Centre international de formation européenne

NICE BERLIN BRUXELLES ISTANBUL

DEFI Developing Finance

THE BALANCE OF PAYMENTS III

FINANCIAL ACCOUNT AND EXTERNAL FINANCING



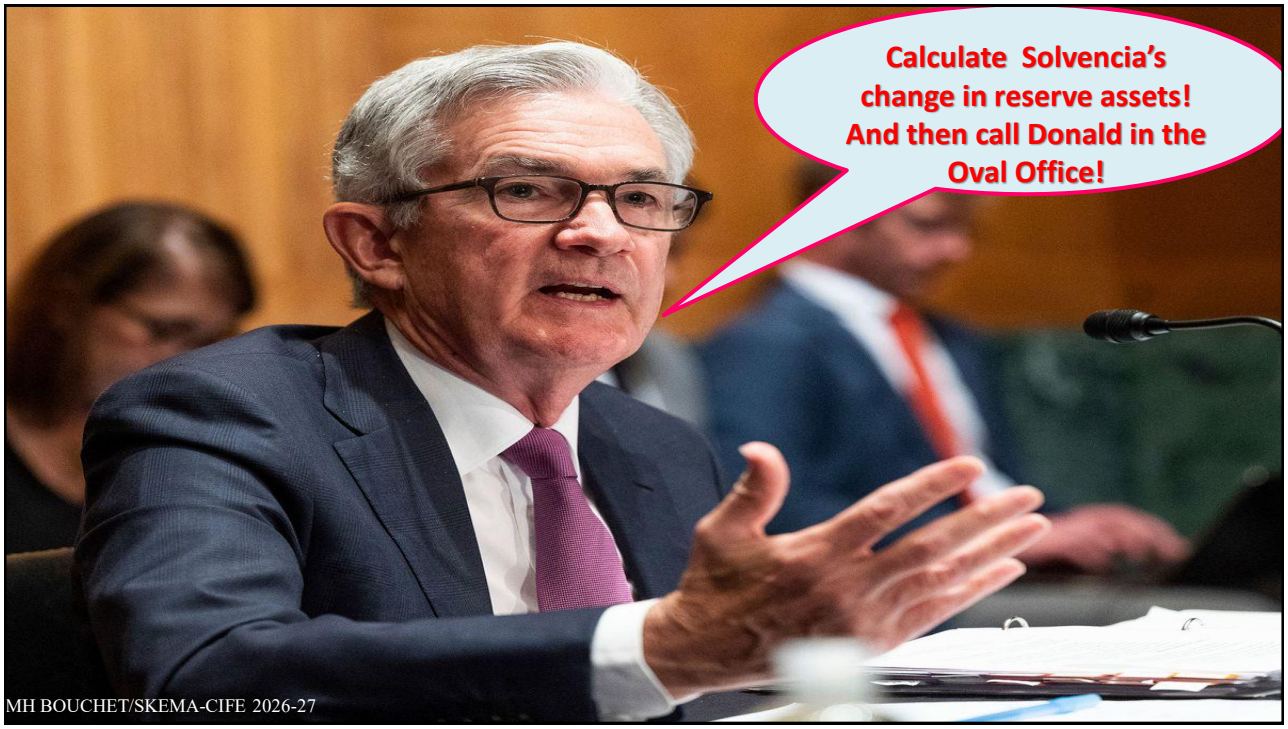
CIFE SEMINAR ROMA-BERLIN-NICE 2026-27

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
Current account	
FDI	375
Portfolio	200
Interest payments	-1450
Private unrequited transfers	125
ST K inflows	325
ST K Outflows	-465
Trade Balance	
Counterpart items	100
Change in reserves	
CA/GDP%	
GDP 2025	12500
R/M ratio (months)	
Reserve level 12/2024	
3500	



MH BOUCHET/SKEMA-CIFE 2026-27

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	2025
Exports	5550
Imports	-4650
Trade Balance	**900**
Services revenues	625
Interest payments	-1450
Official Transfers	300
Private transfers	125
Current account	**500**
FDI	375
Portfolio	200
LT K	1225
Debt repayments	-985
ST K inflows	325
ST K Outflows	-465
E&Os	-275
Counterpart items	100
Change in reserves	**-1000**
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).

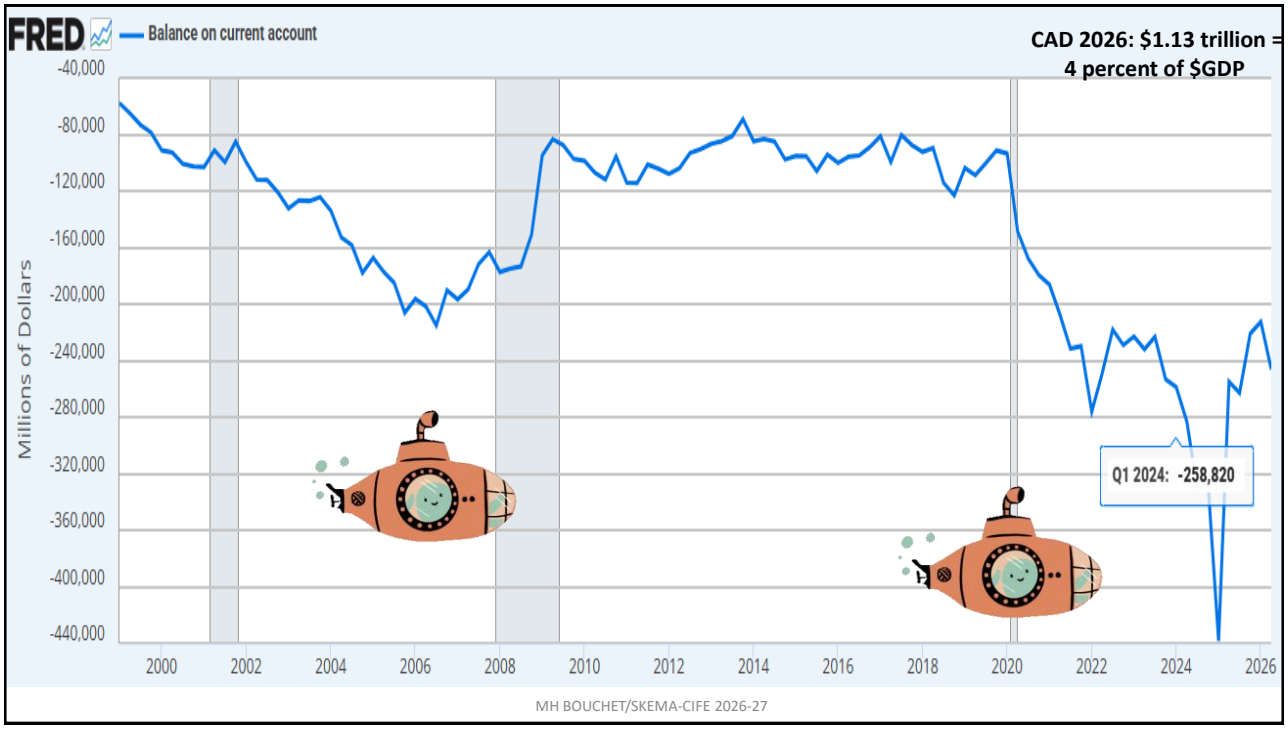
The financial account **increases or decreases the international ownership of assets** (in the country's individuals, businesses, government, or central bank). The assets include direct investments, securities like stocks and bonds, as well as gold and hard currency.

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TABLE OF USES AND SOURCES

USES (outflows)	SOURCES (inflows)
1. Imports of goods	1. Exports of goods
2. Imports of services	2. Exports of services
3. Interest payments	3. Transfers & Remittances
4. Principal debt repayments	4. Dividends
5. ST capital outflows	5. FDI
6. E&Os	6. Portfolio K inflows
7. Capital flight	7. ST K inflows
	8. LT K inflows
	9. Debt cancellation
	10. Arrears
	11. Reserve decrease

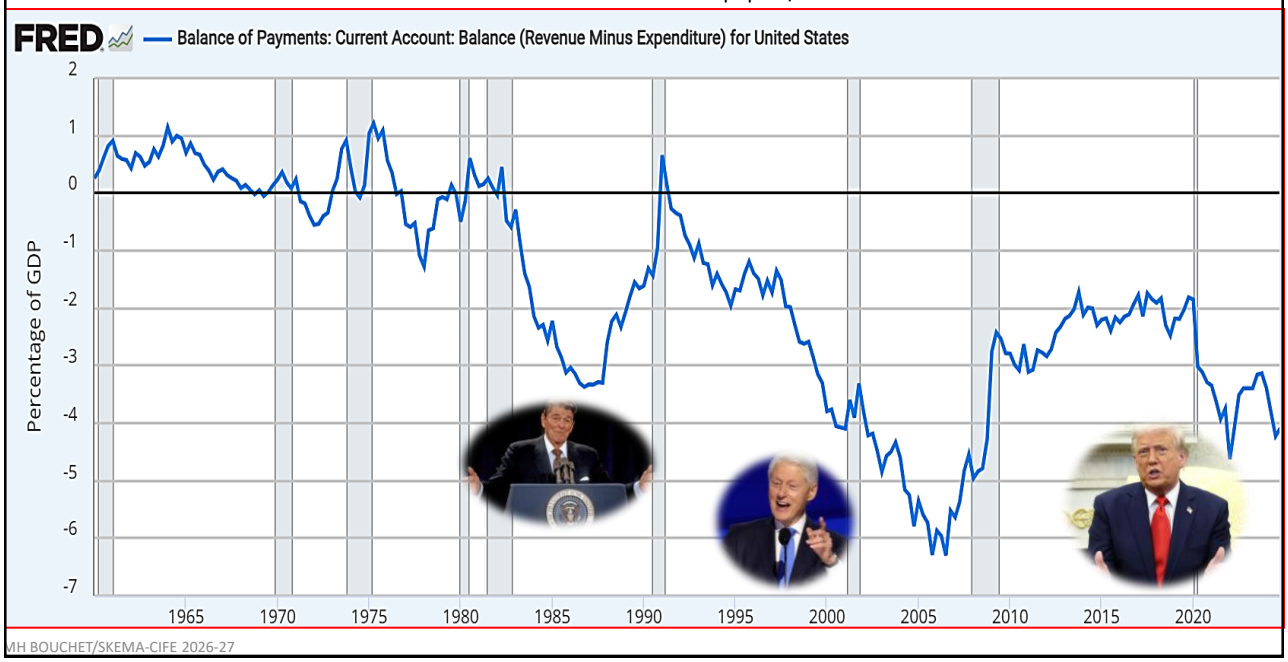
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LIVING BEYOND ONE'S MEANS?

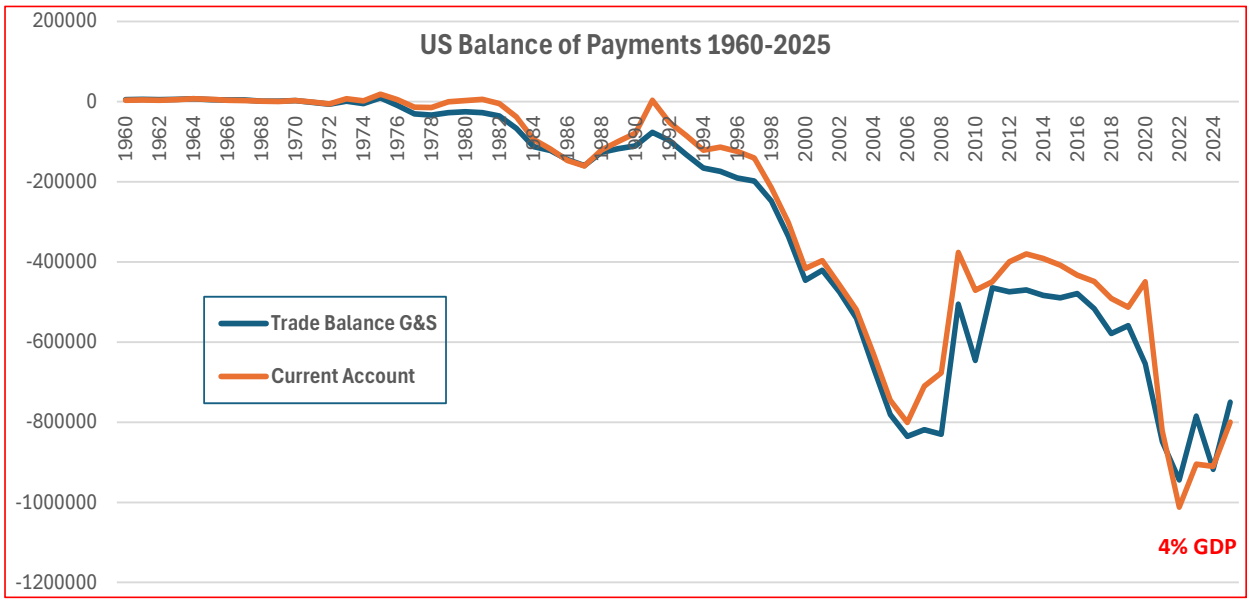
https://www.piie.com/commentary/speeches-papers/causes-us-current-account-deficit



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US STRUCTURAL TWIN DEFICITS (1960-2025)

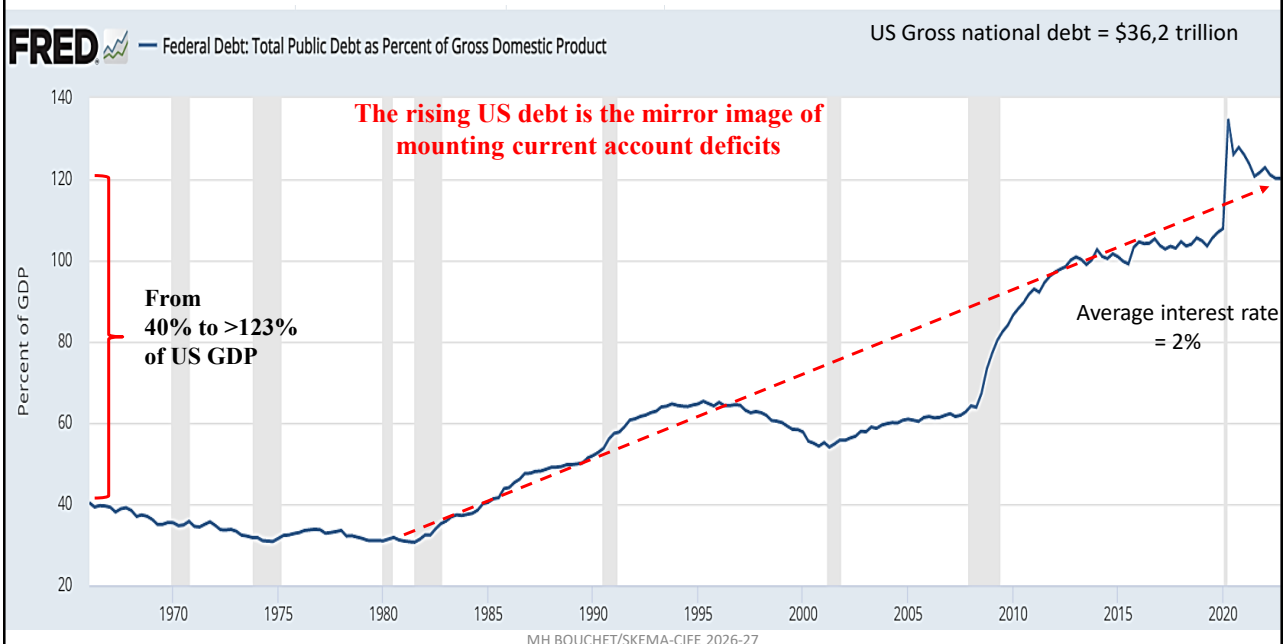
US$ million



Source: US Treasury 2025/FED

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US DEFICIT ACCUMULATION AND DEBT GROWTH 1960-2025



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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

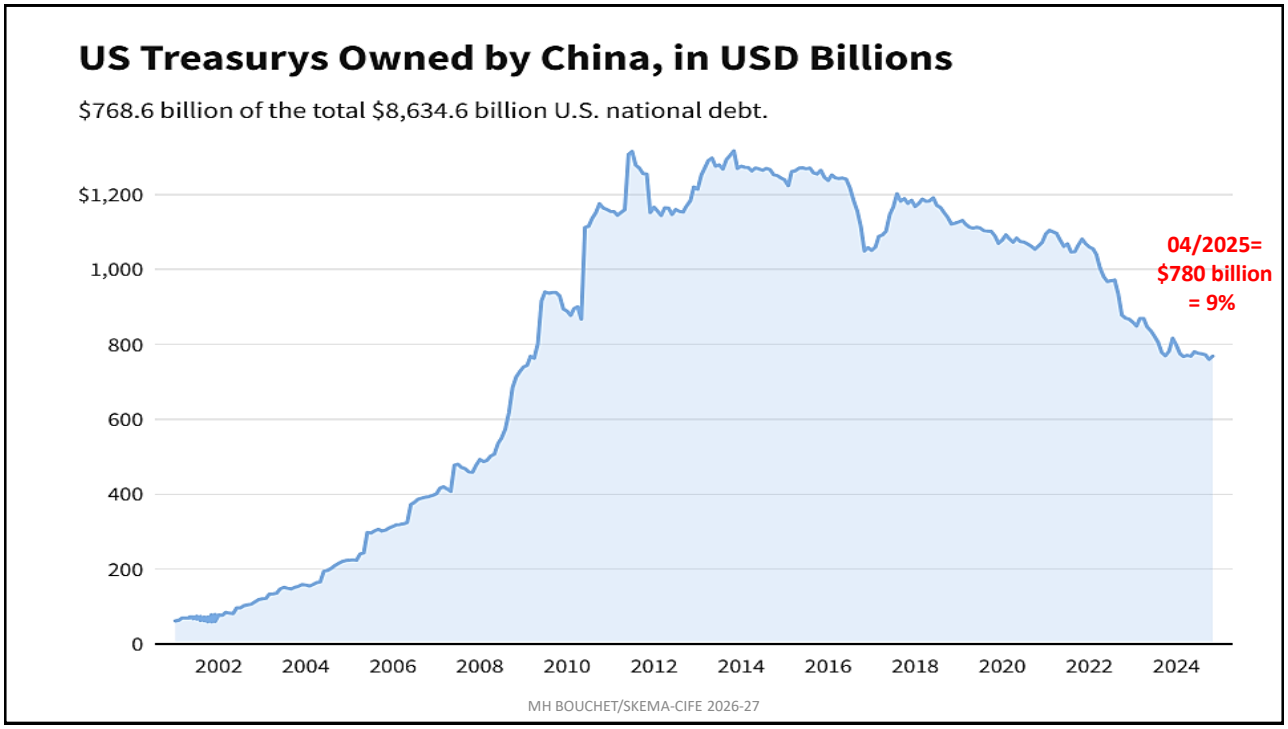
Capital Flows is a BOP category that groups all the capital transactions not included in direct investment and portfolio investment:

Two categories of capital inflows:

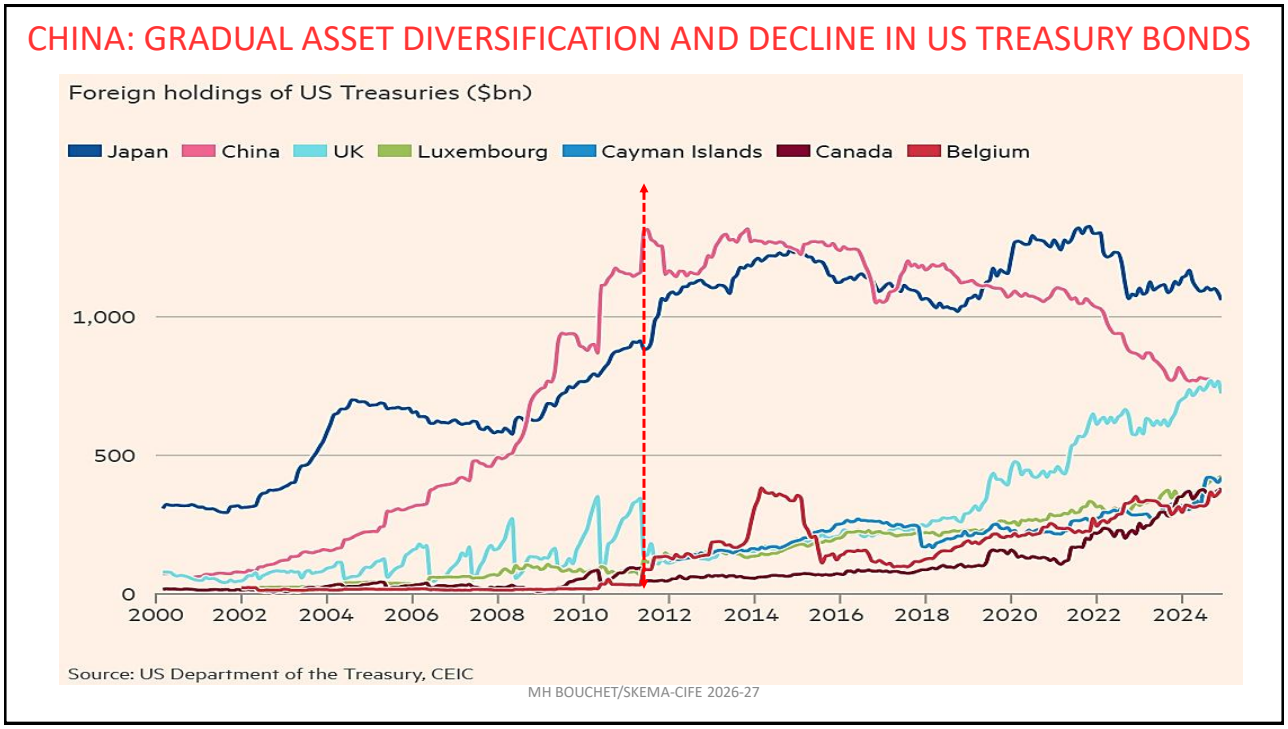
- **Long-term private & public capital**
- **Short-term capital ***

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)

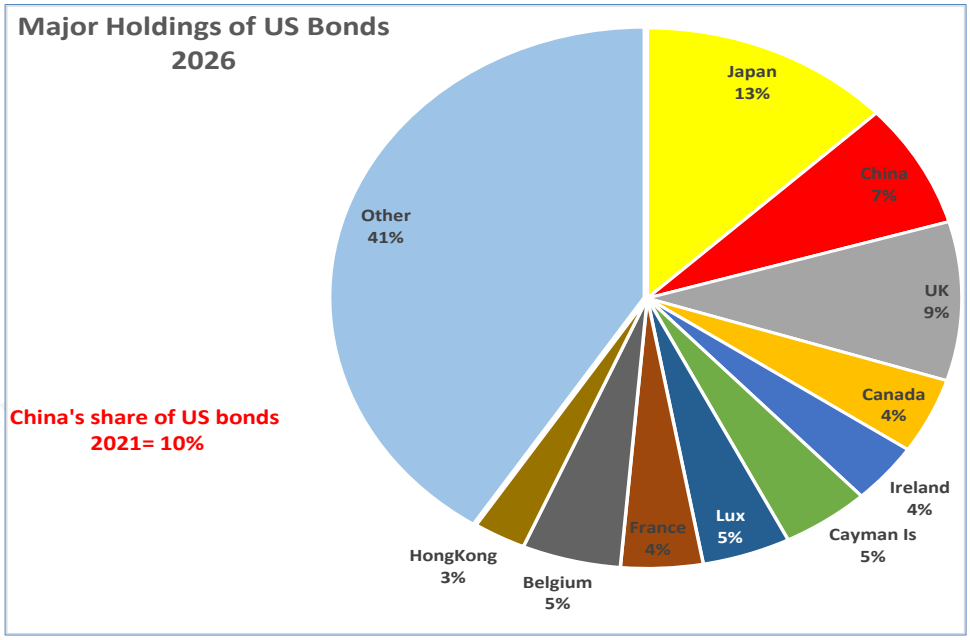

US Treasurys Owned by China, in USD Billions
$768.6 billion of the total $8,634.6 billion U.S. national debt.
$1,200
1,000
800
600
400
200
0
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024
04/2025=
$780 billion
= 9%
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CHINA: GRADUAL ASSET DIVERSIFICATION AND DECLINE IN US TREASURY BONDS
Foreign holdings of US Treasuries ($bn)
Japan
China
UK
Luxembourg
Cayman Islands
Canada
Belgium
1,000
500
0
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024
Source: US Department of the Treasury, CEIC
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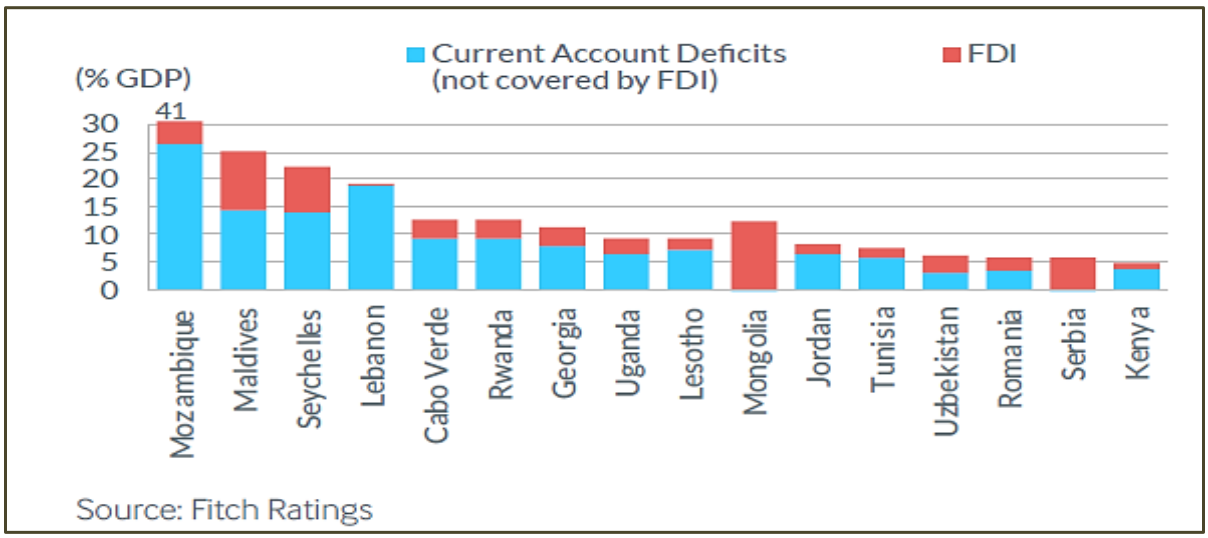
CHINA = > 7% FOREIGN HOLDING OF US DEBT



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!

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNCTAD

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
World[a]	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
Developed economies	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
World[a]	7 377 201	19 907 143	45 448 812	7 408 902	20 471 257	41 798 485
Developed economies	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

Last updated 07 Nov. 2024

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

YEAR / ECONOMY	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
World	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	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

Last updated 07 Nov. 2024

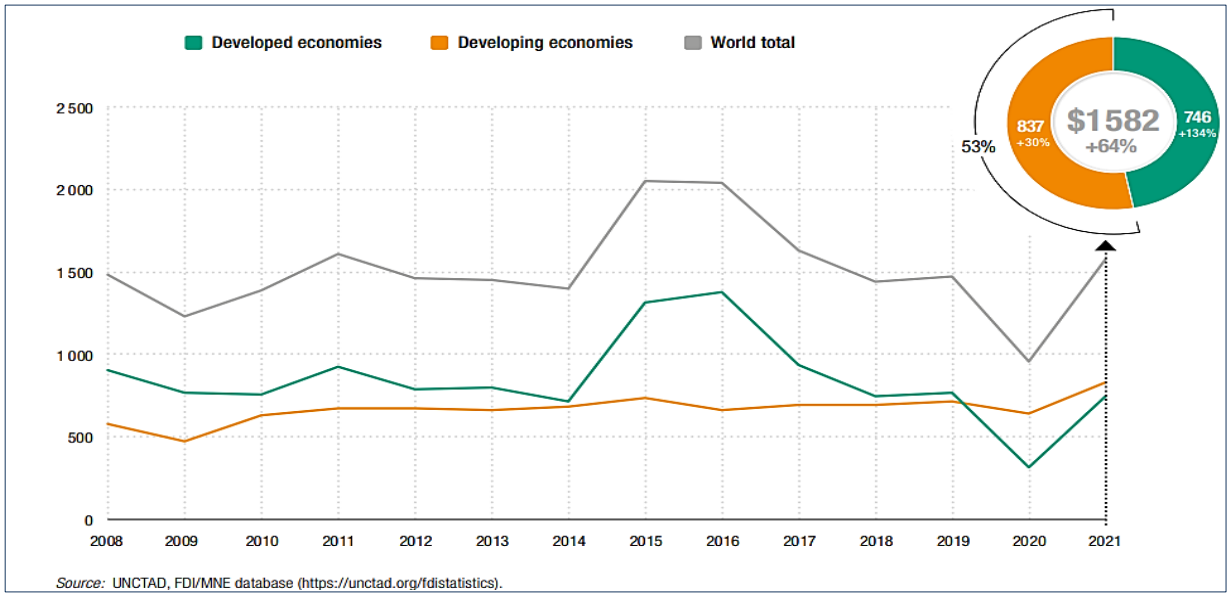
Africa FDI Stock = 0,6% of global FDI

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

YEAR / ECONOMY	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
World	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	44 380 560
Africa	212 667	219 653	240 128	340 601	316 057	291 107	331 116	308 491	296 153	248 821
Americas	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

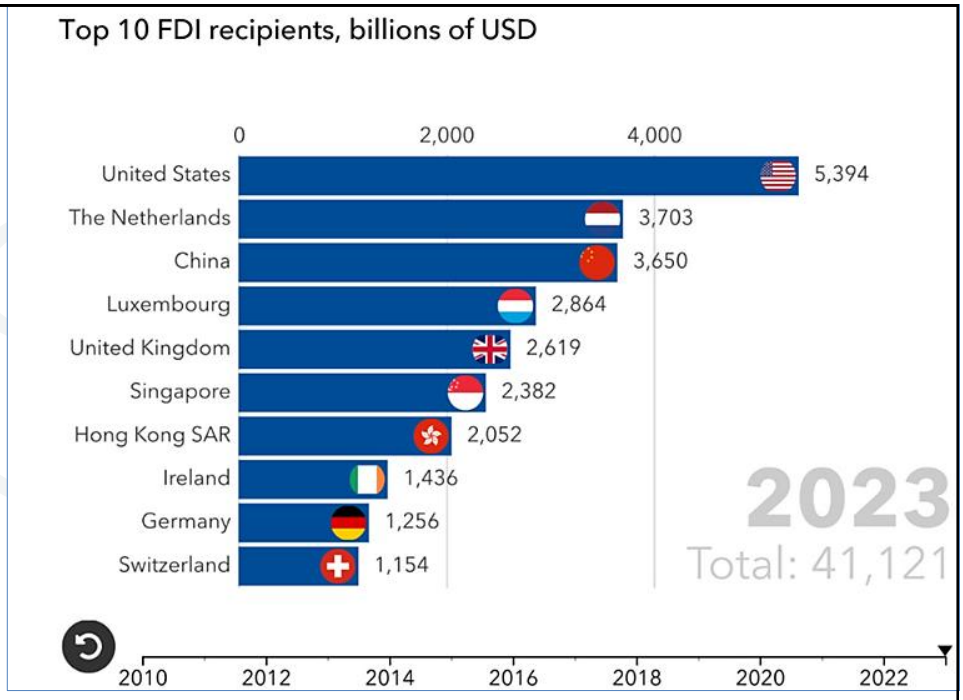
THE GLOBAL DECLINE IN FDI FLOWS HTTPS://UNCTAD.ORG/SYSTEM/FILES/OFFICIAL-DOCUMENT/WIR2022_EN.PDF

(in $ billions)



FDI INFLOWS TOP 10 HOST ECONOMIES

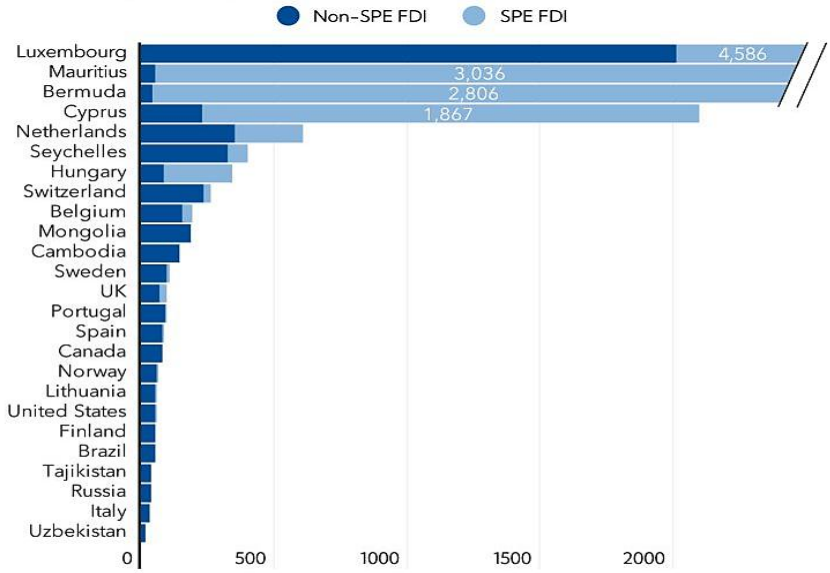
IN US$ BILLIONS



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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.

IMF

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Change in reserves

Reserves include:

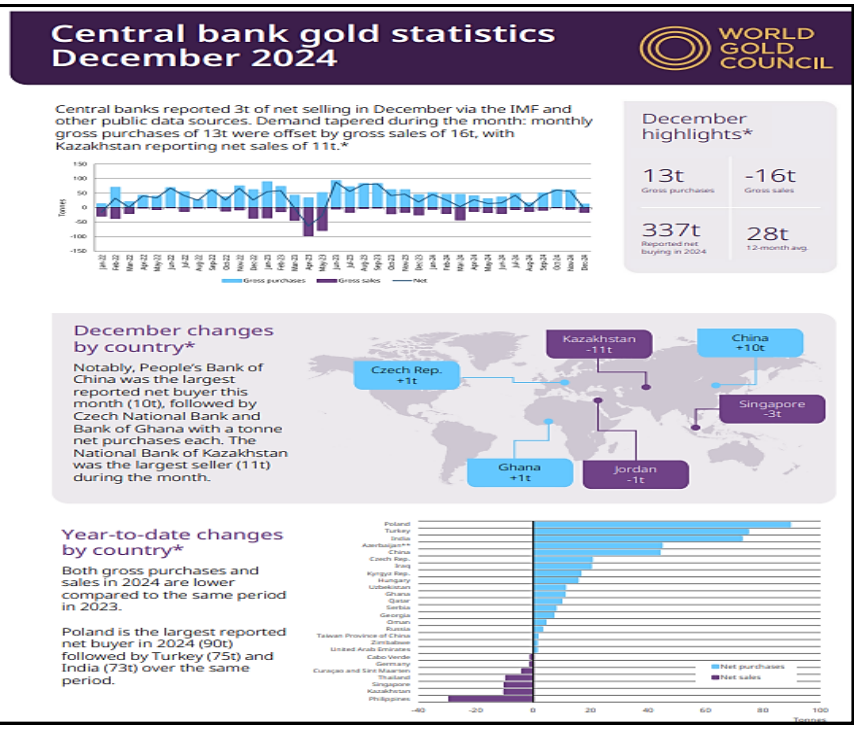
- Hard currency assets + Monetary gold (gold held by the authorities as a financial asset)
- Special drawing rights (SDRs): reserves created by the IMF and credited to the accounts of IMF member countries according to national quotas

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!



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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/ 2026: 1 SDR= $1,35

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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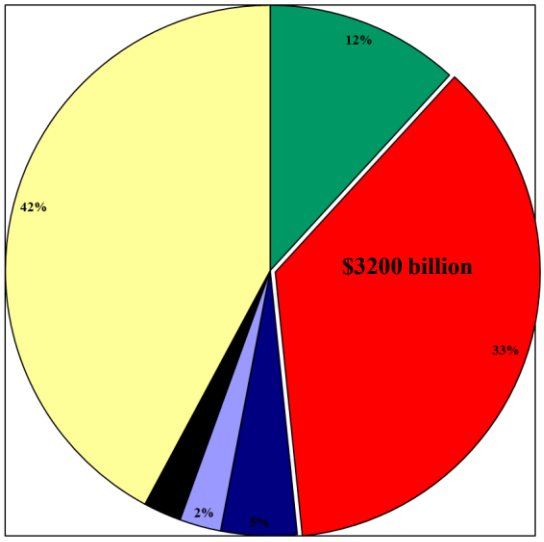
Foreign Exchange Reserves

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

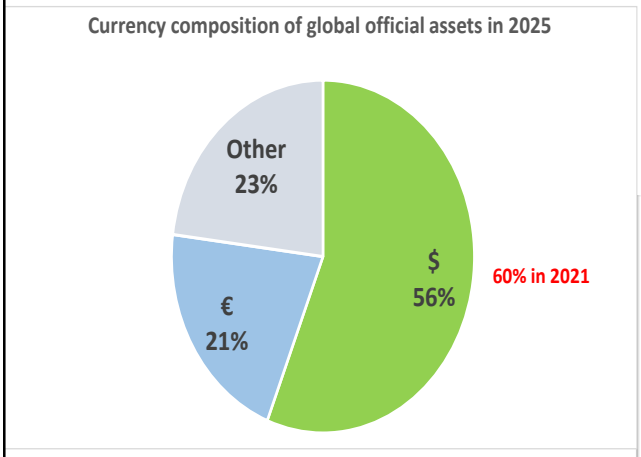
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THE RISE AND DECLINE OF CHINA'S RESERVE ASSETS

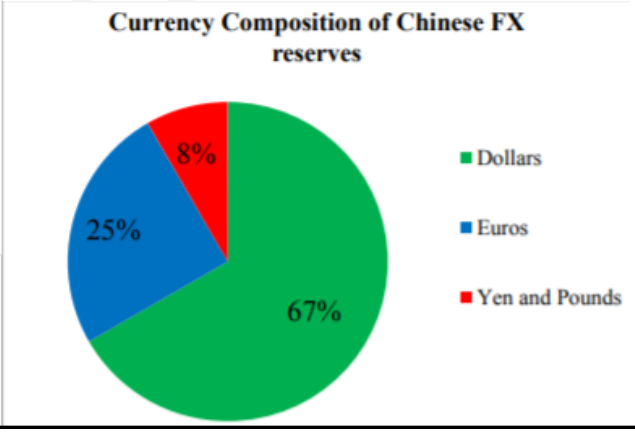


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THE SHRINKING SHARE OF DOLLAR HOLDINGS



Source: IMF 2026



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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...

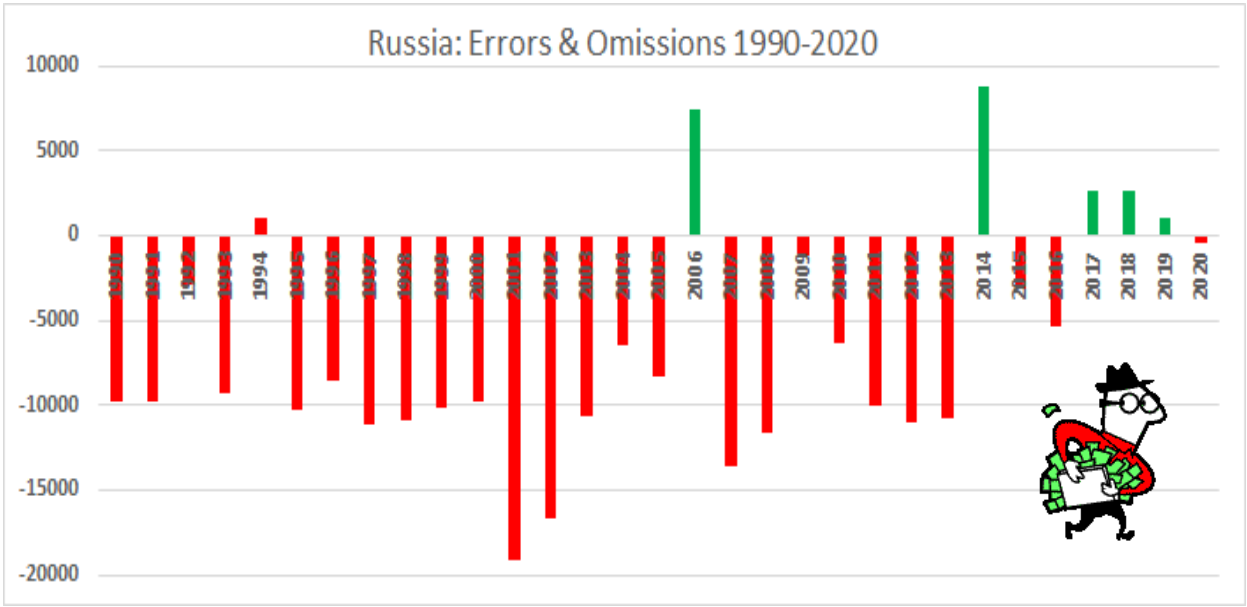
34

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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IMF: A LAST RESORT CREDITOR

The IMF is a sort of credit union for countries that funds itself **through the interest it charges borrowers minus the interest it pays creditors**
The IMF pools the resources of its members, charges interest to those that are borrowers, and pays interest to its creditor members. The difference between these two rates covers the administrative costs ($1,6 billion!) associated with the IMF's general, or non-concessional, lending.
The IMF also earns income from investments, which covers other administrative costs, such as for surveillance and capacity development.
Unlike many other international organizations, the IMF does not require its members to make annual contributions.

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WHO ARE THE MAIN BORROWERS OF THE IMF AND WHAT ABOUT THEIR GOVERNANCE TRACK RECORD?

		Military spending		IMF SDR b.	% Share of	Ranking	Ranking	Governance
		% GDP	% Govt spending	Total Lending	IMF Lending	Peace Index	Corruption CPI	Barometer
				119,30	100%	163	180	130
1	Argentina	0,60%	1,30%	41,79	35,0%	46	99	38
2	Ukraine	34%	58%	10,21	8,6%	162	105	61
3	Pakistan	2,80%	14,50%	7,50	6,3%	144	151	78
4	Ecuador	2,30%	6,10%	6,93	5,8%	129	121	58
5	Egypt	1%	4,20%	6,73	5,6%	107	130	69
6	Ivory Coast	0,90%	4%	3,69	3,1%	94	69	53
7	Kenya	1%	4,20%	2,96	2,5%	127	121	54
8	Bangladesh	1,10%	8%	2,89	2,4%	123	151	66
9	Angola	1,33%	5,53%	2,65	2,2%	76	121	97
10	Ghana	0,50%	2%	2,58	2,2%	61	80	32
11	Jordan	4,90%	14,50%	2,06	1,7%	72	59	29
12	DR Congo	1,30%	7%	1,93	1,6%	160	163	121
13	Sri Lanka	1,60%	7%	1,63	1,4%	97	121	44
14	Ethiopia	0,80%	7,50%	1,59	1,3%	138	99	95
15	Tanzania	1,20%	6%	1,34	1,1%	73	82	56
16	Cameroun	1,10%	5,60%	1,23	1,0%	137	140	103
17	Zambia	1,30%	5%	1,13	0,9%	64	92	77
18	Morocco	3,64%	11,10%	0,94	0,8%	85	99	30
19	Senegal	1,50%	5,50%	0,93	0,8%	69	45	40
20	Colombia	3,40%	8,30%	0,47	0,4%	140	92	39
					84,8%			

Sources:

Source 1: IMF https://www.imf.org/external/np/fin/tad/balmov2.aspx?type=TOTAL * as of 12/2025

Source 2: SIPRI https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS?locations=JO

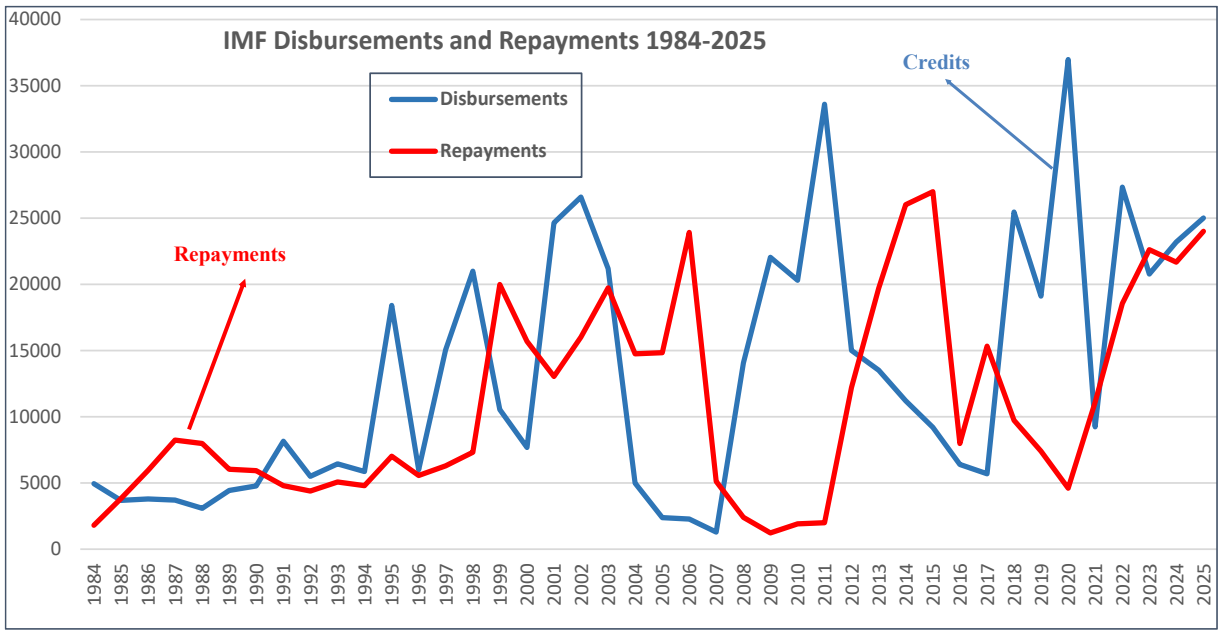
Source 3: SIPRI

Source 4: https://worldpopulationreview.com/country-rankings/military-spending-by-country

Source 5: TI CPI, UNDP HDI, CIFE Governance Barometer

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IMF DISBURSEMENTS & REPAYMENTS (SDR million)



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IMF'S FIRE-FIGHTING ROLE IN TIMES OF CRISIS

