

# THE BALANCE OF PAYMENTS III FINANCIAL ACCOUNT AND EXTERNAL FINANCING



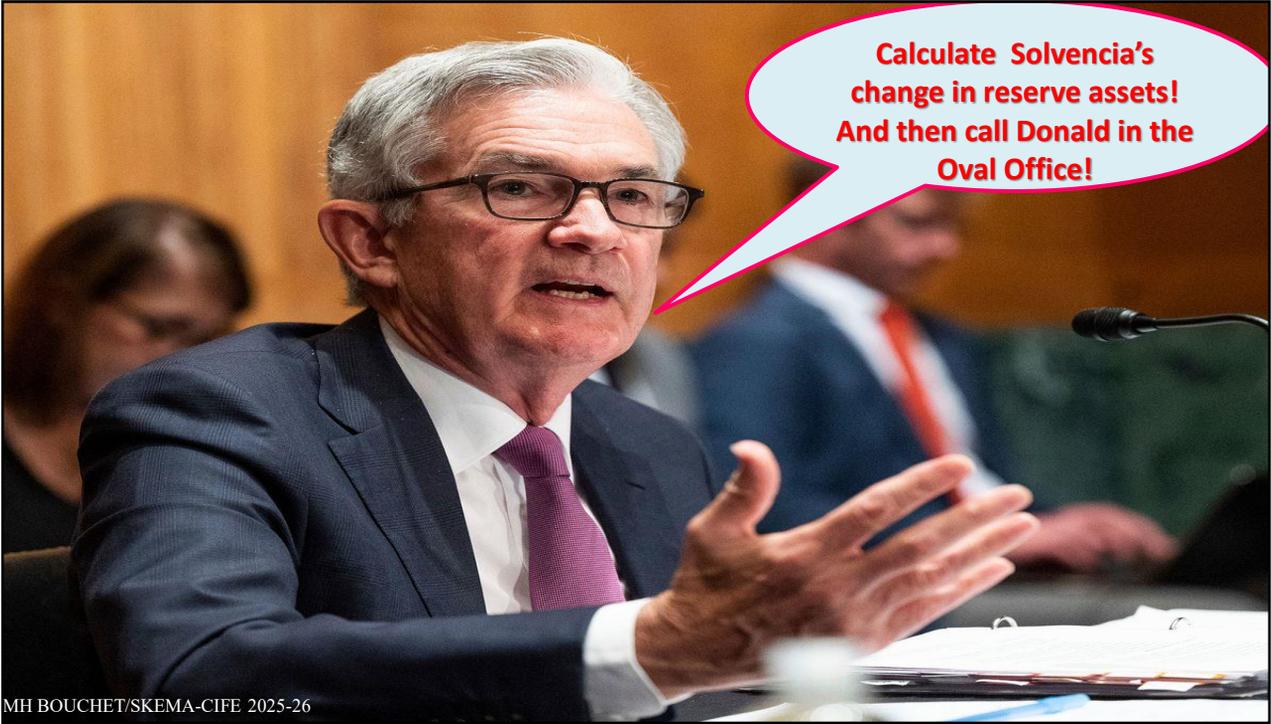
CIFE SEMINAR ROMA-BERLIN-NICE 2025-26  
**AUTHOR: MICHEL-HENRY BOUCHET**

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	2025
LT K inflows	1225
Goods Imports	-4650
Debt repayments	-985
Services revenues	625
E&Os	-275
Exports of Goods	5550
Official Transfers	300
<b>Current account</b>	
FDI	375
Portfolio	200
Interest payments	-1450
Private unrequited transfers	125
ST K inflows	325
ST K Outflows	-465
<b>Trade Balance</b>	
Counterpart items	100
<b>Change in reserves</b>	
CA/GDP%	
GDP 2025	12500
R/M ratio (months)	
Reserve level 12/2024	
	3500

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	2025
Exports	5550
Imports	-4650
<b>Trade Balance</b>	<b>900</b>
Services revenues	625
Interest payments	-1450
Official Transfers	300
Private transfers	125
<b>Current account</b>	<b>500</b>
FDI	375
Portfolio	200
LT K	1225
Debt repayments	-985
ST K inflows	325
ST K Outflows	-465
E&Os	-275
Counterpart items	100
<b>Change in reserves</b>	<b>-1000</b>
CA/GDP%	4,00%
GDP	12500
R/M ratio (months)	8,1
Reserve level 12/2024	4500
	3500



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## THE FINANCIAL ACCOUNT



**Capital account**

- + (-) Direct investment (non debt creating flows)
- + (-) Portfolio investment (NDCF if equity)
- + (-) Other long-term capital (private + official)
- + (-) Other short-term capital (private + official)
- + (-) Net errors and omissions
- + (-) Counterpart items
- + (-) **Change in reserves**

= Capital account balance

+ Exceptional Financing (or arrears)

**From less liquid items  
to more liquid items!**



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## CAPITAL AND FINANCIAL ACCOUNTS?

The **capital account (minor account!)** measures **financial transactions that don't affect income, production, or savings** (debt forgiveness, patents, trademarks, and copyrights).

The **financial account** **increases or decreases the international ownership of assets** (in the country's individuals, businesses, government, or central bank). The assets include direct investments, securities like stocks and bonds, as well as gold and hard currency.

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## TABLE OF USES AND SOURCES

### USES (outflows)

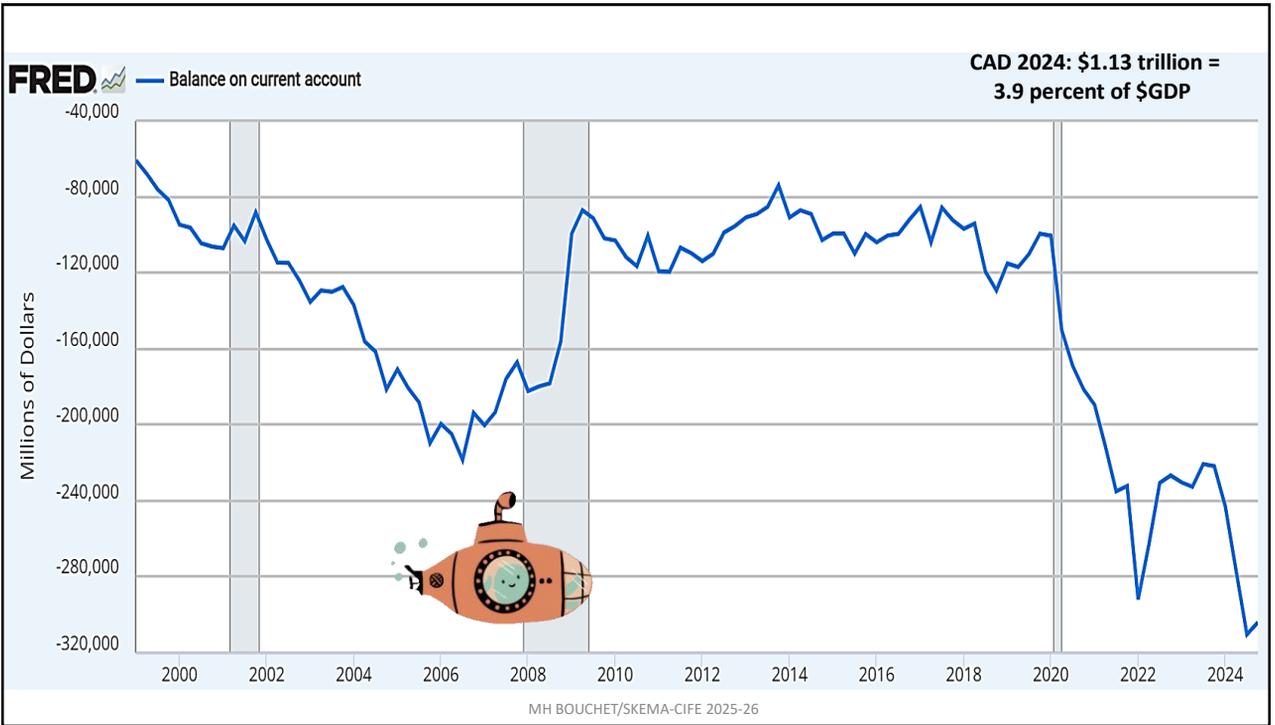
1. Imports of goods
2. Imports of services
3. Interest payments
4. Principal debt repayments
5. ST capital outflows
6. E&Os
7. Capital flight

### SOURCES (inflows)

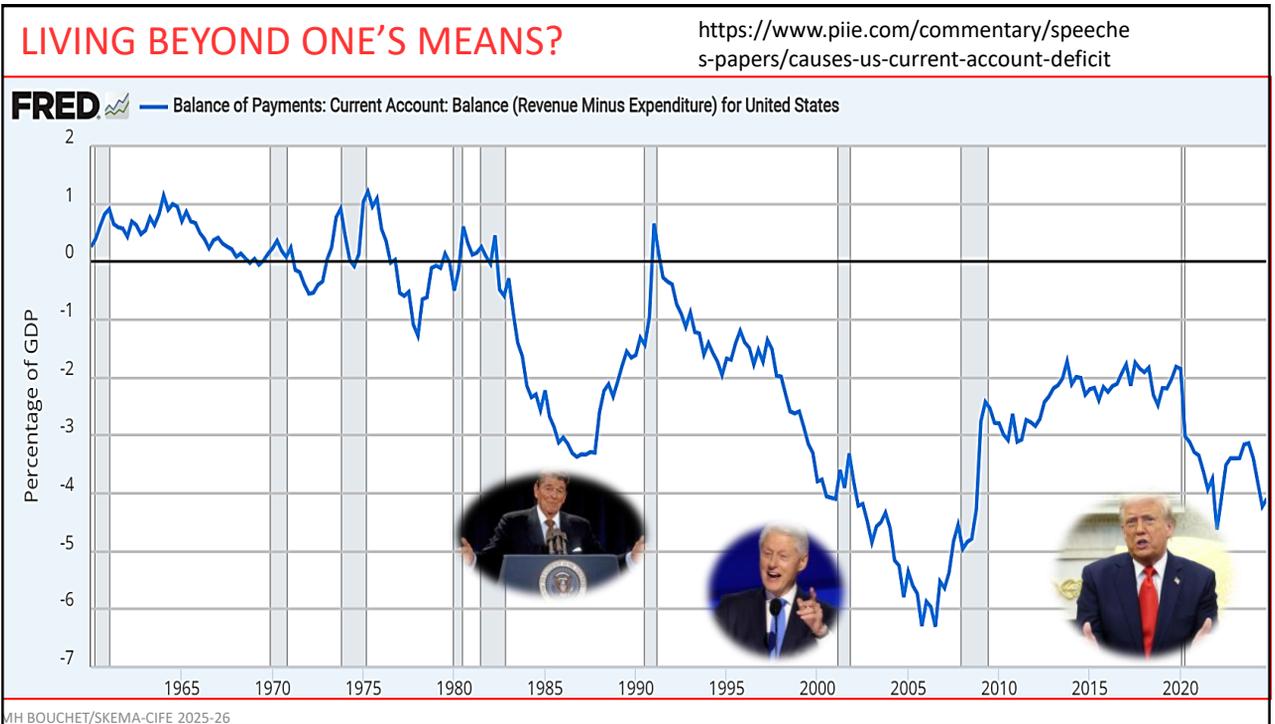
1. Exports of goods
2. Exports of services
3. Transfers & Remittances
4. Dividends
5. FDI
6. Portfolio K inflows
7. ST K inflows
8. LT K inflows
9. Debt cancellation
10. Arrears
11. Reserve decrease

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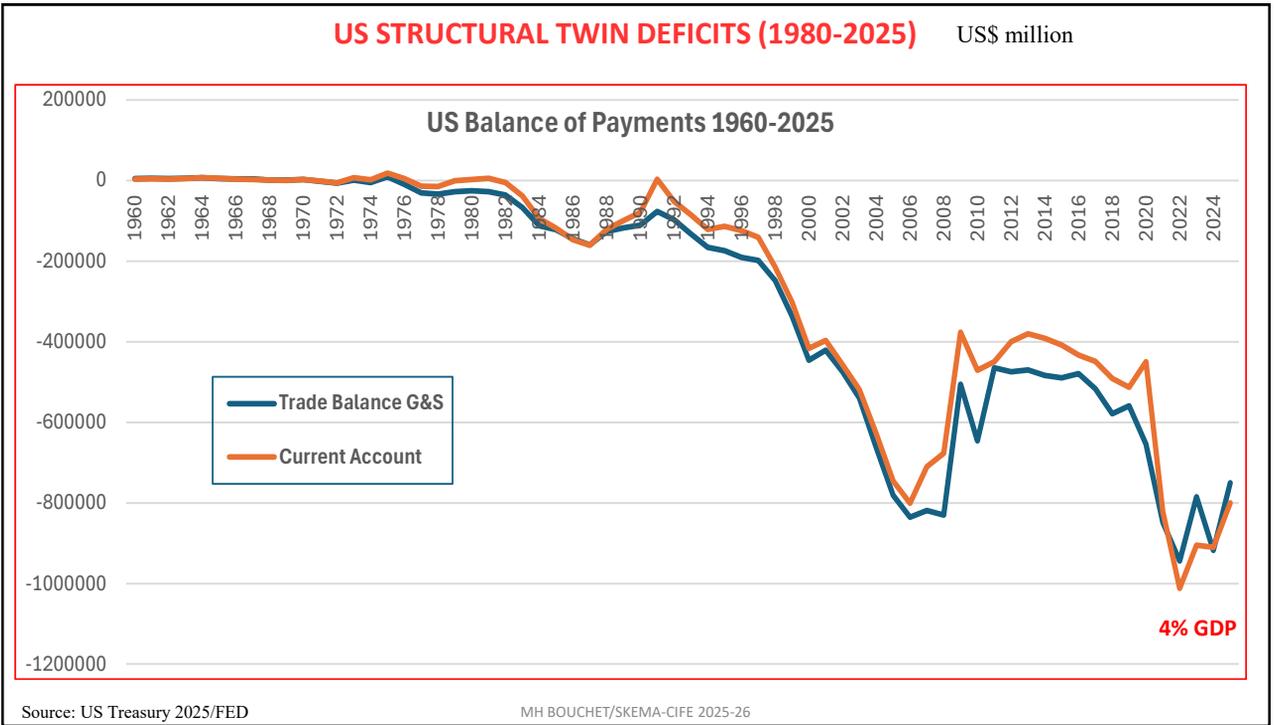
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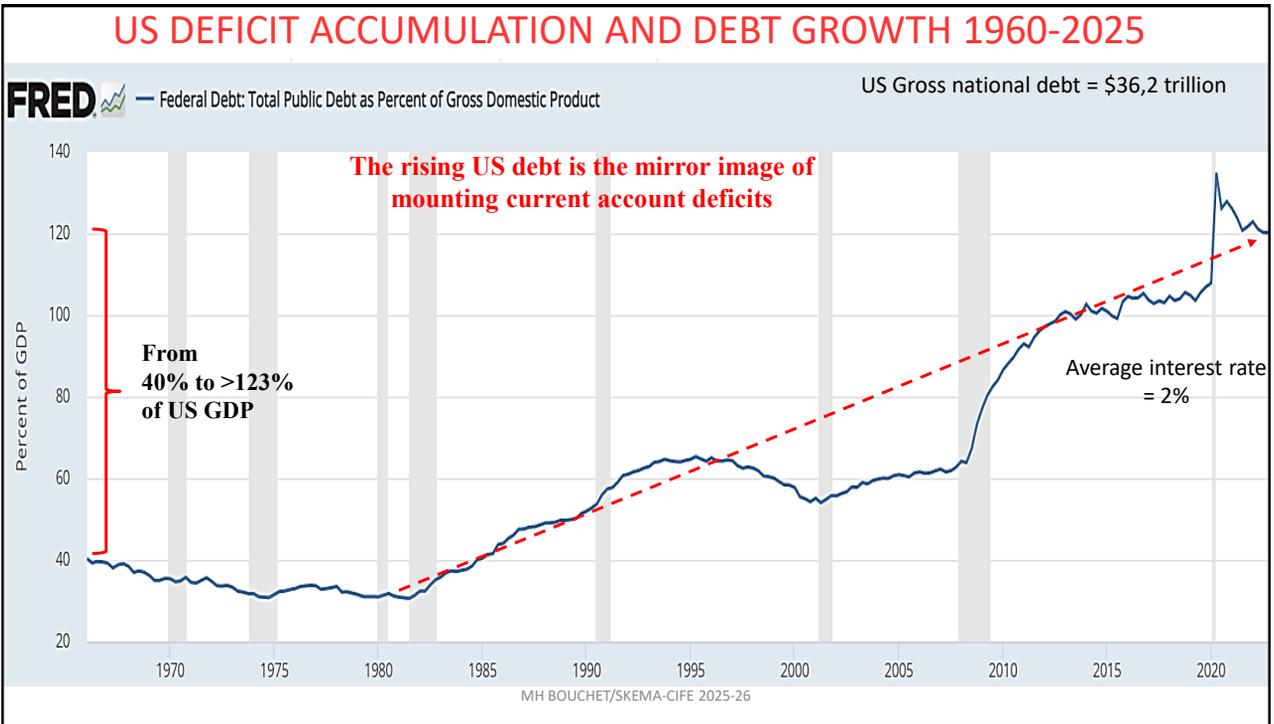
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## ▶ Financial account

- Reflects changes in country's ownership of assets
- Leads to increase/decrease in official reserve assets
- Reflects international market access
- Financing **flows** lead to changes in external **debt stock**, and to future debt servicing payment outflows
- Financing sources: LT debt, equity/FDI, international borrowing in capital markets (Eurobonds, Eurocredits), official financing, ODA, trade credits, short-term flows... arrears

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## FINANCIAL ACCOUNT

The risk analyst must focus on :

- ▶ the **volume** of financing to match the financing requirements of the current account deficit
- ▶ the **nature** of financing sources (private/public) and
- ▶ the **sustainability** of the financing (short term/long term, volatility, currency mismatch, floating/fixed rates, repayment conditions, pledges, legal clauses...)

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## SOURCES OF EXTERNAL FINANCING

### Official (bilateral + multilateral)

- Paris Club (government to government official credits)
- Export credit guarantees
  - IFIs (WB + IMF +EIB)
- Regional development banks
  - Debt rescheduling
  - Debt cancellation

### Private

- FDI
- Portfolio Investment
- London Club (International bank loans)
  - Working capital lines
  - ST Trade credits
- Bonds & International debt securities
- Arrears and rescheduling

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**Capital** Flows is a BOP category that groups all the capital transactions not included in direct investment and portfolio investment:

Two categories of capital inflows:

- ▶ **Long-term private & public capital**
- ▶ **Short-term capital \***

Non-negotiable instruments > 1 year or more such as London Club bank loans and mortgages, syndicated credits, euroloans...

\* Financial assets < 1 year, such as currency, deposits and bills, interbank credit lines, trade credits... (Source: BIS)

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### US Treasuries Owned by China, in USD Billions

\$768.6 billion of the total \$8,634.6 billion U.S. national debt.



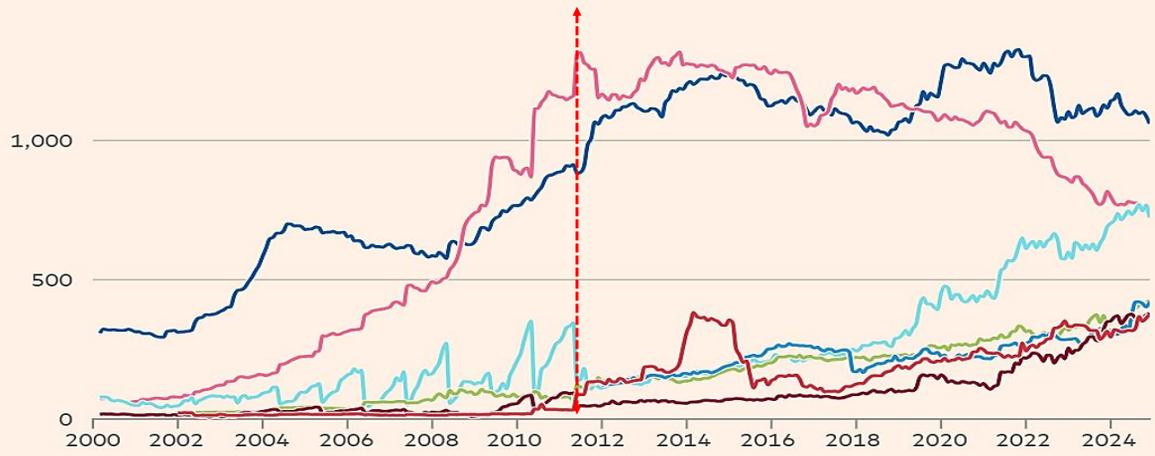
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### CHINA: GRADUAL ASSET DIVERSIFICATION AND DECLINE IN US TREASURY BONDS

Foreign holdings of US Treasuries (\$bn)

Japan China UK Luxembourg Cayman Islands Canada Belgium

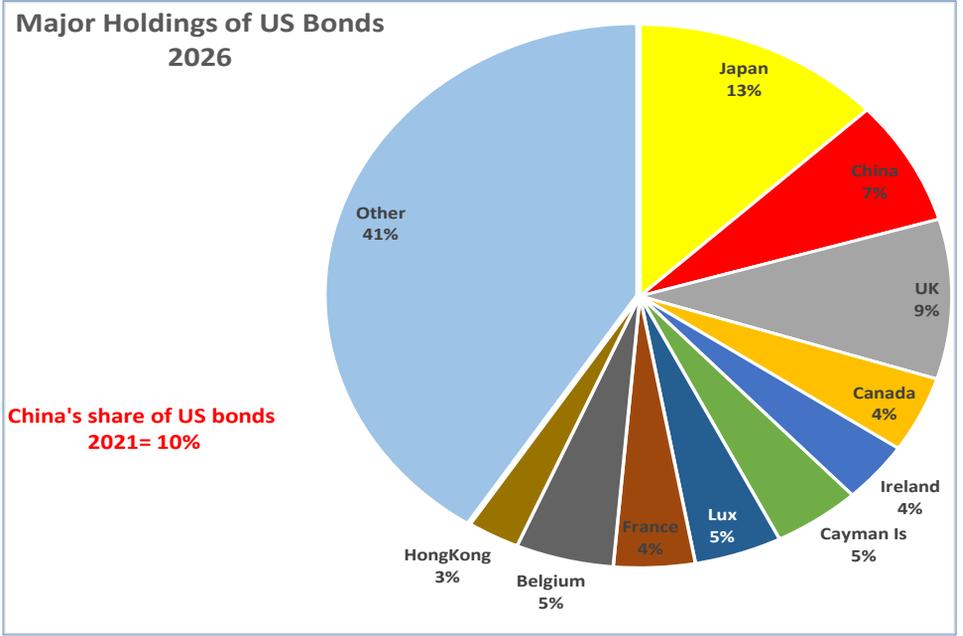


Source: US Department of the Treasury, CEIC

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**CHINA => 7% FOREIGN HOLDING OF US DEBT**

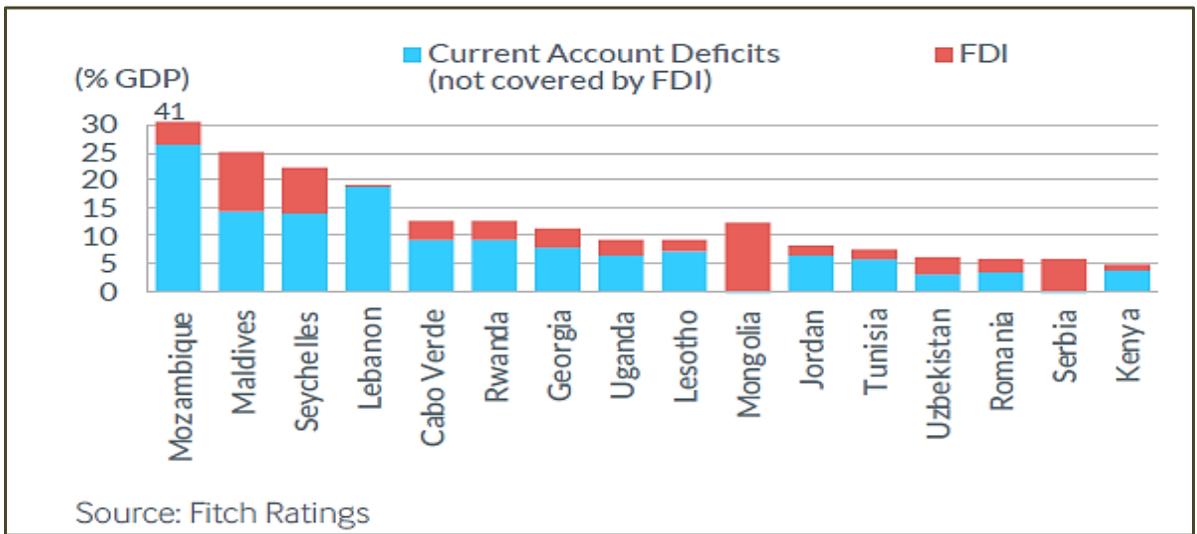


US Treasury 2026

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**BEHIND CURRENT ACCOUNT DEFICITS, THERE RISING FOREIGN INDEBTEDNESS!**



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# UNCTAD: A KEY SOURCE OF FDI DATA!

[HTTPS://UNCTAD.ORG/SYSTEM/FILES/OFFICIAL-DOCUMENT/WIR2022\\_EN.PDF](https://unctad.org/system/files/official-document/wir2022_en.pdf)

**Annex table 1. FDI flows, by region and economy, 2016–2021 (Millions of dollars)**

Region/economy	FDI inflows						FDI outflows					
	2016	2017	2018	2019	2020	2021	2016	2017	2018	2019	2020	2021
<b>World*</b>	2 045 424	1 632 639	1 448 276	1 480 626	963 139	1 582 310	1 596 716	1 610 113	941 293	1 123 894	780 480	1 707 594
<b>Developed economies</b>	1 384 814	937 683	753 320	764 456	319 190	745 739	1 210 679	1 162 247	565 200	736 840	408 195	1 269 212
Europe	794 426	513 250	398 049	404 756	80 786	219 033	653 726	544 012	467 785	342 648	-20 572	551 598
European Union	342 615	274 904	366 347	401 677	209 509	137 541	495 406	347 293	293 339	368 335	66 412	397 637

**Annex table 2. FDI stock, by region and economy, 2000, 2010 and 2021 (Millions of dollars)**

Region/economy	FDI inward stock			FDI outward stock		
	2000	2010	2021	2000	2010	2021
<b>World*</b>	7 377 201	19 907 143	45 448 812	7 408 902	20 471 257	41 798 485
<b>Developed economies</b>	5 860 038	13 846 108	33 119 269	6 740 421	17 568 316	33 008 670
Europe	2 491 244	8 439 157	16 441 775	3 193 644	10 264 456	17 619 059
European Union	1 882 785	5 960 396	11 590 104	1 967 112	6 988 784	13 263 759

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# UNCTAD: A PRIME SOURCE OF FDI FLOW & STOCK DATA

## Foreign direct investment: Inward and outward flows and stock, annual BULK CSV APP PDF GO

Last updated 07 Nov. 2024

Design Table | PAGE FILTERS | DIRECTION: Outward | MODE: Flow | INDICATOR: US\$ at current ... | SCROLL TO ROW | ECONOMY: Africa

YEAR	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>ECONOMY</b>										
World <span style="font-size: small;">i</span>	1 378 453	1 735 370	1 528 679	1 598 350	1 010 629	1 444 809	779 507	1 881 922	1 574 724	1 550 584
Africa	10 523	9 607	8 410	11 233	7 899	5 122	2 465	5 144	9 232	61
Americas <span style="font-size: small;">i</span>	417 938	356 321	365 409	441 017	-89 809	160 959	267 617	424 691	518 550	543 998
Asia	616 447	564 458	577 668	619 424	542 118	674 387	488 582	746 231	707 903	667 118
Europe	314 745	814 303	574 876	518 917	542 655	596 929	15 494	702 435	217 675	329 688
Oceania	18 800	-9 318	2 317	7 760	7 765	7 412	5 348	3 421	121 364	9 718
Individual economies	-	-	-	-	-	-	-	-	-	-
Special economies	-	-	-	-	-	-	-	-	-	-
Asia and Oceania	635 247	555 139	579 985	627 184	549 884	681 799	493 930	749 652	829 267	676 836
Asia	616 447	564 458	577 668	619 424	542 118	674 387	488 582	746 231	707 903	667 118

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## FDI STOCKS, A GOOD MEASURE OF COUNTRY RISK AND GOVERNANCE!

### Foreign direct investment: Inward and outward flows and stock, annual BLM CSV PDF

Last updated 07 Nov. 2024

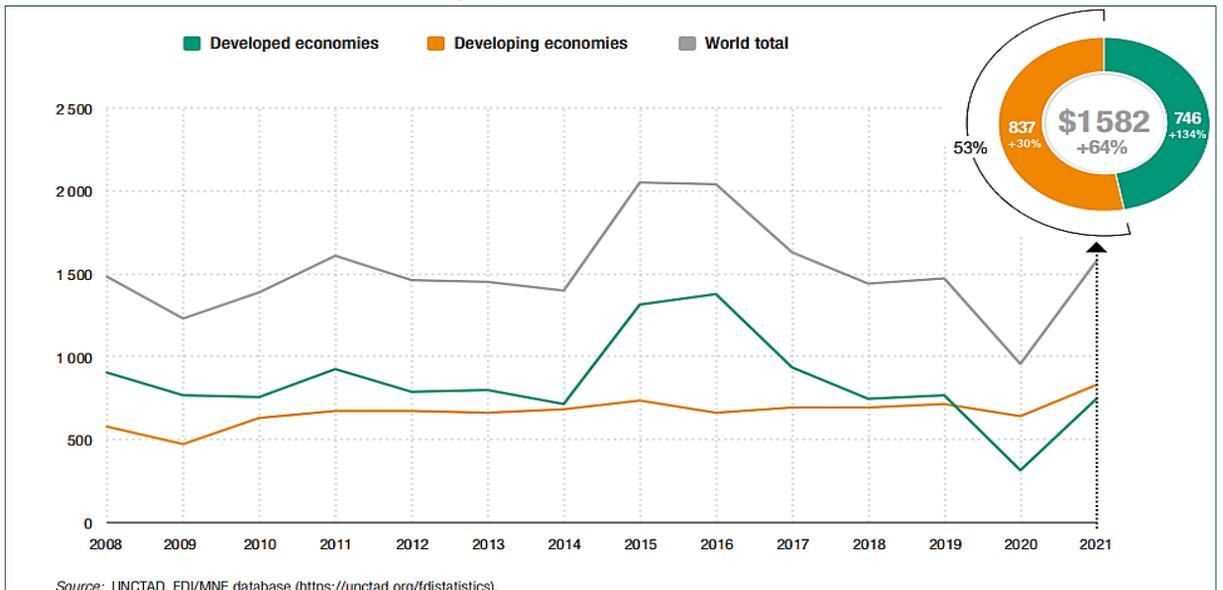
Africa FDI Stock = 0,6% of global FDI

ECONOMY	YEAR	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	World <span style="font-size: small;">i</span>		26 079 746	26 342 644	27 736 090	32 883 297	31 242 775	35 009 321	40 717 981	43 385 944	40 569 644
> Africa		212 667	219 653	240 128	340 601	316 057	291 107	331 116	308 491	296 153	248 821
> Americas <span style="font-size: small;">i</span>		8 071 522	7 773 264	8 288 806	10 131 543	8 422 141	10 173 537	11 038 684	12 876 141	11 090 862	13 109 347
> Asia		5 921 563	6 467 134	7 041 433	8 387 509	8 712 549	9 530 510	10 523 209	10 745 029	10 993 340	11 765 428
> Europe		11 387 608	11 447 864	11 712 198	13 501 203	13 276 309	14 418 016	18 199 842	18 809 752	17 509 282	18 523 722
> Oceania		486 386	434 729	453 525	522 442	515 719	596 149	625 131	646 532	680 006	733 242
> Individual economies		-	-	-	-	-	-	-	-	-	-
> Special economies		-	-	-	-	-	-	-	-	-	-
> Asia and Oceania		6 407 949	6 901 863	7 494 958	8 909 951	9 228 268	10 126 660	11 148 339	11 391 561	11 673 346	12 498 670
> Asia		5 921 563	6 467 134	7 041 433	8 387 509	8 712 549	9 530 510	10 523 209	10 745 029	10 993 340	11 765 428
> Oceania		486 386	434 729	453 525	522 442	515 719	596 149	625 131	646 532	680 006	733 242

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## THE GLOBAL DECLINE IN FDI FLOWS [HTTPS://UNCTAD.ORG/SYSTEM/FILES/OFFICIAL-DOCUMENT/WIR2022\\_EN.PDF](https://unctad.org/system/files/official-document/wir2022_en.pdf) (in \$ billions)



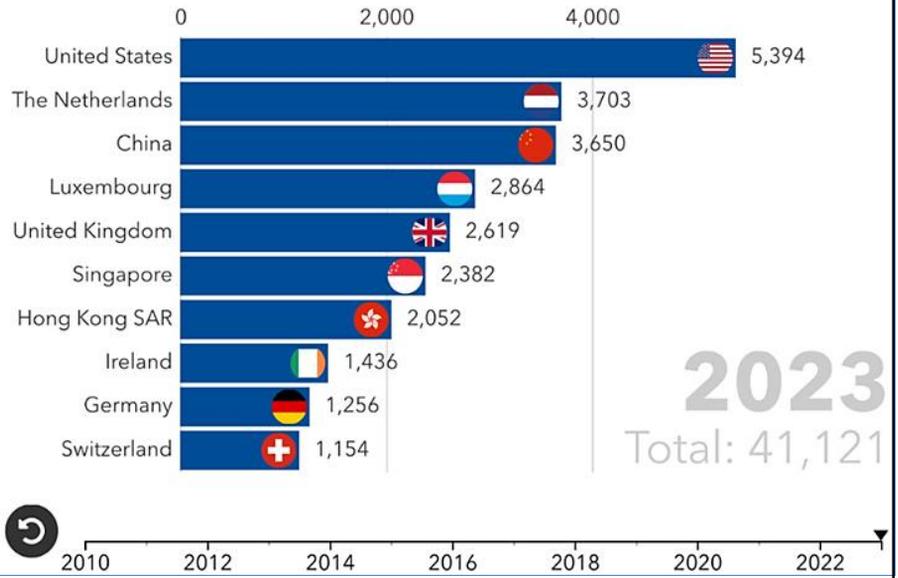
Source: UNCTAD, FDI/MNE database (<https://unctad.org/fdistatistics>).

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**FDI INFLOWS  
TOP 10 HOST  
ECONOMIES  
IN US\$ BILLIONS**

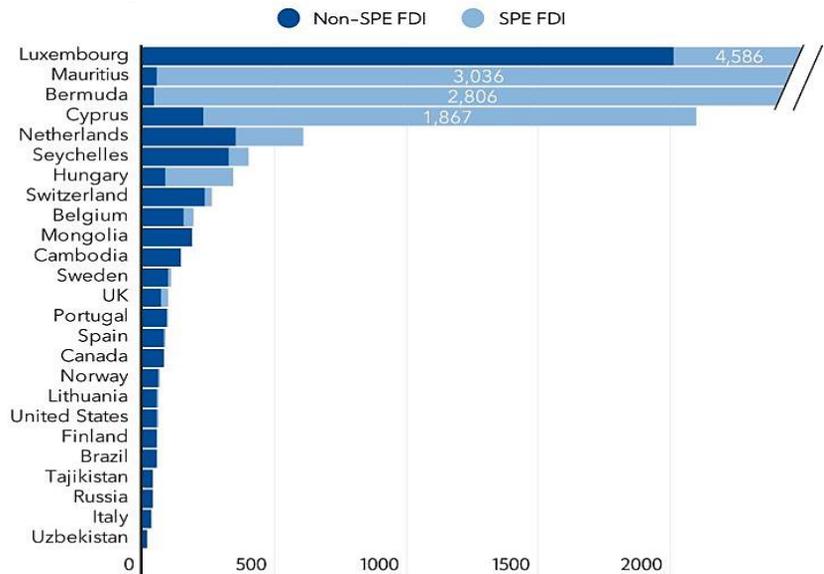
**Top 10 FDI recipients, billions of USD**



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**FDI FLOWS = SUPPOSEDLY LONG-TERM AND JOB-CREATING?**

Special purpose entities are legal entities set up to obtain specific advantages from a host economy, in which they have little to no employment, physical presence, or production. Usually set up to benefit from low taxes or established for easier access to capital markets, financial services, and skilled workforces. Because they have little to no impact on the economy, these financial flows can **distort the true picture of economic activity provided by foreign direct investment numbers.**



Source: IMF staff calculations. Note: The figures for the UK do not include the Isle of Man, Channel Islands, or overseas territories.



## Change in reserves

Reserves include:

- ▶ Hard currency assets + Monetary gold (gold held by the authorities as a financial asset)
- ▶ Special drawing rights (SDRs): reserves created by the IMF and credited to the accounts of IMF member countries according to national quotas

<https://www.imf.org/external/np/sec/memdir/members.aspx>

- ▶ Reserve position in the Fund: (member's quota + other claims on the Fund)

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# CENTRAL BANKS ARE MAJOR HOLDERS OF GOLD!

## Central bank gold statistics December 2024



Central banks reported 3t of net selling in December via the IMF and other public data sources. Demand tapered during the month: monthly gross purchases of 13t were offset by gross sales of 16t, with Kazakhstan reporting net sales of 11t.\*



December highlights*	
13t Gross purchases	-16t Gross sales
337t Reported net buying in 2024	28t 12-month avg

### December changes by country\*

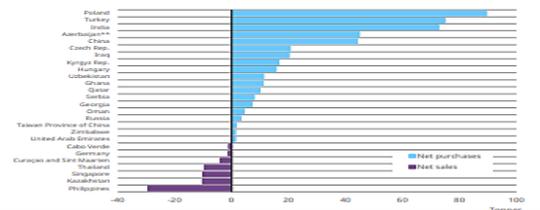
Notably, People's Bank of China was the largest reported net buyer this month (10t), followed by Czech National Bank and Bank of Ghana with a tonne net purchases each. The National Bank of Kazakhstan was the largest seller (11t) during the month.



### Year-to-date changes by country\*

Both gross purchases and sales in 2024 are lower compared to the same period in 2023.

Poland is the largest reported net buyer in 2024 (90t) followed by Turkey (75t) and India (73t) over the same period.



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## THE IMF QUOTAS



When a country joins the IMF, it is assigned an **initial quota** based on macroeconomic variables = weighted average of GDP (weight of 50 percent), trade openness (30 %), economic diversification (15 %), and international reserves (5 %).

GDP is measured through a blend of GDP—based on market exchange rates (weight of 60 %) and PPP exchange rates (40 %).

Quotas are denominated in Special Drawing Rights (SDRs), the IMF's unit of account  
**10/ 2025: 1 SDR= \$1,37**

Largest member = United States: quota of SDR83 billion (US\$116 billion= 17,5%), and the smallest member is Tuvalu, with SDR2.5 million = US\$3.5 million)

Source: IMF quotas 2025

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## Foreign Exchange Reserves

The largest component of total international liquidity.

It includes monetary authorities' claims on non-residents in the form of bank deposits, treasury bills, short-term and long-term government securities, and other claims usable in the event of balance of payments need, including non-marketable claims from inter-central bank and intergovernmental arrangements

A **+ sign** in the BOP means a financing flow in the capital account, i.e., a decrease in the stock of reserves!

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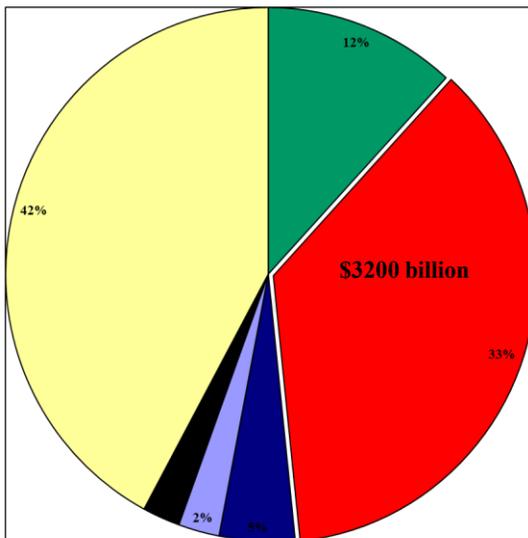
# FX RESERVES AS BUFFER OF LIQUIDITY CRISIS

	FX Reserves as % of short term debt	FX reserves as % of GDP
India	427%	15%
China	399%	27%
Mexico	334%	16%
Korea	330%	26%
Taiwan	277%	82%
Switzerland	63%	96%
Japan	45%	23%
Canada	13%	5%
Italy	5%	2%
UK	2%	4%
Germany	2%	1%
France	2%	2%

Reserves and GDP for 2016, short-term debt as of 2016Q3  
 Sources: National Authorities; World Bank; International Monetary Fund; Haver Analytics

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- Russia
- China
- India
- Brazil
- Mexico
- Others

End-2025  
 Σ world reserves = \$12,540 billion

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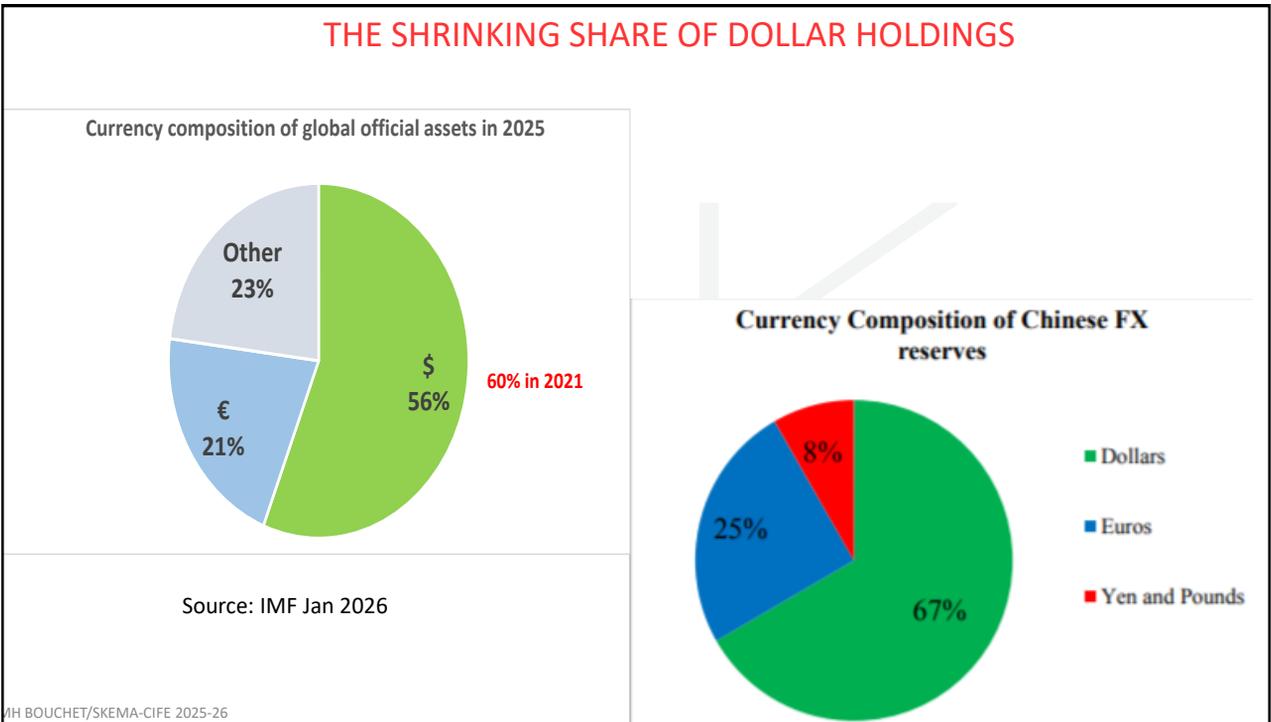
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## THE RISE AND DECLINE OF CHINA'S RESERVE ASSETS



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## THE SHRINKING SHARE OF DOLLAR HOLDINGS



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## 4. Net errors and omissions

Statistical gaps involved in gathering balance of payments data (and capital flight!)

sources of E&Os:

1. leads and lags in trade flows
2. Under-invoicing of exports
3. Over-invoicing of imports
4. undeclared short-term capital movements...

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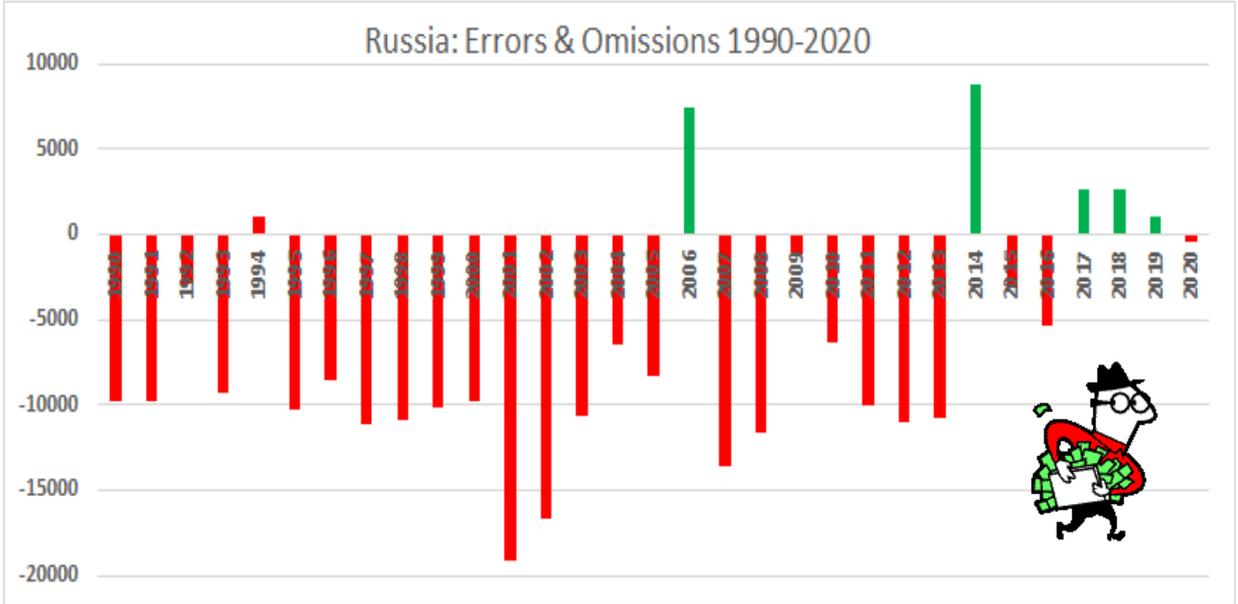
## NET ERRORS AND OMISSIONS ?

- ▶ An examination of the size and direction of NE&Os may shed light on the accuracy of BoP estimates. The adoption of the double entry accounting system means that the net sum of all credit and debit entries should equal zero.
- ▶ In practice, any discrepancies are recorded in NE&Os, reflecting the net effect of differences in coverage, timing and valuation.
- ▶ An amount > 5% of the gross sum of merchandise exports and imports is a source of concern!

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**RUSSIA: NET ERRORS & OMISSIONS US\$ BILLION**



Source: IMF-IFS/IIF

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**CAPITAL FLIGHT IN RUSSIA (1994-2012)**



Source: BIS

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## 6. EXCEPTIONAL FINANCING

- IMF SDR Drawings
- World Bank's HIPC Initiative
- London Club debt reduction and restructuring workouts
- Paris Club debt relief
- Debt swap transactions



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## IMF: A LAST RESORT CREDITOR

Unlike development banks (WB, AfDB...) , the IMF does not lend for specific projects. Instead, the IMF provides financial support to countries hit by crises to create breathing room **as they implement policies that restore economic stability and growth** (?)

The money the IMF loans to its members on its general – or non-concessional – terms comes **from member countries**, through their payment of **quotas**.

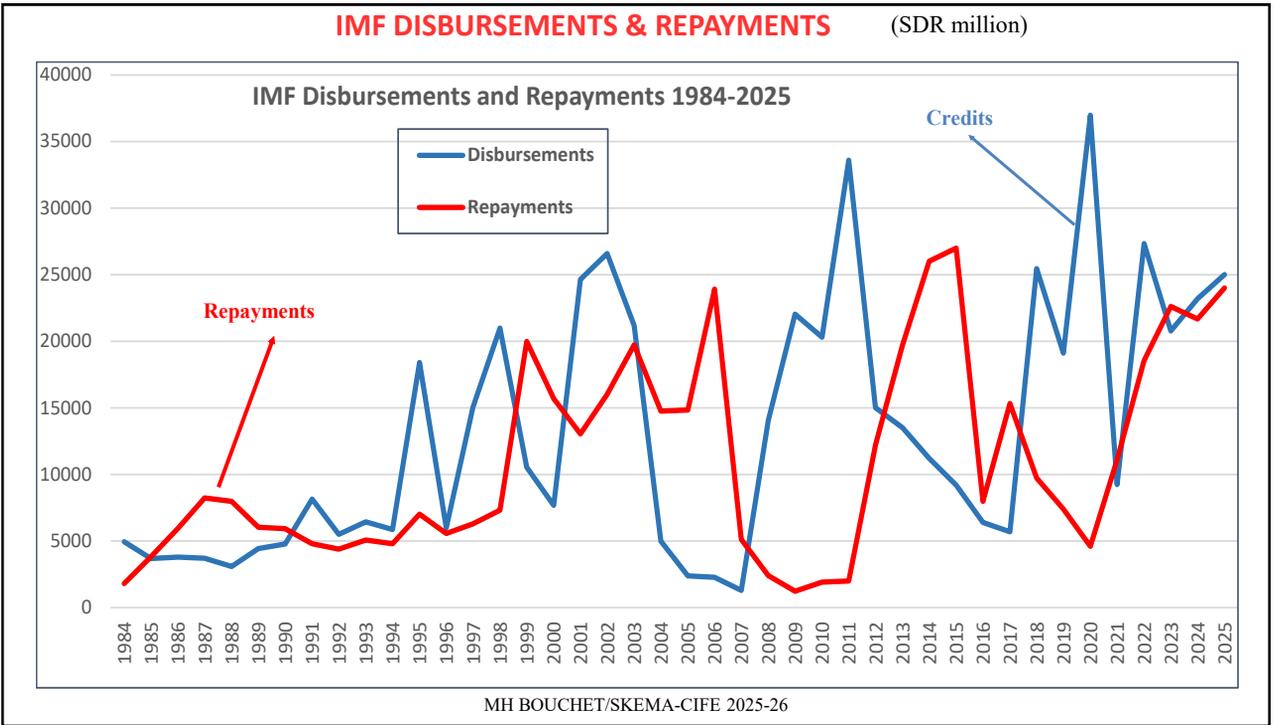
Multilateral and bilateral arrangements can supplement quota funds and play a critical role in the IMF's support in times of crisis.

The IMF's current total resources of about SDR 982 billion translate into a lending capacity of **US\$1 trillion**

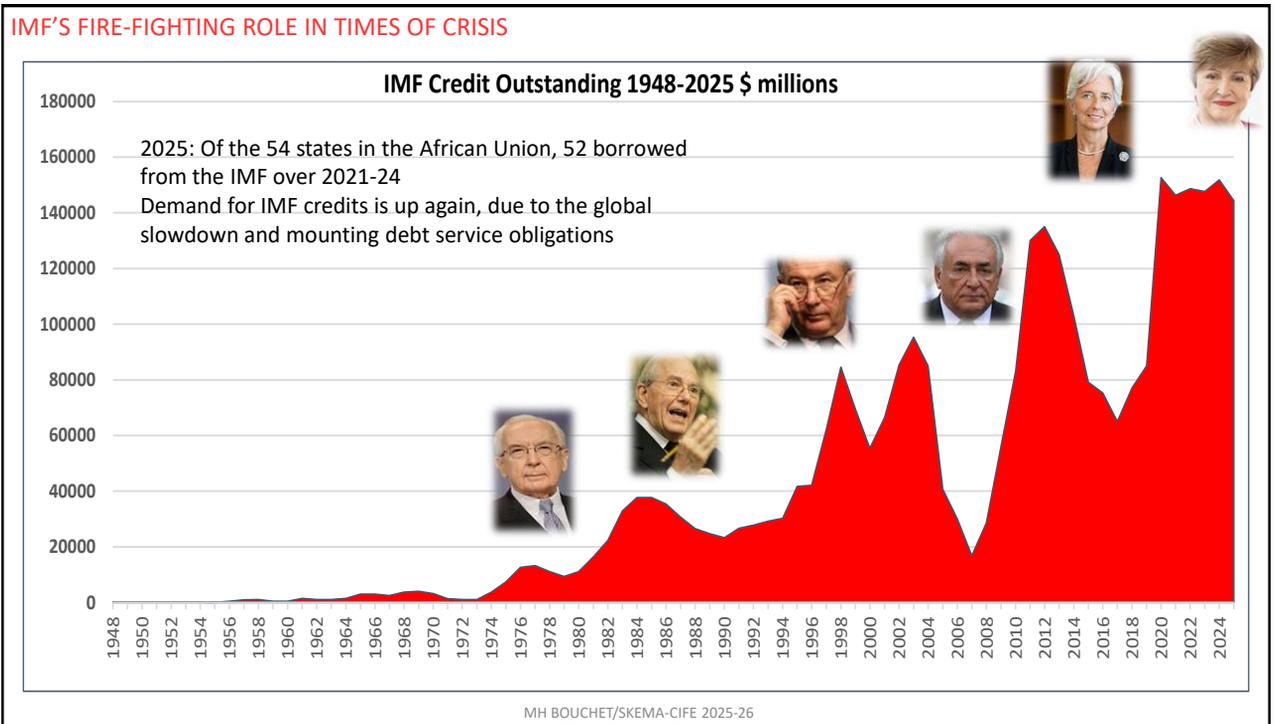


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