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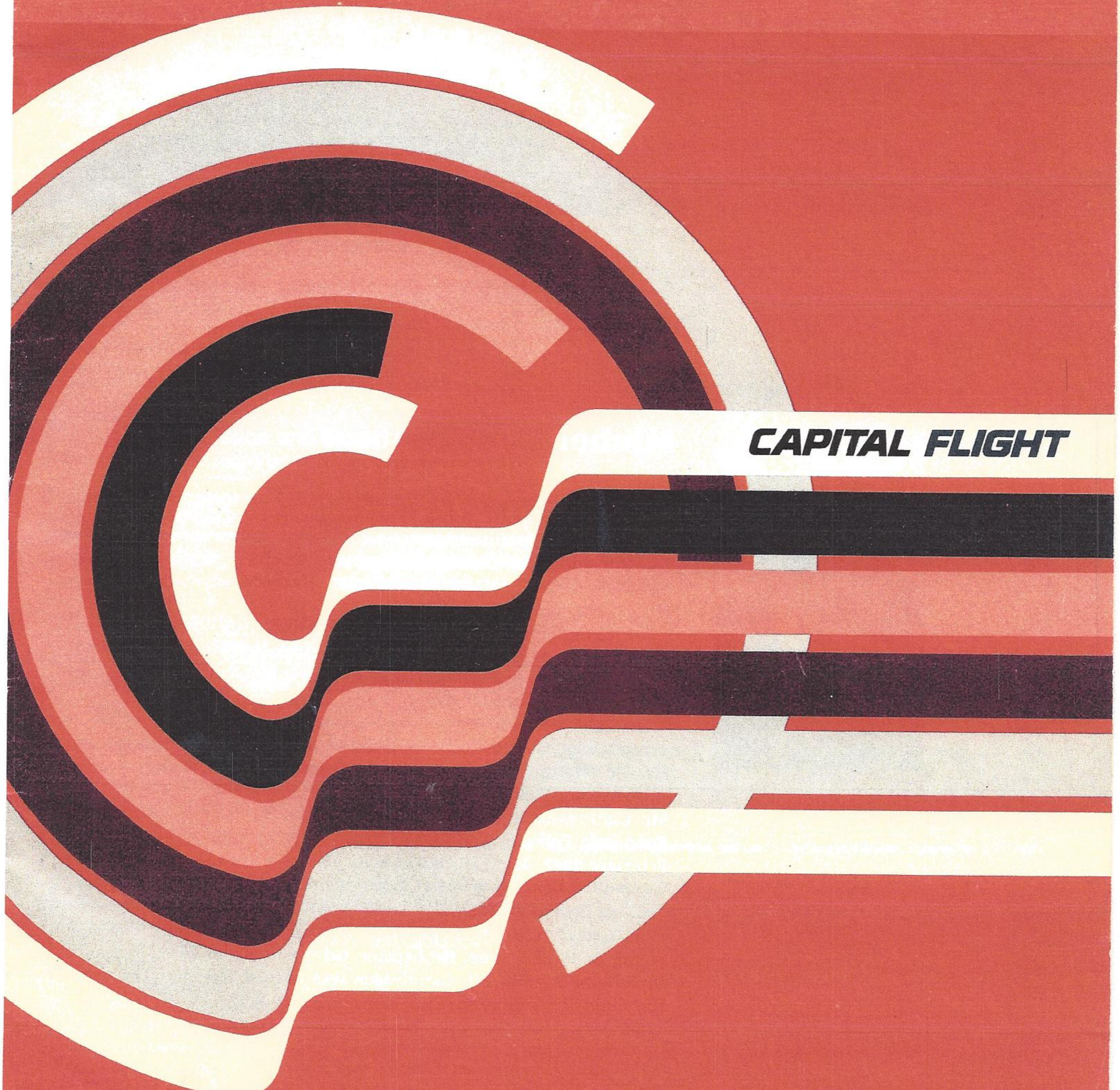

CAPITAL FLIGHT

aggregate estimates of developing country debt by drawing on a combination of sources.

There is, however, still no overall set of conventions within which to reconcile data from the different sources. Much work needs to be done to characterize the differences between related measures of debt obtained from different sources, and the significance of these differences, country by country. The International Debt Statisticians' Group, which comprises representatives of the Berne Union, BIS, IMF, OECD, and the World Bank, has met regularly since 1984, to discuss conceptual and methodological issues and to provide guidance on how the accounting and classification practices used by the different systems can be made more compatible. It is codifying the differences among definitions of "debt" used by the various systems, and seeking to reach common ground on the types of instruments that should be treated as debt instruments. It is also examining issues surrounding the treatment of arrears and of debt that has been reorganized or rescheduled, and the classification of debt as foreign or domestic (debtors and creditors may be classified on the basis of residency or of nationality, depending on the purpose to which the resulting statistics will be put). A handbook to be published by the Group in 1987 will describe in detail all the major international systems of debt statistics and lay out the common ground among them. ■

Sources

The publications mentioned in this article, some of which are also available on computer tape, may be obtained from the organizations issuing them. Here are the addresses.

Publication Sales Unit
The World Bank
Washington, DC 20433
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Bank for International Settlements
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CH-4002 Basle
Switzerland

Publications Office
Organization for Economic Cooperation and Development
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Publications Unit
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Export Credits and the Debt Crisis

Recent trends, current issues

Miranda Xafa

Export credits have long been a major source of external financing available to developing countries. Such credits finance imports of the debtor country; those extended or guaranteed by an agency of the creditor country government are referred to as officially supported export credits and are the subject of this article. Since the onset of the debt crisis and the resulting slowing in cross-border commercial bank lending, officially supported export credits have become more important in relation to other sources of external financing, but at the same time, the factors that limit these flows have become better recognized.

The strategy adopted in 1982 to overcome the debt crisis was based on a case-by-case approach whereby the adjustment efforts of debtor countries were supported with coordinated financing provided by official creditors, commercial banks, and multilateral institutions. Efforts to mobilize financing in support of adjustment programs led to a better understanding of the determinants of export credit flows and of the potential role of export credit agencies (ECAs) in the debt strategy. In particular, it is now better understood that export credit flows depend not only on the availability of such credits, but also on import levels in the borrower country and on the demand for credits and insurance. Given the demand-led nature of export credits, ECAs cannot, either individually or as a group, project or target the volume of such flows. Consequently, the contribution of officially supported export credits must, *ex ante*, be seen in terms of the availability of such financing, which depends upon the policies of creditor countries governing the provision of export credit and cover. *Ex post* analysis of the role of officially supported export credits has been facilitated by the publication, since 1984, of a new and more timely statistical series on such credits prepared jointly by the Bank for International Settlements and the Organization for Economic Cooperation and Development.

Functions, objectives

There are three types of export credits: *Suppliers' credits* are extended directly from the exporter to the importer. To the extent that the exporter does not wish to act as a financial intermediary, his claim may be discounted with and held by a commercial bank.

For more information see E. Brau, K. Burke Dillon, C. Puckahtikom, M. Xafa, Export Credits: Developments and Prospects, *World Economic and Financial Surveys (Washington: IMF, July 1986).*

Buyers' credits are extended by a third party, usually a commercial bank, to the importer. Both types of privately financed export credits are eligible for official support through the provision of guarantees by official export credit agencies (ECAs), who assume the political and commercial risk of nonpayment. *Official export credits* are extended by ECAs either to foreign importers or to domestic exporters. Such credits, funded either directly by the agency or by another public financial institution specializing in export promotion, are offered by only a few creditor countries and represent only a small proportion of total export credits. Commercial banks hold one third of officially supported trade-related claims, acquired by providing either direct credits or rediscounting facilities.

While geared to the needs of exporters, official support for export credits has undoubtedly facilitated the flow of private capital to developing countries. The economic rationale for ECAs is to provide insurance against nonpayment for transactions that are larger and riskier than private market participants would be prepared to cover at premium rates that are not prohibitive. Private export credit insurance is available on a small scale in some creditor countries for a limited range of transactions. Where private markets do not provide adequate insurance and where exporters are reluctant to bear the risk of nonpayment, exports to developing countries would be lower without official support.

Though preferential financing facilities are sometimes made available in connection with export credit cover, the main function of ECAs is to provide insurance, not subsidies. Unlike official development assistance, official export credits are provided at market-related fixed interest rates for up to ten years. The terms under which export credits may be provided are set out in the "Consensus Arrangement," to which 22 OECD member countries are signatories (see "The OECD export credits arrangement," by David Cheney, *Finance & Development*, September 1985). The Arrangement, which came into effect in 1978, limits export credit subsidies by establishing minimum permitted interest rates and maximum maturities for three categories of importing countries according to their per capita income levels. Interest rates under the Arrangement are adjusted every six months to reflect movements in the market interest rates of SDR currencies. To the extent that consensus interest rates are lower than market rates, the creditor country government may compensate banks or suppliers for the difference. The implicit subsidy involved is highest for low-income developing countries, for which the consensus interest rates are lowest and for which official guarantees are frequently sought. This subsidy is available only to banks and suppliers that seek official guarantees. This *de facto* link between the provision of insurance and subsidies may have deterred private insurance companies from providing credit insurance.

Export credit agencies share the sometimes conflicting aims of promoting exports while maintaining their own financial equilibrium over the medium term. The extent to which one aim takes precedence over the other differs among creditor countries, reflecting national priorities and economic management traditions, and over time within countries, reflecting the degree of pressure put on the agency to help maintain market shares and employment in export industries.

Recent trends

The BIS/OECD statistics on export credits are compiled on the basis of reports received from commercial banks and export credit agencies. Some caution should be exercised in using these statistics for analytical purposes. For instance, the figures on the outstanding stock of credits are believed to be understated because of the omission or late reporting of some rescheduled debt. Furthermore, as the stock data are converted into US dollars using the exchange rates prevailing at the end of each period, changes in outstanding stocks reflect both net new lending and valuation changes resulting from exchange rate movements between the dollar and other currencies in which the debt has been contracted. This valuation effect is stronger for officially supported credits, which are believed to contain a larger share of nondollar currencies than is the case for nonguaranteed bank credits.

The BIS/OECD export credit data (see table) do not show the currency composition of export credits, making it difficult to distinguish between valuation changes and new flows. A range of estimates of new export credit flows may be obtained using available information on the likely range of the dollar share in outstanding export credits. Three broad trends are apparent during 1984–85 even if estimates at the lower end of the range are used. First, officially supported export credits to developing countries grew faster than nonguaranteed commercial bank credits. Second, guaranteed bank credits were the fastest-growing component of total credits. This implies that banks were seeking official guarantees for an increasing share of their trade-related lending to those countries, perhaps in response to a perceived increase in systemic risk. Third, the distribution of new credits differed among groups of debtor countries. Officially supported credits to countries with debt-servicing difficulties (those that have rescheduled their debt to official creditors or have incurred external arrears) outpaced nonguaranteed bank credits to these countries. Both types of credits grew considerably faster for other developing countries, but there the difference in growth rates between the two types was less striking.

Responses to debt crisis

ECAs usually measure their financial position on a cash basis, with claim payouts recorded as operating expenses, and loan recoveries as well as insurance premiums recorded as operating receipts. When cash deficits arise, they are financed from reserves, the government budget, or central bank or market borrowings. With the widespread debt-servicing difficulties that emerged in 1982, the financial position of ECAs deteriorated sharply, reflecting record levels of claim payouts resulting from debt reschedulings and arrears in unprecedented amounts.

ECAs responded to this deterioration in various ways. Several of them raised their premium rates, either for all maturities and all debtor countries or selectively, to reflect different degrees of risk. A few introduced risk-sharing arrangements with banks, private insurers, and other agencies as a means of reducing or diversifying the risk in their portfolios. Most agencies adopted more active policies for recovering loans. As a result of these measures, their financial position improved somewhat. But most are still far from restoring their financial position.

ECAs also made more active use of instruments to limit the supply of insurance and the demand for it. Measures to limit supply include ceilings on country exposure, new commitments, or transaction amounts. Some agencies increased their recourse to security requirements, such as a transfer guarantee of the monetary authorities, or irrevocable letters of credit issued by an authorized bank of the debtor country, or, in extreme cases, by a third-country bank that in effect takes over the transfer risk. A very restrictive move is the suspension of medium-term insurance cover, and the final move, suspension of short-term cover.

The measures taken to reduce demand for insurance include raising premium rates, extending the period for which exporters or banks must wait after transfer delays occur until claims are paid out by the ECA, and reducing the percentage of the transaction covered by guarantees (usually within the range from 95 to 70 percent). These measures raise the effective cost of insurance either by imposing potential financial costs on exporters and banks or by forcing them to bear a larger share of the risk.

These responses to the debt crisis can best be analyzed with reference to three distinct phases: the debt buildup phase, the debt-servicing difficulty and rescheduling phase,

Developing countries: officially supported export credits and nonguaranteed bank credits, 1984–85

	Debt outstanding End-1983	End-1984	End-1985	Change in debt outstanding unadjusted for exchange rate movements End-1983 to end-1985 (In billions of US dollars)	(Percent change at annual rate)
	(In billions of US dollars; current exchange rate basis)				
All developing countries[1]					
Officially supported export credits	141.4	143.6	166.3	24.9	8.4
Nonbank export credits[2]	(91.4)	(93.4)	(106.8)	(15.4)	(8.1)
Guaranteed bank credits[3]	(50.0)	(50.1)	(59.5)	(9.5)	(9.1)
Nonguaranteed bank credits[4]	462.2	462.4	486.3	24.1	2.5
By country categories:					
Countries with debt-servicing difficulties[1]					
Officially supported export credits	62.6	60.8	70.1	7.5	5.8
Nonguaranteed bank credits[4]	283.1	282.6	289.7	6.6	1.2
Other developing countries[1]					
Officially supported export credits	78.8	82.8	96.1	17.3	10.4
Nonguaranteed bank credits[4]	179.2	179.8	196.5	17.3	4.7

Sources: BIS/OECD, *Statistics on External Indebtedness: Bank and Trade-Related Nonbank External Claims on Individual Borrowing Countries and Territories,* January and July 1986.

[1] Country coverage is in accordance with the Fund's definition of developing countries, excluding offshore banking centers, except that Poland is included here. This coverage differs from the published BIS/OECD data in that non-Fund member countries are also excluded. Countries with debt-servicing problems include 31 countries that have rescheduled their debt to official creditors since 1981 and 22 countries that incurred external arrears but did not reschedule during 1984 and 1985.

[2] Includes insured suppliers' credits and credits extended directly by official export financing institutions. There is no published breakdown of nonbank credits into its two components.

[3] Bank credits with creditor country official guarantee.

[4] Total outstanding bank credits without creditor country official guarantees.

and the recovery phase. There has been a general tendency for the provision of export credit and cover to be out of phase with countries' adjustment efforts. ECAs have tended to carry on providing insurance cover for too long, insofar as it is difficult for them to reject credit applications exclusively on the strength of an unfavorable risk assessment. Competitive pressures have often prevented them from taking restrictive actions before substantial arrears emerge. In the debt rescheduling and recovery phases, the agencies until recently tended to wait too long before resuming insurance cover. Following a rescheduling, they often did not resume cover until well after the adoption of adjustment programs to restore creditworthiness.

In the debt buildup phase, ECAs changed their policies relatively little. By contrast, in the debt rescheduling and recovery phases, a number of agencies have now introduced policies that permit an earlier resumption of cover for medium- and long-term credits to countries implementing adjustment programs. The relevant forum for rescheduling debt-service obligations arising from officially supported export credits is the Paris Club, since such credits constitute direct or contingent liabilities of governments. Contrary to past practices, under which some ECAs would remain off cover for medium- and long-term credits for up to two or three years after a Paris Club rescheduling, ECAs now generally are prepared to consider resuming cover upon the conclusion of bilateral rescheduling agreements, provided the debtor country maintains its adjustment efforts. The prompt conclusion of bilateral agreements within the agreed deadlines—usually set at eight to nine months after the rescheduling date—could thus considerably shorten the period for which cover is interrupted. Making the resumption of cover contingent on the conclusion of bilateral agreements, which constitute the legal basis of a Paris Club rescheduling, gives ECAs leverage to encourage debtor countries to expedite bilateral negotiations.

Agencies' willingness to resume cover depends to a large extent on whether an unchanged cutoff date is maintained in successive reschedulings. The cutoff date is the date before which debts must have been contracted in order to be eligible for rescheduling. ECAs view very positively the recent Paris Club practice of maintaining the cutoff date unchanged, insofar as it separates the "old debt" from the "new debt," thereby imparting a measure of security to new credits and protecting them from subsequent reschedulings. Strict adherence to this principle, even if it requires repeated reschedulings of the "old debt" contracted before the original cutoff date, is of overriding importance in normalizing debtor/creditor relations.

Another condition for normalizing debtor/creditor relations is that debtors request, in successive reschedulings or multiyear reschedulings (MYRAs), terms that demonstrate an increasing capacity to service debt. Examples are progressively lower rescheduling percentages, a narrowing of the scope of the debt covered under the rescheduling, and, in particular, the exclusion of interest from the rescheduling.

The Paris Club has traditionally avoided the rescheduling of short-term debt in order to prevent an interruption in access to the short-term credits necessary to maintain flows of raw materials and other vital imports. More recently, the Paris Club has excluded credits to the private sector from some reschedulings, as regular servicing of such debt will help maintain credits to that sector and thereby promote private sector activities in the recovery phase.

Policy issues

The role that export credits play in supporting adjustment efforts depends upon the volume of these flows and upon the uses to which they are put. This in turn depends upon the financial situation of individual debtor countries and upon three characteristics peculiar to export credits and ECA practices and constraints:

- First, the practices of suspending or limiting access to new credits after a rescheduling and of linking the eventual resumption of credits to the coverage of rescheduling establish a tradeoff for debtor countries between rescheduling and new credits.
- Second, unlike the balance of payments financing provided by commercial banks, export credits are tied to imports of goods and consequently arise only to the extent that there is import demand in the borrowing country.
- Third, given the export promotion objective of ECAs, export credit flows may be directed toward sectors and projects with low economic returns if internal monitoring mechanisms in the debtor country are insufficient.

This section discusses the implications of these features for countries in three broad categories.

Countries with mild liquidity problems. In supporting adjustment programs, creditors have shown increasing concern with equitable burden-sharing among various creditor groups. Banks have often predicated their willingness to reschedule on parallel action by official creditors, in order to avoid granting debt relief while official creditors get repaid. This approach may, however, be counterproductive in cases where, had there not been a Paris Club rescheduling, ECAs might have been willing to continue extending new credits and cover. In these cases, the loss of new credits following the Paris Club rescheduling may have outweighed the cash relief obtained from the rescheduling, resulting, on balance, in less financing from official sources than might otherwise have been available. Both creditors and debtors might benefit if official creditors were to support the debtor country's adjustment program by insuring new credits rather than by rescheduling existing debt-service obligations, if a rescheduling can be avoided.

Creditors are becoming increasingly aware of the need to support adjustment efforts in a manner that does not disrupt trade. But if banks are to forgo asking for an official rescheduling as a means of achieving equitable burden sharing, they must have a reasonable expectation that new official credits will be forthcoming. Such assurances cannot take the form of ex ante commitments on the volume of new export credits and cover to be extended over a specific period, because of the demand-led nature of such credits. Weakness in demand for imports—common in the initial stages of adjustment programs—may be compounded by the reluctance of the private sector to undertake the foreign exchange risk that foreign borrowing entails, where markets or other mechanisms to cover this risk are absent.

Official assurances could instead take the form of expressions of willingness to provide new credits and cover. This would require export credit cover policies to be made more "transparent" and, in particular, would require an appropriate channel of communication between official creditors and commercial banks.

More serious liquidity problems. In cases where liquidity needs are more pronounced, export credits—being linked to imports—may not provide the needed cash relief. In such cases, an official rescheduling of limited scope (e.g., excluding interest) combined with some new export credits might be preferable, for all concerned parties, to meeting financing needs through rescheduling alone. This approach would minimize trade disruptions while helping the debtor country regain access to spontaneous financing. It would promote new exports and improve the cash flow position of ECAs by minimizing the claim payouts that result from rescheduling. Commercial bank concerns with burden sharing would be addressed if banks had a reasonable expectation that a lower amount of official debt relief would be compensated by greater willingness to provide new export credits and cover.

Problem debtors. For countries with acute and protracted debt-servicing difficulties, there is limited scope for a resumption of export credit and cover. Official support for such countries has taken the form of rescheduling both principal and interest on exceptionally favorable terms, while export credit cover policies remain highly restrictive. In such instances, where there is no realistic prospect for an early return to commercial creditworthiness, further financial support would need to take the form of bilateral and multilateral aid flows.

Efficiency. A well-designed financing package can enhance the availability of external resources. But the resumption of growth and expansion of debt-servicing capacity ultimately depends on the efficiency with which resources are allocated. The inefficient use of past borrowings is partly responsible for today's debt-servicing difficulties.

ECAs have recently tried to apply more stringent criteria in project selection by strengthening their own capacity for appraising projects and by expressing greater interest in cofinancing and parallel financing with the World Bank. However, they often find it difficult to resist pressure from exporters. Discipline in the selection of public sector projects must therefore be imposed by the debtor country authorities.

In this connection, ECAs favor an expanded role for the World Bank in reviewing the public investment programs of selected countries undertaking adjustment. In the context of Fund-supported programs, Fund staff collaborate with staff of the World Bank and the country's authorities in assessing whether public spending plans are consistent with a viable balance of payments position over the medium term. An important element in this assessment is the expected rate of return on individual public investment projects. The Bank's endorsement of the debtor country's public investment program, and the country's adherence to the agreed program on a sustained basis, could unlock additional export credits, catalyze private sector credits, and enhance the country's long-term prospects.

Conclusion

Important progress has been recorded since 1982 in devising financing packages suited to the circumstances of individual debtor countries. Official financing has become more differentiated on a case-by-case basis with a view to enhancing the debtor countries' prospects for regaining access to spontaneous flows. Efforts are being made to increase the "transparency" of export credit cover policies and to improve the statistical base. There is also increased recognition that the provision of export credit needs to be more closely linked to policies in the debtor country that would ensure their efficient utilization. ■

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