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DEFI Developing Finance

COUNTRY RISK AND THE BALANCE OF PAYMENTS

THE CURRENT ACCOUNT



CIFE SEMINAR ROMA-BERLIN-NICE 2026-27

MICHEL-HENRY BOUCHET

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▶ Country risk assessment starts with the Balance of Payments!

1. Inflation and trade deficits
2. Currency volatility
3. Exchange rates
4. Productivity & competitiveness
5. Net external financing flows & Capital flight
6. Liquidity or solvency problems?
7. Debt crisis!

2



BALANCE OF PAYMENTS

Accounting framework and statistical record of all economic and financial flows between residents of the reporting country and the rest of the world

The time period itself is arbitrary:

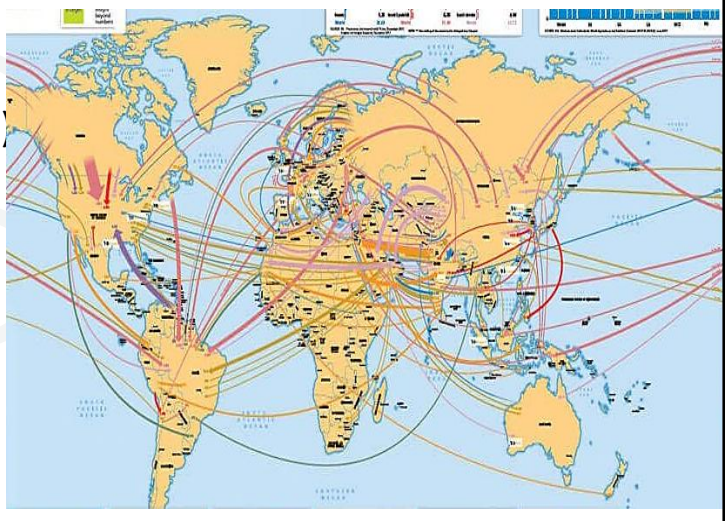
monthly, quarterly and yearly basis

A Video? https://www.youtube.com/watch?v=A_Nut4pNHuc
https://www.youtube.com/watch?v=YlQgeyKV-QM

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BALANCE OF PAYMENTS = RECORDING OF TRADE AND FINANCIAL FLOWS

- Exports
- Imports
- Services (tourism & insurance)
- Interest Payments
- Transfers (remittances)
- FDI
- Portfolio
- Capital inflows and outflows
- Reserve Change
- Arrears



4

BALANCE OF PAYMENTS AND EXTERNAL DEBT

Balance of Payments	Assets & Liabilities
Change in flows Double-entry accounting system ▶ Receipts = **Inflows** (exports GS + capital) ▶ Debits = **Outflows** (Imports, interest and debt payments)	**External Debt and Reserves** = Change in **stocks** **Δ+ Reserve Assets** **Debt repayment** **Δ- Reserves** **Δ+ Debt Stock**

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THE BALANCE IS ALWAYS BALANCED!



Changes in the stock of reserve assets, emergency financing, payment arrears… or debt default, will balance the national accounts

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Residents? = Government, households, individuals, NGOs & private non-profit entities, and firms.

- MNCs are by definition resident in more than one country. The MNC's subsidiaries are treated as resident in the country in which they are located even if their shares are actually owned by foreign residents.
- IFIs are always foreign residents (IMF…)
- Tourists and CIFE students are foreign residents if they stay in the reporting country **< 1 year**

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BALANCE OF PAYMENTS ACCURACY ?

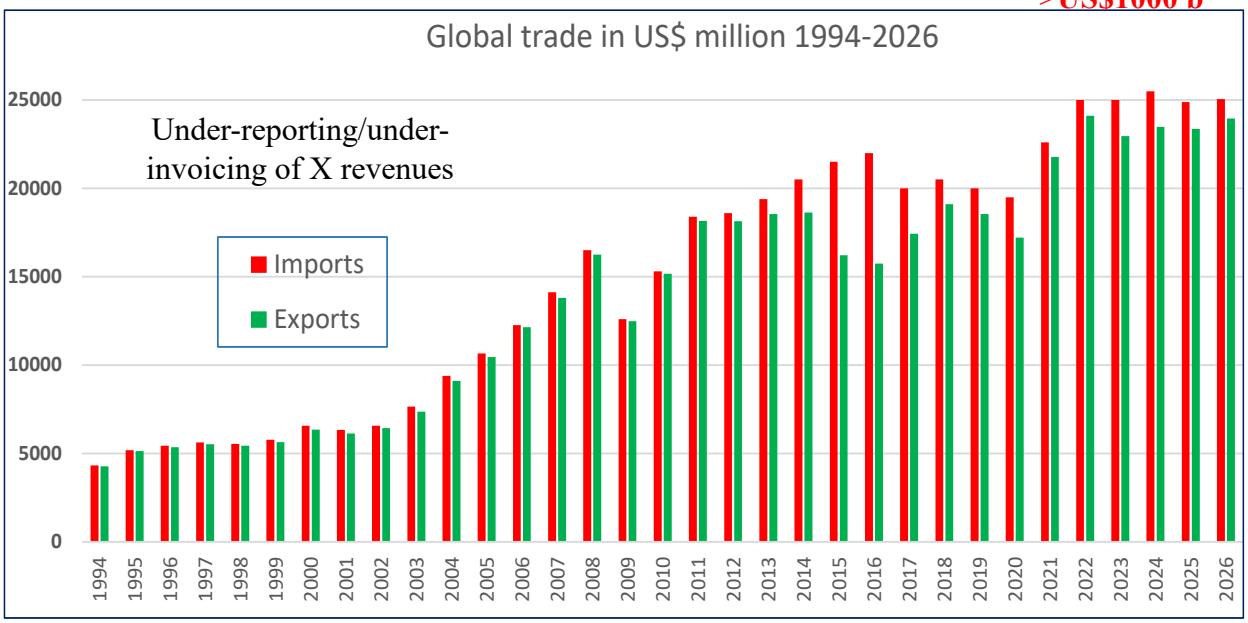


- Data collection and methodological errors
- Inconsistencies in the time of recording and valuation of the corresponding debit and credit entries
- Undercoverage (over-invoicing/under-invoicing of trade transactions)
- Data revisions policy
- Use of sample surveys rather than complete enumeration
- Trade-off between accuracy and timeliness!
- Customs deficiency!

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THE WORLD "MISSING" EXPORTS

A « ***black hole*** »
>US$1000 b



Source: IMF-2025 MH BOUCHET/SKEMA-CIFE 2026-27

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INTERPRETING THE BALANCE OF PAYMENTS

Different accounts in the balance of payments make it possible to see whether or not a country lives

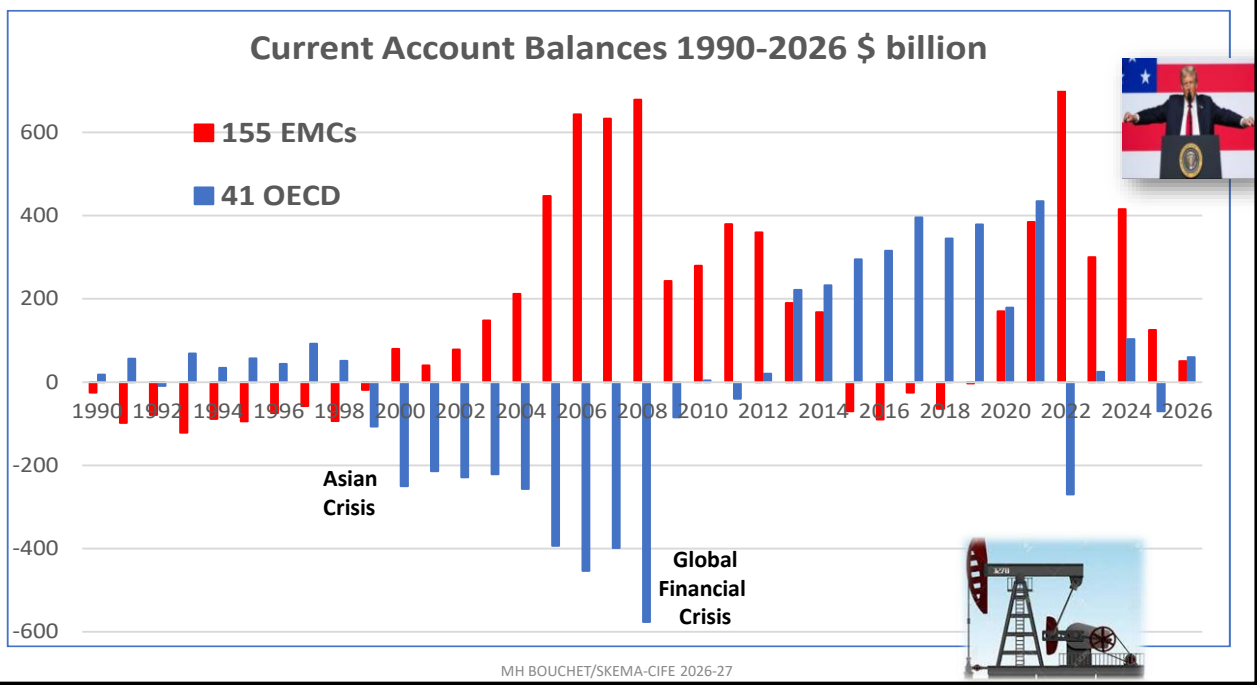
"beyond its means" (I>S)

Merchandise exports or imports can be broken down by product and by market source and destination (incompressible imports or volatile exports!)

Useful for determining how a country's balance of payments and overall economic performance will react to different situations (elasticities, exchange rate adjustment, domestic absorption, terms of trade, trade barriers, deflation…)

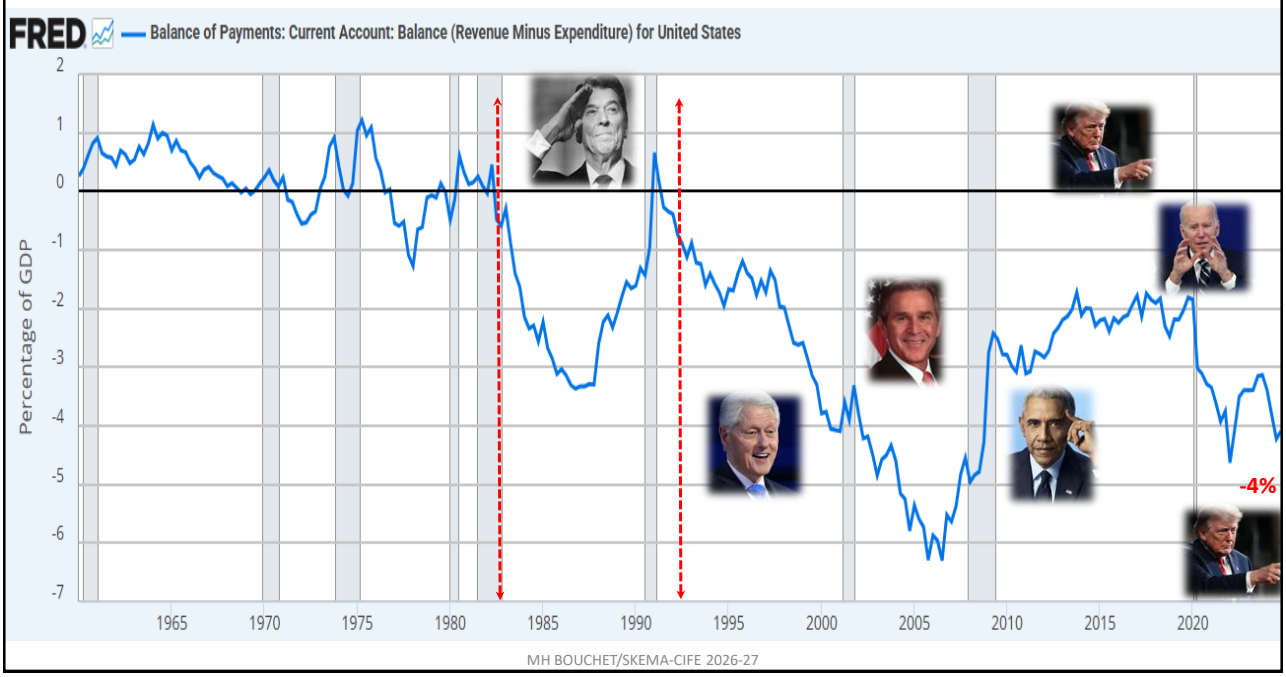
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WHERE DOES MONEY COME FROM?



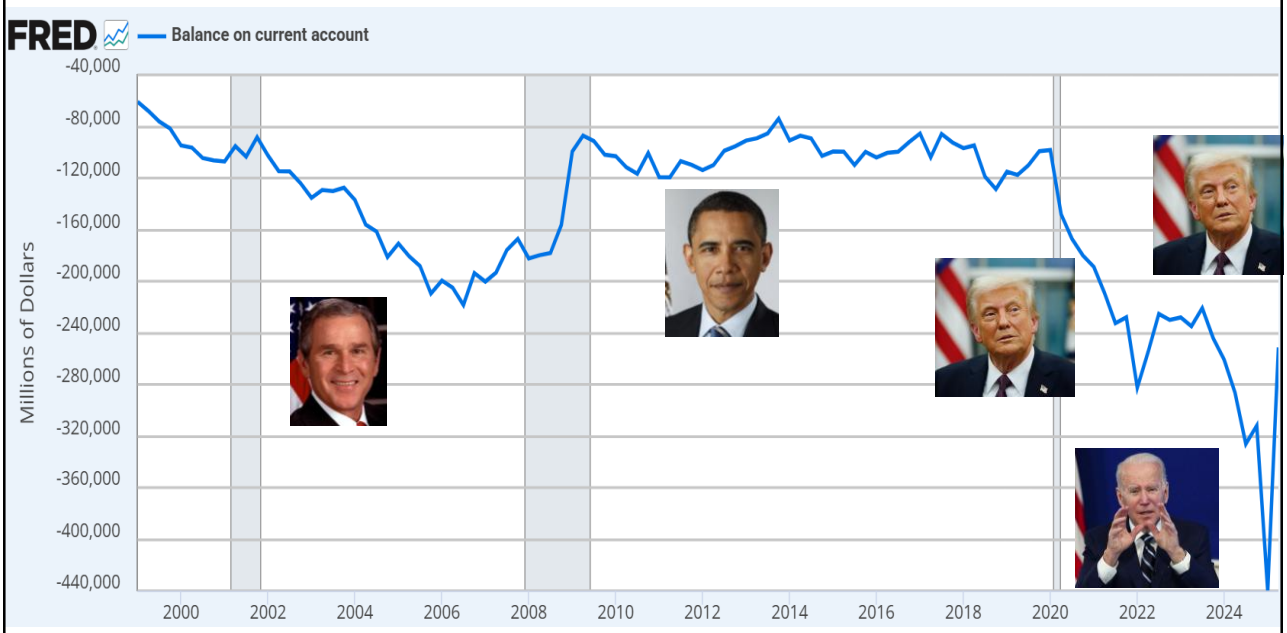
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THE US CURRENT ACCOUNT DEFICIT IN % OF US GDP (1960-2025)



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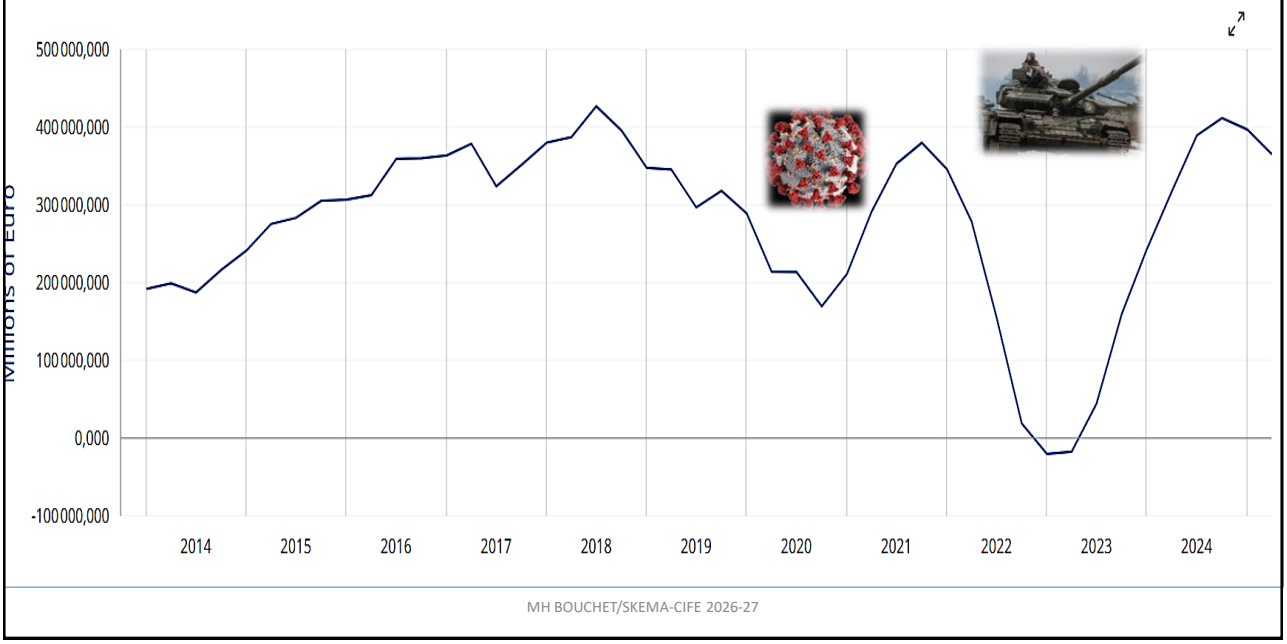
US BALANCE OF PAYMENTS DEFICIT (2000-2025)



MH BOUCHET/SKEMA-CIFE 2026-27

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EU COUNTRIES' CURRENT ACCOUNT BALANCE (2014-2025)



MH BOUCHET/SKEMA-CIFE 2026-27

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INTERPRETING THE BALANCE OF PAYMENTS

- Living beyond its means?
- Current account balance = saving - domestic spending
- A country that **saves > it invests** at home sends its surplus abroad to purchase foreign assets
- One that **saves < it invests** finances the shortfall by issuing liabilities to foreign investors = △ debt!
- The accumulated history of current account surpluses or deficits, along with capital gains and losses on past investments, determines a country's **net international investment position**.

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NATIONAL INCOME IDENTITY 💰

Y = National income
C = Domestic Consumption
I = Investment
G = Government expenses
T = Taxes & Government revenues
X = Exports
M = Imports
S = Domestic Savings (income > consumption)

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DOMESTIC AND EXTERNAL FINANCIAL EQUILIBRIUM

What is disposable income?

Y = gross income - imports & taxation

Y = C + I + G + X – M – T + (KM – K flight)

Savings = Y – C

(S – I) + **(T – G)** = **(X – M)** + **(KM – K flight)**

Savings | Fiscal balance | Trade balance | Net capital inflows

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BOOSTING SAVINGS TO FINANCE INVESTMENT WITHOUT EXTERNAL DEFICIT?

if S > I ⇒ X > M

If S <I ⇒ **M >X**

- a trade imbalance is always rooted in low savings and excessive domestic spending (absorption)
- It requires macroeconomic correction (interest rate hike, devaluation, ↑ taxation, credit reduction, ↑ reserve requirements…)

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Two principal sub-accounts

1. **current account** plays a role similar to a private company's income statement= country's economic performance vis-à-vis the rest of the world.

2. **capital account** shows how the country's economic growth gets financed

The basic balance draws the line under "other long-term capital" to emphasize the role of economic performance and stable long-term financing. Another presentation is the **Table of Uses & Sources**

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BALANCE OF PAYMENTS: CURRENT & CAPITAL ACCOUNTS

1. **Balance of trade** = Exports of merchandise – Imports
2. **Balance of services** ("invisible")
   = freight, insurance, shipping, banking, tourism, interest and dividend payments (i.e. services of capital!)
3. **Unilateral transfers**

= **CURRENT ACCOUNT**



► ***A deficit in the current account must be financed by a surplus in the capital account!***

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THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS

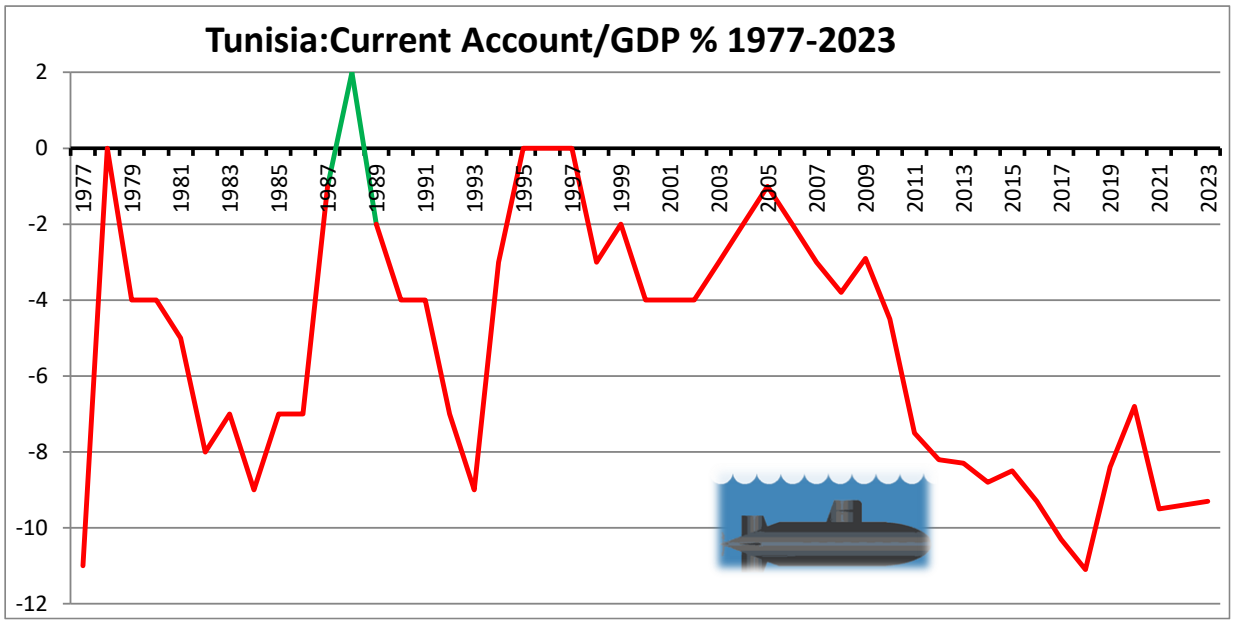
From less liquid items toward more liquid items!

+	Export of goods f.o.b.
-	Imports of goods f.o.b.
=	**Trade balance**
+	Exports of non-financial services
-	Imports of non-financial services
+	Investment income (credit)
-	**Interest payments**
+	Private unrequited transfers
+	Official unrequited transfers
=	**Current account balance**



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Is there any limit to a deficit?



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1. The trade balance comprises

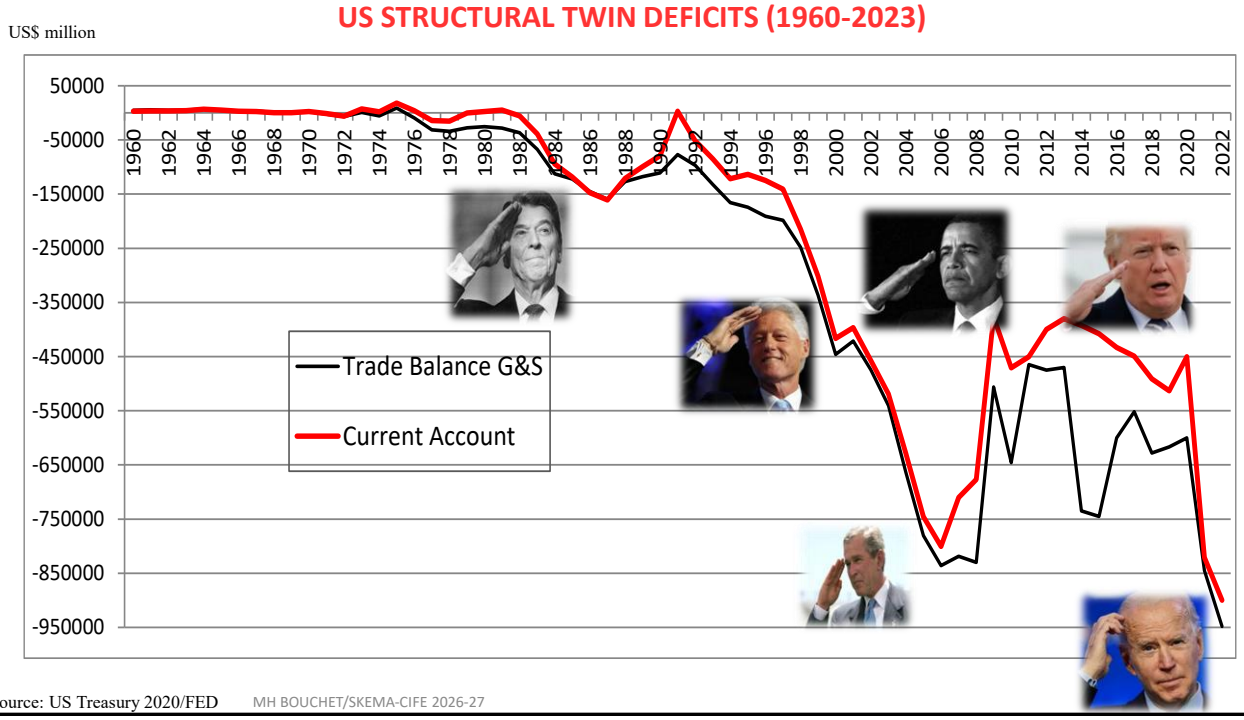


1. **Merchandise exports**: all movable goods such as equipment, cars, trucks, textile, appliances, oil etc.

2. **Imports are recorded "free on board"** (f.o.b.): services (freight, insurance, shipping and handling performed on goods up to the customs frontier of the economy from which the goods are exported), are **not** included in the trade balance.

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US STRUCTURAL TWIN DEFICITS (1960-2023)



Source: US Treasury 2020/FED

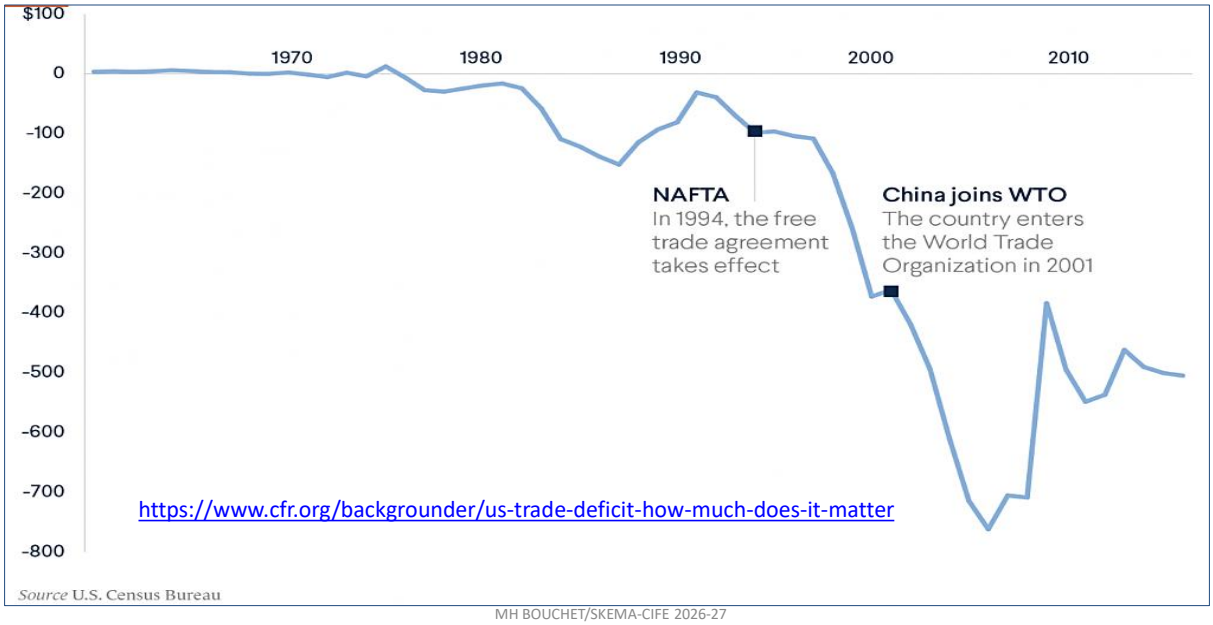
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THE US TRADE BALANCE (US CENSUS 2026)

- In 2025 the United States exported $3430 trillion in goods & services while it imported $4330 trillion, hence a $1240 billion deficit.
- Major goods exported = aircraft, medical equipment, refined petroleum, and agricultural commodities.
- Major imports are dominated by capital goods, such as computers and telecom equipment; consumer goods, such as apparel, electronic devices, and automobiles; and crude oil.
- Services, such as tourism, intellectual property, and finance, make up roughly one-third of exports.
- The deficit in goods is higher than the overall trade deficit, since **a portion of the goods deficit is offset by the surplus in services trade**.

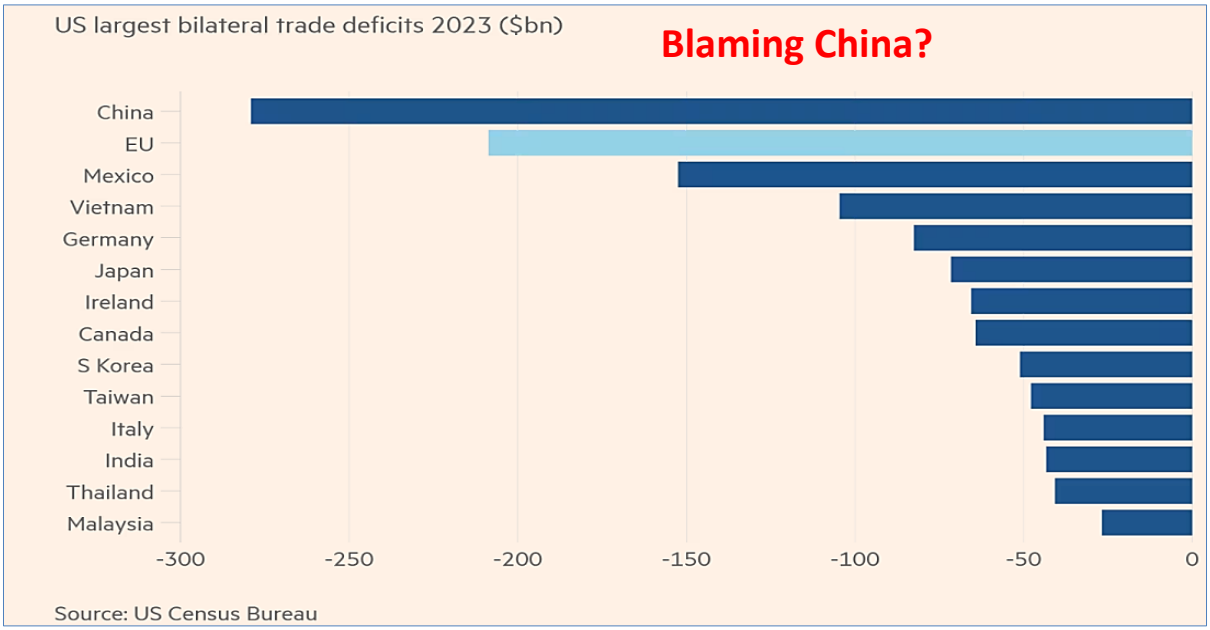
25

BLAMING FREE TRADE, CHINA AND EMCS? THE US TRADE DEFICIT OVER TIME



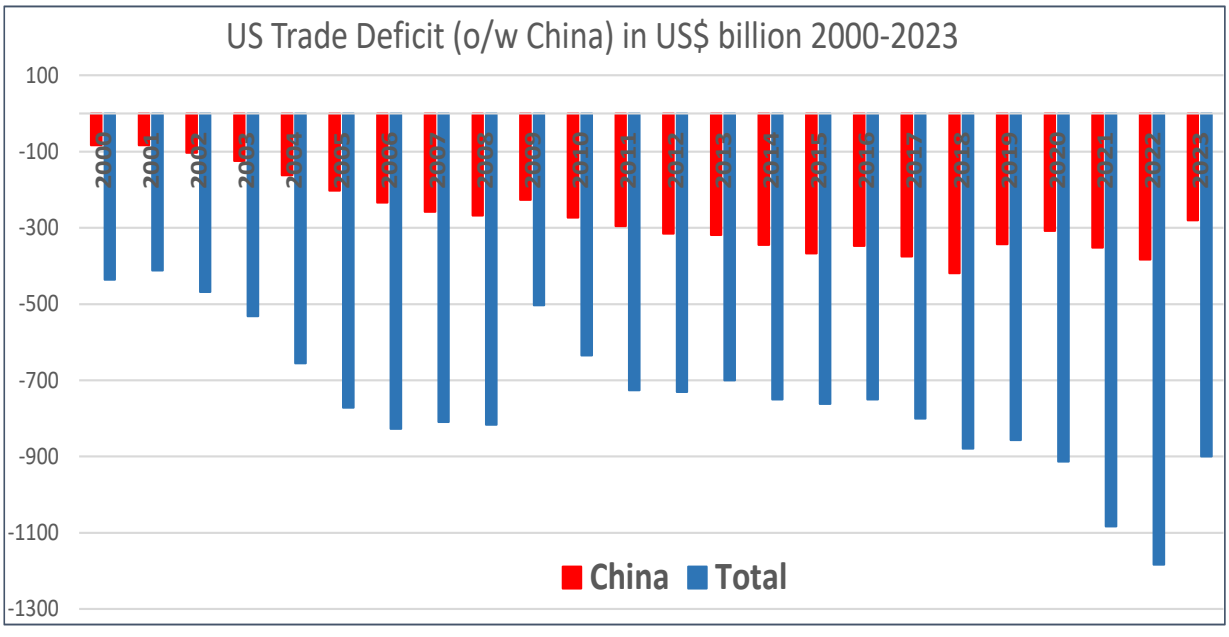
26

THE US TRADE DEFICIT IS MUCH CONCENTRATED INTO 8 COUNTRIES! NOT ALL LDCS!



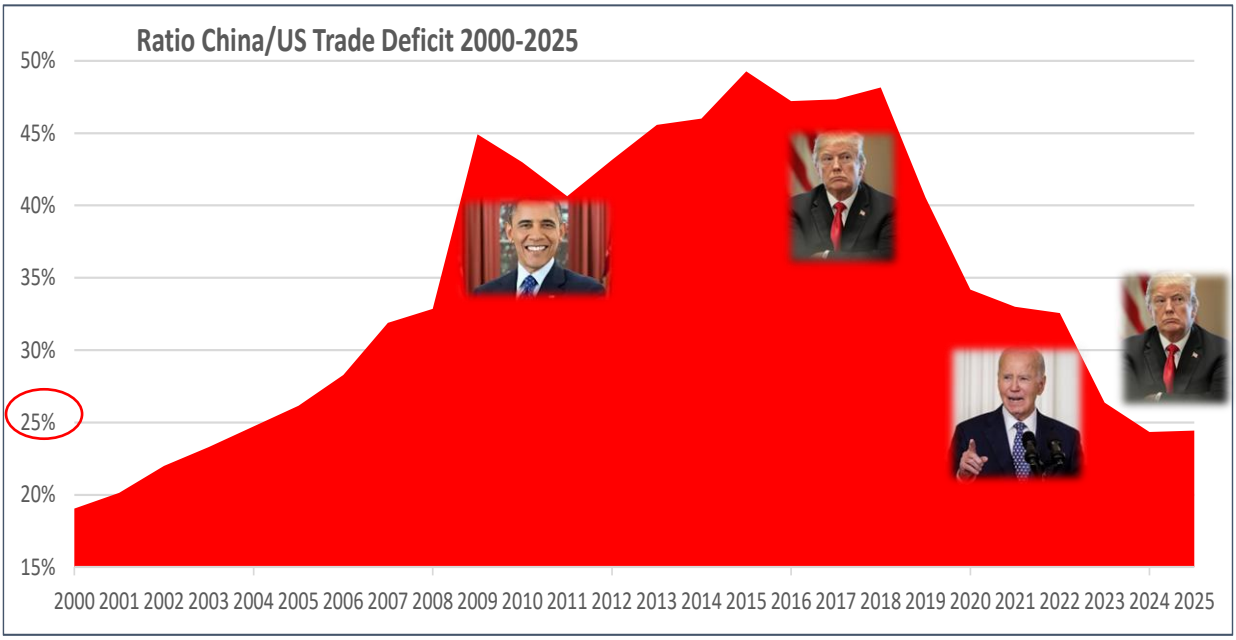
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BLAMING CHINA?



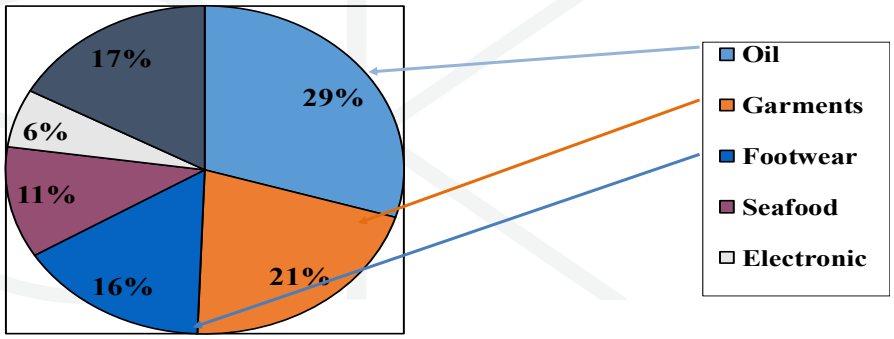
28

BLAMING CHINA??



29

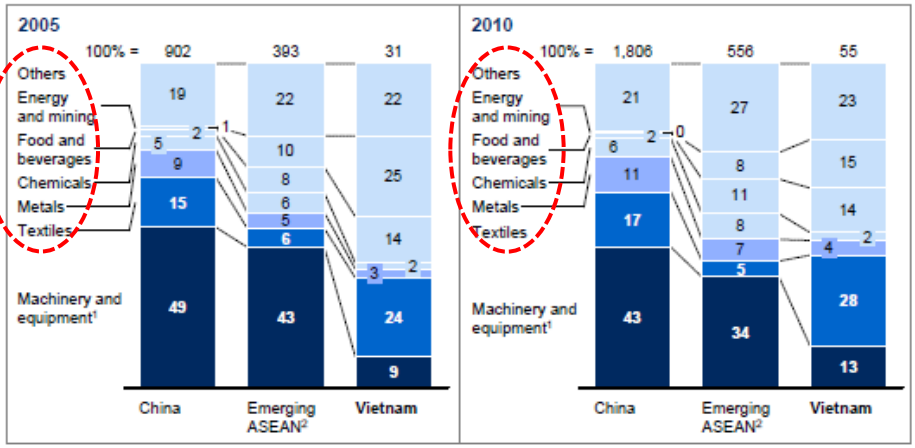
VIETNAM'S KEY EXPORTS OF GOODS



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Vietnam's exports are concentrated in low-value-added products compared with ASEAN countries

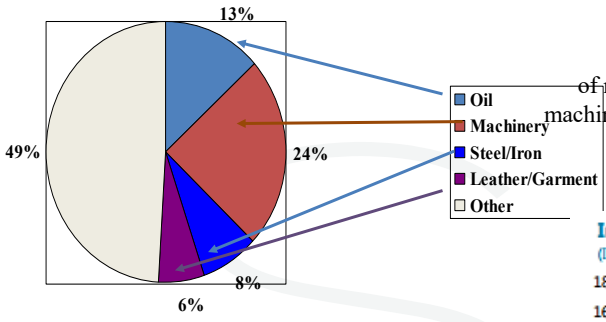
Export breakdown by subsector
%; $ billion



1 Includes electric equipment, electronic products, and general machinery and equipment.
2 Including Indonesia, Malaysia, the Philippines, and Thailand.
NOTE: Numbers may not sum due to rounding.
SOURCE: Global Insight 2011; McKinsey Global Institute analysis

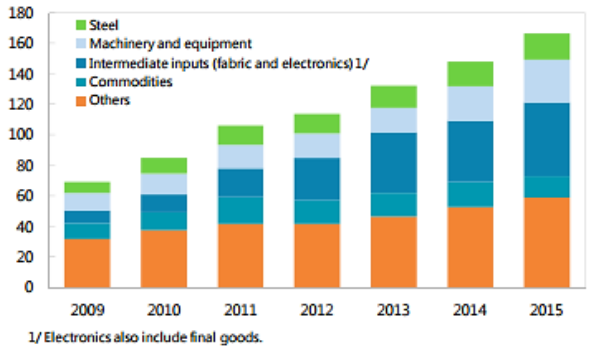
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VIETNAM'S IMPORTS OF GOODS



75% of the import value of raw materials, equipment and machinery is transferred to export value

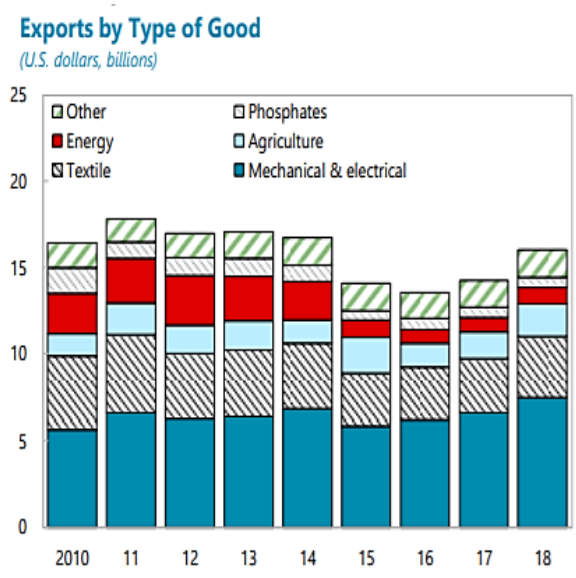
Imports by category
(In millions of USD)

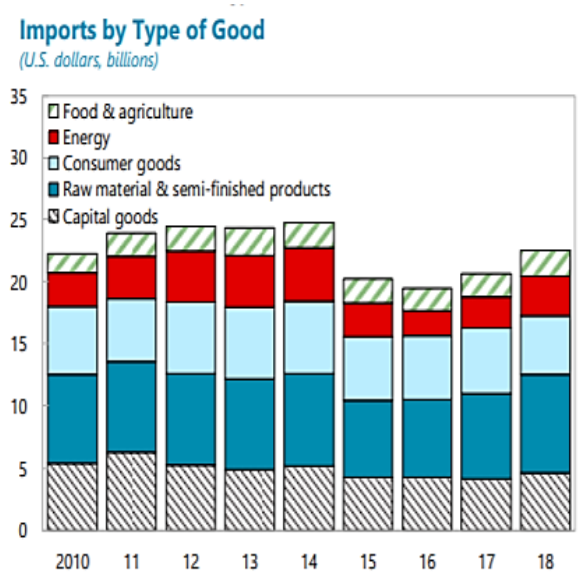


1/ Electronics also include final goods.

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TUNISIA = STRUCTURE OF X & M TRADE FLOWS





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2. Non-financial services =

Freight, insurance, passenger services, tourism, and travel!

The transportation of persons represents the largest component of passenger services.

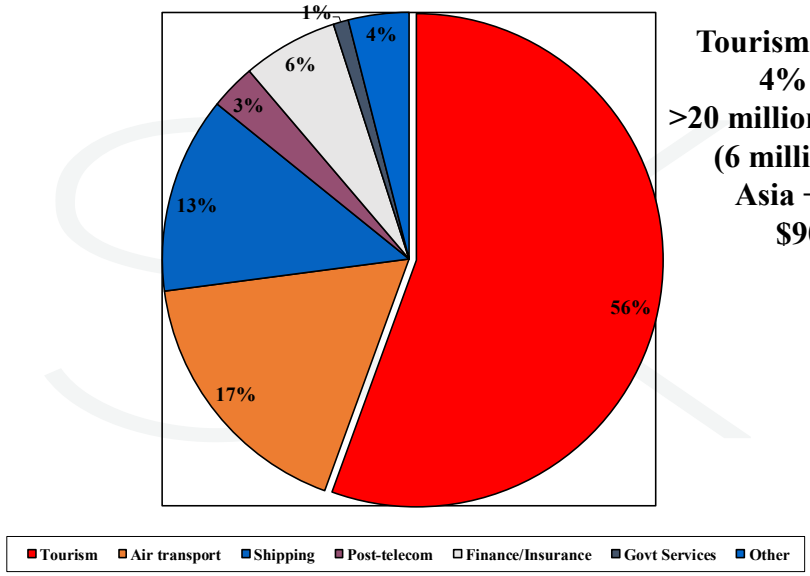
Tourism earnings: Cuba, Morocco, Tunisia?, Vietnam, Thailand, Spain, France...

Freight refers mainly to the carriage or transport of goods between national economies (Malta, Cyprus, Liberia, Panama…)

Insurance comprises insurance on movable goods during the course of shipment between economies as well as insurance on the carriers and other types of insurance such as life insurance.

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SERVICE EXPORTS OF VIETNAM



Tourism= $20 billion
4% of GDP
>20 million tourists 2025
(6 million in 2012)
Asia + US+ EU
$900/trip

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3. Financial services: =
Investment income and interest payments

Investment income covers income derived from the ownership of foreign financial assets (interest and dividends for portfolio investment + non-distributed earnings of incorporated enterprises)

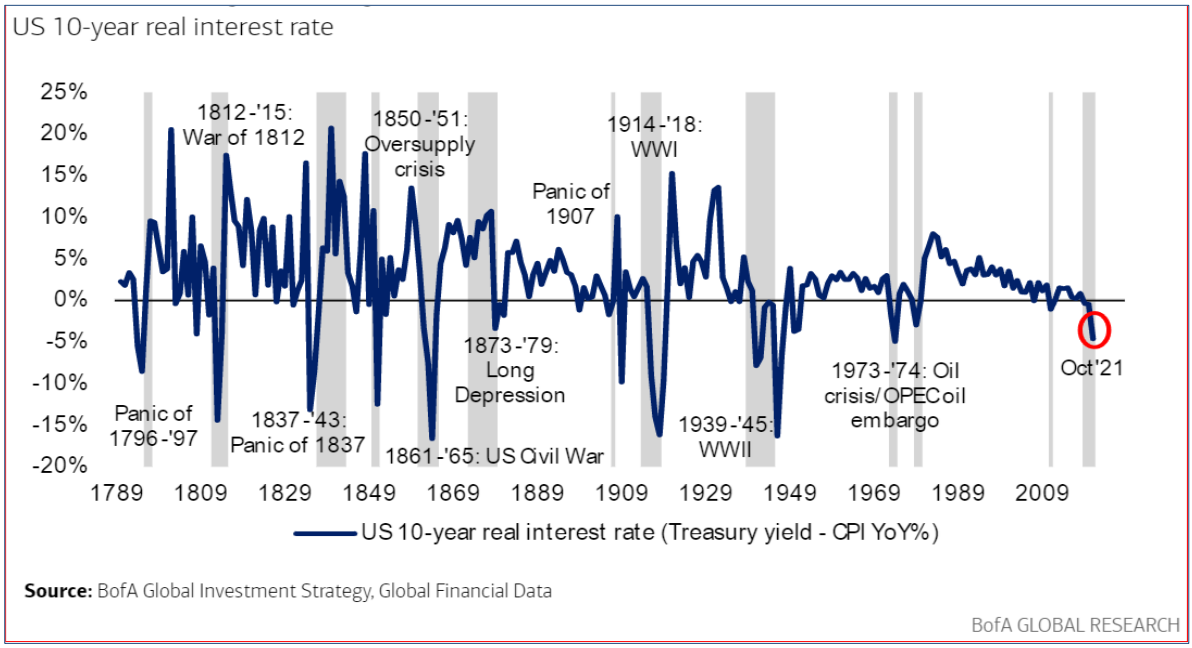
Distinction between portfolio investment and direct investment revolves around the investor's intentions concerning the foreign company.

Investment debits = **interest payments** on foreign liabilities

(interest on debt!)

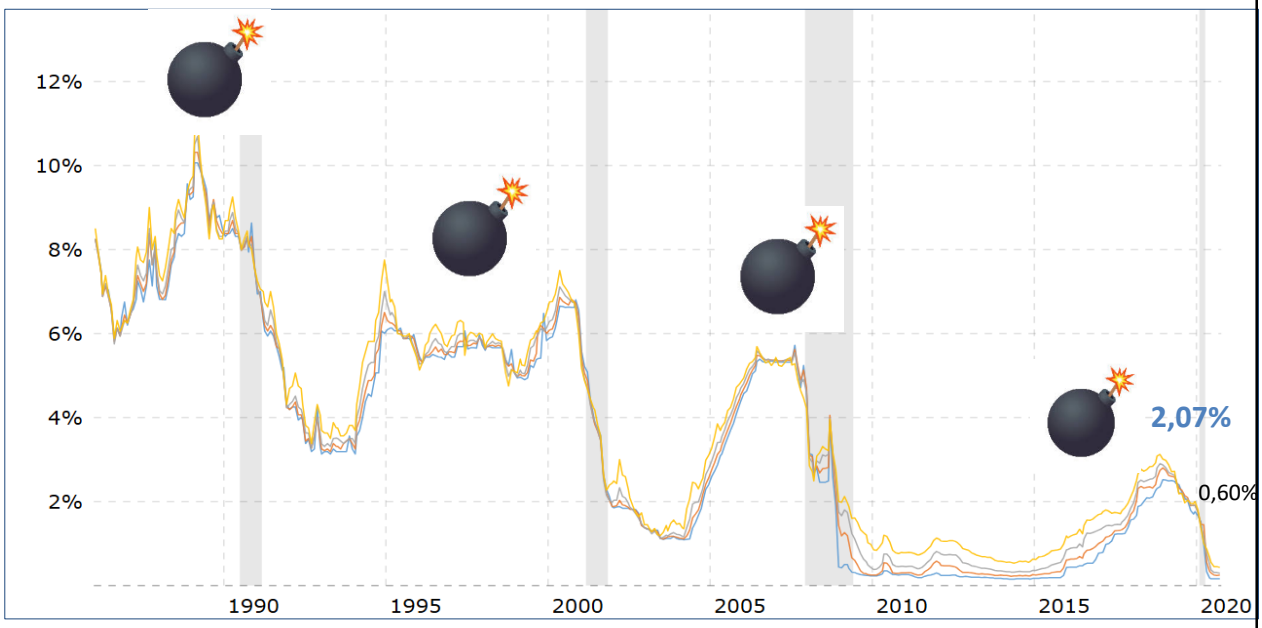
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THE VOLATILITY OF US INTEREST RATES 1789-2021



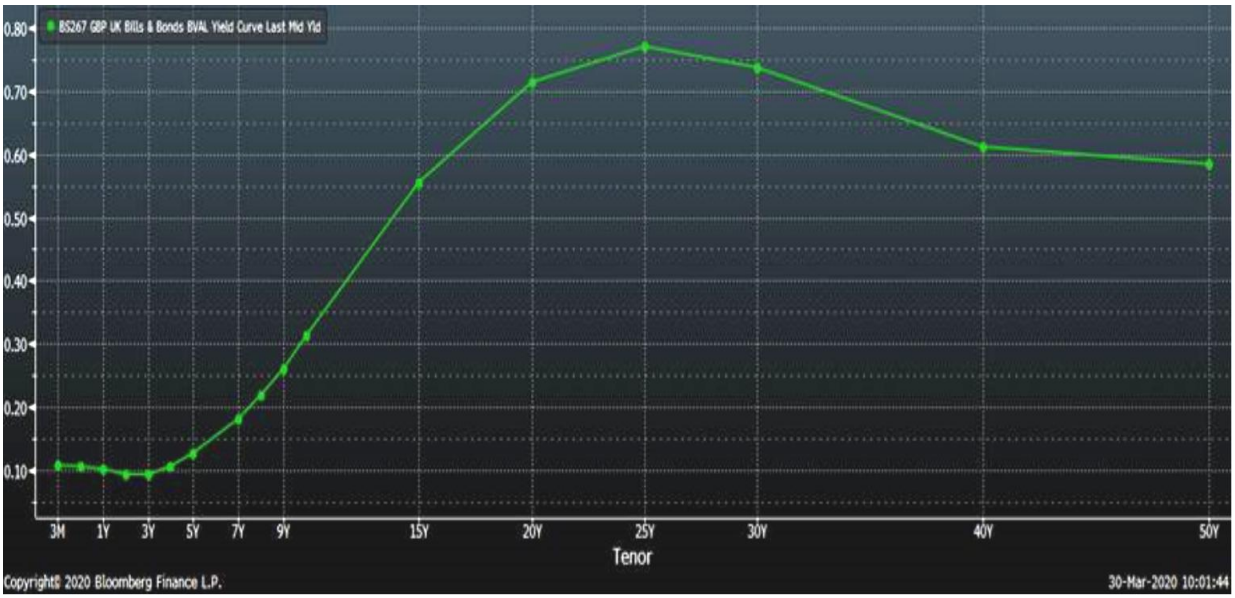
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LIBOR RATE 1985-2026: A DEBT CRISIS GRAPH!



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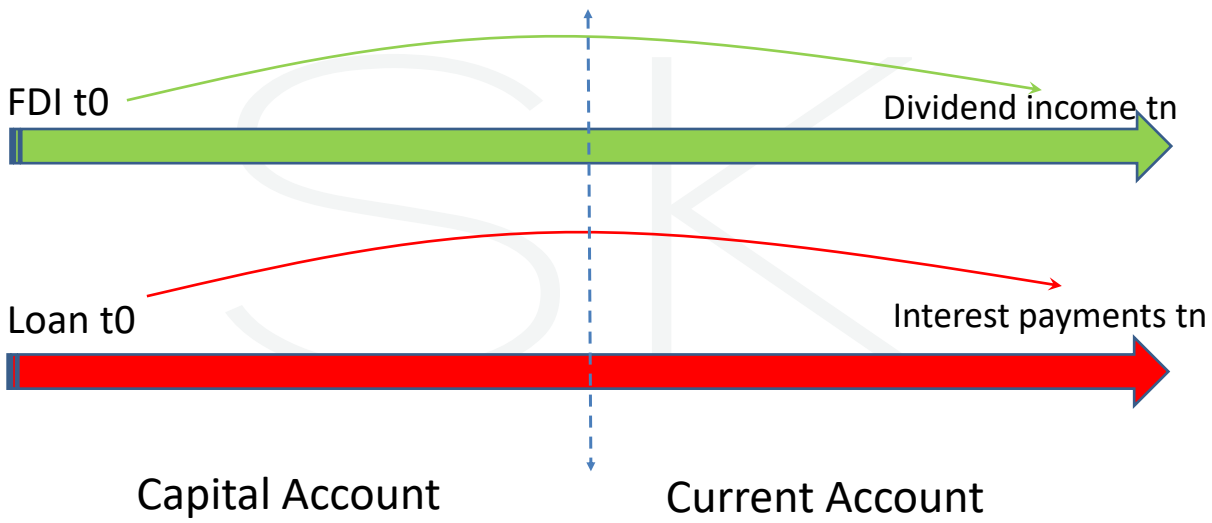
A WORLD OF NEGATIVE/ULTRA LOW INTEREST RATES UNTIL END-2022
UK'S YIELD CURVE 3-MONTHS/50 YEARS Q2-2020



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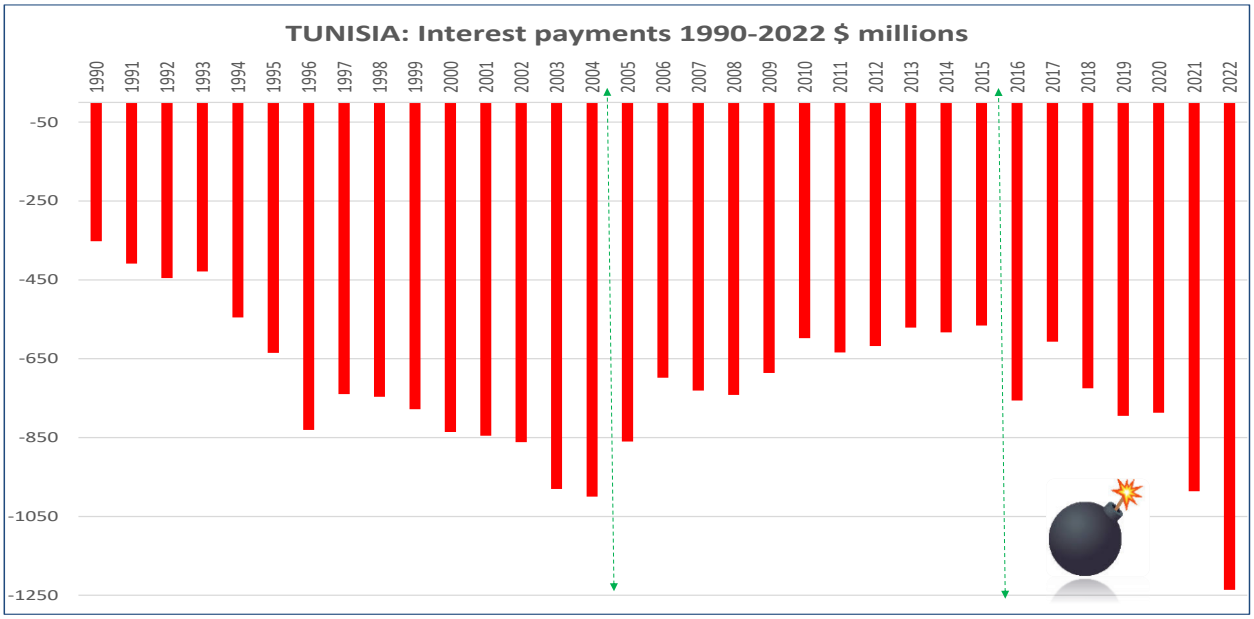
INTEREST INCOME AND INTEREST PAYMENTS

FLOWS VERSUS STOCKS!



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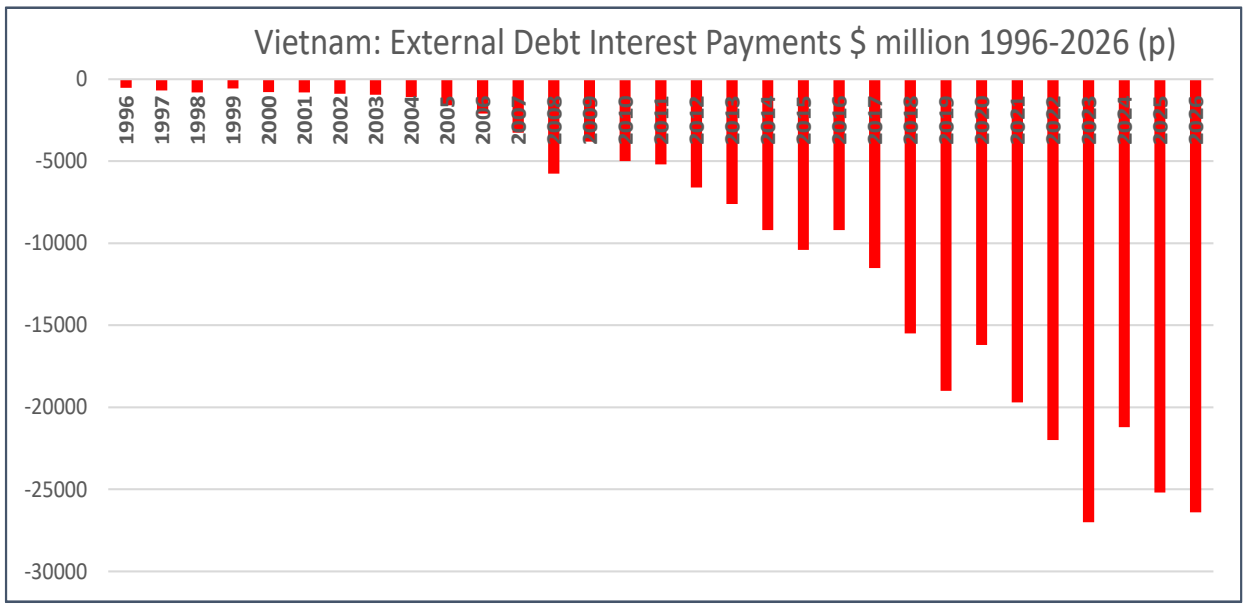
TUNISIA: RISING INTEREST BILL IN A WORLD OF ULTRA-LOW RATES



MH BOUCHET/SKEMA-CIFE 2026-27

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EXTERNAL DEBT SERVICING BURDEN 1996-2026



MH BOUCHET/SKEMA-CIFE 2026-27

Source: IMF-IFS 2025

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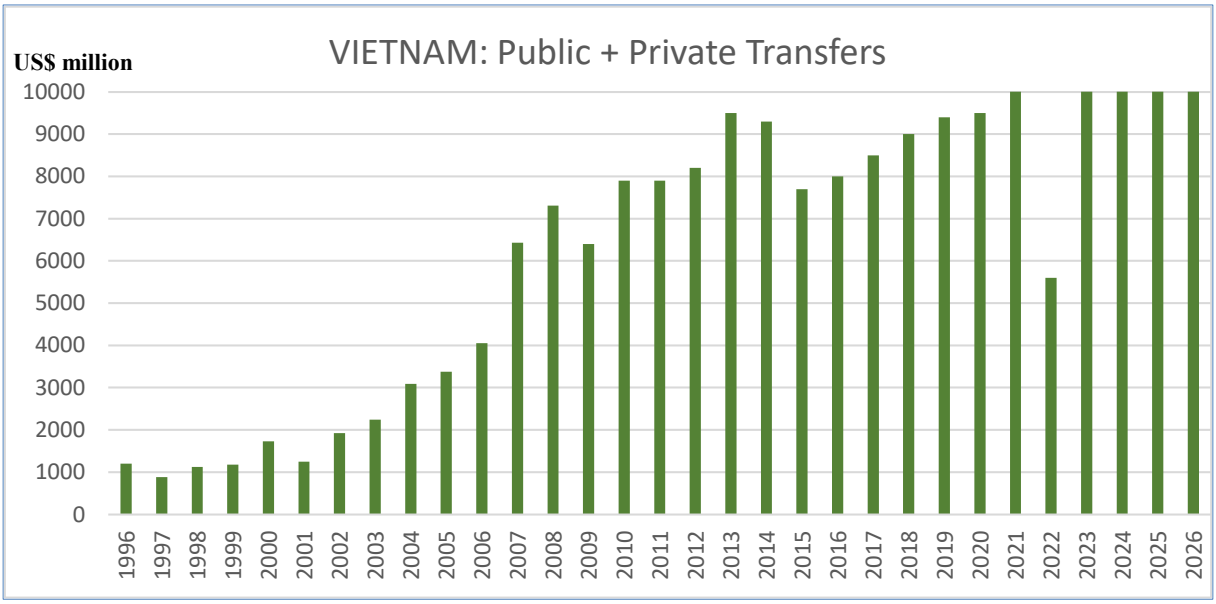
4. Private and official unrequited transfers

Private unrequited transfers refer mainly to immigrant workers' remittances to their country of origin as well as gifts, inheritances, prizes, charitable contributions, etc.: Morocco, Mexico, Algeria, Tunisia, India, Pakistan...

Official unrequited transfers include grants, subsidies, military aid, voluntary debt cancellation, contributions to international organizations, indemnities imposed under peace treaties, technical assistance, etc. : Large inflows for most HIPC-eligible countries (Benin, Tanzania, Haiti…)

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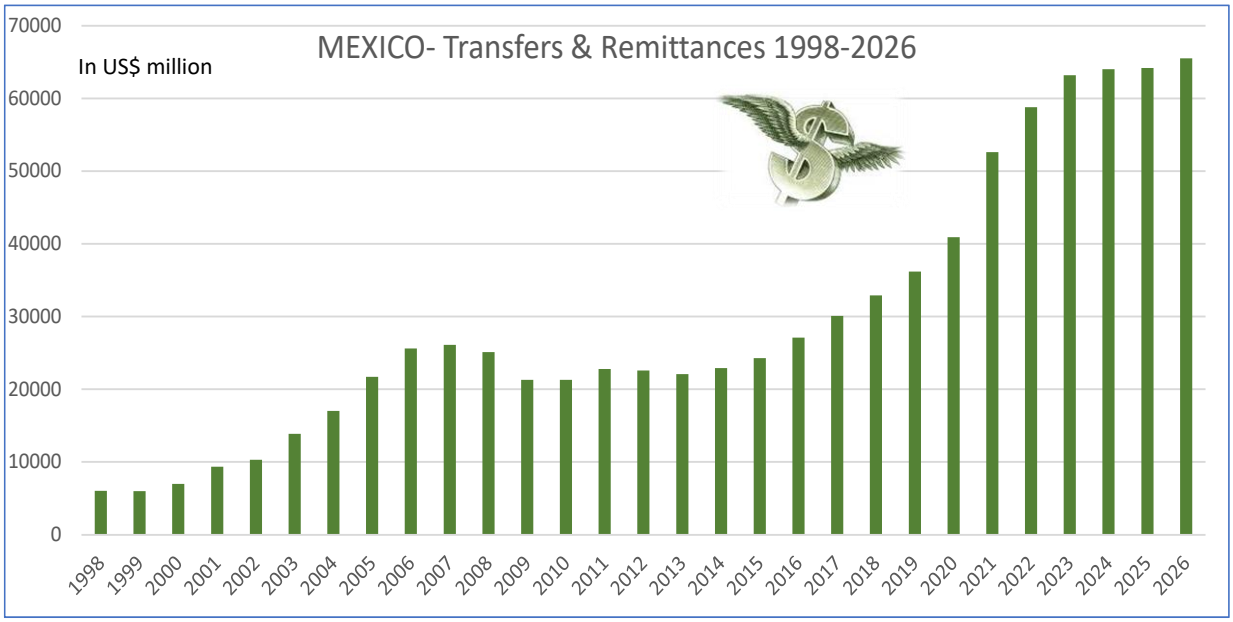
VIETNAM'S TOTAL TRANSFER REVENUES 1996-2026



Source: IMF-2025

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MEXICO: THE KEY ROLE OF LABOR FLOWS IN THE US



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REMITTANCES BETWEEN LATIN AMERICA AND THE US UNDER TRUMP??

- = Migrant worker's earnings sent back from the country of employment to the country of origin
- Key for Morocco, Tunisia, Indonesia, Vietnam, Philippines, Mexico…
- What linkages between remittance flows to Latin America and the U.S. business cycle?

All of the evidence suggests that remittance flows are relatively **insensitive** to fluctuations in the U.S. cycle, underlining their role as a stable source of external financing… until the 2008 global financial crisis!

Rising again since 2018. Mounting uncertainties in 2025-26!

Source: IMF Working Paper, 12/2007= http://www.imf.org/external/pubs/ft/wp/2007/wp07273.pdf

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A QUICK COUNTRY BOP COMPARISON EXERCISE!



Hi There CIFE's GEGPA Students! I need a quick comparison between **Italy and Spain's** balance of payments! Strenghts & weaknesses at end- 2026!

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