Appendix 3. Glossary of External Debt Terms

A

Acceleration Clause

Concessional loans from multilateral institutions include an acceleration clause that is triggered when a country becomes creditworthy for International Bank for Reconstruction and Development (IBRD) borrowing and its per capita gross national income (GNI) reaches or exceeds the operational cutoff for the International Development Association (IDA) eligibility for three consecutive years. The acceleration clause will double the size of each repayment, effectively reducing the remaining maturity in half.

Accrual of Interest Costs

Continuous recording of interest costs, so matching the cost of capital with the provision of capital.

Affiliates

Enterprises related through direct investment relationships. Consist of the *direct investors (s)*, both immediate and indirect; the *direct investment enterprises*, whether subsidiaries (including branches and other quasicorporations), associates, and subsidiaries of associates, both immediate and indirect; and *fellow enterprises*, i.e., those enterprises that are under the control or influence of the same immediate or indirect investor, but neither fellow enterprises controls or influences the other fellow enterprises. Affiliates are also known as “affiliated enterprises” because they are almost always enterprises.

Agreed Minute

Paris Club document detailing the terms for a *debt rescheduling* between *creditors* and the *debtor*. It specifies the coverage of *debt-service* payments (types of debt treated), the *cutoff date*, the *consolidation period*, the proportion of payments to be rescheduled, the provisions regarding the down payment (if any), and the repayment schedules for rescheduled and deferred debt. Creditor governments commit to incorporate these terms in the bilateral agreements negotiated with the debtor government that implements the *Agreed Minute*. Paris Club creditors will agree to reschedule only with countries that have an IMF upper credit *tranche* arrangement (*Stand-By Arrangement* or *Extended Fund Facility* (EFF)), a *Poverty Reduction and Growth Facility* (PRGF) arrangement, or a *Rights Accumulation Program*.

Amortized Value

Amortized value of a loan reflects the decline in the value of the liability through regular payments over a specified period of time. At the time of each scheduled payment, amortized value is the same as *nominal value*, but it may differ from the nominal value in other dates because nominal value includes accrued interest costs that have not been paid.

Amortization Schedule

The schedule for the repayment of *principal* and payment of *interest* on an ongoing basis. For loans, the amortization schedule is normally included in an annex to the contract or can be estimated from the contract.

Annuity-Type Repayment

A repayment schedule where the sum of interest payment and repayment amounts (annuity) is constant throughout the amortization schedule at fixed intervals. Over time, the interest amount falls, while the repayment amount increases, but the installment remains the same.

Arbitrage

Buying (or borrowing) in one market and selling (or lending) in the same or another market to profit from market inefficiencies or price differences.

Arrangement on Guidelines for Officially Supported Export Credits

The Arrangement is a gentleman's agreement governing the provision of officially supported *export credits* with a credit period of two years or more. It is negotiated by an international body called the Participants to the *Arrangement on Guidelines for Officially Supported Export Credits*, which meets in Paris under the auspices, and with the administrative support, of the Secretariat of the OECD. The Participants are Australia, Canada, the European Union (including all the Member States), Japan, Korea, New Zealand, Norway, Switzerland, and the United States.

Average Maturity

Average maturity is defined as the weighted average time to maturity of all principal payments. The maturity of each principal payment is weighted by the value in the unit of account of that payment relative to all principal payments, and aggregated. This indicator shows how long it takes on average to rollover the debt portfolio. A shortening suggests that the portfolio is being rolled over more frequently and therefore is more exposed to refinancing risks. Like SDR allocations, the exclusion of perpetual bonds from the calculation of average maturity should be considered.

Average Time to Refixing

The average time to refixing is a measure of weighted average time until the interest rate on the whole debt portfolio is refixed. The larger the percentage of variable debt within total debt, the shorter the average time to refixing. For zero-coupon bonds and bonds with fixed coupons, the period until refixing corresponds to the residual life of the bond.

B

Balance of Payments

A statistical statement that systematically summarizes, for a specific period of time, transactions between residents and nonresidents. It consists of the goods and services accounts, the primary and secondary income accounts; the capital account; and the financial account.

Bank for International Settlements (BIS)

Established in 1930 by intergovernmental convention, the BIS promotes discussion and facilitates cooperation among central banks. In this capacity, the BIS carries out four main activities: (1) it organizes meetings for central banks and supervisory agencies; (2) it supports economic, monetary, financial, and legal research and it is a hub for sharing statistical information amongst central banks, and publishing statistics on global banking, securities, foreign exchange and derivatives markets; (3) it organizes seminars and workshops; and (4) it offers a wide range of financial services to assist central banks and other official monetary institutions in the management of their foreign reserves.

Berne Union

The International Union of Credit and Investment Insurers (Berne Union). This Union is an informal association of *export credit insurance agencies and/or investment insurance companies and agencies*, founded in 1934. The two main objectives of the Berne Union are the promotion of the international acceptance of sound principles in export credit insurance and investment insurance, and the exchange of information relating thereto. The almost 50 members meet several times per year at general or specialist meetings to exchange information and discuss matters of common interest. They also consult with each other on a continuing basis, and cooperate closely. All members participate as insurers and not as representatives of their governments.

Bilateral Deadline

In the context of Paris Club *reschedulings*, the date by which all bilateral agreements must be concluded. It is set in the *Agreed Minute* and is typically about six months later, but can be extended upon request.

Bilateral Debt

Loans extended by a bilateral *creditor*.

Bilateral Rescheduling Agreements

Rescheduling agreements reached bilaterally between the *debtor* and *creditor* economies. These are legally the equivalent of new loan agreements. After a Paris Club *rescheduling*, such agreements are required to put into effect the *debt restructuring* set forth in the multinational *Agreed Minute*.

Bullet Repayment

The repayment of principal in a single payment at the maturity of the debt.

Buyer's Credit

A financial arrangement in which a bank or financial institution, or an *export credit agency* in the exporting economy, extends a loan directly to a foreign buyer or to a bank in the importing economy to pay for the purchase of goods and services from the exporting economy. Also known as financial credit. This term does not refer to credit extended directly from the buyer to the seller (e.g., through trade credit and advances payment for goods and services).

C

Capital Account

In the balance of payments, the capital account shows (1) *capital transfers* receivable and payable between residents and nonresidents and (2) the acquisition and disposal of nonproduced, nonfinancial assets between residents and nonresidents.

Capital Transfers

Consists of transfers in which the ownership of an asset (other than cash and inventories) changes from one party to another; or which obliges one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven, by the *creditor*.

Capitalized Interest

Capitalized interest is the conversion of accrued *interest* costs or future interest payments, by a contractual arrangement with the creditor, into a new *debt instrument* or *principal of the current debt instrument*. The most common form of capitalization is the reinvestment of interest costs into the principal amount, either because of an explicit agreement regarding the specific debt instrument or as part of a *rescheduling agreement*. Frequently as part of a rescheduling agreement, some percentage of interest due during the *consolidation period* (see below) is converted, through an agreement made with the *creditor*, into principal.

Claim Payments

Payments made to exporters or banks after the *claims-waiting period* by an *export credit agency* on insured or guaranteed loans when the original borrower or borrowing-economy guarantor fails to pay. Claim payments are recorded by the agencies as unrecovered claims until they are recovered from the *debtor* or the debtor's guarantor.

Claims-Waiting Period

The period that exporters or banks must wait after the due-date of payment before the *export credit agency* will pay on the corresponding claim.

Cofinancing

The joint or parallel financing of programs or projects through loans or grants to developing economies provided by commercial banks, *export credit agencies*, other official institutions in association with other agencies or banks, or the World Bank and other multilateral financial institutions (see also *Multilateral Creditors*).

Commercial Credit

In the context of the Paris Club, loans originally extended on terms that do not qualify as *official development assistance* (ODA) credits. These are typically *export credits* on market terms but also include other non-ODA loans by governments.

Commercial Interest Reference Rates (CIRRs)

A set of currency-specific interest rates for OECD countries. CIRRs have been established on the basis of secondary market yields on government bonds. These data are published monthly on the Internet at www.oecd.org/tad/xcred/cirrs.pdf. CIRRs are adjusted monthly and are intended to reflect commercial rates.

Commercial Risk

In the context of *export credits*, the risk of nonpayment by a nonsovereign or private sector buyer or borrower in his or her domestic currency arising from default, insolvency, and/or a failure to take up goods that have been shipped according to the supply contract (contrasted with *transfer risk* arising from an inability to convert domestic currency into the currency in which the *debt service* is payable, or with broader *political risk*).

Commitment

Generally, a firm obligation to lend, guarantee, or insure resources of a specific amount under specific financial terms and conditions. However, in the

OECD's *Arrangement on Guidelines for Officially Supported Export Credits*, commitment simply refers to any statement, in whatever form, whereby the willingness or intention to provide official support is communicated to the recipient economy, the buyer, the borrower, the exporter, or the financial institution.

Commitment Charge (or Fee)

This is the charge made for holding available the *undisbursed* balance of a loan commitment. Typically, it is a fixed-rate charge (e.g., 1.5 percent a year) calculated on the basis of the undisbursed balance.

Commitment, Date of

The date on which the *commitment* is made.

Comparable Treatment

An understanding in a *debt-restructuring* agreement with the Paris Club *creditors* that the *debtor* will secure at least equivalent *debt relief* from other creditors.

Complete Market

A financial market place is said to be complete when a market exists with an equilibrium price for every asset in every possible state of the world.

Completion Point

In the context of the *HIPC Initiative* (see below), when the IMF and World Bank Executive Boards decide that an economy has met the conditions for assistance under the Initiative. The timing of the completion point depends on the satisfactory implementation of key structural policy reforms agreed at the *decision point*, the maintenance of macroeconomic stability, and the adoption and implementation of a poverty reduction strategy developed through a broad-based participatory process (see also *Decision Point*).

Concessional Loans

These are loans that are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by *grace periods*, or a combination of these. Concessional loans typically have long grace periods.

Concessional Restructuring

Debt restructuring with a reduction in *present value* of the *debt service*. In the context of the Paris Club, concessional restructuring terms have been granted to *low-income countries* since October 1988 with a reduction in the present value of *eligible debt* of up to one-third (Toronto terms); since December 1991, with a present value reduction of up to one-half (London terms or "enhanced concessions" or "enhanced Toronto" terms); and, since January 1995, with a present value reduction of up to two-thirds (Naples terms). In the context of the *HIPC Initiative*, *creditors* agreed in November 1996 to increase the present value reduction to up to 80 percent (Lyon terms) and then in June 1999 to 90 percent (Cologne terms). Such restructuring can be in the form of *flow restructuring* or *stock-of-debt operations*. While the terms (*grace period and maturity*) are standard, creditors can choose from a menu of options to implement the *debt relief*.

Concessionality Level

A *net present value* calculation, measured at the time the loan is extended, that compares the outstanding *nominal value* of a debt and the future *debt-service* payments discounted at an *interest* rate applicable to the currency of the transaction, expressed as a percentage of the nominal value of the debt. The concessionality level of *bilateral debt* (or tied aid) is calculated in a similar manner, but instead of using the nominal value of the debt, the *face value* of the loan is used, i.e., including both the *disbursed* and *undisbursed* amounts, and the difference is called the *grant element* (see also *Grant Element* and *Net Present Value*).

Consolidated Amount or Consolidated Debt

The *debt-service payments* and arrears, or debt stock, restructured under a Paris Club *rescheduling agreement*.

Consolidated Banking Statistics (BIS)

The BIS consolidated banking statistics report banks' on-balance sheet financial claims on the rest of the world on an immediate borrower basis, and, after risk transfers, on an ultimate risk basis. They thereby provide a measure of the risk exposures of lenders' national banking systems. The quarterly data cover contractual lending by the head office and all its branches and subsidiaries on a worldwide consolidated basis, i.e., net of inter-office accounts.

In addition to on-balance sheet financial claims, derivative contracts, guarantees and credit commitments are also reported.

Consolidated Reporting

Reporting covering the claims and liabilities of all offices worldwide of the same entity, but excluding positions between offices of the same entity. Offices include head offices, branch offices, and subsidiaries. A consolidated balance sheet refers to a balance sheet grouping of assets and liabilities of a parent company and all its offices, after elimination of all unrealized profits on intragroup trading and of all intragroup balances.

Consolidation Period

In Paris Club restructuring agreements, the period in which *debt service* to be restructured (the "current maturities consolidated") have fallen or will fall due. The beginning of the consolidation period may precede, coincide with, or come after the date of the *Agreed Minute*. The standard consolidation period is one year, but sometimes debt payments over a two- or three-year period have been consolidated, corresponding with a multiyear arrangement with the IMF.

Contingent Asset/Liability (Contingencies)

Contingent assets and liabilities are contractual financial arrangements between institutional units that do not give rise to unconditional requirements either to make payments or to provide other objects of value. They are not recognized as financial assets or liabilities prior to the condition(s) being fulfilled. Lines of credit, letters of credit, and loan commitments assure that funds will be made available, but no financial asset (i.e., loan) is created until funds are actually advanced.

Corporations

Corporations in the legal sense are separate legal entities, so qualify as institutional units, except resident artificial subsidiaries (see *BPM6*, paragraph 4.18). In addition to corporations in the legal sense, some arrangements that are not legal entities in their own right may be recognized as being institutional units, including cooperatives, limited liabilities partnerships that are not incorporated, notional residents units, and other quasi-corporations. For example, branches in separate economies from their head offices and partnerships are not separate legal entities, but may be treated as corporations because they behave in similar ways (see *BPM6*, paragraph 4.15).

Coupon

A coupon payment of a bond is a periodic interest payment that the bondholder receives during the time between when the bond is issued and when it matures.

Cover

Provision of *export credit* guarantee or insurance against risks of payment delays or nonpayments relating to export transactions. Cover is usually, though not always, provided for both *commercial risk* and *political risk*. In most cases, cover is not provided for the full value of future *debt-service* payments; the percentage of cover is typically between 90 percent and 95 percent (see also *Quantitative Limits*).

Coverage of Rescheduling Agreements

The *debt service* or arrears rescheduled. Comprehensive coverage implies the inclusion of most or all *eligible debt service* and arrears.

Credit

An amount for which there is a specific obligation of repayment. Credits include loans, trade credits, bonds, bills, etc., and other agreements that give rise to specific obligations to repay over a period of time usually, but not always, with *interest*. Credit is extended to finance consumption and investment expenditures, and financial transactions.

Credit Guarantee

Commitment by an *export credit agency* to reimburse a lender if the borrower fails to repay a loan. The lender pays a guarantee fee.

Credit Insurance

The main business of most *export credit agencies* is insurance of finance provided by exporters or banks (although some major agencies lend on their own account). Insurance policies provide for the export credit agency to reimburse the lender for losses up to a certain percentage of the *credit* covered and under certain conditions. Lenders or exporters pay a premium to the export credit agency. Insurance policies typically protect the lender against political or *transfer risks* in the borrowing economy that prevent the remittance of *debt-service* payments.

Creditor

An entity with a *financial claim* on another entity.

Creditor Economy

The economy in which the creditor resides. In Paris Club terminology, it is an official bilateral creditor.

Creditor Reporting System

A statistical reporting system maintained by the OECD on aid activities. It contains detailed quantitative and descriptive data on individual aid projects and programs. CRS data are used to analyze the sectoral and geographical breakdown of aid for selected years and donors, to examine aid that promotes specific policy objectives (gender quality, environmental sustainability, and aid for trade), and to monitor donors' compliance with various international recommendations in the field of development cooperation and the debt of developing economies. Major creditor economies, primarily the 23 member economies—at the time of writing the *Guide*—of the DAC, together with the European Commission, other donors, and international organizations supply information (see www.oecd.org/dac/stats/data).

Cross-Border Positions

Asset and liability positions of residents of an economy vis-à-vis residents of all other economies.

Currency of Denomination

The currency of denomination is determined by the currency in which the value of flows and positions is fixed as specified in the contract between parties. Accordingly, all cash flows are determined using the currency of denomination and, if necessary, converted into the domestic currency or another unit of account for the purpose of settlement or compilation accounts. The currency of denomination is important for distinguishing transaction values and holding gains and losses.

Currency of Reporting

The unit of account in which amounts are reported either to the compiling agency and/or to an international agency compiling debt statistics. See Chapter 2 for details on unit of account.

Currency of Settlement

The currency of settlement is determined by the currency in which the values of the flows and positions are settled. It is important for international liquidity and measurement of potential foreign exchange drains. The currency of settlement may be different from the currency of denomination. Using a currency of settlement that is different from the currency of denomination simply means that a currency conversion is involved each time a settlement occurs.

Currency of Transaction

The medium of exchange in which an individual transaction occurs. It may be currency, 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

The current account of the balance of payments covers all transactions of goods, services, primary income, and secondary income between residents and nonresidents. The current account balance shows the difference between the sum of exports and income receivable and the sum of imports and income payable (exports and imports refer to both goods and services, while income refers to both primary and secondary income). The value of the current account balance equals the saving-investment gap for the economy.

Current Maturities

In the context of restructuring agreements, *principal* and *interest* payments falling due in the *consolidation period*.

Current Transfers

Current transfers are all transfers, i.e., the transfer of a real resource or a financial item without a quid pro quo—that are not transfers of capital. Current transfers directly affect the level of disposable income and should influence the consumption of goods and services. Current transfers are classified in the secondary income account of the balance of payments.

Custom-Tailored Repayment

A repayment schedule with uneven intervals and uneven repayment installments. The repayment schedule is usually defined for purposes of satisfying cash flow requirements.

Cutoff Date

The date (established at the time of a country's first Paris Club *debt reorganization/restructuring*) before which loans must have been contracted in order for their *debt service* to be eligible for restructuring (pre-cutoff-date debt). New loans extended after the cutoff date are protected from future restructuring (*subordination strategy*). In exceptional cases, arrears on post-cutoff-date debt can be deferred over short periods of time in restructuring agreements.

D

De Minimis Creditors (or Clause)

Minor creditors that are exempted from *debt restructuring* to simplify implementation of the Paris Club restructuring agreements. Their claims are payable in full as they fall due. An exposure limit defining a minor creditor is specified in each *Agreed Minute*.

Debt- and Debt-Service-Reduction (DDSR) Operations

Debt-restructuring agreements are typically undertaken for bank loan debt obligations and involve the buyback and exchange of *eligible debt* either for financial instruments that are valued at a substantial discount (simple cash buyback) or for new bonds featuring a *present value* reduction. In some instances, the principal portion of new financial instruments is fully collateralized with zero-coupon bonds issued by the treasury of an advanced economy, while interest obligations are also partially secured. DDSR operations are characterized by a "menu approach," allowing individual creditors to select from among several DDSR options. Under the Brady Plan of March 1989, some of these arrangements have been supported by loans from official creditors.

Debt Assumption

Debt assumption is a trilateral agreement between a creditor, a former debtor, and a new debtor under which the new debtor assumes the former debtor's outstanding liability to the creditor and is liable for repayment of the debt. The activation of a guarantee is an example of debt assumption.

Debt Buyback

The repurchase by a debtor of its own debt, usually at a substantial discount. The debtor's obligations are reduced while the *creditor* receives a once-and-for-all payment. Although in apparent contravention of standard commercial bank loan agreements, some debtors have bought back their own debt on the secondary market.

Debt Conversion

The exchange of debt for a nondebt liability, such as equity, or for counterpart funds can be used to finance a particular project or policy.

Debt Default

Failure to meet a debt obligation payment, either *principal* or *interest*. A payment that is overdue or in arrears is technically "in default," since by virtue of nonpayment the borrower has failed to abide by the terms and conditions of the debt obligation. In practice, the point at which a debt obligation is considered "in default" will vary.

Debt-for-Charity Swap

The purchase by a nonprofit organization such as a nongovernmental organization (NGO) of the *external debt* of an economy 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 economy 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 to service the debt.

Debt-for-Development Swap

Financing part of a development project through the exchange of a foreign-currency-denominated debt for local currency, typically at a substantial discount. The process normally involves a foreign nongovernmental organization (NGO) that purchases the debt from the original creditor at a substantial discount using its own foreign currency resources, and then resells it to the debtor economy government for the local currency equivalent (resulting in a further discount). The NGO in turn spends the money on a development project, previously agreed upon with the debtor economy government.

Debt-for-Equity Swap

A transaction in which debt of an economy is exchanged, usually at a discount, for equity in an enterprise in the same economy. Although variable in form, such arrangements usually result in the extinction of a fixed-rate liability (e.g., a debt security or loan) denominated in foreign currency and the creation of an equity liability (denominated in domestic currency) to a nonresident. There may be clauses in the agreement to prevent the repatriation of capital before some specified future date.

Debt-for-Nature Swap

Similar to a *debt-for-development swap*, except that the funds are used for projects that improve the environment.

Debt Forgiveness

The voluntary cancellation of all or part of a debt within a contractual arrangement between a *creditor* in one economy and a debtor in another economy.

Debt Instrument(s)

Existing debt instruments typically arise out of contractual relationships under which an institutional unit (the *debtor*) has an unconditional liability to another institutional unit (the *creditor*) to repay principal with or without interest, or to pay interest without principal. These instruments include SDRs, currency and deposits, debt securities, loans, trade credit and advances, insurance, pension, and standardized guarantee schemes and other accounts payable/receivable-other. Debt instruments may also be created by the force of law—in particular, obligations to pay taxes or to make other compulsory payments—or through rights and obligations that results in a debtor accepting an obligation to make future payment(s) to a *creditor*.

Debt Prepayment

Debt prepayments consist of a repurchase, or early payment, of debt at conditions that are agreed between the debtor and the creditor, i.e., debt is extinguished in return for a cash payment agreed between the debtor and the creditor. When a discount is involved relative to the nominal value of the debt, debt prepayments are referred to as buybacks.

Debt-Reduction Option

Option under concessional Paris Club *debt restructurings* where *creditors* effect the required debt reduction in *present value* terms through a reduction of the *principal* of the *consolidated amount*. A commercial *interest* rate and standard repayment terms apply to the remaining amounts. (See *Concessional Restructuring*.)

Debt Refinancing

Debt refinancing refers to the conversion of the original debt including arrears, into a new *debt instrument*. In other words, overdue payments or future *debt-service* obligations are "paid off" using a new debt obligation. In the *Guide*, as in *BPM6*, a change in the terms of a debt instrument is to be reported as the creation of a new debt instrument, with the original debt extinguished.

Debt Relief

Any form of *debt reorganization* that relieves the overall burden of debt. Debt relief results where there is a reduction in the *present value* of these *debt-service* obligations and/or a deferral of the payments due, thus providing smaller near-term debt-service obligations. This can be measured, in most cases, by an increase in the duration of these obligations, i.e., payments become weighted more toward the latter part of the *debt instrument*'s life. However, if debt reorganization results in changes in present value and duration that are countervailing in their impact on the debt burden, then there is no debt relief, unless the net impact is significant—such as could occur if there was a deep reduction in present value (together with small decrease in duration) or a sharp increase in duration (together with a small increase in present value).

Debt Reorganization/Restructuring

Debt reorganization (also referred to as debt restructuring) is defined as arrangements involving both the creditor and the debtor (and sometimes third parties) that alter the terms established for servicing an existing debt. Types of debt reorganization include debt rescheduling, refinancing, forgiveness, conversion, prepayments, and assumption.

Debt Rescheduling

Debt rescheduling refers to the formal deferment of *debt-service* payments and the application of new and extended maturities to the deferred amount. Resched-

uling debt is one means of providing a debtor with *debt relief* through a delay and, in the case of concessional rescheduling, a reduction in debt-service obligations.

Debt Service

Refers to payments in respect of both *principal* and *interest*. Actual debt service is the set of payments actually made to satisfy a debt obligation, including principal, interest, and any late payment fees. Scheduled debt service is the set of payments, including principal and interest, which is required to be made through the life of the debt.

Debt-Service (-to-Exports) Ratio

The ratio of debt service (*interest* and *principal* payments due) during a year, expressed as a percentage of exports (typically of goods and services) for that year. Forward-looking debt-service ratios require some forecast of export earnings. This ratio is considered to be a key indicator of an economy's debt burden.

Debt-Service-Reduction Option

Option under concessional Paris Club *debt reschedulings* where *creditors* effect the required debt reduction in *present value* terms through a reduction in the applicable interest rate. (See *Concessional Restructuring*.)

Debt-Sustainability Analysis (DSA)

A study of an economy's medium- to long-term debt situation. The IMF's advice on macroeconomic policies—both in the context of IMF-supported programs and surveillance—is anchored in the analysis of a country's capacity to finance its policy objectives and service the ensuing debt without unduly large adjustments, which could otherwise compromise its stability. To this end, the IMF has developed a formal framework for conducting public and external debt sustainability analyses (DSAs) as tools to better detect, prevent, and resolve potential crises. This framework became operational in 2002 (see www.imf.org/external/pubs/ft/dsa/index.htm)

Debt-Sustainability Framework (DSF)

As part of the Millennium Development Goals (MDGs), the IMF and the World Bank have developed a framework to help guide countries and donors in mobilizing the financing of low-income countries' development needs, while reducing the chances of an excessive build-up of debt in the future. The DSF was introduced in April 2005, and is periodically reviewed, to address this challenge. Under the DSF, debt sustainability analyses (DSAs) are conducted regularly.

Debt Swaps

Debt swaps are exchanges of debt, such as loans or debt securities, for a new debt contract (i.e., debt-to-debt swaps), or exchanges of *debt-for-equity*, debt-for-exports, or debt-for-domestic currency, such as to be used for projects in the debtor economy (also known as *debt conversion*).

Debt Workout

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

Debt Write-Offs

Debt write-offs are unilateral actions through which a creditor can reduce the value of its debt claims on the debtor in its own books. Write-offs may arise, for instance, when the creditor regards a claim as unrecoverable, perhaps because of bankruptcy of the debtor, and so no longer carries it on its books. The corresponding liability should also be removed from the balance sheet of the debtor.

Debtor and Creditor Approach for Defining and Measuring Interest for Debt Securities

Under the debtor approach, when debt securities are issued at a fixed rate, the rate of interest (original yield-to-maturity) payable, and accruing, is fixed at the time the debt security is issued. Under the creditor approach, when debt securities are issued at a fixed rate, the prevailing market rate during the period is used to determine the interest (current yield-to-maturity) paid on a debt security (see *BPM6*, paragraph 11.52).The external debt position is the same regardless of the method employed to accrue interest.

Debtor Economy

The economy in which the debtor resides.

Debtor Reporting System (DRS)

The World Bank collects through the Debtor Reporting System (DRS) data on external indebtedness from

debtor countries that have received either a World Bank loan or an International Development Association (IDA) credit. These data form the core of the detailed country-level debt stock and flow data that are published annually in the *Global Development Finance* (*GDF) publication.*

Decision Point

In the context of the *HIPC Initiative*, the point at which an economy's eligibility for assistance is determined by the IMF and World Bank Executive Boards on the basis of a *debt-sustainability analysis* and three years of sound performance under IMF- and World Bank-supported adjustment programs. The international community enters into a commitment at the *decision point* to deliver assistance at the *completion point*, provided that the *debtor* adheres to its policy commitments. The debt-sustainability analysis is essentially a medium-term *balance of payments* projection that assesses the debt burden of the economy and its capacity to service those obligations. If external debt ratios for that economy fall within or above applicable targets, it will be considered for special assistance: the target is 150 percent for the ratio of the *present value* of debt to exports, with exceptions to this target in the special case of very open economies with a high debt burden in relation to fiscal revenues (see also *Completion Point*).

At the decision point, the Executive Boards of the IMF and World Bank will formally decide on an economy's eligibility, and the international community will commit to provide sufficient assistance by the completion point for the economy to achieve debt sustainability calculated at the decision point. The delivery of assistance committed by the IMF and Bank will depend on satisfactory assurances of action by other creditors.

Deferred Payments

In the context of Paris Club debt reschedulings, obligations that are not consolidated but postponed nonconcessionally, usually for a short time, as specified in the *Agreed Minute*.

Delivery-Versus-Payment (DVP)

Delivery-versus-payment (DVP) refers to the simultaneous exchange of the value of assets and money. This approach is widely used for settlement of securities.

Development Assistance Committee (DAC) of the OECD

Since the early 1960s the OECD's DAC has grouped the world's main donors, defining and monitoring global standards in key areas of development and is a unique forum for sharing views and exchanging lessons. Through wide-ranging partnerships for development, the DAC tracks development finance, helping to make sure the finance is invested effectively and promotes good policy. Over the years, the DAC has worked to provide innovative and integrated approaches to a range of development challenges—from climate change to conflict and gender equality—and played a role in forging major international development commitments, including the Millennium Development Goals and the Paris Declaration on Aid Effectiveness. The DAC periodically reviews both the amount and the nature of its members' contributions to aid programs, both bilateral and multilateral. The DAC does not disburse assistance funds directly, but is concerned instead with promoting increased assistance efforts by its members. The members of the DAC are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States, and the European Union (see www.oecd.org/dac).

Direct Investment Enterprise

An entity subject to control or a significant degree of influence by a *direct investor*. Control or influence may be achieved directly by owning equity that gives voting power in the enterprise, or indirectly by having voting power in another enterprise that has voting power in the enterprise (see *BPM6*, paragraphs 6.11 and 6.12).

Direct Investor

An entity or group of related entities that is able to exercise control or significant degree of influence over another entity that is resident of a different economy. Control or influence may be achieved directly by owning equity that gives voting power in the enterprise, or indirectly by having voting power in another enterprise that has voting power in the enterprise (see *BPM6*, paragraphs 6.11 and 6.12).

Disbursed Loans

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

Disbursements

The transactions of providing financial resources. The two counterparties must record the transaction simultaneously. In practice, disbursements are recorded at one of several stages: provision of goods and services (where trade credit is involved); 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 "utilized" may apply when the credit extended is in a form other than currency. Disbursements should be recorded gross—the actual amount disbursed.

Domestic Currency

Domestic currency is that which is legal tender in the economy and issued by the monetary authority for that economy, i.e., either that of an individual economy or, in a currency union, that of the common currency area to which the economy belongs. All other currencies are foreign currencies.

Duration

Duration is the weighted average term to maturity of a *debt instrument*. The time period until the receipt/payment of each cash flow, such as six months, is weighted by the *present value* of that cash flow, as a proportion of the present value of total cash flows over the life of the instrument. Present value can be calculated using the yield-to-maturity or another *interest* rate. The more the cash flows are concentrated toward the early part of a debt instrument's life, the shorter the duration relative to the time to maturity.

E

Eligible Debt or Debt Service

In the context of the Paris Club, debt that can be rescheduled—namely, debt that is contracted before the *cutoff date*, with maturities of one year or longer.

Enhanced Concessions (or Enhanced Toronto Terms)

See *Concessional Restructuring*.

ESAF-HIPC Trust

A trust established by the IMF in February 1997 to provide assistance to the countries deemed eligible for assistance under the HIPC Initiative by the Boards of the IMF and the World Bank. Through this trust, the IMF will provide grants (or, in exceptional circumstances, highly concessional loans) that will be used to retire an economy's obligations falling due to the IMF after the completion point.

Escrow Accounts

In the context of *external debt* payments, accounts typically held in banks outside of the *debtor economy* through which a portion of the export proceeds of a *debtor* is channeled. Typically involve balances of one-year maturity to cover future *debt-service* payments. *Creditors* who are the beneficiaries of such accounts thus obtain extra security for their loans and effective priority in *debt service*.

Exceptional Financing

As an alternative to—or in conjunction with—the use of reserve assets, IMF credit and loans, and liabilities constituting foreign authorities' reserves, to deal with payments imbalance, exceptional financing denotes any other arrangements made by the authorities of an economy to finance *balance of payments* needs. The identification of exceptional financing transactions is linked to an analytical concept rather than being based on precise criteria. Among the transactions regarded as exceptional financing transactions are *debt forgiveness*, *debt-for-equity swaps*, and other types of transactions relating to *debt reorganizations*. Under certain circumstances, some borrowings by the government or other sectors might meet the criterion.

Export Credit

A loan extended to finance a specific purchase of goods or services from within the *creditor economy*. Export credits extended by the supplier of goods—such as when the importer of goods and services is allowed to defer payment—are known as *supplier's credits*; export credits extended by a financial institution, or an *export credit agency* in the exporting economy are known as *buyer's credits* (see also *Officially Supported Export Credits*).

Export Credit Agency

An agency in a *creditor economy* that provides insurance, guarantees, or loans for the export of goods and services.

Extended Credit Facility (ECF)

The IMF's Extended Credit Facility (ECF) is a lending window under the PRGT that provides medium-term support to low income countries with protracted balance of payments problems. Financing under the ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years (see www.imf.org/external/np/exr/facts/poor.htm).

Extended Fund Facility (EFF)

This IMF lending facility was established in 1974 to assist countries addressing longer-term *balance of payments* problems reflecting extensive distortions that require fundamental economic reforms. Arrangements under the EFF are thus longer than Stand-By Arrangements—usually 3 years. Repayment is due within four-and-one-half to ten years from the date of disbursement (see *Stand-By Arrangement*).

External Debt (Gross External Debt)

Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of *interest* and/or *principal* by the *debtor* at some point(s) in the future and that are owed to nonresidents by residents of an economy.

F

Face Value

Face value is the undiscounted amount of principal to be paid to the holder at maturity (e.g., the redemption amount of a bond). Sometimes called initial contractual value, for loans, the face value is the original amount of the loan as stated in the loan contract. If the loan is not fully disbursed, then the face value will include future disbursements, just as the face value of a zero-coupon bond includes *interest* that has not yet accrued. It is also known as "par value" or simply "par."

Fair Value

Fair value of a debt instrument is a market-equivalent value. It is defined as the amount for which an asset could be exchanged, or a liability settled between knowable, willing parties in an arm's-length transaction. Therefore, it represents an estimate of what could be obtained if the creditor had sold the financial claim.

Fellow Enterprises

See *Affiliates*.

Financial Account

The financial account of the *balance of payments* records transactions that involve foreign financial assets and liabilities and take place between residents and nonresidents (see more detail in *BPM6,* Chapter 8). The primary basis for classification of the financial account is functional: direct, portfolio, and other investment, financial derivatives and employee stock options, and reserve assets.

Financial Assets

Financial assets are stores of value, over which ownership rights are enforced and from which their owners may derive economic benefits—such as property income and/or holding gains and losses—by holding them over a period of time. Financial assets consist of claims in respect of equity and investment fund shares, debt instruments, financial derivatives and ESOs and the gold bullion component of monetary gold.

Financial Claim

A financial claim (1) entitles a *creditor* to receive a payment, or payments, from a *debtor* in circumstances specified in a contract between them; or (2) specifies between the two parties certain rights or obligations, the nature of which requires them to be treated as financial. A financial claim has a counterpart liability.

Financial Derivatives

Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative derives from the price of an underlying item, such as an asset or index. Unlike *debt instruments*, no principal amount is advanced to be repaid, and no investment income accrues. Financial derivatives are used for a number of purposes including risk management, hedging, *arbitrage* between markets, and speculation. Transactions in financial derivatives should be treated as separate transactions rather than integral parts of the value of underlying transactions to which they may be linked.

Financial Intermediaries

Financial intermediaries are institutional units that incur liabilities on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market. They consist of deposit-taking corporations, investment funds, other financial intermediaries, insurance corporations, and pension funds. The role of financial intermediaries is to channel funds from lenders to borrowers by intermediating between them. The most prevalent way in which financial intermediaries obtain funds is through acceptance of deposits from the public (see *SNA 2008*, paragraph 4.101 and *BPM6*, paragraph 4.64(a)).

Flag-of-Convenience Countries

Countries with favorable tax rules and other regulations attracting corporations whose main business (originally, primarily shipping—but increasingly, production or services) is outside the economy.

Flexible Credit Line (FCL)

The FCL is an IMF credit facility designed to meet the increased demand for crisis-prevention and crisis-mitigation lending from countries with robust policy frameworks and very strong track records in economic performance. FCL arrangements are requested by member countries and are approved by the IMF Executive Board, for countries meeting pre-set qualification criteria. The length of the FCL is one to two years (with an interim review of continued qualification after one year) and the repayment period the same as for the SBA. Access is determined on a case-by-case basis, is not subject to the normal access limits, and is available in a single up-front disbursement rather than phased. Disbursements under the FCL are not conditioned on implementation of specific policy understandings as is the case under the SBA. There is flexibility to either draw on the credit line at the time it is approved or treat it as precautionary. In case a member draws, the repayment terms are the same as that under the SBA.

Flow Rescheduling

In the context of the Paris Club, the rescheduling of specified *debt service* falling due during the *consolidation period* and, in some cases, of specified arrears outstanding at the beginning of the consolidation period (see *Stock-of-Debt Operation*).

Foreign Currency

In this *Guide*, a foreign currency is a currency other than the domestic currency.

Forfaiting

A mechanism, most commonly used in medium- and long-term credit, involving the purchase of promissory notes or bills of exchange by the forfaiter, at a discount. Banks or other financial services entities often own forfait companies.

Fund Credit

See Use of IMF Credit and Loans in Appendix 1.

G

Geographical Distribution of the Financial Flows to Developing Countries (Annual)

An annual publication of the OECD that provides comprehensive data on the volume, origin and types of aid and other resource flows to around 150 developing countries. The data show each country's intake of official development assistance and well as other official and private funds from members of the OECD's DAC, multilateral agencies and other key donors. Key development indicators are provided for reference.

Goodwill Clause

Clause used in Paris Club agreements under which *creditors* agree in principle, but without commitment, to consider favorably subsequent *debt-relief* agreements for a *debtor economy* that remains in compliance with the restructuring agreement as well as with its IMF arrangement, and has sought comparable debt relief from other creditors. The clause can be intended for a future flow restructuring or a *stock-of-debt operation*.

Government Debt Management Performance Assessment (DeMPA)

The DeMPA is designed to help countries improve central government debt management capacity through a comprehensive evaluation of the strengths and weakness of current debt management performance, identifying areas where institutions, legislation, practices, and capacity deficits contribute to less-than fully effective management of government debt and related economic policies. The DeMPA evaluates strengths and weaknesses in public debt management, through a comprehensive set of 15 performance indicators covering six core areas

of public debt management: (1) governance and strategy development; (2) coordination with macroeconomic policies; (3) borrowing and related financing activities; (4) cash flow forecasting and cash balance management; (5) operational risk management; and (6) debt records and reporting. Its scope is central government public debt management and closely related functions such as issuance of loan guarantees, on-lending and cash flow forecasting and cash balance management. The World Bank was the lead agency in the process of developing the DeMPA tool. For more information see http://go.worldbank.org/BDYOEXLFL0.

Grace Period and Maturity

The grace period for *principal* is the period from the date of signature of the loan or the issue of the financial instrument to the first repayment of principal. The repayment period is the period from the first to last repayment of principal. Maturity is the sum of both periods: grace plus repayment periods.

Graduated Payments (or "Blended Payments")

In the context of Paris Club reschedulings, the term refers to a repayment schedule where *principal* repayments gradually increase over the repayment period, reflecting an expected improvement in the repayment capacity of a *debtor economy. Creditors* have made increasing use of the graduated payments, replacing flat payment schedules where equal amounts of principal repayments were made over the repayment period: from the creditor perspective, graduated payments provide for principal repayments starting earlier, and, from the *debtor* perspective, they avoid a large jump in *debt service.*

Grant Element

Measure of the concessionality of a loan, calculated as the difference between the *face value* of the loan and the sum of the discounted future *debt-service* payments to be made by the borrower expressed as a percentage of the face value of the loan. A 10 percent rate of discount is used by the DAC and the World Bank to measure the grant element of official loans (see also *Development Assistance Committee, Concessionality Level,* and *Official Development Assistance*).

Grant-Like Flows

Loans for which the original agreement stipulates that payments to service the debt are to be placed into an account in the borrowing economy and used in the borrowing economy to the benefit of that economy. These transactions are treated as "grants (transfers)" in the OECD-DAC statistics because their repayment does not require a flow of foreign currency across the exchanges. They are nevertheless counted as *external debt* because the *creditor* is nonresident. (The classification of these transactions as transfers is not consistent with *BPM6* recommendations. In *BPM6*, transfers are regarded as transactions where a real resource or financial item is provided but no quid pro quo is received. In the above transaction, in return for a reduction in outstanding debt, domestic currency is provided.)

Gross Domestic Product (GDP)

Essentially, the sum of the gross value added of all resident producer units plus that part (possibly the total) of taxes on products, less subsidies on products, that is not included in the valuation of output. For further details, see *2008 SNA,* paragraphs 2.138–2.140.

Gross National Income (GNI)

GDP plus net primary income from abroad. For further details, see *2008 SNA*, paragraphs 2.143–2.145.

H

Heavily Indebted Poor Countries (HIPCs)

Group of developing countries (economies) classified as being heavily indebted poor countries. These are those countries that are eligible for highly concessional assistance from the *International Development Association* (IDA), and from the IMF's *Poverty Reduction and Growth Facility* (PRGF, previously the Enhanced Structural Adjustment Facility, ESAF), and that face an unsustainable debt situation even after the full application of traditional *debt-relief* mechanisms.

Helsinki Package

Agreement that came into force in 1992. This agreement prohibits (with some exceptions) the provision of *tied aid loans* to *high-income countries* (based on World Bank per capita income), and for commercially viable projects (see also *Arrangement on Guidelines for Officially Supported Export Credits*).

High-Income Countries

The World Bank classifies as high-income those countries with GNI per capita income of $12,476 or more

in 2011. Income classifications are set each year on July 1, and are fixed during the period ending on June 30 of the following year (see http://data.worldbank.org/about/country-classifications).

HIPC Initiative

Framework for action to resolve the external debt problems of *heavily indebted poor countries* (HIPCs) that was developed jointly by the IMF and the World Bank and was adopted in September 1996. The Initiative envisaged comprehensive action by the international financial community, including multilateral financial institutions, to reduce to sustainable levels the *external debt* burden on HIPCs, provided they build a track record of strong policy performance.

Following a comprehensive review of the HIPC Initiative, a number of modifications to the Initiative were approved in September 1999 to provide faster, deeper, and broader *debt relief* and strengthen the links between debt relief, poverty reduction, and social policies.

In 2005, to help accelerate progress toward the UN Millennium Development Goals, the HIPC initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI).

HIPC Trust Fund

The Trust Fund administered by the International Development Association (IDA) to provide grants to eligible *heavily indebted poor countries* (HIPCs) for relief on debt owed to participating multi-laterals. The Trust Fund will either prepay, or purchase, a portion of the debt owed to a multilateral creditor and cancel such debt, or pay *debt service*, as it comes due. The HIPC Trust Fund receives contributions from participating multilateral creditors and from bilateral donors. Contributions can be earmarked for debt owed by a particular debtor or to a particular multilateral creditor. Donors can also provide contributions to an unallocated pool and participate in decisions regarding the use of these unallocated funds. The Trust Fund allows multilateral creditors to participate in the Trust Fund in ways consistent with their financial policies and aims to address the resource constraints for certain multilateral creditors (see also *ESAF-HIPC Trust*).

Home Economy

For corporations, including quasi-corporations, the economy of residence of the head office of the institutional unit.

Host Economy

The economy in which the institutional unit is located.

Houston Terms

See *Lower-Middle-Income-Country Terms*.

I

IMF Adjustment Program

An adjustment program in a member country of the IMF. An IMF-supported program is a detailed economic program that is based on an analysis of the economic problems of the member country. It specifies the policies being implemented or that will be implemented by the country in the monetary, fiscal, external, and structural areas, as necessary, in order to achieve economic stabilization and set the basis for self-sustained economic growth. It usually, though not necessarily, refers to a program that is supported by the use of IMF resources.

IMF Arrangement

Agreement between the IMF and a member country on the basis of which the IMF provides financial assistance to a member country seeking to redress its *balance of payments* problems and to help cushion the impact of adjustment. See Appendix 1, Use of IMF Credit and Loans.

Institutional Sector

The grouping of institutional units with common economic objectives and functions (see also *Sector Classification*).

Institutional Unit

In the *2008 SNA,* institutional units are the entities that undertake the activities of production, consumption, and the accumulation of assets and liabilities. In other words, economic activity involves transactions among institutional units be they households or corporations. An institutional unit is defined in the *2008 SNA* as "an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities" (*2008 SNA*, paragraph 4.2).

Insured (Guaranteed) Export Credit

An *export credit* that carries a guarantee, issued by an *export credit agency*, protecting the *creditor*

against *political*, *commercial*, or *transfer risks* in the *debtor economy* that may prevent the remittance of *debt-servic*e payments (see also *Export Credit Agency*).

Interbank Positions

Asset and liability positions that deposit-taking corporations have with other deposit-taking corporations. As a convention to ensure symmetry, all interbank positions, other than securities and accounts receivable/payable, are classified under deposits.

Interest

For the use of *principal*, interest can, and usually does, accrue on the principal amount, resulting in an interest cost for the *debtor*. When this cost is paid periodically, as commonly occurs, it is known in this *Guide* as an interest payment. Interest can be calculated either on a fixed-interest-rate or on a variable-interest-rate basis. In this *Guide*, in contrast to a fixed interest rate, which remains unchanged over a period of years, a variable interest rate is linked to a reference index (e.g., the *London interbank offered rate,* LIBOR), or the price of a specific commodity, or the price of a specific financial instrument that normally changes over time in a continuous manner in response to market pressures (see also *Principal*).

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 Group*).

International Banking Business (BIS Data)

In the consolidated BIS statistics, international claims are defined as banks' cross-border claims (A) plus local claims of foreign affiliates in foreign currencies (B). Foreign claims are defined as the sum of cross-border claims plus foreign offices' local claims in all currencies. Therefore, on an immediate borrower basis, foreign claims can be calculated as the sum of international claims (A+B) and local claims in local currency (C).

International Development Association (IDA)

IDA, established in 1960, is the concessional lending arm of the *World Bank Group*. IDA provides low-income developing countries (economies) with long-term loans on highly concessional terms: typically a ten-year grace period, a 40-year repayment period, and only a small servicing charge.

International Interbank Market

An international money market in which banks lend to each other—either cross-border or locally in foreign currency—large amounts of funds, usually at short term (between overnight and six months).

International Investment Position (IIP)

The IIP is a statistical statement that shows at a point in time the value and composition of (1) financial assets of residents of an economy that are claims on nonresidents and gold bullion held as reserve assets, and (2) liabilities of residents of an economy to nonresidents. The difference between an economy's external financial assets and liabilities is the economy's net IIP, which may be positive or negative.

International Monetary Fund (IMF)

Following the Bretton Woods Accords and established in 1945, the IMF is a cooperative intergovernmental monetary and financial institution with 187 member countries. Its main purpose is to promote international monetary cooperation so to facilitate the growth of international trade and economic activity more generally. The IMF provides financial resources to enable its members to correct payments imbalances without resorting to trade and payments restrictions.

International Security Identification Number (ISIN)

The ISIN is a unique international security code issued by National Numbering Agencies (NNAs) to securities issued in their jurisdiction. The Association of National Numbering Agencies (ANNA) is the authority responsible for coordinating all aspects of the implementation of the ISIN numbering system. More information on the ISIN code system is available in Appendix VII of the IMF's *Coordinated Portfolio Investment Survey Guide*, 2nd ed. (IMF, 2002).

Issue Price

It is the price at which the investors buy the debt securities when first issued.

J

Joint External Debt Hub (JEDH)

The Joint External Debt Hub (JEDH)—jointly developed by the Bank for International Settlements (BIS), the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD) and the World Bank—brings together external debt data and selected foreign assets from international creditor/market and national debtor sources. The JEDH table distinguishes loans and debt securities (total and due within one year) as well as certain other debt instruments. Some selected information on foreign assets is also included. For more information see www.jedh.org/.

Joint Venture

An enterprise in which two or more parties hold major interests. See also *BPM6*, paragraphs 4.45–4.46.

L

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.

Leverage

Having exposure to the full benefits arising from holding a position in a financial asset, without having to fully fund the position with own funds.

Liability

A liability (1) requires a *debtor* to make a payment, or payments, to a *creditor* in circumstances specified in a contract between them; or (2) specifies between the two parties certain rights or obligations, the nature of which requires them to be treated as financial. A liability has a counterpart financial claim.

Line of Credit

An agreement that creates a facility under which one unit can borrow credit from another up to a specified ceiling usually over a specified period of time. Lines of credit provide a guarantee that funds will be available, but no financial asset/liability exists until funds are actually advanced.

Loan Agreement

The legal evidence and terms of a loan.

Loan Guarantee

A legally binding agreement under which the guarantor agrees to pay any or all of the amount due on a loan instrument in the event of nonpayment by the borrower.

Locational Banking Statistics (BIS)

The BIS locational banking statistics gather quarterly data on international financial claims and liabilities of bank offices in the reporting countries. Total positions are broken down by currency, by sector (bank and non-bank), by country of residence of the counterparty and by nationality of reporting banks. Both domestically owned and foreign-owned banking offices in the reporting countries record their positions on a gross (unconsolidated) basis, including those vis-à-vis own affiliates in other countries. These data are consistent with the residency principle of national accounts, balance of payments and external debt statistics.

London Club

A group of commercial banks whose representatives meet periodically to negotiate the restructuring of debts of sovereign borrowers. There is no organizational framework for the London Club comparable to that of the Paris Club.

London Interbank Offered Rate (LIBOR)

The London interbank offered rate for deposits, such as the six-month dollar LIBOR. LIBOR is a reference rate for the international banking markets and is commonly the basis on which lending margins are fixed. Thus, an original loan agreement or a *rescheduling agreement* may set the *interest* rate to the borrower at six-month dollar LIBOR plus 1.5 percent, with semiannual adjustments for changes in the LIBOR rate. In addition, interest rate swap rates are quoted in reference to LIBOR, i.e., the quoted rate is the fixed-rate side of the swap because the floating-rate side is LIBOR.

London Terms

See *Concessional Restructuring.*

Long-Maturities Option

In the context of the Paris Club, an option under which the consolidated amount is rescheduled over a long period of time, but without a reduction in the *present value* of the debt.

Long-Term External Debt

External debt that has a maturity of more than one year. Maturity can be defined either on an original or remaining basis (see also *Original Maturity* and *Remaining Maturity*).

Low-Income Countries

In the context of the Paris Club, countries eligible to receive concessional terms. The Paris Club decides eligibility on a case-by-case basis, but only countries eligible to receive highly concessional IDA credits from the World Bank Group are included. The World Bank classifies as low-income those countries with GNI per capita income of $1,025 or less in 2011. Income classifications are set each year on July 1, and are fixed during the period ending on June 30 of the following year (see http://data.worldbank.org/about/country-classifications).

Lower-Middle-Income-Country Terms

In the context of the Paris Club, refers to the rescheduling terms granted, since September 1990, to lower-middle-income countries. These terms are non-concessional and originally provided for flat repayment schedules, but in recent years graduated payment schedules have often been agreed upon for *commercial credits*, namely, with a maturity of up to 18 years, including a grace period of up to 8 years.

Official development assistance credits are rescheduled over 20 years, including a grace period of up to 10 years. This set of rescheduling terms also includes the limited use of debt swaps on a voluntary basis. The World Bank classifies as lower-middle income those countries with GNI per capita income of between $1,026 and $4,035 in 2011. Income classifications are set each year on July 1, and are fixed during the period ending on June 30 of the following year (see http://data.worldbank.org/about/country-classifications).

Lyon Terms

See *Concessional Restructuring*.

M

Market Value

Amounts of money that willing buyers pay to acquire something from willing sellers; the exchanges are made between independent parties on the basis of commercial considerations only. The market value of a *debt instrument* should be based on the market price for that instrument prevailing at the time to which the position statement refers, i.e., current market prices as of the dates involved (beginning or end of the reference period). Chapter 2 provides more details (see also *Nominal Value*).

Maturity Date (Final)

The date on which a debt obligation is contracted to be extinguished (see also *Original Maturity* and *Remaining Maturity*).

Maturity (Defined and Undefined)

Defined maturity refers to a finite time (fixed) period at the end of which the financial instrument will cease to exist and the principal is repaid with interest. Undefined maturity refers to the absence of a contractual maturity. Undefined maturity deposits include demand deposits, checking interest accounts, savings accounts, and money market accounts. Other examples of undefined maturity debt instruments are perpetual bonds.

Maturity Structure

A time profile of the maturities of claims or liabilities. Also known as "maturity profile" or "maturity distribution."

Millennium Development Goals

The Millennium Development Goals (MDGs) are eight goals—which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015—agreed to by all the world's countries and all the world's leading development institutions.

Mixed Credits

A credit that contains an aid element, so as to provide concessional credit terms—such as a lower rate of interest or a longer credit period.

Moratorium Interest

Interest charged on rescheduled debt. In the Paris Club, moratorium interest rates are negotiated bilaterally between the *debtor* and *creditor* countries and thus can differ among *creditors*. In the London Club, where all creditors are deemed to have access to funds at comparable rates, the moratorium interest rate applies equally to all rescheduled obligations under an agreement.

Multilateral Creditors

These creditors are multilateral financial institutions such as the IMF and the World Bank, as well as other multilateral development banks.

Multilateral Debt Relief Initiative (MDRI)

The HIPC Initiative entailed coordinated action by multilateral organizations and governments to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries. The MDRI goes further and provides for 100 percent relief to a group of low-income countries on eligible debt (debt claims on countries that have reached, or will eventually reach, the HIPC completion point) from the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund of the AfDB. The initiative is intended to help the low-income countries advance toward the United Nations' Millennium Development Goals (MDGs), which are focused on halving poverty by 2015.

Multilateral Tranche Loan

A multilateral tranche loan is a loan facility that comprises a number of different tranches, typically with different maturities or other distinguishing features like terms of borrowing or currency of commitment.

Multiyear Rescheduling Agreement (MYRA)

An agreement granted by official creditors that covers *consolidation periods* of two or more years in accordance with multiyear *IMF arrangements*, such as the *Extended Fund Facility* (EFF) and the *Poverty Reduction and Growth Facility* (PRGF). The modalities of the agreement are that a succession of shorter consolidations (*tranches*) are implemented after certain conditions specified in the *Agreed Minute* are satisfied, such as full implementation to date of the *rescheduling agreement* and continued implementation of the IMF arrangements.

N

Naples Terms

See *Concessional Restructuring*.

National Numbering Agencies (NNAs)

NNAs have the sole right to allocate *International Security Identification Number* (ISIN) codes to securities within their own jurisdiction.

Nationality

Economy of residence of the head office of an institutional entity.

Net Flow

From the viewpoint of a loan, the net flow is gross *disbursements* less *principal* repayments.

Net Present Value (NPV) of Debt

The nominal amount outstanding minus the sum of all future *debt-service* obligations (*interest* and *principal*) on existing debt discounted at an interest rate different from the contracted rate.

The concept is closely related to that of opportunity cost: if the *debtor* has a loan that bears a 3 percent rate of interest, it is clear that the debtor is better off than by borrowing at 10 percent. Nevertheless, by discounting the future debt-service obligations at 10 percent and comparing the outcome with the amount borrowed, the NPV will tell how much the opportunity to borrow at 3 percent, rather than at 10 percent, is worth to the debtor. The NPV can be used to assess the profitability of buying back bonds, although account needs to be taken of how the buyback is to be financed.

The DAC OECD grant element is an NPV concept, since the grant element is the percentage that the NPV, using a 10 percent rate of discount, represents of the face value of the loan. In the context of the Paris Club and the HIPC Initiative, sometimes present value is misdescribed as NPV. (See *Present Value, Concessionality Level,* and *Grant Element*.)

Net Resource Transfer

A net resource transfer is a current account deficit excluding any net interest payments.

Nominal Value

The nominal value of a *debt instrument* is the amount that at any moment in time the *debtor* owes to the *creditor* at that moment; this value is typically established by reference to the terms of a contract between the debtor and creditor. The nominal value of a debt instrument reflects the value of the debt at creation, and any subsequent economic flows, such as transactions (e.g., repayment of *principal*), valuation changes (independent of changes in its market price), and other changes. Conceptually, the nominal value of a debt instrument can be calculated by discounting future *interest* and principal payments at the existing contractual interest rate(s) on the instrument; the latter may be fixed-rate or variable-rate. Chapter 2 provides more details (see also *Market Valuation*).

Nonconsolidated Debt

The debt that is wholly or partly excluded from rescheduling. It has to be repaid on the terms on which it was originally borrowed, unless creditors agree otherwise.

Nonperforming Loans

Defined as those loans for which (1) payments of principal and *interest* are past due by three months (90 days) or more, or (2) interest payments equal to three months (90 days) interest or more have been capitalized (reinvested into principal amount) or payment has been delayed by agreement, or (3) evidence exists to classify a loan as nonperforming even in the absence of a 90 day past due payment, such as when the debtor files for bankruptcy. (See *BPM6*, paragraphs 7.50–7.53). Nonperforming loans are recorded at nominal value.

Notional (Nominal) Amount of a Financial Derivatives Contract

The notional amount is that underlying a *financial derivatives* contract and is necessary for calculating payments or receipts, but which may or may not be exchanged.

O

OECD Working Party on Export Credits and Credit Guarantees

This is a forum for discussing *export credit* issues and for exchanging information among—at the time of publication of the *Guide*—32 of the 34 member countries of the OECD (only Chile and Iceland do not participate).

Official Development Assistance (ODA)

Official flows to countries and territories on the DAC list of ODA recipients (see www.OECD.org/dac/stats/daclist) and to multilateral development institutions that are administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a *grant element* of at least 25 percent (using a fixed 10 percent rate of discount). ODA receipts comprise *disbursements* by bilateral donors and multilateral institutions. Lending by *export credit agencies*—with the pure purpose of export promotion—is excluded.

Official Development Assistance (ODA) Loans

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

Official Development Bank

A nonmonetary financial corporation controlled by the public sector. It primarily engages in making long-term loans that are beyond the capacity or willingness of other financial institutions.

Official Development Finance (ODF)

Total official flows to developing countries excluding (1) *officially supported export credits*, (2) official support for private export credits (both are regarded as primarily trade promoting rather than development oriented), and (3) grants and loans for non-developmental purposes. ODF comprises official development assistance (ODA) and other official development finance flows.

Officially Supported Export Credits

Loans or credits to finance the export of goods and services for which an official *export credit agency* in the creditor economy provides guarantees, insurance, or direct financing. The financing element—as opposed to the guarantee/insurance element—can be extended by an exporter (supplier's credit), or through a commercial bank in the form of trade-related credit

provided either to the supplier, or to the importer (*buyer's credit*). It can also be extended directly by an export credit agency of the exporting countries, usually in the form of medium-term finance as a supplement to resources of the private sector, and generally for export promotion for capital equipment and large-scale, medium-term projects. Under the rules of the *Arrangement on Guidelines for Officially Supported Export Credits* covering *export credits* with duration of two years or more, up to 85 percent of the export contract value can be officially supported.

Offshore Financial Center

Countries or jurisdictions with financial centers that contain financial institutions that deal primarily with nonresidents and/or in foreign currency on a scale out of proportion to the size of the host economy. Nonresident-owned or -controlled institutions play a significant role within the center. The institutions in the center may well gain from tax benefits not available to those outside the center.

One-Off Guarantees

One-off guarantees occur in situations in which the conditions of the loan or of the security that is guaranteed are so particular that it is not possible for the degree of risk associated with it to be calculated with any degree of precision. They are recognized only as financial assets and liabilities from the time they are activated. (See *BPM6*, paragraph 5.68.)

Organisation for Economic Co-operation and Development (OECD)

The mission of the OECD is to promote policies that will improve the economic and social well-being of people around the world. The OECD provides a forum in which governments can work together to share experiences and seek solutions to common problems. It works with governments to understand what drives economic, social and environmental change and measures productivity and global flows of trade and investment. The OECD analyses and compares data to predict future trends. It sets international standards on a wide range of things, from agriculture and tax to the safety of chemicals.

Original Maturity

The period of time from when the financial asset/liability was created to its final maturity date.

Other Official Flows (OOFs)

Official flows of a *creditor economy* that are not undertaken for economic development purposes or, if they are mainly for development, whose grant element is below the 25 percent threshold that would make them eligible to be recorded as ODA. They include *export credits* extended or rescheduled by the official sector.

Own Offices

Different offices of the same entity, including head offices, branch offices, and subsidiaries. Also sometimes called "related offices."

P

Paris Club

An informal group of creditor governments that has met regularly in Paris since 1956 to provide debt treatment to countries experiencing payment difficulties; the French treasury provides the secretariat. Creditors reschedule a debtor country's public debts as part of the international support provided to an economy that is experiencing debt-servicing difficulties and is pursuing an adjustment program supported by the IMF. The Paris Club includes—at the time of publication of the *Guide*—19 permanent members, associates members, and observers (including the IMF and the World Bank). The core creditors are mainly OECD member countries, but other creditors may participate as relevant for a debtor economy.

Pass Through Funds (Funds in Transit)

Consist of funds that pass through an enterprise resident in an economy to an affiliate in another economy, so that the funds do not stay in the economy of that enterprise. These funds are often associated with direct investment. Such flows have little impact on the economy they pass through. Debt liability positions associated with these funds are recorded in the gross external debt position. These positions are classified as direct investment: intercompany lending, unless they are debt between selected financial intermediaries or nonaffiliated enterprises in which case they are classified under the relevant debt instrument.

Permanent Debt

Loan capital that represents a permanent interest.

Political Risk

The risk of non-payment on an export contract or project due to action taken by the importer's host government. Such action may include intervention to prevent transfer of payments, cancellation of a license, or events such as war, civil strife, revolution, and other disturbances that prevent the exporter from performing under the supply contract or the buyer from making payment. Sometimes physical disasters such as cyclones, floods, and earthquakes come under this heading.

Positions

In contrast to the accounts that show flows, a balance sheet (including the IIP) shows the positions (also known as stocks) of assets and liabilities held at one point in time by each unit or sector or the economy as a whole. Balance sheets are normally constructed at the start and end of an accounting period but they can in principle be constructed at any point in time. Positions result from the accumulation of prior transactions and other flows. (See *2008 SNA,* paragraph 2.33.)

Post-Cutoff-Date Debt

See *Cutoff Date*.

Poverty Reduction and Growth Facility (PRGF)

An IMF facility known until November 1999 as the *Enhanced Structural Adjustment Facility* (ESAF). The PRGF was replaced by the Extended Credit Facility (EFC), which became operative in January 2010 (see Extended Credit Facility, EFC).

Poverty Reduction and Growth Trust (PRGT)

In January 2010, the IMF established a Poverty Reduction and Growth Trust (PRGT) to make its financial support more flexible and tailored to the diversity of low-income countries. The PRGT is a trust fund that holds donor resources with the purpose of subsidising lending to low-income countries. The PRGT has three lending windows, the Extended Credit Facility, Rapid Credit Facility, and Standby Credit Facility.

Precautionary and Liquidity Line (PLL)

The PLL is an IMF credit facility designed to meet flexibly the liquidity needs of member countries with sound economic fundamentals but with some remaining vulnerabilities that preclude them from using the Flexible Credit Line (FCL). The PLL combines qualification (similar to the FCL) with focused ex-post conditions that aim at addressing the identified vulnerabilities in the context of semi-annual monitoring. Duration of PLL arrangements can be either six months or one to two years. Access under the six-month PLL is limited to 250 percent of quota in normal times, but this limit can be raised to 500 percent of quota in exceptional circumstances due to exogenous shocks, including heightened regional or global stress. One- to two-year PLL arrangements are subject to an annual access limit of 500 percent of quota and a cumulative limit of 1,000 percent of quota. The repayment terms of the PLL are the same as for the SBA.

Premium

In the context of *export credits*, the amount paid, usually in advance, by the party to an export agency for its facilities. Cover will often not be fully effective until the premium has been paid. Premiums are normally calculated on the basis of the exposure, length of credit, and the riskiness of transacting with the importing economy. Premium income, an important source of revenue for *export credit agencies*, is intended to cover the risk of nonpayment of the credit.

Present Value (PV)

The present value (PV) is the discounted sum of all future *debt service* at a given rate of *interest*. If the rate of interest is the contractual rate of the debt, by construction, the *present value* equals the *nominal value*, whereas if the rate of interest is the market interest rate, then the present value equals the market value of the debt. In *debt-reorganization* discussions, the present value concept is used to measure, in a consistent manner, the burden sharing of debt reduction among *creditors*. This can be illustrated by the following example.

Debtor A owes 100 to both creditor B and creditor C. The maturity of both loans is the same. Creditor B's loan has an interest rate of 3 percent and that of C an interest rate of 6 percent. The "market rate" is assumed to be 8 percent, i.e., B and C could have lent the money at this higher rate. So, for both B and C, the

opportunity cost of lending at their respective interest rates, rather than at the market rate, can be calculated by discounting future payments at the market rate of 8 percent (present value), and comparing the outcome with the outstanding nominal value of 100. If PV(B) represents the present value for B and PV(C) represents the present value for C, then:

PV(B) < PV(C) < 100

PV(B) is less than PV(C) because the size of the future payments to be made by A to B is less than those to be made to C. In turn, the payments by A to C are less than would have been the case if a market rate of interest had been charged. This is illustrated by the annual interest payments. Debtor A would annually pay 3 to B; 6 to C; and 8 at the market rate of interest.

In deciding upon burden sharing of debt reduction, since B's claims on A are already lower than those of C, despite the same nominal value, debt reduction required from B might well be less than that required from C. So, it can be seen that by using a common interest rate to discount future payments, the burden on the debtor of each loan can be quantified in a comparable manner.

Present Value of Debt-to-Exports Ratio (PV/X)

Present value (PV) of debt as a percentage of exports (usually of goods and services) (X). In the context of the Paris Club and *HIPC Initiative*, sometimes present value is misdescribed as *net present value* (NPV). In this context NPV/X has the same meaning as PV/X.

Previously Rescheduled Debt

Debt that has been rescheduled on a prior occasion. This type of debt was generally excluded from further rescheduling in both the Paris and London Clubs until 1983. Since then, however, previously rescheduled debt has frequently been rescheduled again for countries facing acute payment difficulties.

Principal

The provision of economic value by the *creditor*, or the creation of debt liabilities through other means, establishes a principal liability for the debtor, which, until extinguished, may change in value over time. For *debt instruments* alone, for the use of the principal, *interest* can, and usually does, accrue on the principal amount, increasing its value.

Principal Repayment Schedule

The repayment schedule of *principal* by due date and installment amount.

Private Creditors

Creditors that are neither governments nor public sector agencies. These include private bondholders, private banks, other private financial institutions, and manufacturers, exporters, and other suppliers of goods that have a financial claim.

Provisioning

Funds set aside in an entity's account for potential losses arising from financial claims that are not serviced by the debtor, and/or from claims on the entity arising out of insurance cover and/or guarantees given. In many *export credit agencies*' accounts, provisions are divided into general and specific provisions. General provisions apply to the overall business, while specific provisions are on a case-by-case basis. Banks make provisions.

Public Sector Debt

Total public sector debt consists of all debt liabilities of resident public sector units to other residents and nonresidents.

Public Sector External Debt

Total public sector external debt consists of all debt liabilities of resident public sector units to nonresidents.

Public Sector Debt Statistics (PSD) Database

The Public Sector Debt Statistics (PSD) database, jointly developed by the World Bank and the International Monetary Fund, brings together detailed quarterly central government, general government, and public sector debt data of selected countries, initially mainly developing/emerging market economies. The main purpose of the PSD database is to facilitate timely dissemination in standard formats of public sector debt data. By bringing such data and metadata together in one central location, the database supports macroeconomic analysis and cross-country comparison. The PSD database includes country and cross-country tables, and enables users to query and extract data, by country, group of countries, and specific public debt components. For more information see www.worldbank.org/qpsd.

Q

Quantitative (or Cover) Limits

A ceiling on the amount of insurance or credit that an *export credit agency* will provide under certain circumstances. Limits can apply to individual buyers or to total exposure on buying countries or to maximum contract sizes.

Quarterly External Debt Statistics (QEDS)

The Quarterly External Debt Statistics (QEDS) database, jointly developed by the World Bank and the International Monetary Fund, brings together detailed external debt data of countries that subscribe to the IMF's Special Data Dissemination Standard (SDDS) and of countries that participate in the IMF's General Data Dissemination System (GDDS). The QEDS database includes country and cross-country tables, and enables users to query and extract data, by country, group of countries, and specific external debt components. The QEDS database is a collaborative undertaking of the World Bank and the IMF, and it is part of an ongoing effort to improve the transparency, timeliness, and availability of external debt statistics. The database has been endorsed by the TFFS. For more information see www.worldbank.org/qeds.

R

Rapid Credit Facility (RCF)

The IMF's Rapid Credit Facility is a lending window under the PRGT that provides rapid financial assistance with limited conditionality to LICs facing an urgent balance of payments need. The RCF streamlines the Fund's emergency assistance for LICs, and can be used flexibly in a wide range of circumstances. Financing under the RCF currently carries a zero interest rate, has a grace period of five-and-one-half years, and a final maturity of ten years (see www.imf.org/external/np/exr/facts/poor.htm).

Rapid Financing Instrument (RFI)

The RFI is an IMF lending facility that was introduced to replace and broaden the scope of the earlier emergency assistance policies. The RFI provides rapid financial assistance with limited conditionality to all members facing an urgent balance of payments need. Access under the RFI is subject to an annual limit of 50 percent of quota and a cumulative limit of 100 percent of quota. Emergency loans are subject to the same terms as the FCL, PLL and SBA, with repayment within three-and-one-quarter to five years.

Recoveries

Repayments made to an *export credit agency* by a borrowing economy after the agency has paid out on claims by exporters or banks.

Redemption Price

It is the amount to be paid by the issuer to the holder at maturity.

Refinancing

See *Debt Refinancing*.

Reinsurance by Export Credit Agencies

Export credit agencies may reinsure amounts originally insured by a private sector insurer or commercial bank (some large official agencies are also providing reinsurance for smaller official agencies); e.g., a private insurer might keep the *commercial risk* of a loan on its own books, but seek reinsurance against specific *political risks*. In addition, some export credit agencies may receive reinsurance from their governments or purchase it in the private reinsurance market.

Remaining (Residual) Maturity

The period of time until debt payments fall due. In the *Guide*, it is recommended that short-term remaining maturity of outstanding *external debt* be measured by adding the value of outstanding short-term external debt (original maturity) to the value of outstanding long-term external debt (original maturity) due to be paid in one year or less. These data include all arrears.

Repayment Period

The period during which the debt obligation is to be repaid.

Rephasing

A revision of the terms of repayment of a debt obligation.

Reporting Banks

In *BIS* terminology, all those deposit-taking institutions (plus some non-deposit-taking financial institutions) that submit data to be included in the BIS International Banking Statistics.

Repudiation of Debt

A unilateral disclaiming of a *debt instrument* obligation by a debtor. It is not recognized as a change in position, and does not affect the gross external debt position.

Rescheduling

See *Debt Rescheduling*.

Rescheduling Agreement

An agreement between a *creditor*, or a group of creditors, and a *debtor* to reschedule debt. This term is sometimes used loosely to apply to a *debt-reorganization/restructuring* agreement, one element of which is rescheduling.

Rights Accumulation Program

An IMF program of assistance established in 1990 whereby a member economy with long overdue obligations to the IMF, while still in arrears, may accumulate "rights" toward a future disbursement from the IMF on the basis of a sustained performance under an IMF-monitored adjustment program. Countries incurring arrears to the IMF after end-1989 are not eligible for assistance under this program. Rights Accumulation Programs adhere to the macroeconomic and structural policy standards associated with programs supported by the *Extended Fund Facility* (EFF) and the *Poverty Reduction and Growth Facility* (PRGF), and performance is monitored, and rights accrue, quarterly.

S

Sector Classification

In the *2008 SNA* and *BPM6*, institutional sectors are formed by the grouping of similar kinds of institutional units according to their economic objectives and functions.

Short Positions

Short positions occur when an institutional unit sells securities for which it is not the economic owner. The short position is shown as a negative asset, rather than a liability.

Short-Term Commitments or Credits

In the context of *export credits*, short-term commitments are those that provide for repayment within a short period, usually six months (although some *export credit agencies* define short-term credits as those with repayment terms of up to one or two years). Short-term business represents the bulk of that of most export credit agencies and normally includes transactions in raw materials, commodities, and consumer goods.

Short-Term Debt

Debt that has maturity of one year or less. Maturity can be defined either on an original or remaining basis (see also *Original Maturity* and *Remaining Maturity*).

Sovereign Debt

Sovereign debt is often used by financial markets and fiscal analysts as debt that has been contracted by the national government. Unlike grouping of the public sector, which is based on institutional units, "sovereign" is defined on a functional basis. Normally "sovereign issuer" of debt is the government (usually national or federal) that de facto exercises primary authority over a recognized jurisdiction whose debt are being considered. Consequently, sovereign debt is debt that has been legally contracted by the national government.

Special Accounts

In the context of the Paris Club, deposits into special accounts were first introduced in 1983 for *debtor countries* that had a history of running into arrears. After signing the *Agreed Minute*, the debtor makes monthly deposits into an earmarked account at the central bank of one of the *creditor countries*. The deposit amounts are roughly equal to the *moratorium interest* that is expected to fall due on the rescheduled debt owed to all Paris Club creditors combined, and any other payments falling due during the *consolidation period*. The *debtor* then draws on the deposited funds to make payments as soon as the bilateral agreements with the individual Paris Club creditors are signed and as other payments fall due.

Special Purpose Entities

Special purpose entities (SPEs) are flexible legal structures in particular jurisdictions, which offer various benefits that may include any or all of low or concessional tax rates, speedy and low-cost incorporation, limited regulatory burdens, and confidentiality.

Typical features of these entities are that their owners are not residents of the territory of incorporation, other parts of their balance sheets are claims on or liabilities to nonresidents, they have few or no employees, and they have little or no physical presence.

Stand-By Arrangements (SBA)

The bulk of non-concessional IMF assistance is provided through SBAs. The SBA is designed to help countries address short-term balance of payments problems. Program targets are designed to address these problems and disbursements are made conditional on achieving these targets ('conditionality'). The length of an SBA is typically 12–24 months, and repayment is due within three-and-one-quarter to five years of disbursement. SBAs may be provided on a precautionary basis—where countries choose not to draw upon approved amounts but retain the option to do so if conditions deteriorate—both within the normal access limits and in cases of exceptional access. The SBA provides for flexibility with respect to phasing, with front-loaded access where appropriate.

Stand-By Credit

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

Standby Credit Facility (SCF)

The IMF's Standby Credit Facility is a lending window under the PRGT that provides financial assistance to LICs with short-term balance of payments needs. The SCF replaced the High-Access Component of the Exogenous Shocks Facility (ESF), and can be used in a wide range of circumstances, including on a precautionary basis. Financing under the SCF currently carries a zero interest rate, with a grace period of four years, and a final maturity of eight years (see www.imf.org/external/np/exr/facts/poor.htm).

Standstill

This is an interim agreement between a *debtor economy* and its commercial banking creditors that defers principal repayments of medium- and long-term debt and rolls over short-term obligations, pending agreement on *debt reorganization*. The objective is to give the debtor continuing access to a minimum amount of trade-related financing while negotiations take place and to prevent some banks from abruptly withdrawing their facilities at the expense of others.

Stock Figures

The value of financial assets and liabilities outstanding at a particular point in time.

Stock-of-Debt Operation

In the context of the Paris Club, restructuring of the eligible stock of debt outstanding. These restructuring operations were granted to Egypt and Poland in 1991 and, partially, for Russia and Peru in 1996 and are being implemented for low-income countries under Naples, Lyon, and Cologne terms (see *Concessional Restructuring*), provided that certain conditions are met: the debtor economy has implemented earlier flow rescheduling agreements for at least three years and has an appropriate arrangement with the IMF.

Straight-Line Repayment

A repayment schedule with equal installments at fixed intervals throughout the amortization schedule.

Stress Test

A stress test is a "what if" scenario that takes the world as given but assumes a major change in one or more variables in order to see what effect this would have on various indicators. For instance, for an economy, the impact on growth, inflation, and *external debt* of a huge change in oil prices could be considered. Stress tests are particularly useful for financial institutions: for instance, an individual entity might consider the impact on net worth of a sharp movement in financial market prices, in order to help determine the appropriate level of capital to hold.

Structural Adjustment Facility (SAF)/Enhanced Structural Adjustment Facility (ESAF)

The SAF was established by the IMF in 1986 and is no longer operational. The ESAF was established by the IMF in 1987 and was made a permanent, rather than a temporary, facility in September 1996. It was renamed the *Poverty Reduction and Growth Facility* (*PRGF*) in November 1999. (See *Poverty Reduction and Growth Facility* (*PRGF*). The PRGF was replaced by the ECF in January 2010.

Subordination Strategy

The policy of Paris Club creditors is that loans extended after the *cutoff date* are not subject to rescheduling;

therefore, pre-cutoff date loans are effectively subordinated to post-cutoff loans. (See *Cutoff Date*.)

Supplier's Credit

A financing arrangement under which an exporter extends credit to the buyer.

T

Technical Arrears

Technical arrears occur when payments due under the existing agreement are not made, and arrears arise, even though the creditor has agreed in principle to reschedule debt but the new agreement has yet to be signed and implemented. Such arrears might typically arise in the context of Paris Club agreements between the time of the Paris Club rescheduling session and the time when the bilateral agreements are signed and implemented (see Appendix 7, paragraph 5).

Technical Cooperation Grants

There are two basic types of technical cooperation: (1) 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 (2) investment-related technical cooperation (IRTC), which denotes the provision of technical services required for the implementation of specific investment projects.

Terms-of-Reference Rescheduling

Paris Club rescheduling involving only a small number of *creditors*. Typically, this does not require a rescheduling meeting between the *debtor economy* and its creditors, with the agreement being reached through an exchange of letters.

Tied-Aid Loans

Bilateral loans that are linked to purchases of goods and services by the *debtor economy* from the *creditor economy*.

Toronto Terms

See *Concessional Restructuring*.

Total Official Flows (Gross or Net)

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 economy* to the recipient economy (debtor economy).

Trade-Related Credits

Trade-related credits is a wider concept that, in addition to trade credit and advances, also captures other credits provided to finance trade activity, including through banks. It is defined as including trade credit and advances, trade-related bills, and credit provided by third parties to finance trade, such as loans from a foreign financial or export credit institution to the buyer.

Tranche

A particular portion of a financial claim or liability with its own specific terms as opposed to the general terms governing the whole claim or liability.

Transfer Arrears

Transfer arrears are arrears that arise not from the ability of the original debtor to provide national currency but from the inability of the monetary authorities to provide foreign exchange to another resident entity, so preventing that entity from servicing its foreign currency debt (see Appendix 7, paragraph 5).

Transfer Clause

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

Transfer Risk

The risk that a borrower will not be able to convert local currency into foreign exchange, and so be unable to make *debt-service* payments in foreign currency. The risk normally arises from exchange restrictions imposed by the government in the borrower's economy. This is a particular kind of *political risk*.

Transfers

Transfers are transactions where there is a transfer of a real resource or a financial item without a quid pro quo.

U

Undisbursed

Funds committed by the *creditor* but not yet utilized by the borrower. In BIS terminology, this refers to

open lines of credit that are legally binding on lending banks. A transaction in the *balance of payments* or a position in the *international investment position* (IIP) is only recorded when an actual *disbursement* takes place.

Unrecovered Claims

See *Claim Payments*.

Upper-Middle-Income Countries

In the context of the Paris Club, countries not considered *lower-middle-income* or *low-income countries*. These countries receive non-concessional rescheduling terms, originally with flat repayment schedules, but in the 1990s increasingly with graduated payment schedules that have a maturity of up to 15 years and a grace period of two to three years for *commercial credits*. Official development assistance credits are rescheduled over ten years, including a grace period of five to six years. The World Bank classifies as upper-middle income those countries with GNI per capita income of between $4,036 and $12,475 in 2011. Income classifications are set each year on July 1, and are fixed during the period ending on June 30 of the following year (see http://data.worldbank.org/about/country-classifications).

V

Vienna Initiative

The European Bank Coordination "Vienna Initiative" is a framework for safeguarding the financial stability of emerging Europe. The Initiative was launched at the height of the first wave of the global crisis in January 2009. It brought together all the relevant public and private sector stakeholders of EU-based cross-border banks active in emerging Europe, which own much of the banking sectors in that region and also hold a significant part of government securities. The Initiative has provided a forum for decision making and coordination that helped prevent a systemic banking crisis in the region and ensured that credit kept flowing to the real economies during the crisis. The European Bank for Reconstruction and Development, European Investment Bank, European Commission, IMF, and the World Bank played a key role in the creation and further development of the Vienna Initiative (see www.vienna-initiative.com/).

W

World Bank Group

Founded in 1944, the World Bank Group (or World Bank) consists of five closely associated institutions: the *International Bank for Reconstruction and Development* (IBRD), the *International Development Association* (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). The World Bank is the world's largest source of development assistance; its main focus is on helping the poorest people and the poorest countries through IDA credits (concessional lending) and on providing IBRD loans to low- and middle-income countries for developmental purposes. To achieve its poverty-reduction mission, the World Bank focuses on investing in people, particularly through basic health and education; protecting the environment; supporting and encouraging private business development; and promoting reforms to create a stable macroeconomic environment and long-term economic growth.

Write-Off

See *Debt Write-off*.

Y

Yield-to-Maturity

The yield-to-maturity rate is the rate at which the present value of future interest and principal payments, i.e., all future cash flows from the bond, equals the price of the bond.