1] CRS	OOF[1] DRS	PRIVATE CRS	PRIVATE DRS	TOTAL CRS	TOTAL DRS
Austria	-	1	-	71	68	1	68	73
Belgium	14	14	138	130	3	13	155	157
Canada	1	1	-	-	44	-	45	1
Denmark	24	22	-	3	-	-	24	25
France	8	10	0	69	45	3	53	82
Germany	207	199	41	57	12	8	261	263
Italy	55	19	-	-	8	1	64	19
Japan	331	326	4	33	5	11	340	370
Luxembourg	-	-	-	-	19	1	19	-
Netherlands	-	-	70	62	11	-	81	62
Portugal	-	-	-	-	-	1	-	1
Spain	-	5	-	1	0	-	0	7
Switzerland	-	6	-	33	12	0	12	39
United Kingdom	0	9	-	64	50	1	50	74
United States	387	373	41	51	61	20	489	444
International capital markets	-	-	-	-	41	209	41	209
TOTAL	**1028**	**984**	**294**	**573**	**389**	**270**	**1711**	**1827**

[1] Including direct official export credits.

Table 3.2
Bolivia

Comparison of debt stocks for end-1991
(US$ million)

	ODA		OOF[1]		PRIVATE		TOTAL	
COUNTRY	**CRS**	**DRS**	**CRS**	**DRS**	**CRS**	**DRS**	**CRS**	**DRS**
Austria	-	1	-	76	71	1	71	78
Belgium	14	13	112	146	3	5	129	165
Canada	1	1	-	-	44	-	45	1
Denmark	16	20	-	3	-	-	16	23
France	14	12	0	71	43	2	57	86
Germany	255	248	51	59	14	9	320	315
Italy	35	32	-	-	8	0	43	33
Japan	361	372	7	34	-	7	368	413
Luxembourg	-	-	-	-	5	-	5	-
Netherlands	-	-	74	61	12	5	86	67
Portugal	-	-	-	-	-	1	-	1
Spain	-	5	-	2	1	-	1	7
Sweden	-	-	-	-	9	-	9	-
Switzerland	-	[illegible]	-	29	2	-	2	40
United Kingdom	0	8	-	71	48	1	49	80
United States	38	8	48	54	58	28	144	90
International capital markets	-	-	-	-	53	200	53	200
TOTAL	**735**	**732**	**292**	**606**	**372**	**259**	**1398**	**1597**

[1] Including direct official export credits.

Table 3.3

Total non-ODA debt of Bolivia
(US$ million)

	1990		1991	
	CRS	DRS	CRS	DRS
Total non-ODA debt	682	842	663	864
of which:				
1. International capital markets	41	209	53	200
2. Owed to other private creditors	347	59	318	58
3. Owed to official creditors	294	574	292	606
Owed to official and other private creditors (2 + 3)	641	633	610	664

Sources: Creditor Reporting System (CRS); and Debtor Reporting System (DRS).

Part of the discrepancy arises from differences in the definitions of debt categories. In the Creditor Reporting System, claims are recorded as "private" if they are held by the private sector, regardless of whether they are guaranteed by the official sector. The term "official" comprises the government and ancillary state bodies in the creditor country. By contrast, the Debtor Reporting System classifies the government sector in borrowing countries as "public", and debts which are neither owed nor guaranteed by the government as "private." Accordingly, some amounts owed to an official sector lender in the creditor country appear as "private" in reports to the Debtor Reporting System and "official" in reports to the Creditor Reporting System. Conversely, some amounts classified as "public" represent debt to a private lender in the creditor country. Further classification differences may arise from a misallocation of the data, in the Debtor Reporting System, between the OECD categories "official" and "private" because the borrowers do not always know to which sector the lender belongs.

The measures that Bolivia and its creditors have taken to resolve the country's debt plight help account for the discrepancy. Among these measures are two Paris Club reschedulings, during the period 1988-90. The World Bank classifies the rescheduling of debt which takes place in an international forum such as the Paris Club as "official" and the debtor country uses the same classification. This is also true of creditor reporting when the official sector refinances private claims, but the adjustments from the "private" category to the "official" category take place only after the signing of the related bilateral implementing agreements. As a result, to some extent, the Creditor Reporting System and the Debtor Reporting System records are out of phase. An additional, complicating factor is that rephased claims (as distinct from those refinanced) remain on the books of the export credit guarantee agency and therefore continue to be classified as private sector claims in creditor statistics. Countries which have not participated in Paris Club reschedulings do not show the same magnitude of differences as Bolivia between the share of the private and the official sectors in the Creditor Reporting System data and the comparable categories in the Debtor Reporting System.

International banking data

The difference between the data on debt to international capital markets in the two systems is of the order of US $150 million, with the Debtor Reporting System reporting the higher figure. This may seem surprising at first sight, since the BIS data, from which the OECD derives its figures, include short-term debt, which the Debtor Reporting System excludes in its figures for debt to international capital markets. There are two main reasons for the discrepancy. First, for the OECD, it is possible to attribute a higher proportion of commercial bank loans directly to the country of the lender and a significant part of bank loans are thus included in the private lending figures for each country. The Debtor Reporting System, however, relies on Bolivia's reporting system, which treats bank loans, especially those that are syndicated, simply as amounts the country owes, to banks, without specifically designating the country of the lender. Secondly, Bolivia reports its loans at face value, while this is not always the practice followed by banks. Bolivia's loans are traded in the secondary markets, often at a substantial discount. When claims change hands, the buyer records them at the purchase price, while the previous creditor removes the total amount that originally appeared in its balance sheet. In addition, Bolivia sells some claims to non-reporters.

A second factor which leads to higher figures being recorded in the Debtor Reporting System then in the Creditor Reporting System is that the Debtor Reporting System's category "international capital markets" may include some amounts for countries or centres that do not report to the BIS systems.[26/]

26/ Although loans from banks in other Latin American countries are reported in the Debtor Reporting System, but not to the OECD, they are excluded from this comparison and so do not explain of the difference in the OECD and Debtor Reporting System valuations of the stock of bank claims.

Debt Flows

The debt flow data for 1991 in the Creditor Reporting System and the Debtor Reporting System are reasonably consistent in the case of ODA loans, but exhibit little if any concordance for the other categories reviewed (see Table 3.4).

Table 3.4

Debt flows to Bolivia in 1991
(US$ million)

	CRS	DRS
ODA	55	68
Other official	50	1
Private	-33	10
Total:	**72**	**79**

Sources: Creditor Reporting System (CRS) and; Debtor Reporting System (DRS).

The OECD figure for banking flows is calculated as the exchange rate adjusted change in reported banking claims, not as a directly measured flow. Accordingly, the difference between the two sets of figures reflects, in large part, banks' write-downs of their claims on Bolivia or their sales of claims at below cost to other reporters (or non-reporters), which imply a flow entry where no flow has taken place, i.e. the OECD data being more akin to a debt stock/debt flow reconciliation entry than to usual flow data. Compilers of the reports to the Debtor Reporting System will typically record actual new borrowing less repayments at their face value. The result of the OECD treatment is that for banks, creditor-reported debt stocks are lower than the debtor evaluation, and this extends into a comparison of the corresponding debt flows. Inasmuch as "private" bilateral claims also include the claims of the banks resident in each creditor country listed, the same explanation accounts for much of the large differences between the OECD and Debtor Reporting System data for the private sector claims of individual countries.

The OECD also makes aggregate estimates of flows from the banking sector of each DAC member country adjusted for changes in exchange rates. When the adjusted change-in-stocks figure was replaced by the flow estimate, the differences at the country level were markedly reduced. The individual country flow figures do not appear here, in part because they are less reliable and in part because they would give a deceptive impression of comprehensive coverage, since there are no creditor source flow data for banks resident in countries outside the DAC reporting area, which the Debtor Reporting System includes in its reporting.

There are also other differences. For example, Belgium and Germany report new flows of other official financing of US$30 million and US$13 million respectively, whereas the corresponding Debtor Reporting System figures are zero in both cases (see Table 3.5). Discrepancies of this kind often appear in debt statistics, regardless of the reporting debtor and creditor countries concerned. The World Bank and OECD examine these discrepancies in the course of their country visits. In some cases, discrepancies may result from the involvement of intermediaries in third countries. In other cases the cause may be the timing of entries; for example, a disbursement which a creditor records in December may appear as a January receipt in the debtor's records. In general, these examinations of discrepancies improve reporting over time, as they identify previously unidentified debtors, creditors and sources of information. But it is a slow process, and there will always be a residual of discrepancies. Therefore, continued efforts will be necessary to maintain a reasonable comparability of the World Bank and OECD data sets.

Internal consistency of the Creditor Reporting System and the Debtor Reporting System

A comparison of the data on debt stocks in Table 3.1 and Table 3.2 with the flow data for 1991 in Table 3.4 and Table 3.5 indicates a significant discrepancy. The OECD data show a change in ODA debt of US$293 million, compared with a flow of ODA amounting to US$55 million. For the Debtor Reporting System, the corresponding figures are US$252 million and US$68 million. Since, in principle, it is possible to reconcile the change in debt stocks with the net flow on debt account, there are clearly some large non-flow elements in these figures.

For claims in currencies other than the US dollar, debt stocks at end-1990 are calculated using the exchange rates prevailing at the end of that year; similarly, the figures for 1991 reflect year end-1991 exchange rates. Simple differencing therefore builds in an exchange rate effect that is all the more sizable the greater the change in exchange rates between the two dates. Compounding the complexity, the flow data are converted into dollars at the average exchange rate for the year. Moreover, debt cancellations or other changes in reported values reduce debt stocks, but with no equivalent flow. Thus, users of the data on debt stocks should be wary of attempting to infer flow data from the stock data.

Table 3.5
Bolivia

Comparison of debt flows[1/] in 1991
(US$ million)

	ODA		OOF[2/]		PRIVATE		TOTAL	
COUNTRY	CRS	DRS	CRS	DRS	CRS	DRS	CRS	DRS
Austria	-	-	-	-	-8	-	-8	-
Belgium	-	-	30	-	-7	-2	23	-2
Canada	0	0	-	-	-	-	0	0
Denmark	0	-	0	-	-	-	0	-
France	5	2	-	-	-7	1	-1	3
Germany	46	46	13	-	5	1	64	47
Italy	11	13	-	-	-	0	11	13
Japan	7	7	-	-	-1	-2	6	5
Luxembourg	-	-	-	-	-14	-	-14	-
Netherlands	-	-	5	-	1	5	6	2
Spain	1	0	-	1	1	-	2	0
Switzerland	-	-	-	-	-10	-	-10	-
United Kingdom	1	0	-	-	-4	-	-3	0
United States	-17	0	2	0	-2	6	-17	6
International capital markets	-	-	-	-	12	-	12	-
TOTAL	55	68	50	1	-33	10	72	78

1/Some private flows are stock changes adjusted for exchange rate variations.

2/ Including direct official export credits.

2. CHILE

Overview

A second case study, concerning Chile, covers another aspect of the data reconciliation problem. In this case, the emphasis is on defining the appropriate balance of payments entries for a wide range of activities affecting Chilean external debt, and then comparing the resulting balance of payments entries with the equivalent entries in the Debtor Reporting System and in the records of the Central Bank of Chile. The results, presented in Table 3.6, Table 3.7 and Table 3.8. demonstrate that, when sufficient detailed data are available, it is possible to reconcile the information on disbursements and repayments contained in the two systems.

Balance of payments statistics

The Research Department of the Central Bank of Chile compiles the balance of payments statistics for Chile. The main data sources for the capital account are, first, the Central Bank of Chile's information system for external debt and other internal information systems and, secondly, information supplied by the banking system and the Committee of Foreign Investment. The Central Bank of Chile publishes aggregated presentations of the balance of payments showing preliminary quarterly and annual estimates in the *Monthly Bulletin* and in the *Economic and Financial Report*, with a lag of two months. In addition, it publishes detailed final quarterly and annual estimates in the *Balance of Payments of Chile*. A few entries in the final version differ from those in the preliminary versions, for example entries for debt conversions.

The Research Department of the Central Bank of Chile reports annual balance of payments data to the Fund's Statistics Department. There are negligible differences between the format of the balance of payments data published by the Central Bank of Chile and the data it reports to the Fund. These include differences in the coverage of reserves, and in the explicit identification of portfolio investment that is included in data which Chile reports to the Fund but which is not in the national publications. In addition, the reserves data published by the Central Bank of Chile include net changes in the balances on bilateral payments agreements, whereas in the data reported to the Fund, only changes in asset balances of bilateral payments agreements are classified as reserves; changes in liabilities are recorded under short-term capital.

Differences between balance of payments and external debt data

Although the external debt information compiled by the Central Bank of Chile is one of the main sources for balance of payments data, there are some differences in classification and coverage between the two sets of data. These differences are outlined below.

Differences in classification. In the balance of payments data, debt of the domestic private sector benefiting from a guarantee of the government of Chile is recorded under the banking sector or under the private sector. The external debt of the State Bank is recorded under the banking sector. By contrast, in the external debt data, both private debt guaranteed by the government and direct borrowing by the Central Bank of Chile are classified as public sector debt.

Differences in coverage. The balance of payments data include the following categories of debt that are not included in the external debt data: external debt denominated in pesos; for short-term debt, some trade-related liabilities, such as accounts receivable and export prepayments; for the banking sector, data on overdrafts, other short-term borrowing from banks abroad and deposits of non-residents with domestic banks; and for 1986 and 1987, the onlending and re-lending operations that were part of the 1985-87 rescheduling agreement with foreign commercial banks.

The balance of payments explicitly includes debt conversion and debt rescheduling. However, these items are excluded from the flow data that appear in the external debt statistics. Debt conversions regulated by Chapter XVIII of the Foreign Exchange Law only appear in the final version of the balance of payments.

Debt rescheduling and conversions in the data published by the Central Bank of Chile

Debt rescheduling. Chile signed four debt rescheduling agreements with foreign commercial banks and official creditors during the 1985-90 period: the Restructuring Agreement for 1985-87; the Paris Club Agreement for 1985-86; the Paris Club Agreement for 1987-88; and the Restructuring Agreement for 1988-91. However, published balance of payments estimates fully cover only the two first rescheduling agreements; the final version of the accounts will include the two later agreements. In the case of the Restructuring Agreement for 1988-91, the balance of payments estimates include only the retiming of interest, that is, the provision whereby for a specified period interest payments were made on an annual rather than a semi-annual basis.

Restructuring agreement for 1985-87 with foreign banks. This agreement rescheduled, for both the public and private sectors, maturities of external debt to foreign banks that fell due during 1985-87. The agreement also included authorisation for onlending and re-lending operations. Credit and debit entries in the long-term capital account reflect this renegotiation in the accounting period in which the principal fell due in accordance with the standard balance of payments methodology. This renegotiation agreement also allowed the Central Bank of Chile to lend funds to the private sector from a new money facility provided by foreign banks (onlending) and from deposits held by the private sector at the Central Bank of Chile for external debt repayment (re-lending). These operations were recorded in the balance of payments as a loan repayment by the Central Bank of Chile and a drawing by the private sector.

Paris Club renegotiation, 1985-86. This agreement had some features which required special entries in the balance of payments. During the renegotiation process, the Central Bank of Chile received deposits from domestic debtors equivalent to the debt service due to official creditors in 1985. In turn, at the beginning of 1986, the Central Bank paid debt service due and not rescheduled in 1985.

The rescheduling of maturities due was reflected in two entries in the balance of payments for the accounting period in which the original obligation fell due: a debit entry in long-term capital, under the sector of the original debtor; and a credit entry in long-term capital, under the sector that took over the obligation. For the maturities due but not rescheduled in 1985, the balance of payments recording was as follows: a debit entry in long-term capital, under the sector of the original debtor, and a credit entry in short-term capital, for the new obligation created (as deferred amortisation). In 1986, a debit entry appeared under short-term capital, with an offsetting credit entry under reserves.

Debt conversions. Several types of debt conversion occurred during the 1985-90 period. All appear under the heading "extraordinary repayments" in Table 3.7 as well as in the Central Bank of Chile's balance of payments publications.

Chapter XIX of the Foreign Exchange Law. This chapter of the country's Foreign Exchange Law regulates the use of foreign debt instruments by non-residents for direct investment purposes in Chile and establishes special remittance rights. After approval by the Central Bank of Chile, non-residents may exchange foreign debt instruments for domestic securities, which in turn are sold and the proceeds used for direct investment purposes.

These operations appear in the balance of payments as a debit entry in "other long-term capital", under "external debt reductions", and as a credit entry under direct investment. The preliminary and final versions of the balance of payments recorded the operations differently. The preliminary version assigned the nominal value of the debt instruments and the final version recorded them at the value of the domestic currency assets exchanged. However, in both versions, the timing of the recording was when the exchange of external debt instruments into domestic currency assets took place.

Portfolio swaps. Through these operations, Chilean banks and foreign banks exchanged title to external debt, trading loans extended to non-residents for loans received by residents and converting foreign debt into domestic debt in the process. The balance of payments entries were as follows: a debit entry in "other long-term capital", under "external debt reduction", and an offsetting credit entry, under short or long-term foreign assets of commercial banks, for the nominal value of the debt exchanged.

Special arrangement for fruit exporters. In 1989 there was a temporary closing of the international markets for exports of fruit from Chile. As part of a global programme to support exporters of fruit, the Central Bank of Chile authorised, for a limited period, the return of export proceeds in the form of repurchased Chilean external debt, so that exporters could benefit from the discount at which Chilean external debt was traded in the secondary markets. The balance of payments entries reflected the fact that for certain exports the counter-entry was a lower level of foreign liabilities rather than an increase in foreign assets. Therefore, in those cases, the counter-entry was allocated to "other long-term capital", under "external debt reduction", for the discounted value of the external debt exchanged.

Debt conversion under Decree Law 600. This decree law is another mechanism used for debt conversion that predates Chapter XIX. The government enacted this decree primarily to regulate long-term foreign investment. One of its sections allows the conversion of debt into equity, provided that the firm that is being capitalised contracted the external debt originally. The balance of payments entries were a debit entry in "other long-term capital", under "credit repayment", and a credit entry under "direct investment", equal to the nominal value of the debt capitalised.

Chapter XVIII of the Foreign Exchange Law. This chapter of the Foreign Exchange Law regulates the conversion of external debt into domestic currency assets. This mechanism is used by residents and does not provide remittance rights. The balance of payments entries were a debit entry in "other long-term capital", under "external debt reduction", and a credit entry under "other assets and liabilities". In the final version of the balance of payments only, these operations are recorded at the price at which the external debt title was acquired in the secondary markets.

Other transactions. This category includes primarily direct buybacks of private enterprises' external debt not subject to conversion by the mechanisms of Chapters XIX and XVIII. These operations were recorded in the balance of payments in a similar manner to those under Chapter XVIII: as a debit under "other debt reductions" and as a credit under "other assets and liabilities" of the private sector. In both cases, they were valued at the discounted value of the external debt, or the value at which the external debt instruments were acquired abroad.

Data comparisons

Table 3.6, Table 3.7 and Table 3.8 show global comparisons of long-term flows (drawings, repayments and net flows) as they appear in the Fund's *Balance of Payments Statistics Yearbook*, the World Bank's *World Debt Tables* and the Central Bank of Chile's *External Debt of Chile.*

Because balance of payments flows are recorded on a due-for-payment basis and external debt flows (*World Debt Tables* and *External Debt of Chile*) on a cash basis, comparisons without appropriate adjustments can give a misleading picture of actual discrepancies. For that reason, it was necessary to adjust flows in the *Balance of Payments Statistics Yearbook* to eliminate entries for debt rescheduling and repayments related to debt conversions. The latter appear as changes in the stock of debt outstanding in the *World Debt Tables* and in *External Debt of Chile.* As the tables indicate, discrepancies in the flow data appearing in the *Balance of Payments Statistics Yearbook*, the *World Debt Tables* and the *External Debt of Chile* are minor after adjustment of the balance of payments flows to reflect differences in accounting for debt rescheduling, re-lending and onlending operations and debt conversions. Moreover, some of the discrepancies in the annual data may be the result of timing differences.

Table 3.6
Chile

Comparison of long-term flows (disbursements), 1985-90
(US$ million)

	1985	1986	1987	1988	1989	1990
BOPSY						
1. Drawings on other loans received[1/]	3273	3543	2671	1521	1446	2215
a. Debt rescheduling	1796	2292	1531	--	--	--
b. Re-lending, onlending	--	28	85	--	--	--
2. Drawings adjusted for a and b above	1477	1223	1055	1521	1446	2215
WDT						
3. Disbursements	1450	1172	938	1686	1504	2252
EDC						
4. Disbursements	1476	1212	1055	1522	1454	2233
5. BOPSY - WDT	1823	2371	1733	-165	-58	-37
6. BOPSY - EDC	1797	2331	1616	-1	-8	-18
7. BOPSY (adjusted) - WDT	27	51	117	-165	-58	-37
8. BOPSY (adjusted) - EDC	1	11	--	-1	-8	-18

Source: BOPSY = Balance of Payments Statistics Yearbook; WDT = World Debt Tables; EDC = External Debt of Chile.

1/ Standard components 66, 74 and 81 of the BOPSY (see Chapter I, Attachment I).

Table 3.7
Chile

Comparison of long-term flows (repayments), 1985-90
(US$ million)

	1985	1986	1987	1988	1989	1990
BOPSY						
1. Repayments on other loans received[1/]	2501	3524	2753	1619	2373	1171
Adjustments for:						
a. Debt rescheduling[2/]	1828	2291	1531	—	—	—
b. Onlending, re-lending	—	28	85	—	—	—
c. Extraordinary repayments[3/]	246	760	826	970	1557	428
i. Chapter XIX	30	199	701	886	1321	412
ii. Portfolio swaps	41	27	—	68	20	—
iii. Fruit notes	—	—	—	—	214	—
iv. Debt conversion D.L. 600	42	56	125	16	2	16
v. Chapter XVIII	104	281	—	—	—	—
vi. Others	29	197	—	—	—	—
2. Repayments adjusted for a, b, and c	427	445	311	649	816	743
WDT						
3. Repayments	330	308	333	446	825	739
EDC						
4. Repayments	406	420	310	649	812	744
5. BOPSY - WDT	2171	3216	2420	1173	1548	432
6. BOPSY - EDC	2095	3104	2443	970	1561	431
7. BOPSY (adjusted) - WDT	97	137	-22	203	-9	4
8. BOPSY (adjusted) - EDC	21	25	1	—	4	-1

Source: BOPSY = Balance of Payments Statistics Yearbook; WDT = World Debt Tables; EDC = External Debt of Chile.

1/Standard components 67, 75 and 82 of the BOPSY (see Chapter I, Attachment I).

2/In 1985, includes US$32 million of deferred repayments on Paris Club debt.

3/Excluding debt buybacks by the Central Bank of Chile, which are included as repayments for the discounted value in the external debt figures published by the Central Bank.

Table 3.8
Chile

Comparison of long-term net flows,[1] 1985-90
(US$ million)

	1985	1986	1987	1988	1989	1990
BOPSY						
1. Net flow	772	19	-82	-98	-927	1044
2. Net flow (adjusted)	1050	778	744	872	630	1472
WDT						
3. Net flow	1120	864	605	1240	679	1513
EDC						
4. Net flow	1070	792	745	873	642	1489
5. BOPSY - WDT	-348	-845	-687	-1338	-1606	-432
6. BOPSY - EDC	-298	-773	-827	-971	-1569	-402
7. BOPSY (adjusted) - WDT	-70	-86	139	-368	-49	-41
8. BOPSY (adjusted) - EDC	-20	-14	-1	-1	-12	-4

Source: BOPSY = Balance of Payments Statistics Yearbook; WDT = World Debt Tables; EDC = External Debt of Chile.

1/ Defined as drawings minus principal repayments.

EXAMPLES OF DEBT RESTRUCTURING

As was noted in Chapter II, some of the most troublesome accounting problems in the area of external debt arise in connection with the rescheduling or refinancing of debt. In the terminology of the Fund, rescheduling is a formal deferment of debt service payments with new maturities established; in contrast, refinancing is a conversion of existing debt service obligations into a new loan instrument. Debt restructuring often causes accounting problems which the balance of payments system treats differently from both the Debtor Reporting System and the Creditor Reporting System. The examples below illustrate the accounting procedures for several types of situation. In the case of the balance of payments statistics, entries must conform to the double-entry accounting principle, which means that any entry in one item, to reflect a change in the status of debt, must be matched by one or more entries which are equal but with opposite signs. In general, the purpose of balance of payments accounting is to represent, as fully as possible, all activities or agreements resulting in transactions that affect the financing of both debtor and creditor countries' balance of payments. The Creditor Reporting System and the Debtor Reporting System focus more specifically on the immediate changes in the debt structure of the debtor countries, and record these changes on a cash basis rather than the due-for-payment basis used in the balance of payments statistics. A major objective of the Creditor Reporting System is to organise the data to best represent the provision of resources by creditor countries, and their respective shares.

Balance of payments treatment

A rescheduling of debt normally results in a new contractual agreement between creditor and debtor for part or all of the existing debt service schedule. Consequently, it regards all the maturities concerned as repaid when the new contract is signed.[27/] At the same time, they are deemed to give rise to new drawings for equivalent amounts. In addition, other balance of payments conventions apply. Thus, interest and principal repayments appear in the period when they are due. Debt service which is not due, paid or subject to a rescheduling agreement appears as arrears in the capital account (i.e. an increase in short-term liabilities which offsets interest and/or long or short-term capital). Subsequent reductions of such arrears, therefore, enter into the system as reductions in short-term liabilities irrespective of the nature of the original obligation.

The forgiveness of principal, of interest and of arrears of principal and interest requires entries under unrequited transfers to offset entries under the appropriate capital account and income items. It involves entries for both current and future principal maturities, but there is no recording associated with the forgiveness of future interest.

Entries reflecting debt restructuring in the aggregated presentation differ from those in the detailed presentation. The former focuses on the balance of payments performance during the current period, which is the basis for recording exceptional financing. Therefore, only debt service obligations due in the current period appear on record, under exceptional financing elements.[28/]

27/Including direct official export credits.

28/ These include changes in arrears of interest and principal, which are in principle always immediately due.

Debtor Reporting System treatment

The Debtor Reporting System collects information which is reported by the debtor countries on an annual basis. This information represents a snapshot of the debtor's contractual position at a point in time, usually at the end of the calendar year. The point in time from which one looks at the data is critically important in the Debtor Reporting System. As an example, "original schedule due" in the Debtor Reporting System refers to the schedule agreed by both creditor and debtor at the beginning of the period. It does not necessarily refer to the amounts due under the provisions of the original loan document. The information collected by the Debtor Reporting System on a loan-by-loan basis includes data on cash transactions representing disbursements and principal and interest payments, the stock of outstanding debt, accumulated arrears of principal and interest and the amount of principal and interest rescheduled or forgiven.

For each new liability, the debtor reports to the World Bank the amount and terms (i.e. grace period, interest rate, maturity) of the contractual obligation. The contractual obligations remain in effect until both the debtor and the creditor amend them. A rescheduling changes the contractual obligation. In the case of rescheduling within the Paris Club, World Bank staff record estimates for the reorganisation in the year in which a general agreement is effective, rather than the year in which the bilateral agreement is signed. If the debtor does not sign or report the bilateral agreement, the basis of the estimates becomes the general agreement, which outlines the terms which the parties have agreed to in principle. As bilateral agreements are finalised and signed, they are reported to the World Bank and actual amounts are substituted for earlier estimates. From that point onwards, unless there are amendments by both parties, a new schedule of payments results, which reflects the changes to the original agreement. This new schedule covers the expected "due" amount. From the Debtor Reporting System's point of view, the information concerning the original repayment schedule is no longer relevant and the system erases it from the record. Unless otherwise noted, the treatments in the Debtor Reporting System and the Creditor Reporting System are identical.

Example A: Initial rescheduling of official debt

As Table 3.9 shows, the original schedule in the example calls for interest payments of 15 each year, and principal payments of 100. The rescheduling agreement calls for a rescheduling of 5 of interest and 80 of principal in year 1, along with 15 of interest and 25 of principal in year 2. Thereafter, the original schedule of payments remains unchanged. The balance of payments accounting methodology requires recognition, in year 1, of the postponement of 5 of interest and 80 of principal due in that year, along with the postponement of 25 of principal originally due in year 2. Thus, repayments of long-term capital in year 1 include the 100 originally due in that year and 25 originally due in year 2, while drawings include 105 of principal rescheduled (80 + 25) plus 5 of interest rescheduled.

Table 3.9
Example A

	Year 1	2	3	4
A-1 Assumptions				
Original interest schedule	15	15	15	15
Original principal schedule	100	100	100	100
New interest schedule	10	--	15	15
New principal schedule	20	75	100	100
Cash payments	30	75	115	115
Interest	10	--	15	15
Principal	20	75	100	100
A-2 Balance of payments entries				
a. Detailed presentation				
Investment income	-15	--	-15	-15
Long-term capital				
Drawings	110	--	--	--
Repayments	-125	-75	-100	-100
Reserves (increase (= -))	30	75	115	115
b. Aggregated presentation				
Investment income	-15	--	-15	-15
Long-term capital	-100	-75	-100	-100
Reserves (increase (= -))	30	75	115	115
Exceptional financing				
Principal rescheduled	80	--	--	--
Interest rescheduled	5	--	--	--
A-3 DRS entries				
Debt stock at end of period	1000	985	925	825
Rescheduled payments:				
Interest	5*	15*	--	--
Principal	80	25	--	--
Interest	10	--	15	15
Principal	20	75	100	100

* Added to outstanding debt.

Example B: Rescheduling with consolidation of arrears

This example, presented in Table 3.10, adds the consolidation of outstanding arrears of principal and interest to the original rescheduling shown as Example A. It is assumed that these arrears amounted to 20 of principal and 30 of interest. In the aggregated balance of payments presentation, the renegotiation of amounts in arrears appears explicitly in the exceptional financing item, with no net effect, since these amounts were counted as exceptional financing when first incurred. In the detailed presentation, drawings of 160 under long-term capital include 50 of prior arrears, 80 for principal due in the year but rescheduled, 5 for capitalisation of interest due but rescheduled, and 25 for future rescheduled amounts of principal (future interest renegotiated is not taken into account); repayments of 125 include 100 of principal due currently and 25 due in future years.

In the Debtor Reporting System, we start with a debt at the beginning of year 1 that includes the stock of arrears (30 of which is short-term interest). By the end of year 1, the debt stock has increased by 15, as the result of a cash payment of 20 on principal. The additional 5 of interest due but not paid and the rescheduling of 30 of interest arrears offset this increase in stocks. In year 2, there is a reduction of the outstanding debt by 60. This reduction results from the payment of 75 on principal, which the rescheduling of 15 of interest affects. After year 2, payments return to the original schedule.

The treatment in the Creditor Reporting System is the same, except that the system counts the 30 units of interest in the stock of arrears as "long-term".

Table 3.10
Example B

	Year			
	1	2	3	4
B-1 Assumptions				
Original interest schedule	15	15	15	15
Original principal schedule	100	100	100	100
Amounts rescheduled				
Interest	5	15	–	–
Principal	80	25	–	–
Arrears	50	–	–	–
Interest	30	–	–	–
Principal	20	–	–	–
Cash payments				
New interest schedule	10	–	15	15
New principal schedule	20	75	100	100

Table 3.10
Example B (cont.)

	Year			
	1	2	3	4
B-2 Balance of payments entries				
a. Detailed presentation				
Investment income	-15	--	-15	-15
Long-term capital				
Drawings	160	--	--	--
Repayments	-125	-75	-100	-100
Short-term capital	-50	--	--	--
Reserves (increase (= -))	30	75	115	115
b. Aggregated presentation				
Investment income	-15	--	-15	-15
Long-term capital	-100	-75	-100	-100
Reserves (increase (= -))	30	75	115	115
Exceptional financing				
Arrears rescheduled	50	--	--	--
Principal rescheduled	80	--	--	--
Interest rescheduled	5	--	--	--
Net accumulation of arrears	-50	--	--	--
B-3 DRS entries				
Debt stock at beginning of period	1030	1045	985	885
Original schedule				
Interest	15	15	15	15
Principal	100	100	100	100
End-of-period arrears				
Interest	0	--	--	--
Principal	0	--	--	--
Cash payments under prior rescheduling				
Interest	10	--	--	--
Principal	20	--	--	--
Amounts rescheduled currently due				
Interest	5	15	--	--
Principal	80	25	--	--
Arrears				
Interest	30	--	--	--
Principal	20	--	--	--
New payment schedule				
Interest	--	0	15	15
Principal	--	75	100	100
Debt stock at end of period	1045	985	885	785

Example C: Rescheduling of previously rescheduled debt

In this example, shown in Table 3.11, the assumption is that following the first rescheduling in year 1 there is a second rescheduling in year 2. In the second rescheduling, the amount of principal due for repayment in years 2, 3 and 4 declines to 55, 70 and 90 respectively, while interest payments remain unchanged from the original rescheduled amounts. In the balance of payments detailed presentation, drawings of long-term capital of 60 in year 2 include 20 due in year 2, plus 40 due in years 3 and 4. Repayments of long-term capital in year 2 (115) include 75 due in that year, plus 40 that would have been due in years 3 and 4. In the aggregated presentation, there are no special entries after year 2 since, in those years, there is no additional special financing arrangement.

In the Creditor Reporting System and the Debtor Reporting System, the debt outstanding declines by 15 in year 1 (20 paid on principal and 5 added to interest arrears). In year 2, the debt stock decreases by 40 (cash payment of 55 on principal offset by 15 of rescheduled interest). In year 3 the debt stock declines by the payment of 70 on principal, and in year 4 by the payment of 90 on principal.

Table 3.11
Example C

	Year			
	1	2	3	4
C-1 Assumptions				
Scheduled payments				
Under year 1 rescheduling				
Interest	10	–	15	15
Principal	20	75	100	100
Amounts rescheduled in year 2				
Interest	–	–	–	–
Principal	–	20	30	10
Cash payments				
Interest	10	–	15	15
Principal	20	55	70	90
New interest schedule	–	–	15	15
New principal schedule	–	55	70	90
C-2 Balance of payments entries				
a.Detailed presentation				
Investment income	-15	–	-15	-15
Long-term capital				
Drawings	110	60	–	–
Repayments	-125	-115	-70	-90
Reserves (increase (= -))	30	55	85	105
b.Aggregated presentation				
Investment income	-15	–	-15	-15
Long-term capital	-100	-75	-70	-90
Reserves (increase (= -))	30	55	85	105
Exceptional financing				
Principal rescheduled	80	20	–	–
Interest rescheduled	5	–	–	–
C-3 DRS entries				
Debt stock at beginning of period	1000	985	945	875
Original schedule				
Interest	15	15	15	15
Principal	100	100	100	100
Due under first rescheduling				
Interest	10	–	15	15
Principal	20	75	100	100
Paid under first rescheduling				
Interest	10	–	–	–
Principal	20	55	–	–
Due under second rescheduling				
Interest	–	–	15	15
Principal	–	55	70	90
Debt stock at end of period	985	945	875	785
Arrears				
Interest	30	–	–	–
Principal	20	–	–	–
New payment schedule				
Interest	–	–	15	15
Principal	–	75	100	100
Debt stock at end of period	1045	985	885	785

Example D: Refinancing of bank debt

In this example, shown in Table 3.12, the main assumption is the refinancing of the entire stock of bank debt (arrears, current and future principal maturities). The refinancing of bank debt represents exceptional financing in year 1, to the extent that there is a rescheduling of the current principal due (100) since arrears of 50 and the consolidation of arrears (-50) net out.

In the detailed balance of payments presentation, drawings under long-term capital in year 1 (450) include the rescheduling of current principal due (100), the rescheduling of 300 due in future years and the consolidation and rescheduling of 50 of arrears of principal. Repayments under long-term capital (-400) represent 100 of principal due currently, plus 300 of future principal repayments. Finally, there is an entry of -50 under short-term capital, representing the consolidation of 50 of current arrears, and a reduction of 15 in reserves, resulting from a cash payment of interest.

In the Debtor Reporting System there is a rescheduling of principal arrears (50) as well as the remaining stock of debt (400) in year 1. There is also an interest payment amounting to 30 but there is no change in the stock and no flow until principal repayments resume in years 3 and 4.

Table 3.12
Example D

	Year			
	1	2	3	4
D-1 Assumptions				
Original interest schedule	15	10	8	4
Original repayment schedule	100	100	100	100
Debt stock at beginning of period	450	450	450	450
of which arrears	50	–	–	–
Current maturity	100	–	–	–
New interest schedule	–	30	20	10
New principal schedule	–	–	100	100
D-2 Balance of payments entries				
a. Detailed presentation				
Investment income	-15	-30	-20	-10
Long-term capital				
Drawings	450	–	–	–
Repayments	-400	–	-100	-100
Short-term capital	-50	–	–	–
Reserves (increase (= -))	15	30	120	110
b. Aggregated presentation				
Investment income	-15	-30	-20	-10
Long-term capital	-100	–	-100	-100
Reserves (increase (= -))	15	30	120	110
Exceptional financing				
Arrears rescheduled	50	–	–	–
Principal rescheduled	100	–	–	–
Net change in arrears	-50	–	–	–
D-3 DRS entries				
Debt stocks at beginning of period	450	450	450	450
Original schedule due				
Interest	15	15	15	15
Principal	100	100	100	100
Arrears of principal at end of period	50	–	–	–
Amount rescheduled				
Arrears	50	–	–	–
Debt outstanding	400	–	–	–
New schedule due and paid				
Interest	–	30	20	20
Principal	–	–	100	100

Example E: Debt/bond conversion

In this example, shown in Table 3.13, there is a replacement of debt with a face value of 400 in year 1 by a bond with a face value of 300, representing a 25% discount.[29/] The balance of payments, in its detailed presentation, records the face value of the bond (300) as an inflow of portfolio capital and a repayment of long-term debt. The aggregated presentation recognises that in year 1 there was a bond issue which covered 75% of the amount of debt originally due in that year, providing exceptional financing to cover a balance of payments need.

The Debtor Reporting System recognises the conversion of debt into bonds at the discounted value (300). The debt stock declines by the amount of the discount (100) and there is a new interest schedule for years 2-4, with a new principal schedule for future years.

29/ For simplicity, the market price of the new bond issued was assumed to be its face value.

Table 3.13
Example E

	Year			
	1	2	3	4
E-1 Assumptions				
Original interest schedule	15	10	8	4
Original repayment schedule	100	100	100	100
Debt/bond exchange				
Face value of debt	400	–	–	–
Face value of bonds	300	–	–	–
Interest paid on debt	15	–	–	–
Interest paid on bonds	–	20	20	20
E-2 Balance of payments entries				
a. Detailed presentation				
Investment income	-15	-20	-20	-20
Portfolio investment	300	–	–	–
Long-term capital	-300	–	–	–
Reserves (increase (= -))	15	20	20	20
b. Aggregated presentation				
Investment income	-15	-20	-20	-20
Portfolio investment	225	–	–	–
Long-term capital	-300	–	–	–
Reserves (increase (= -))	15	20	20	20
Exceptional financing				
Conversion debt/bonds	75	–	–	–
E-3 DRS entries				
Debt stock at beginning of period	400	300	300	300
Original schedule due				
Interest	15	10	8	4
Principal	100	100	100	100
Conversion debt/bonds	300	–	–	–
Reduction in debt outstanding	100	–	–	–
New schedule due				
Interest	–	20	20	20
Cash payments, interest	15	20	120	20
Debt stock at end of period	300	300	300	300

Example F: Debt/equity swap

In this example, shown in Table 3.14, there is a swap of debt with a face value of 400 for equity with a market value of 300. In the balance of payments presentation, the entries parallel those which appear in Example E, except that there are no longer any scheduled interest payments. This is based on the assumption that the 300 of equity is a direct investment. In the Debtor Reporting System, the debt disappears after conversion and there are no further scheduled payments.

Table 3.14
Example F

	Year 1	2	3	4
F-1 Assumptions				
Original interest schedule	15	10	8	4
Original repayment schedule	100	100	100	100
Cash payments, interest	15	–	–	–
Debt/equity swap				
Face value of debt	400	–	–	–
Market value of equity	300	–	–	–
F-2 Balance of payments entries				
a. Detailed presentation				
Investment income	-15	–	–	–
Direct investment	300	–	–	–
Long-term capital repaid	-300	–	–	–
Reserves (increase (= -))	15	–	–	–
b. Aggregated presentation				
Investment income	-15	–	–	–
Direct investment	225	–	–	–
Long-term capital	-300	–	–	–
Reserves (increase (= -))	15	–	–	–
Exceptional financing				
Debt/equity swap	75	–	–	–
F-3 DRS entries				
Debt stock at beginning of period	400	–	–	–
Original schedule due				
Interest	15	10	8	4
Principal	100	100	100	100
Cash payments, interest	15	–	–	–
Conversion debt/bonds	400	–	–	–
Debt stock at end of period	–	–	–	–

Example G: Debt buyback

This example, presented in Table 3.15, shows the entries when a debtor, by agreement with the creditors, uses reserves of 300 to buy back debt with a face value of 400. In the balance of payments presentation, the debtor uses 315 of reserves to pay 15 of interest due plus the agreed 300 for the buyback of principal. There is no recording of exceptional financing. The Debtor Reporting System makes entries to record, separately, the market value of the debt buyback (300) and the debt discount (100). The Creditor Reporting System views this situation as a transaction at 300 involving a loss (write-off) of 100.

Table 3.15
Example G

	Year			
	1	2	3	4
G-1 Assumptions				
Original interest schedule	15	10	8	4
Original repayment schedule	100	100	100	100
Cash payment, interest	15	--	--	--
Debt buyback				
Face value of debt	400	--	--	--
Payment for buyback	300	--	--	--
G-2 Balance of payments entries				
a. Detailed presentation				
Investment income	-15	--	--	--
Long-term capital repaid	-300	--	--	--
Reserves (increase(= -))	315	--	--	--
b. Aggregated presentation				
-- same as above				
G-3 DRS entries				
Debt stock at beginning of period	400	--	--	--
Conversion				
Debt bought back at market value	300	--	--	--
Debt -- amount of discount	100	--	--	--
Debt stock at end of period	--	--	--	--

Example H: Debt forgiveness

In the example shown in Table 3.16 the creditor forgives a debt of 415 in year 1; this means the elimination of the debt without any debt conversion or rescheduling. The 415 includes 400 of principal and 15 of interest due in year 1. The detailed balance of payments presentation shows a repayment of long-term capital (400), offset by an entry under "unrequited transfers". The aggregated presentation treats 115 of this amount as exceptional financing in year 1. In the Debtor Reporting System, the forgiveness appears with separate entries for current interest due (15), current principal (100) and future principal (300).

Table 3.16
Example H

	Year 1	2	3	4
H-1 Assumptions				
Original interest schedule	15	10	8	4
Original repayment schedule	100	100	100	100
Value of official debt forgiven	415	–	–	–
of which interest	15	–	–	–
H-2 Balance of payments entries				
a. Detailed presentation				
Investment income	-15	–	–	–
Unrequited transfers	415	–	–	–
Long-term capital repayments	-400	–	–	–
b. Aggregated presentation				
Investment income	-15	–	–	–
Unrequited transfers	300	–	–	–
Long-term capital	-400	–	–	–
Exceptional financing				
Unrequited transfers	115	–	–	–
H-3 DRS entries				
Debt stock at beginning of period	400	–	–	–
Conversion. Forgiveness				
Interest due	15	–	–	–
Principal due	100	–	–	–
Future principal	300	–	–	–
Debt stock at end of period	0	–	–	–

CHAPTER IV

CONCLUSIONS

Summary of key points

- To derive a capital flow, it is necessary to take account of a number of factors that affect the value of the debt stock but which are not flows or transactions with non-residents.

- Data on external debt stocks are reasonably compatible at the individual country level after allowance is made for differences in the treatment of certain elements.

- It is not possible to measure some flows directly, and it is therefore necessary to make estimates on the basis of changes in debt stock.

- Many national compilers have difficulty obtaining data on the external assets and liabilities of the non-bank private sector. The international banking statistics of the BIS and the Fund contain data that may help to fill this gap, but statisticians need to address certain difficulties that arise in this process.

- The explanation of differences in debt flows between balance of payments statistics and the Debtor Reporting System requires details not available in the balance of payments accounting framework; closer coordination is necessary between the Fund's data compilers and those of the reporting country.

- Publications by the OECD and the World Bank should indicate the strengths and limitations of their respective systems in relation to the questions users generally ask about debt stock and flow data.

- A major cause of differences in debt statistics is the failure of national or international compilers of debt data to follow internationally agreed statistical standards.

- Some difficult technical problems arise in the accounting for debt restructuring and it is hoped that the examples of such problems in this report will be useful to compilers.

- It would be useful if members of the IWGEDS were to undertake regular data reconciliations and alert data compilers to any significant discrepancies that emerged.

- Members of the IWGEDS have restructured their databases and adopted appropriate methods to account for both long-term and short-term debt.

- The IWGEDS will continue to work towards greater standardisation in the measurement and presentation of data on external resource flows.

CHAPTER IV

CONCLUSIONS

This report has compared the statistical systems of the main international agencies involved in collecting data on external debt. It has focused primarily on the relationship between data on outstanding stocks of debt and statistics on the flow of resources to developing countries. The main debt reporting systems are those of the OECD and the World Bank. The report has examined the relationship between the stock and flow elements within these systems and compared the data produced by the two systems. Since the Fund's balance of payments statistics are a basic source of information on capital flows to developing countries, including changes in their external debt, the report has attempted to clarify the relationship of the flow data as reported in the balance of payments accounts to debt flow data obtained from the two main reporting systems. The information presented here should provide guidance to the users of these statistics and to the national compilers who produce the original data.

As was noted in Chapter I, the measurement of "debt flow" is considerably more complex and ambiguous than that of debt stock. Differences in estimates of **debt stocks** occur because of varying classification conventions or coverage. It is possible to reconcile them reasonably well by reference to underlying detailed information, at least when comparing the data sets of the Creditor Reporting System with those of the Debtor Reporting System. The core definition of debt ensures a large measure of consistency. In the case of **debt flows**, the figures may result from an actual measurement of transactions (including debt restructurings) or may be derived, at least as a first approximation, from the differences in successive levels of debt stocks. In the latter case, however, there is more variation in the treatment of particular items, and it is important to make allowance for factors that do not represent actual transactions, such as changes in exchange rates, to reach an estimate of the flows corresponding to balance of payments transactions. It is necessary to make the same allowance, in the opposite direction, when using directly measured flows to estimate changes in debt stocks; the added complication, in this case, is the need to exclude non-debt flows (equity, grants and most direct investment flows) before applying the adjustment process to the residual figure that measures debt flows only.

A basic principle is that external debt flow data should relate only to transactions between residents of a country and non-residents. The definition of cross-border transactions is based on the *Balance of Payments Manual* and the System of National Accounts. The concept excludes all changes, such as fluctuations in market value or exchange rates or unilateral action by creditors or debtors, that do not represent actual transactions between a resident and a non-resident.

The report has also discussed, in detail, the two elements that enter into changes in the stated stock of debt: flows and valuation or other adjustments. In the balance of payments context, the international investment position statements should contain the information needed to link changes in the end-of-period values of external liabilities (and assets) to the transactions recorded in the capital account of the balance of payments. It is also important to take these elements into account in the resource flow series, which in principle use the balance of payments recording conventions as a basis. Further refinement of the data that enter into the international investment position could enhance balance of payments reporting by encouraging greater recourse to all available sources, and could improve the link between balance of payments statistics and estimates of debt flows and debt stocks, which are derived primarily from these other sources. On the basis of the foregoing considerations, this report concludes with the following observations:

- In an attempt to derive a capital flow, or resource flow, directly from the changes in the end-of-year values of outstanding debt, it is necessary to take into account many factors that affect the value of the debt stock but do not represent flows or transactions with non-residents.

- The data on stocks of external debt recorded in which the Creditor Reporting System and the Debtor Reporting System, are reasonably compatible at the individual country level after allowance is made for differences in the treatment accorded to particular elements in the two systems. There are also the inevitable differences that occur between the accounts of the creditor (the OECD's Creditor Reporting System and the BIS and Fund international banking statistics) and those of the debtor (the World Bank's Debtor Reporting System). Here the causes are known, but quantification is no easy matter. At the global level, a major difference in the stock of external debt of developing countries reported by the two systems results from variations in geographical coverage. Currently the Creditor Reporting System aggregates data for 154 countries, while the Debtor Reporting System covers 129 countries.

- For some flows, direct measurement may not be possible, and it is therefore necessary to make estimates using changes in debt stocks. For banks, the data reported to the BIS are cross-border assets and liabilities as they appear on banks' balance sheets. To derive data on flows, it is necessary to make adjustments for changes in exchange rates against the US dollar as well as for known breaks in series. However, since it is not possible to eliminate all non-flow elements completely, the data are a proxy for flows rather than an equivalent.

- Many national compilers encounter special difficulties in obtaining data on the external assets and liabilities of the resident private non-bank sector. The BIS and Fund data on banks' positions vis-à-vis foreign non-banks contain very useful information covering this gap, but it is necessary to proceed with caution owing to a number of inconsistencies between the international banking statistics and the balance of payments. These were identified in the Report of the Working Party on the Measurement of International Capital Flows. Ways of resolving these inconsistencies are being discussed in the Fund's Committee on Balance of Payments Statistics, in collaboration with the BIS.

- In principle, data on capital flows which appear in countries' balance of payments statements should relate to data on debt flows reported to the Debtor Reporting System. But in practice, an explanation of the differences requires details not available in the balance of payments accounting framework. Therefore, the Fund's Working Party on the Measurement of International Capital Flows has recommended closer coordination between compilers of a country's balance of payments accounts and the office (usually the Ministry of Finance or the central bank) that compiles and reports information on the country's external debt. The IWGEDS strongly supports that recommendation since debt offices often have the most complete information sources and may be able to fill gaps in other data used by balance of payments compilers. However, as the case study for Chile shows, such comparisons require close inspection of the accounting principles applied by the agencies concerned especially in respect of flows. Typically balance of payments data are compared with data which the debtor country supplies to the World Bank, but it would also be useful for balance of payments compilers in debtor countries to refer to data reported to the OECD and the BIS.

- The OECD and the World Bank communicate continuously in coordinating their respective data systems. However, differences in geographical coverage, the treatment of certain kinds of debt transaction and, in some instances, terminology may leave the users of the data in doubt as to which set of data is preferable for a particular purpose. These differences are understandable given the distinct mission of each data system. The choice will often depend on timeliness and the suitability of the categories of debt (or flows) and of the sectoral classification of creditors and debtors in relation to the specific type of analysis involved. Nevertheless, it might be helpful if both the OECD and the World Bank were to place greater emphasis in their publications on clarifying, for the general reader, the strengths or limitations of each system in terms of the common questions users ask about debt stocks or flows.

- As the discussion of resource flows in Chapter II indicates, members of the IWGEDS extend their coverage of external sources of financing beyond the limited category of debt and include, inter alia, grants and direct investment. There are still significant differences among the member organisations in the elements they prefer to combine in their respective measures of external resource flows. However, there is a tendency to incorporate most of the relevant capital flows and transfers as reported in the balance of payments accounts of debtor countries.

- Differences between the statistics in the Creditor Reporting System and the Debtor Reporting System often result from variations in concepts or definitions, as the preceding chapters note, but a major additional source of difference is the failure of national or international data compilers to follow internationally agreed statistical standards. This problem also applies to the balance of payments statistics. The fact that the balance of payments statistics are compiled on an accrual basis, while the Creditor Reporting System and the Debtor Reporting System are compiled on a cash basis, poses an additional problem of reconciliation.

- Many of the more difficult technical problems in accounting for changes in external debt arise from arrangements that either alter the repayment schedules or eliminate or change the form of existing debt. The Creditor Reporting System and the Debtor Reporting System carry these adjustments through in the underlying data set, but they are not prominent in the published tables. The balance of payments system, however, carries the entries required to account for these arrangements through to the published balance of payments accounts. Some of the examples in Chapter III illustrate the accounting procedures. The IWGEDS welcomes the fact that the fifth edition of the *Balance of Payments Manual* provides better guidance on the treatment of debt restructuring in balance of payments statistics than was the case in earlier editions.

- In the past, the members of the IWGEDS have reconciled the variations in the net flow of financial resources to developing countries as reported by the member agencies (see *World Economic Outlook*, May 1991, pp. 60-61). This reconciliation has shown that the main discrepancy, at the global level, results from differences in the set of countries included in the totals, with lesser, but not insignificant, amounts connected with the treatment of technical cooperation, direct investment and various private capital flows. It would be desirable to undertake such reconciliations regularly, with a view to alerting data compilers should significant disparities in the basic data emerge.

- The principal function of flow data in general, and debt flow data in particular, is to provide the basis for analysis of current and prospective financial resource flows, as well as the debt service requirements, of indebted countries. In the early years of the debt build-up the focus was on official financing, including official support of export credits and official grants. By the late 1970s, however, the emphasis had begun to shift towards financing from commercial banks, and it therefore became important to incorporate information on shorter-term financing in the figures on total external financial resources. After 1982, when the debt crisis broke, the emphasis shifted again, and the reporting agencies had to find ways of measuring and presenting the economic effects of various restructuring or refinancing arrangements that changed the form, duration or amount of external debt. The members of the IWGEDS have responded to these shifts in emphasis by restructuring their databases and adopting various devices for capturing the necessary information in their internal records and in their publications.

- The analytical concepts involved in measuring such activities as "resource transfers", "debt flows" or "net external financing" are complicated, and the data are not always readily available in the form required. As the concepts evolve, alternative treatments or the collection of new information may be necessary. One of the continuing objectives of the IWGEDS is to work towards greater standardisation in the measurement and presentation of data on external resource flows and debt, while maintaining analytical flexibility.

ANNEX I

Statistical Publications of Members of the IWGEDS

Bank for International Settlements

1. International Banking and Financial Market Developments
   (quarterly stock data and exchange rate adjusted flows)
2. The Maturity and Sectoral Distribution of International Bank Lending (semi-annual)
3. Statistics on External Indebtedness: Bank and Trade-Related Non-Bank External Claims on Individual Borrowing Countries and Territories (semi-annual, with the OECD)
4. The Nationality Structure of the International Banking Market
5. International Banking Statistics, 1973-1983 (published April 1984)
6. International Banking Statistics, 1977-1991 (published April 1993)

International Monetary Fund

1. Balance of Payments Statistics Yearbook
2. Government Financial Statistics Yearbook
3. International Financial Statistics (monthly, plus Yearbook)
4. Direction of Trade Statistics
5. World Economic Outlook (semi-annual; not a statistical publication)

Organization for Economic Co-operation and Development

1. External Debt Statistics (annual)
2. Statistics on External Indebtedness: Bank and Trade-Related Non-Bank External Claims on Individual Borrowing Countries and Territories (semi-annual, with the BIS)
3. Financing and External Debt of Developing Countries (annual)
4. Financial Statistics (monthly)
5. Geographical Distribution of the Flow of Financial Resources to Developing Countries (annual)
6. The Export Credit Financing System in OECD Member Countries, Third Edition, 1987

World Bank

1. World Debt Tables (annual)
2. World Tables
3. World Development Indicators
4. Social Indicators of Development
5. Trends in Developing Economics

GLOSSARY

The definitions of terms and concepts used in this report are consistent with those currently used by the Bank for International Settlements (BIS), the International Monetary Fund (IMF/Fund), the Organisation for Economic Co-operation and Development (OECD) and the World Bank and generally by the financial community at large. Where a term is used by one of the organisations in a particular or restricted sense this is indicated in the definition.

Accrued interest
Interest which has accumulated but which is not legally due before a specified payment date.

Affiliates
(Of banks): branches, subsidiaries and joint ventures.

Aggregated presentation of the balance of payments
The balance of payments is presented in two formats in the *Balance of Payments Statistics Yearbook*, viz the detailed and the aggregated presentations. The former shows the balance of payments components according to the standard classification recommended in the Fund's *Balance of Payments Manual* (see Chapter I, Attachment I) and the latter according to certain analytic concepts. The aggregated presentation identifies, inter alia, exceptional financing (see also Exceptional financing below).

American depositary receipt (ADR)
Negotiable certificate issued by a US bank in respect of stock issued by a foreign corporation. The securities are held in a custodial account.

Amortisation
Repayment of principal during a given accounting period.

Arbitrage
Buying (or borrowing) in one market and selling (or lending) in the same or another market to take advantage of inefficiencies or price differences.

Arrears
Amount of principal and/or interest due but not paid as at the reporting date.

Balance of payments
(IMF) The balance of payments is a statistical statement that systematically summarises, for a specific period of time, the economic transactions of an economy with the rest of the world. Transactions consist of those involving goods, services and income, those involving financial claims and liabilities vis-à-vis the rest of the world, and those (such as gifts) classified as transfers.

Bank for International Settlements (BIS)
Established in 1930 by intergovernmental convention, the Bank for International Settlements promotes cooperation among central banks. In this capacity it carries out four main functions: it holds and manages deposits from a large number of central banks throughout the world; it serves as a forum for international monetary cooperation; it assists as agent or trustee in the execution of various international financial agreements; and it carries out research and issues publications on monetary and economic subjects.

Banks
(IMF) All units that engage in financial intermediation as their principal activity and have liabilities in the form of deposits or financial instruments (such as short-term certificates of deposit) that are close substitutes for deposits.

Berne Union
An informal association of export credit agencies whose members exchange information and seek to establish common standards, for instance on the appropriate downpayment and repayment periods for various kinds of exports. The 50 members meet twice a year. They also maintain informal credit ratings of the borrowing countries.

Buyer (buyer's) credit
A loan obtained by the purchaser of goods and services from a source in the exporting country, with the supplier being paid in cash; also known as financial credit (see Trade-related credit).

Cancellation
(World Bank, OECD) The annulment of undisbursed portions of loans or credits. Also, the annulment of a commitment to provide a grant or a loan (see Commitment).

Capital account
(IMF) In the fourth edition of the Fund's *Balance of Payments Manual* (and for the purpose of this report) the capital account of the balance of payments comprises all transactions in an economy's foreign financial assets and liabilities, together with some specified changes of other kinds (e.g. monetisation of gold) that may affect its assets and liabilities and the counterparts to those changes. In the fifth edition of the *Manual* the capital account covers capital transfers and acquisition or disposal of non-produced non-financial items (e.g. patents). Capital transfer consists of the transfer - without a quid pro quo - of ownership of a fixed asset or the forgiveness of debt. The financial account covers transactions in financial assets and liabilities.

Capital market
The market for buying and selling long-term loanable funds, in the form of bonds, mortgages and similar instruments. Unlike the money market, where short-term funds are traded, the capital market tends to centre on well organised institutions such as the stock exchange. However, there is no clear-cut distinction between the two other than that capital markets are generally used by businesses, financial institutions and governments to buy capital goods whereas money market loans generally meet a temporary need for working capital.

Capitalised interest
The conversion of accrued or future *interest* payments, by agreement with the creditor, into a financial liability.

Certificate of deposit
Negotiable and non-negotiable receipt for a time deposit, with maturities ranging from 7 days to 7 years or longer, usually paying a fixed rate of interest.

Claims
(Of banks): financial assets (balance-sheet items only).

Commitment
A firm obligation to furnish resources of a given amount on specified financial terms and conditions. In OECD terminology, the term refers to government grants and loans, with a firm obligation expressed in an agreement or equivalent contract to furnish funds of a specified amount on specified terms and conditions and for specified purposes.

Commitment, date of
The date on which the commitment is made.

Concessionality level
The difference between the nominal value of the loan and the discounted present value of the debt service, expressed as a percentage of the nominal value of the loan (see also Grant element).

Concessional loans
Loans with a grant element of 25% or more (see also Grant element).

Consolidated
(Of banks): refers to a balance sheet grouping of assets and liabilities of a parent company and subsidiaries, after elimination of all unrealised profits on intra-group trading and of all intra-group balances.

Contingent (contingency)
Used of a liability which may or may not be incurred, depending on a future event (contingency).

Credit
Any amount for which there is a specific obligation of repayment. It includes loans and other transfer agreements which give rise to specific obligations to repay over a period of time, usually with interest. It may subsume a grant commitment, but only where reference is made to "tied aid credits" as defined by the OECD Arrangement on officially supported export credits.

Creditor
A party providing money or resources and to whom payment is owed under a specific agreement.

Creditor country
The country in which the lender is resident.

Creditor Reporting System
Statistical system operated by the OECD.

Cross-border bank positions
Asset and liability positions vis-à-vis banks and non-banks located in a country other than the country of residence of the reporting bank (also referred to as "external" positions).

Cross-border transaction
A transaction between residents of different economies.

Currency of denomination
The unit of account in which indebtedness is expressed in the loan contract.

Currency of repayment
The currency in which payment is due according to the loan agreement.

Currency of reporting
The unit of account in which amounts are reported to other compilers by the agency producing the data.

Currency swap
A swap involving the exchange of cash flows and principal in one currency for those in another with an agreement to reverse the swap of any unamortised principal at a future date.

Currency of transaction
The medium of exchange in which an individual transfer occurs. It may be currency (e.g. US dollar, pound sterling), goods or services. The medium of exchange of one transaction (e.g. disbursement) does not necessarily determine the medium of exchange of another (e.g. repayment).

Current account
(IMF) The current account of the balance of payments covers all transactions (other than those in financial items) that involve economic values and occur between residents and non-resident entities. Also covered are offsets to current economic values provided or acquired without a quid pro quo. Included are: goods, services, income and current transfers.

Current account balance
(IMF) The balance on goods, services, income and current transfers is commonly referred to as the "current" balance or "current account" balance.

Debt buyback
The repurchase by a debtor country of all or a part of its external debt, usually at a discount. The debtor country reduces its obligations while the creditor receives some payment.

Debt-for-charity swap
The purchase by a non-profit organisation such as non-governmental organisation (NGO) of the external debt of a country at a discount in the secondary market which the NGO then exchanges for local currency to be used for philanthropic purposes.

Debt-for-commodity swap
The repayment in kind by a debtor country of all or part of its external debt. Typically the lender takes a specific, earmarked percentage of the receipts from the exports of a particular commodity or group of commodities.

Debt conversion
The exchange of debt for another liability.

Debt-for-equity swap
A transaction in which debt (usually of a sovereign country) is exchanged for equity participation in one of the country's firms. Typically, there will be clauses in the agreement to prevent the repatriation of capital before some specified future date.

Debt forgiveness
The extinction of a debt, in whole or in part, by agreement between debtor and creditor.

Debt-for-nature swap
An agreement to exchange a liability for funds which are used for projects that improve the environment.

Debt relief
Cancellation of unpaid principal (whether or not already due) and of interest payments already due and, for the OECD, a reduction in the interest rate.

Debt reorganisation
Any action by a creditor that officially alters the terms established for repayment. Debt reorganisation can take several forms, including forgiveness, rescheduling, rephasing and refinancing.

Debt service
Refers to payments in respect of both principal and interest.

> **Actual debt service** is the set of repayments actually made to satisfy a debt, including principal interest and late fees.
>
> **Scheduled debt service** is the set of repayments which is contractually required to be made through the life of the debt, including principal and interest.

Debt service ratio
The ratio of debt service payments made by or due from a country to the value of that country's export earnings.

Debt workout
The process of working out a satisfactory method whereby the debtor country can repay external debt, including restructuring, adjustment, and the provision of new money.

Debtor country
The country in which the debtor is resident.

Debtor Reporting System
Statistical system operated by the World Bank for monitoring the debt of developing countries.

Default
The failure to meet any obligation or term under a credit agreement or contract. A payment which is overdue or in arrears is technically "in default", since by virtue of non-payment the borrower has failed to abide by the terms and conditions of the credit. In practice the point at which a loan or credit is considered "in default" will vary.

Deposit money banks
(IMF) Financial institutions other than monetary authorities that have liabilities in the form of deposits payable on demand and transferable by cheque or otherwise to make payments.

Detailed presentation of the balance of payments
See Aggregated presentation.

Development Assistance Committee (DAC)
Originally established in 1960 as the Development Assistance Group under the Organisation for European Economic Co-operation and continued under the Organisation for Economic Co-operation and Development as the DAC. The objective of the DAC is the expansion of the volume of resources made available to the developing countries and the improvement of their effectiveness. It periodically reviews both the amount and the nature of its members' contributions to aid programmes, both bilateral and multilateral. The DAC does not disburse assistance funds directly but is concerned with promoting increased and more effective assistance efforts by its members.

Disbursed and outstanding debt
The amount that has been disbursed from a loan but has not yet been repaid or forgiven.

Disbursement
The actual international transfer of financial resources. A disbursement may be recorded at one of several stages: provision of goods and services; placing of funds at the disposal of the recipient in an earmarked fund or account; withdrawal of funds by the recipient from an earmarked fund or account; or payment by the lender of invoices on behalf of the borrower. The term "utilised" may apply when the credit extended is in a form other than currency. Disbursements may be recorded gross (the actual amount disbursed) or net (less repayment of principal).

End-of-period exchange rate
Exchange rate prevailing on the final working day of a given period.

Exceptional financing
(IMF) As an alternative to, or in conjunction with, the use of reserve assets, Fund credit and loans, and liabilities constituting foreign authorities' reserves, to deal with payments imbalances, exceptional financing denotes any other arrangements made by the authorities of an economy to finance balance of payments needs.

Export credit
A loan for the purpose of trade which is not represented by a negotiable instrument. Frequently these loans bear interest at a rate subsidised by the government of the creditor country as a means of promoting exports (see Trade-related credit).

Export credit agency
An agency in a creditor country which provides loans to finance the export of goods (*official export credits*) or provides insurance or guarantees on loans from the private sector of the creditor country (guaranteed export credits).

External debt
Defined by members of the IWGEDS as follows: "*Gross external debt is the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principal, with or without interest, or to pay interest, with or without principal*".

Flag-of-convenience countries
Countries with favourable tax rules and other regulations attracting companies whose main business (originally primarily shipping but increasingly production or services) is outside the country.

Foreign direct investment
(IMF) Direct investment reflects a lasting interest of a resident entity in one economy (direct investor) in an entity resident in another economy (direct investment enterprise). A lasting interest is established if the direct investor holds 10% or more of the voting power of the direct investment enterprise. Direct investment covers all transactions in financial assets and liabilities between direct investors and direct investment enterprises.

Forgive
To renounce a legally binding claim or to grant relief from all or part of a debt under statutory authority.

Fund credit
(see Use of Fund credit and loans)

Geographical Distribution of the Flows of Financial Resources to Developing Countries (annual)

An annual publication of the OECD showing the sources of official development financing to individual developing countries and territories. Included in this publication are detailed data on the geographical distribution of net and gross disbursements, commitments, terms and the sectoral allocation of commitments.

Grant
A legally binding document which obligates a specific value of funds available for disbursement, in cash or in kind, for which no repayment requirement exists. Also, the funds disbursed. (See also Technical cooperation grants and grant-like flow).

Grant element
The measure of concessionality of a loan, calculated as the difference between the face value of the future service payments to be made by the borrower and the *grant equivalent*, and expressed as a percentage of the face value of the loan. By convention, a 10% discount rate is used (see also Concessionality level).

Grant equivalent
The present value of a loan, using, by convention, a 10% discount rate, of the future debt service payments to be made by the borrower. The grant equivalent is the grant element expressed as a percentage of the face value of the loan.

Grant-like flow
In OECD terminology, this describes loans for which the original commitment stipulates that service payments are to be made to an account in the borrowing country and to be used in the borrowing country to the benefit of that donor country. These transactions are treated as grants in the OECD/DAC statistics because their repayment does not require a flow of foreign currency across the exchanges and the proceeds are used for development purposes. They are, nevertheless, counted as external debt, since the creditor is non-resident.

Gross disbursements
See Disbursements.

Gross national product (GNP)
The measure of the total domestic and foreign output claimed by residents of an economy, less the domestic output claimed by non-residents. GNP does not include deductions for depreciation.

Guarantee of a loan
A legally binding agreement by a lender to pay any part or all of the amount due on a loan instrument in the event of non-payment by the borrower.

International Bank for Reconstruction and Development (IBRD)
The International Bank for Reconstruction and Development (IBRD) was set up as an intergovernmental financial institution in 1946 as a result of the Bretton Woods Accord. It is the original agency of the World Bank group and is commonly referred to as the World Bank (see also World Bank).

International Development Association (IDA)
The International Development Association, which was established in 1960, supplements the activities of the World Bank. It provides low-income developing countries with long-term loans on highly concessional terms: typically a 10-year grace period, a 40-year repayment period and only a small servicing charge.

Insured (guaranteed) export credit
An export credit which carries a guarantee, issued by an export credit agency, protecting the creditor against political or transfer risks in the debtor country which may prevent the remittance of debt service payments (see also Export credit agency).

International Monetary Fund (the IMF)
A specialised agency of the United Nations which encourages monetary cooperation; establishes international standards for exchange rate policy; promotes stable exchange rates among its member nations; and extends loans and credits to members in temporary payments difficulties.

Interbank positions
Asset and liability positions of banks vis-à-vis other banks.

International investment position
(IMF) A statistical statement, as at a given date, of the stock of external financial claims and liabilities. The position at the end of a period reflects financial transactions, valuation changes and other adjustments occurring during the period which affect the level of assets and liabilities.

Late interest charges
The additional interest that may be levied on obligations overdue beyond a specified time; in some Paris Club agreements late interest charges have been specifically excluded from the debt consolidation.

Liability
An amount owed (i.e. payable) by an individual or entity for items or services received, expenses incurred, assets acquired, construction performed and amounts received but not yet earned.

Line-of-credit
An understanding or statement of the willingness to provide credit up to a ceiling over a specified period of time.

Loan
A legally binding document which obligates a specific value of funds available for disbursement. The funds disbursed are to be repaid (with or without interest and late fees) in accordance with the terms of a promissory note or repayment schedule.

Loan agreement
The legal evidence of an agreement to lend once certain preconditions have been met.

London interbank offered rate (LIBOR)
The London interbank offer rate for deposits, such as the 6-month dollar LIBOR or 6-month Deutschemark LIBOR. This rate is used for convenience to measure the approximate cost to banks of funds which they obtain in the interbank markets, and it is commonly the basis on which their lending margins are fixed. Thus, an original loan agreement or a rescheduling agreement may set the interest rate to the borrower at 6-month dollar LIBOR plus 1.5%, with semi-annual adjustments for changes in the LIBOR rate.

Long-term external debt
Debt that has an original or extended maturity of more than one year.

Market price
Amounts of money that willing buyers pay to acquire something from willing sellers.

Maturity (loan)
The period from commitment or disbursement to final repayment of the loan.

Maturity, residual (loan)
The time remaining until the final repayment of the loan.

Maturity structure
In the terminology of the BIS, the breakdown of claims or liabilities according to their residual maturity (also known as "maturity profile" or "maturity distribution").

Nationality
(Of banks): country of residence of the head office.

Nationalisation
A process through which privately owned (including foreign-owned) enterprises are taken over by the state. The state normally assumes, together with the assets of the enterprise, any outstanding debt, including external debt.

Net disbursements
See Disbursements.

Official development assistance (ODA)
Flows to developing countries and to multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies. Each ODA transaction must meet two basic criteria. First:

> *"It must be administered with the promotion of the economic development and welfare of the developing countries as its main objective. Second, it must be concessional in character with a grant element of at least 25 per cent."*

ODA loans
Loans with a maturity of over one year meeting the criteria set out in the definition of official development assistance which are provided by governments or official agencies and for which repayment is required in convertible currencies or in kind.

Official creditors
International organisations, regional development banks and inter governmental agencies, governments and their agencies (including central banks).

Official development bank
A non-monetary financial intermediary controlled by the public sector. It primarily engages in making long-term loans that are beyond the capacity of other financial institutions.

Official export credit
Export credits which are extended by specialised agencies or institutions of the official sector (and whose terms can therefore be influenced by the government).

Offshore centre
A financial centre where many of the financial institutions present have little connection with the country's financial system and are usually resident for tax purposes.

Organisation for Economic Co-operation and Development (OECD)
Successor to the Organisation for European Economic Co-operation, established in 1961. W[illegible]h the reconstruction of Europe accomplished (the aim of the OEEC), the objectives of the Org[illegible]on for Economic Co-operation and Development are to promote economic growth through the [illegible] on of world trade and to aid the economic expansion of the developing countries. Its he[illegible] are in Paris, France.

Other official flows (OOF)
Transactions by the official sector of the creditor country whose main objective is other than the borrowing country's economic development, or, if they are mainly for development, whose grant element is below the 25% threshold that would make them eligible to be recorded as ODA.

Paris Club
The forum in which debt relief has been provided since 1956 by the governments belonging to the Development Assistance Committee of the OECD. The members of the DAC are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New

Zealand, Norway, Sweden, Switzerland, the United Kingdom, the United States and the European Commission. Participation in the Club is open to any official creditors that wish to take part. The Chairman of the Club and its small secretariat are provided by the French Treasury, which also arranges the venue for its meetings in Paris.

Portfolio investment
(IMF) Investment in long-term debt securities and equity securities, other than direct investment and the acquisition of *reserve assets*. In the fifth edition of the *Balance of Payments Manual*, this category also covers short-term financial instruments, including derivatives.

Prepayment
The partial or full repayment or repurchase by the borrower of outstanding loan principal and interest in advance of maturity. This may be at a discount from the current outstanding principal.

Principal outstanding
The amount of principal disbursed and not repaid.

Principal repayment schedule
The repayment stream of principal by due date and instalment amount.

Private creditors
Bondholders (of bonds that are either publicly issued or privately placed), private banks and other private financial institutions, and manufacturers, exporters and other suppliers of goods which have extended credits.

Private non-guaranteed debt
The external obligation of a private debtor whose repayment is not guaranteed by a public (borrowing country) or official (creditor country) entity.

Promissory note
A written promise to repay a loan, either with or without interest. The note specifies the terms of the repayment of principal and payment of interest, and may include the amount of principal instalments, the rate of interest, the calculation of interest the due dates and the maturity date.

Provisioning (provisions)
The setting aside of sums (provisions) to meet an eventuality, which in the debt context would usually be the possibility of default.

Public debt
The external obligation of a public debtor, and as the national government, a political subdivision (or an agency of either) and autonomous public bodies such as public enterprises.

Publicly guaranteed debt
The external obligation of a private debtor whose repayment is guaranteed by a public entity in the borrowing country.

Refinancing loan
The extension of a new credit, the proceeds of which are to be used to make payments due under a previously existing credit.

Renegotiate
An umbrella term for any changes in existing loan contracts agreed between creditors and debtors.

Reorganise
Another umbrella term with the same meaning as renegotiate.

Rephasing
A revision of the terms of repayment to extend the maturity date whereby the creditor and the debtor establish a revised repayment schedule for principal and interest, and where the identity of the creditor and the debtor remains the same.

Reporting banks
In BIS terminology, deposit-taking institutions and some non-deposit taking financial institutions which have international assets and liabilities of some size and provide statistical information to the authorities in the country where the banking office is located or to the authorities in the country where the parent bank is located.

Repudiation of debt
A unilateral disclaiming of a liability by a debtor.

Rescheduling
A scheme of debt renegotiation in which some percentage of debt service payments falling due during a defined period (and possibly including amounts in arrears) will be subject to new repayment terms. Effectively the amounts involved form the outstanding amount of a new loan with terms defined at the time of the rescheduling. The rescheduled amounts may include both principal and capitalised interest. Rescheduling debt is one means of providing a debtor with a period of reduced debt service, so as to allow economic recovery.

Reserve assets
(IMF) All assets that are readily available to and controlled by a country's monetary authority for direct financing of payments imbalances, for directly regulating the magnitude of such imbalances through intervention in the exchange markets to influence the exchange rate or for other purposes.

Residents
(IMF) An institutional unit is a resident when it has its centre of economic interest within a country's territory. The centre of interest is where there is a dwelling, place of production or other premises from which the unit engages and intends to continue engaging, indefinitely or for a long time, in economic activities; resident units are households and individuals, corporations and quasi-corporations, non profit-institutions and government (fifth edition of the Balance of Payments Manual).

Sectoring
Breaking down of external debt according to classifications of various kinds.

Short-term external debt
Debt that has an original maturity of one year or less, or with no stated maturity.

Standby credits
A commitment to lend up to a specified amount for a specific period, to be used only in a certain contingency.

Stock figures
Amounts of financial credits and liabilities outstanding at a particular point in time.

Suppliers' credit
A financing arrangement under which the supplier (or exporter) extends credit to the buyer in the importing country.

Technical cooperation grants
There are two basic types of technical cooperation:

> **free standing technical cooperation (FTC)**, which is the provision of resources aimed at the transfer of technical and managerial skills or of technology for the purpose of building up general national capacity without reference to the implementation of any specific investment projects; and
>
> **investment-related technical cooperation (IRTC)**, which denotes the provision of technical services required for the implementation of specific investment projects.

Tied aid credits
Loans or grants or associated financing packages available to certain borrowers, containing a certain minimum concessional element, currently 50% for least developed countries and 35% for other eligible (low-income) countries, which are tied to the procurement of goods and services from the donor country.

Total official flows
The sum of official development assistance (ODA) and other official flows (OOF). Represents the total (gross or net) disbursements by the official sector of the creditor country to the recipient country.

Trade-related credit
In the terminologies of the BIS and the OECD this term is equivalent to trade credit. In the terminology of the IMF trade credits consist of claims and liabilities arising from the direct extension of credit by suppliers and buyers for goods and services transactions, and advance payment for work in progress.

Tranche

A particular set of disbursements under a loan with its own specific terms as opposed to general terms governing the whole loan.

Transfer clause
A provision which commits the debtor government to guarantee the immediate and unrestricted transfer of foreign exchange in all cases provided the private sector pays the local currency counterpart for servicing its debt.

Undisbursed
Amounts committed but not yet utilised. In BIS terminology, this refers to open lines of credit which are legally binding on lending banks.

Unrequited transfers
(IMF) Transactions in which one transactor provides an economic value to another transactor but does not receive a quid pro quo on which, according to the conventions and rules of the balance of payments system, economic value is placed. The value that is lacking is represented by an entry in the balance of payments statistics that is referred to as an unrequited transfer.

Use of Fund credit and loans
Liabilities to the International Monetary Fund resulting from the use of the IMF General Resource Account (e.g. drawings under credit tranches, use of the compensatory and contingency financing facilities) and outstanding loans under the Structural Adjustment Facility, the Enhanced Structural Adjustment Facility and the Trust Fund.

World Bank
An intergovernmental financial institution with the status of a specialised agency of the United Nations. The World Bank assists economic development by lending to public entities domiciled or public present in any of its member countries. Its funds are obtained from three sources: payment made by members on account of their capital subscriptions; borrowing in capital markets worldwide; and net earnings. Loans are usually restricted to maturities of not more than 20 years and carry an interest rate based on that at which the World Bank itself can borrow.

Write-off
The removal from the creditor's books of disbursed and outstanding debt and/or of interest arrears.

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