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# HIPC and Exceptional Financing in the Balance of Payments Statistics

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**International Monetary Fund**

# HIPC and Exceptional Financing in the Balance of Payments Statistics


**Executive Summary**

The HIPC Initiative involves a wide range of debt transactions that need to be captured in the balance of payments statistical framework. As the HIPC initiative was launched well after the *Balance of Payments Manual, fifth edition (BPM5)* was published in 1993, there has been concern among compilers that the current framework does not adequately address some of the HIPC debt-related transactions. This discussion paper reviews the various debt relief mechanisms used by creditors in providing debt relief in all phases of the HIPC Initiative, sets out the current framework in *BPM5* used for monitoring debt transactions, drawing on the concepts and methodologies outlined in the *External Debt Statistics: Guide for Compilers and Users* where appropriate, and identifies gaps. The final section provides a list of issues for Committee consideration.

On the whole, while the *BPM5* framework adequately captures most of the exceptional financing transactions relating to the HIPC Initiative, there is need to provide further guidance to close gaps. Among the issues raised for further work are those dealing with the classification of transactions that occur between agreements being reached in principle and their signing and implementation, measurement of savings (transfers) arising from reductions of interest rates to concessional levels, and the identification and classification of transfers, including those related to HIPC Trust Funds. With regard to the latter, it is noted that if transfers are incorrectly quantified or classified in the balance of payments, the saving behavior recorded for the units, sub-sectors, sectors and countries involved may be misleading for purposes of economic analysis and policy making.

The paper also attaches a table that sets out the various types of HIPC transactions and provides a shorthand overview as to how they should be classified in both the standard and analytical presentations of the balance of payments as well as the International Investment Position.

Looking ahead, once Committee members have expressed their views on the relevance of the issues for consideration, Fund staff intend to undertake further work with the intention of coming back to the Committee in 2005 with draft guidance. Given its work on debt statistics, the Inter-Agency Task Force on Finance Statistics will also be consulted at its next meeting in March/April 2005.


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## I. INTRODUCTION[1]

1. The international community has increasingly recognized that the external debt situation of heavily indebted poor countries has become one of the sources of slow economic growth, persistent poverty, and reduces resources for social expenditure[2]. For these countries, even full use of traditional debt relief mechanisms of rescheduling and debt reduction may not be sufficient to achieve sustainable external debt levels without additional external support.

2. In a coordinated effort, in 1996 the IMF and the World Bank designed a framework to provide special assistance for heavily indebted poor countries (HIPC) that commit to implement IMF and World Bank supported programs.[3] The Initiative allows the eligible countries to benefit from a reduction in the present value (PV) of the stock of their external debt to sustainable levels in exchange for continued efforts in macroeconomic stabilization, structural adjustment and poverty reduction. In 1999, the Enhanced HIPC initiative was introduced to strengthen the link between debt relief, poverty reduction, and social policies through deeper more rapid debt relief to a larger number of countries.

3. In a three-phase process, special assistance under HIPC provisions is granted to countries that are eligible under these criteria: (i) are eligible for concessional assistance from the IMF and the World Bank; (ii) face an unsustainable debt burden, even after the full use of traditional debt relief mechanisms such as the Naples terms of the Paris Club (where low-income countries can receive a reduction of eligible external debt of 67 percent in PV terms);[4] and, (iii) establish a track record of macroeconomic reform and structural adjustment policies through IMF- and World Bank-supported programs. The debt relief mechanisms adopted by creditors are wide-ranging and include debt forgiveness, debt rescheduling and debt swaps.

4. Debt sustainability analysis (DSA) is a key feature of HIPC Initiative. The assessment of debt sustainability is based on the PV of debt to exports, or in some cases on the PV of debt to revenue.[5] It relies upon the valuation of debt to its PV. During the HIPC process, the

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[1] This paper has benefited from comments by the Bank of Uganda and the United Nations Conference on Trade and Development (UNCTAD).

[2] See for instance David Andrews, Anthony R. Boote, Syed S. Rizavi, and Sukhwinder Singh, Debt Relief for Low-Income Countries, The Enhanced HIPC Initiative (paragraph 2). Available from http://www.imf.org/external/pubs/ft/pam/pam51/contents.htm

[3] The *External Debt Guide: Guide for Compilers and Users* has an appendix describing the HIPC Initiative.

[4] The evolution of concessionality terms extended by Paris Club members is shown in Table 1.

[5] Countries qualify for HIPC assistance if their present value of ***debt-to-exports ratio***—after the full use of traditional debt-relief mechanisms—exceeds 150 percent. Alternatively, countries with an export-to-GDP ratio of at least 30 percent, and a revenue-to-GDP ratio of at least 15 percent, can also qualify for HIPC support under the fiscal-openness criterion if their present value of ***debt-to-revenue ratio*** exceeds 250 percent even if the present value of their debt-to-exports ratio remains below 150 percent.

PV will be used to measure the concessionality obtained through a given debt restructuring and will provide common comparison ground to different debt reduction options.[6]

5. As of March 2004, the Initiative was providing substantial debt relief to 27 countries for a total of US$ 51.5 billion in PV terms, out of which 10 countries had reached the point when they become eligible for unconditional and irrevocable debt relief. Among the 27 countries, an additional 11 countries are on-track with their macroeconomic program and are likely to benefit from debt relief under this arrangement during 2004[7].

6. The multiplicities of HIPC debt relief mechanisms (see Box 1) have brought the need to revisit the conceptual framework for capturing debt statistics in the balance of payments. Not all arrangements are conveniently described using the definitions and classifications of *BPM5*.

7. This discussion paper reviews the current paradigms used to analyze and record debt-related HIPC transactions in the framework of the current balance of payments methodology, and identifies issues arising from the HIPC process that might be considered as not adequately covered in *BPM5*. Comments are welcome on the paper, and in particular whether there are other issues that can be identified.

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[6] Present value is further discussed in Section III.

[7] Source: Debt Relief Under the Heavily Indebted Poor Countries (HIPC)— Statistical Update, March 31, 2004, available from http://www.worldbank.org/hipc/Statistical_Update_March_2004.pdf

**Box 1: HIPC debt relief mechanisms**

In November 1999, following the Cologne Summit, the Paris Club creditor countries accepted to introduce the HIPC debt relief initiative aiming to raise the level of debt cancellation for the poorest countries up to 90 percent or more. The choice of debt relief operations adopted by individual creditors depends on the type of credits involved.

ODA credits[1] are covered by the debt service reduction option (DSR) and therefore are rescheduled at an interest rate at least as favorable as the original concessional interest rate applying to these loans. The debt service is based on an established progressive repayment schedule of 40 years including a grace period of 16 years. The rescheduling therefore results in a reduction of the present value of the debt stock as the original interest rate is lower than the applicable market interest rate.

Non-ODA credits are cancelled—through the debt reduction option (DR)—up to 90 percent level or more taking into account debt relief offered through previous debt rescheduling terms. This means previously rescheduled eligible debts are topped up to reach the 90 percent debt cancellation threshold (see Table 1). The remaining outstanding part is rescheduled at the appropriate market rate based on established progressive repayment schedule of 23 years including a 6 year grace period. Non-ODA debt can also be restructured using the DSR mechanism applicable to ODA debt but with a grace period of 8 years.

The Cologne terms also include a provision for creditor countries to conduct, on a bilateral and voluntary basis, debt swaps with the debtor country. These swap operations in principle have no limit on official development aid loans. However, for non-ODA credits a cap of up to 20 percent of the outstanding stock of debt at a fixed date is provided, or 15 to 30 million SDR.

Creditors also may also cancel their commercial claims up to a higher level than the one provided by the Paris Club agreements.

Multilateral development agencies provide either new credits or offer their own debt relief arrangements through the World Bank administered HIPC Trust Fund and the IMF Poverty Reduction and Growth Facility (PRGF)-HIPC Trust Fund—the latter catering for IMF debt only. Such funds provide resources to service HIPC debts to participating multilateral development agencies as they fall due provided the country has progressed successfully to HIPC completion point. The World Bank, through its Debt Reduction Facility for International Development Association (IDA)-only[2] countries—set up in 1989—has provided grant financing for HIPC countries to conduct commercial debt-buyback operations.

In addition, on a voluntary basis, HIPC creditors also offer debt relief beyond the level specified under HIPC Initiative, with some creditors extending up to 100 percent cancellation of ODA and non-ODA debt.

[1] Debt contracted on concessional terms is commonly referred to as ODA debt—that is, loans and credits that have long maturities and/or below-market interest rates such that they offer a grant element of 35 percent or more—whereas export credits and other market-related debt are known as non-ODA debt. As the Paris Club extends different treatment to ODA and non-ODA debts, debt relief obtained under the provisions of HIPC entails different treatments whether debts are ODA or not.

[2] Low-income countries to which the International Development Association (IDA) provides loans on highly concessional terms (See *Debt Guide* page 260).

**Source**: Paris Club Secretariat website (www.clubdeparis.org) and "Enhanced HIPC Initiative-Creditor Participation Issues", International Development Association and International Monetary Fund, April 8, 2003.

## II CONCEPTUAL FRAMEWORK IN *BPM5* RELEVANT TO THE COMPILATION OF HIPC DEBT STATISTICS

8. External debt flows and stocks are recorded in the balance of payments based on the concepts, definitions, and classifications of the *Balance of Payments Manual, Fifth Edition (BPM5)* (1993) and the *System of National Accounts* (*SNA 1993*). The *External Debt Statistics: Guide for Compilers and Users* 2003 (*Debt Guide*) further provides a comprehensive and coherent framework for compiling and presenting external debt statistics.

9. This section reviews the conceptual framework used to capture external debt transactions and stocks in the balance of payments.

### A. Overview of basic principles and key aspects for debt analysis

10. In the context of *BPM5*, flows refer to actions and effects of events that take place within a period of time and stocks refer to an outstanding stock (or position) at a point in time.

11. The guiding principle is that flows and stocks in the balance of payments and International Investment Position (IIP) should be recorded using the ***accrual*** basis of accounting. This basis provides that flows are recognized when economic value is created, transformed, exchanged, transferred, or extinguished. It follows that the time of recognition matches the time of the resource flows and the time of gains and losses in value. The concept of accrual accounting applies in recording debt transactions; hence interest costs accrue continuously on debt instruments thereby matching the cost of capital with the provision of capital.

12. The guiding principle for determining whether debt claims and liabilities exist and are outstanding at any moment in time is the ***ownership status***. The creditor owns a claim on the debtor, and the debtor has an obligation to the creditor.[8] The date of change of ownership (the value date) is the day a transaction is entered in the books of both the creditor and the debtor as a claim and liability, respectively. A debt liability remains in the books of the debtor until it is paid off or forgiven on a bilateral agreement. Thus a bilateral agreement between the creditor and the debtor is a sufficient and essential precondition for the debtor to extinguish a debt liability.

13. As a result of the application of *BPM5* accounting rules, ***stocks and flows are completely integrated***. Also, there should be complete symmetry in the recording of flows between debtors and creditors, so for each transaction there is a counter-entry, resulting the balance of payments statement, in principle, summing to zero.[9] In *SNA 1993* and *BPM5*, flow

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[8] See paragraphs 2.22 to 2.25 of the *Debt Guide*.

[9] Of course, in reality there is a risk that assets of creditor countries and liabilities of debtor countries are not reconciled. However, the conceptual framework is designed so as to avoid this risk and to allow the potential for comparison of debtor and creditor data.

data include transactions in goods, services, income, transfers, and nonfinancial and financial assets. Position data are the value of outstanding stocks of nonfinancial and financial assets.

14. Debt instruments are ***valued*** at the reference date at nominal value, and for traded debt instruments, at market value as well. The nominal value of a debt is defined as the measure of value of the debt instrument from the viewpoint of the debtor. This value is typically established by reference to the terms of contract between the debtor and creditor.

## B. The concept of transfers

15. Transfers are the principle means of providing debt relief to HIPC countries and require some elucidation. A transfer arises when one party provides a real resource or financial item to another without receiving such items in return. *SNA 1993* and *BPM5* identify separately ***current and capital transfers***. Essentially, when the transfer reduces the income and consumption possibilities of the donor and increases the income and consumption possibilities of the recipient it is classified as a current transfer, and when it affects the stock of assets and liabilities, it is a capital transfer. Following this methodology, forgiveness of principal payments due in the current recording period reduces the creditor's stock of assets, and results in the debtor's assets being greater than otherwise, and is therefore classified as a capital transfer; while forgiveness of interest that accrues during the current period is classified as a current transfer, as it increases consumption possibilities of the debtor in the current period while reducing those of the creditor.

16. The decision as to which way to classify a transfer has important consequences for the allocation of savings between sectors and sub-sectors, and by extension between the economy as a whole and the rest of the world[10]. It follows that if transfers are incorrectly classified between current and capital, the savings behavior recorded for the units, sub-sectors, sectors and countries involved may be misleading for purposes of economic analysis and policy making.

17. The balance of payments records as a capital transfer the amount forgiven as calculated for loans on a nominal value basis. More generally, when resources are provided as transfers, they are valued at the prices that would have been received if the resources are sold. The value assigned by the donor is the basis for recording.

## C. Key concepts applicable in analyzing HIPC debt transactions

18. The HIPC debt relief initiative aims at reducing eligible countries' external debt burdens to sustainable levels and eliminate debt overhang that might hinder growth and investment. To achieve this goal, various HIPC' s creditors, including bilateral (Paris Club and non Paris Club), multilateral and commercial creditors have elected to combine a wide

[10] There may be cases in which it is difficult to decide on the evidence available whether to classify a cash transfer as current or capital. When there is serious doubt, the transfer should be classified as current rather than capital (*1993 SNA*, paragraph 10.134).

variety of debt relief mechanisms involving significant resource transfers by changing the outstanding stock of debt or the profile of debt service flows. The most common debt terminologies used in these mechanisms are described below. It should be noted that the timing of HIPC debt relief varies among bilateral creditors.

19. ***Debt service*** refers to principal and interest payments. In the balance of payments, ***arrears*** in principal and interest (defined as amounts that are past due and unpaid) are recorded as if the amounts had been paid on schedule, and a new short term debt instrument is created. The *Debt Guide* indicates that arrears can also arise through the late payment of principal and interest on debt instruments as well as through late payments for other instruments and transactions. It also identifies technical arrears, e.g., payments that are falling due on debt for which a rescheduling agreement has been reached but has not yet been signed and implemented.

20. ***Debt forgiveness*** as defined in the *Debt Guide* refers to "voluntary cancellation of all or part of a debt obligation within a contractual arrangement between a creditor in one economy and a debtor in another economy. More specifically, the contractual arrangement cancels or forgives all or part of the principal amount outstanding, including interest arrears (interest that fell due in the past) and any other interest costs that have accrued." The *Debt Guide* adds that "Debt forgiveness does not arise from the cancellation of future interest payments that have not yet fallen due and have not yet accrued."[11]

21. As described above, debt forgiveness is classified as a capital transfer from the creditor to the debtor, when there is a reduction in the stock of the debt liabilities. Indeed, in *BPM4* capital transfers were not separately identified and the discussion on debt forgiveness during the preparation of *BPM5* was one reason for the creation of this category.[12]

22. ***Debt rescheduling*** refers to formal deferment of debt-service payments and the application of new, generally extended maturities. In the balance of payments, debt rescheduling is recorded as if the old debts are considered extinguished, while the offsetting entry reflect the creation of a new liability. Debt rescheduling transactions are recorded in the balance of payments on the effective date of transaction, set out in the contractual agreement between the debtor and its creditor.

23. ***Debt conversion*** refers to operations that include transformation or conversion of one form of creditor asset to another—debt for bond swap, debt-for-development swap or debt-for-equity swap. The *Debt Guide* defines external debt conversion as "exchange of debt—typically at a discount—for a non-external debt claim, such as equity, or for counterpart funds, such as can be used to finance a particular project or policy." Where debt is exchanged for another item (for example, equity or counterpart funds for development purposes), the difference between the value of the debt being extinguished and the

[11] See paragraph 8.23 of the *Debt Guide*.

[12] Also the creation of a capital transfer category aligned the balance of payments with the national accounts.

counterpart claim or funds provided is classified as valuation adjustment. An exception is when official creditors are owed nonmarketable debt, in which instance the difference in value between the debt and counterpart item is recorded as a capital transfer.

24. ***Debt buyback*** is a repurchase or early payment of debt—usually at a discount—at conditions that are agreed between the debtor and the creditor; that is, debt is extinguished in return for a cash payment agreed between the debtor and the creditor. Debtors may also enter the secondary market and repurchase their own debt because market conditions are such that it is advantageous financially to do so. A transaction in the debt instrument is recorded at the time and to the value of the debt instruments that are extinguished, irrespective of the value of the counterpart claim (or assets) being provided. Other arrangements involving debt buy backs may entail more sophisticated combinations.[13]

## D. The standard and analytical presentation of the balance of payments

25. The balance of payments can be presented on the basis of the ***standard components*** or be adapted to an ***analytical presentation***.

26. The determination of ***standard components*** is based on a number of considerations: those items that exhibit distinctive behavior, are important for a number of countries, it should be possible to collect data for the item without undue difficulty, and are needed for other purposes such as incorporation into, or reconciliation with, the national accounts. In the standard presentation, transactions relating to IMF credit and loans, debt arrears, debt rescheduling, debt forgiveness, debt swaps, and buybacks are all recorded "above- the- line" without detailed breakdown irrespective of whether the country is experiencing a balance of payments crisis or not.

27. The ***analytical presentation*** of the balance of payments, on the other hand, is a reorganization of the standard components to provide supplementary information on the financing of a balance of payments deficit or surplus. The analytic presentation used by the Fund include "below-the- line", the reserve assets, use of Fund credit and loans as well as exceptional financing items—the latter comprising transfers, direct or other equity investment such as debt or equity swaps involved with debt reduction, borrowing including bond issues by the government or central bank, borrowing implemented by other sectors of the economy and induced by authorities, and other transactions related to debt reorganization, such as rescheduling of existing debt and accumulation and repayments of arrears. This presentation is particularly useful in facilitating the analysis of exceptional financing of the HIPC—"below-the-line" transactions that finance a balance of payments need. The exceptional financing items relating to HIPC and their recording in the balance of payments are discussed further in the next section.

[13] Debt buyback operations may also involve third parties, such as nongovernmental organizations or corporations, which buy debt at discount with intention of selling it back to the debtor at a discount, under a deal that is arranged under a bilateral arrangement between debtor and government creditor.

## III. Recording Economic Flows Associated with the Different Phases of the HIPC Initiative

28. This section applies the concepts and principles of balance of payments methodology explained in the previous section to analyze the various debt relief mechanisms associated with the HIPC Initiative. It focuses on the debt relief modalities provided by creditors to HIPC starting from the first phase of the Initiative through completion point as summarized in Box 2. By reviewing the recording of HIPC debt-related transactions in the balance of payments—both in the standard and analytical presentation—and in the IIP, gaps are identified in the current balance of payments framework that need further consideration. The section is divided into three sub-sections corresponding to the phases of the HIPC Initiative.

**Box 2: Main types of debt relief mechanism at different phases of the HIPC Initiative**

***First phase***: Traditional debt relief mechanisms apply during this phase and the key features are: (i) ODA debt is rescheduled at concessional interest rate with repayment of 40 years including 16 years grace period (see Box 1 and Table 1); (ii) non-ODA is covered either under debt service reduction or through the debt reduction option (see Box 1 and Table 1); (iii) moratorium interest capitalization (rarely used); (iv) debt swaps; (v) new concessional financing from multilateral institutions; and (vi) debt buybacks usually financed through World Bank IDA facility.

***Second phase***: (i) bilateral and commercial creditors reschedule obligations coming due to reach at least 90 percent reduction in PV; and (ii) IDA and IMF provide "interim relief" between the decision and completion points and other multilateral financial institutions provide interim debt relief at their discretion.

***Completion point (or third phase)***: (i) bilateral creditors provide debt relief on ODA and non-ODA debt to reach at least 90 percent reduction of the stock of debt in PV terms; (ii) IDA and other regional multilateral creditors provide their committed share of debt relief using resources of IDA's HIPC Trust Fund; and (iii) the IMF uses resources in its PRGF-HIPC Trust Fund to assist countries to meet their debt service obligations to it.

**Source**: Paris Club Secretariat website (www.clubdeparis.org) and "Enhanced HIPC Initiative-Creditor Participation Issues", International Development Association and International Monetary Fund, April 8, 2003.

29. At the outset it is necessary to note that a key aspect of many of the HIPC debt relief mechanisms is a change in repayment terms (interest rate, maturity structure, grace period, etc.) of a debt instrument with the intention of reducing the PV of debt, as measured under the HIPC Initiative,[14] without necessarily changing its nominal value. Such changes in

[14] Also called time value of money or discounted cash flow, present value (PV) is the value today of a future payment or stream of payments discounted at some appropriate compounded interest rate. The use of different interest rates would give different PVs for the same stream of future payments. PV is different from Net Present

(continued)

present value can occur irrespective of whether the discount rate used is the market rate, the instrument rate, or the applicable OECD commercial interest reference rate (CIRR)—the rate used to compute the PV of HIPC debt at the decision point.[15]

## A. First phase of the HIPC Initiative

30. During the first phase a country is eligible for accessing the traditional concessional assistance from Paris Club creditors using the various debt relief mechanisms. Most of the debt relief mechanisms available during this phase are those applicable under Naples terms (see Box 2). To analyze the recording of debt transactions arising from implementation of these debt relief mechanisms in the balance of payments and IIP, we employ information summarized in Tables 2 and 3.

**Recording of ODA debt transactions under the debt service reduction (DSR) mechanism**

31. ODA debt rescheduling under the DSR entail long repayment periods at interest rate at least as favorable as those in the original loan terms (see Table 1), resulting in a reduction in the PV of debt. The recording of debt transactions arising from this mechanism—both in the standard and analytical presentations, and the IIP—depend on three factors—(a) whether the debt is in arrears, (b) due for payment in the current period, or (c) whether it is due for payment in the future.

(a) When arrears of interest and principal (due previous periods) are rescheduled, debit entries of interest arrears and principal arrears are recorded under other investment-other liabilities, short-term and corresponding credit entries of rescheduled interest and principal are recorded under other investment- liabilities, long-term loans in the standard presentation (see Table 2, column 22). There are no entries in the IIP when arrears are rescheduled as there is no change in stock position. In the analytical presentation both credit and debit entries are recorded below-the-line (see Table 3, column 22).

(b) In the standard presentation, for rescheduling of payments due in the current period (such as in flow rescheduling), interest accruing and due in the current period is debited in full in the income account with the corresponding credit entry under other investment-liabilities, loans (Table 2, column 21). As regards principal payments, other investment-liabilities, loans are debited with the amount of principal due with a contra credit entry to represent the rescheduled principal. In the IIP, other investment-liabilities, loans increase by

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Value (NPV) which refers to the value today of a future cash inflow (new disbursement) or stream of cash inflows minus the value today of a future payment (cash outflow) or stream of payments discounted at some appropriate compounded interest rate usually the cost of capital.

[15] CIRR are calculated monthly for most OECD currencies and are designed to reflect the market rates that would be available to a first class corporate borrower for long-term fixed rate export finance, if such finance were available commercially.

the amount of interest accruing and due in the period as the interest adds to the stock of debt ( see Table 1.2, column 21).

In the analytical presentation rescheduling of debt falling due in the current period is reflected both above and below-the-line. Interest accruing and principal due for payment are debited above-the-line, with other investment-liabilities, long-term loans credited below-the-line representing amounts of interest accruing and principal due that are rescheduled (Table 3, column 21).

(c) In the standard presentation, for the rescheduling of debt due for payment in the future, debit entries are recorded to represent the old loan which is retired, followed by a credit entry to represent the new loan arising from the rescheduling operation (see Table 2, column 23). In the analytical presentation all transactions are recorded above-the-line for rescheduling of debt not yet due (see Table 3, column 23). There is no change in the IIP for rescheduled debt not yet due as the debt is already included in the stock position.

32. From the above, it is evident that there is clear guidance for recording transactions arising from debt rescheduling under the DSR mechanism both in the standard and analytical presentation of the balance of payments, as well as in the IIP. *However, what is not captured are the debt relief savings (transfers) arising from the reductions in the PV of debt that occur through reductions in concessional interest rates under the DSR. In other words, the current methodology does not provide guidance on how such relief can be quantified and recorded.*

**Recording of Non- ODA debt transactions under the debt reduction (DR) and DSR mechanisms**

33. Under the HIPC initiative, non-ODA debt can be restructured under either the DR or DSR mechanisms.

***Restructuring Non-ODA debt under DR mechanism***

34. Under the DR mechanism, outstanding claims are forgiven through "top-up operations" to achieve a debt reduction in PV terms of at least 67 percent (Naples terms) or 80 percent (Lyon terms)—see Table 1.[16] The recording of the debt transactions arising from implementation of this mechanism—both in the standard and analytical presentations, as well as in the IIP—depend on whether the cancellation involves payments falling due in the current period, falling in arrears in the current period, or for payments not yet due.

(a) In the standard presentation, forgiving of interest accruing and principal payments falling due in current period are recorded as debit entries in income and in other investment-liabilities, long-term loans, respectively (see Table 2, column 4). The corresponding credit

[16] Top-up operations in the context of the HIPC Initiative refer to additional relief on top of what was provided to a country through past Paris Club debt rescheduling.

entries are recorded under current and capital transfers, respectively. The stock of debt in the IIP declines by the amount of debt outstanding at the beginning of the period that was forgiven. In the analytical presentation, debit entries are recorded above-the-line and credit entries are recorded below-the-line under exceptional financing (see Table 3, column 4). It is worth pointing out that in *BPM5's* analytical presentation, transfers are recorded without distinguishing whether they are current or capital.

(b) In the standard presentation, forgiving of interest and principal payments falling in arrears in the current period are recorded as debit entries in income and in other investment-other liabilities, long-term loans; and contra credit entries are recorded under current and capital transfers, respectively (see Table 2, column 5). In the IIP other investment-other liabilities, long-term declines by an amount equal to the amount of principal forgiven. In the analytical presentation, debit entries arising from the forgiving of payments in arrears in the current period are recorded above-the-line and credit entries below-the-line (see Table 3, column 5). As noted above, *BPM5's* analytical presentation does not distinguish between current and capital transfers.

(c) Forgiving of debt not yet due is recorded above-the-line—both in the standard and analytical presentation (see Table 2, column 6 and Table 3, column 6). The stock of debt in the IIP declines by the amount of debt forgiven (see Table 2, column 6).

*One issue that BPM5 does not address is whether the forgiving of that element of an interest payment that relates to interest that accrued in earlier periods—and so is part of the outstanding stock—should be classified as a current or capital transfer. In part, this is because BPM5 neither defines nor describes the terms "interest payment" and "principal payment" although these are integral to debt analysis.*[17]

***Rescheduling Non-ODA debt under DSR mechanism***

35. HIPC non-ODA debt can be rescheduled using DSR option of the Lyon terms which includes a 40-year repayment period (inclusive of 8 years grace) at reduced interest rate (see Table 1). The transactions are recorded in the same manner as for ODA debt under the DSR mechanism (paragraph 31 above) with the entries depending on whether the debt is in arrears, due for payment in the current period or due for payment in the future (see Tables 2 and 3, columns 21 to 23). *As noted in paragraph 32, an issue arises regarding the recording of debt relief savings arising from a reduction in the interest rate to concessional levels.*

**Non-ODA debt restructuring using moratorium interest capitalization mechanism**

36. Under this mechanism interest payments due are rescheduled for payment in the future. Although it is rarely used, it is worthwhile explaining how transactions arising from its application can be recorded in the balance of payments and IIP. HIPC non-ODA debt may

[17] Interest and principal payments are defined in the *Debt Guide*, paragraph 2.5.

be restructured using the DSR option by applying moratorium interest capitalization (MIC) and a different repayment profile (see Table 1).

37. MIC debt transactions are recorded both in the standard and analytical presentation as well as in the IIP using the same approach applied for rescheduling debt payments falling due in the current period (see Tables 2 and 3, column 21). In the standard presentation, a debit entry of interest accruing is recorded above-the-line under income and a credit entry of moratorium interest capitalized is recorded under other investment-liabilities, long-term loans. In the analytical presentation, the credit entry is recorded below-the-line under exceptional financing, other investment-liabilities, long-term loans. In the IIP the increase in liabilities arising from the accrued interest that is capitalized, is recorded as an increase in liabilities in other investment-liabilities, long-term loans.

38. *While the guidance for recording MIC transactions appears clear, some issues arise. First, the issue regarding the recording of debt relief savings, as described in paragraph 32, arises. Second, it is not clear whether rescheduling interest payments results in the whole amount of the loan being recorded as a debit and a credit transaction in the financial account. BPM5 (paragraph 457) implies that change in the existing contract results in a rescheduling of the whole loan, but in essence, in this instance, only the interest payments have been rescheduled and so recording the whole loan in transactions might be analytically misleading. Also, it is worth noting that the interest payment that is rescheduled may not be equal in value to interest accruing in the period, and so even if only amounts equal to the rescheduled interest payment are recorded in transactions, under BPM5 methodology this will involve debit entries in both the income account (interest accruing in the current period) and financial account accounts (for that part of the interest payment that accrued in earlier periods, under loans).*

**Transactions relating to debt swaps**

39. The HIPC Initiative provides under the Naples terms a facility to convert ODA and non-ODA debt into other forms of liabilities of the debtor country. While there is no limit for ODA debt conversion, non-ODA debt is capped up to 20 percent of outstanding claims or 15-30 million SDR (see Box 1). The recording of transactions relating to debt swaps (or conversion) both in the standard and analytical presentation as well as in the IIP depend on whether debt being swapped is due for payment in the future, due in the current period, or in arrears.

(a) In the standard presentation, debt-for-equity swap operations for debt due for payment in the future and exchanged at a price below nominal value are recorded as a debit entry in loans at the value of the equity liabilities being provided with the contra-entry credit in direct investment-equity capital, if the share of equity is 10 percent or more (see Table 2, column 14).[18] In IIP, direct investment-equity capital liabilities increase and loan

[18] If the equity acquired is less than 10 percent of total equity capital, it is recorded in portfolio investment-equity securities.

declines. The difference between the value of the equity asset and the nominal value of the debt exchanged is recorded in the IIP as valuation adjustment under loan liabilities. In the analytical presentation, all entries are made above-the-line as in the standard presentation (see Table 3, column 14).

(b) In the standard presentation, debt-for-equity swap for principal payments falling due in the current period are recorded as debit entry under other investment-liabilities equal to the market value of the equity liability being swapped and the contra-entry credit is recorded in direct investment equity capital (see Table 2, column 11). If the market value of the liability swapped is lower than the nominal value of the debt, a valuation adjustment is recorded under loan liabilities in the IIP. In the analytical presentation, debit entries equal to the market value of the liability provided is recorded above- the- line and contra-entry credit is recorded below-the-line under direct investment if the equity liability is 10 percent or more of the total equity capital (see Table 3, column 11).

(c) In the standard presentation, debt-equity-swaps for payments in arrears in previous periods are recorded as a debit entry in loans, short-term at the value of the equity liabilities being provided with the contra-entry credit in direct investment-equity capital, if the share of equity is 10 percent or more (see Table 2, column 13, and Table 3, column 13). In the analytical presentation both entries are "below-the-line." As can be observed from Tables 2 and 3, there are various forms of swap operations as shown in columns 8 to 10 and 15 to18.

*Financing from multilateral institutions*

40. During the first phase of implementation of the HIPC Initiative, multilateral institutions continue to support eligible countries within a Poverty Reduction Strategy Framework (PRGF) by extending new concessional financing. In the balance of payments, new loans are recorded as an increase in liabilities. In the standard presentation, credit entries representing new loans are recorded under other investment-liabilities, long-term or short-term loans, while the contra debit entries are recorded under currency and deposits under reserve assets (see Table 2, column 20). In the IIP credit entries representing new liabilities are recorded under other investment-liabilities, long-term or short-term loans. In the analytical presentation all transactions relating to balance of payments financing are recorded below- the-line. Credit entries are recorded under other investments-liabilities, long-term or short-term loans, and contra debit entries are recorded under reserve assets, as shown in Table 3, column 20.

**Debt buyback operations**

41. Since 1989, the World Bank has provided an International Development Association (IDA) facility to help HIPC countries buyback their commercial debt in the secondary market. So far, some 20 HIPC countries have used the facility to retire a portion of their eligible external debt at deep discounts. In the standard presentation, debt buyback transactions are recorded as debit entries equal to the market value of the liability being repurchased back with the contra credit entry recorded under capital transfer (see Table 2, column 19). The latter represents the grant received from the donor for the purchase of the liability. In the IIP,

the stock of debt declines by the value at the end of the previous period of the debt bought-back—part of the decline is reflected in the transaction at the market value of the debt bought back and the rest reflects a valuation adjustment. In the analytical presentation, the transfer is recorded below-the-line under exceptional financing (see Table 3, column 19).

## B. Second phase of the HIPC Initiative

42. In the second phase of the HIPC Initiative creditor countries extend deeper and broader debt relief to eligible HIPC countries, and some multilateral agencies (including the IMF) provide interim relief.

**Bilateral and commercial creditors reschedule obligations coming due to reach at least 90 percent reduction in PV terms**

43. Paris Club creditors go beyond the Naples terms extended during the first phase of HIPC Initiative to provide more concessional debt reduction in present value terms as set out in the Cologne terms (see Table 1). Paris Club countries are generally expected to reschedule obligations coming due, with debt relief "topped up" to achieve at least 90 percent reduction of debt stock in PV terms. Under Cologne terms ODA debt is rescheduled along the same terms as the Naples terms while non-ODA debt follows the same two mechanisms applied under Naples terms except that the threshold for debt reduction is extended through top-up operations to reach 90 percent in PV terms.

44. Other mechanisms available to HIPC countries during this time include debt swaps—such as debt-for-development swaps—and debt buyback options. Consistent with current practice, countries receiving assistance from Paris Club are required to seek treatment on debt owed to other bilateral and commercial creditors on terms at least comparable to those agreed with the Paris Club. Most of the bilateral creditors have agreed to extend additional support through treatment of flows to include up to 100 percent of ODA loans, while a large majority extend similar treatment to non-ODA debts. In certain cases, debt relief from some bilateral creditors during this time comes in the form of debt service moratorium.

45. As can be observed, most of the debt relief mechanisms applied by bilateral creditors during the second phase give rise to those type of debt transactions covered in the first phase and so the same gaps in *BPM5* methodology arise.

**IDA and IMF provide "interim relief" between the decision and completion points.**

46. Before the completion point, IDA and the IMF usually provide interim assistance to eligible HIPC countries commensurate with their commitment to implement the required economic reforms and adjustment programs. The interim relief includes grants for debt service payments to these agencies falling due between the decision and completion points. In the case of the IMF the grant is capped at a certain percentage level based on committed assistance at the completion point.

47. Grants for debt service from donors are recorded in the standard presentation as credit items under transfers and debit entries under both income for interest accruing in the current period and in other investment-liabilities, long-term loans for other payments made (see Tables 2 and 3, column 7). Following the definition of transfers, corresponding credit entries should be recorded under current transfers (relating to interest) and capital transfers (for the rest). The repayment of debt leads to a decline in the stock of debt in the IIP, under other investment-liabilities, long-term loans.

48. In the analytical presentation, debit entries should be recorded above-the-line as in the standard presentation. Credit entries on the other hand, should be recorded below-the-line under transfer (see Table 3, column 7). Indeed, the credit entry could be included under the *BPM5* sub-heading "grants received from Fund subsidy accounts," which appears under transfers. The coverage of this item should be clarified.

49. A*s noted earlier, one issue that arises is that the current framework in BPM5 does not facilitate the separation of current and capital transfer in exceptional financing.*

## C. Completion point of the HIPC Initiative

50. Following successful progression to completion point, HIPC are eligible to access the full debt relief committed by creditors at decision point.

**Reduction in the stock of eligible debt of up to 90 percent in PV terms for bilateral and commercial creditors**

51. Paris Club countries are expected to offer a reduction in the stock of eligible debt of up to 90 percent in PV terms, under the provision of burden sharing. Debtor countries, for their part, have to seek similar treatment from other bilateral creditors.

52. A good number of Paris Club creditors have offered on voluntary basis, terms more generous than the benchmark given under the HIPC framework. For example, the United Kingdom has offered full cancellation of all HIPCs debts at their decision points and reimbursed any debt service paid before decision point whilst France has cancelled 100 percent of non-ODA debt and on completion point, set aside all ODA claims for specific development projects as they fall due. Canada, in addition to canceling 100 percent of ODA claims, has granted moratorium of debt service as of January 2001 on all debt disbursed before end-March 1999 for 11 out of 17 HIPCs with debt service due to Canada.

53. While most of the debt transactions arising from debt relief mechanisms applied by creditors during this phase have been covered in phase one, it may be worthwhile elaborating on debt development swaps linked to poverty reduction.

54. Debt-for-development swaps are implemented when claims fall due (see Tables 2 and 3, column 12). In the standard presentation, debit entries are recorded in the debt instrument while credit entries are recorded as transfers with a clear identification as to whether it is a current transfer (interest) or capital transfer (principal). To reflect the debt being extinguished,

a debit entry is recorded under other investment-liabilities, long-term loans. In the analytical presentation, debit entries are recorded above-the-line and credit entries representing transfers should be recorded below the line (see Table 3, column 12).

**Multilateral creditors extend a further reduction in the PV of their claims**

55. The IMF, the World Bank and the other multilateral institutions (including development banks) extend grants used to service debt payments owed to them by HIPC countries. The IMF grants are financed through PRGF-HIPC Trust Fund resources, while the World Bank and other participating multilateral agencies use resources of the HIPC Trust Fund managed by the World Bank.

56. The recording of transactions arising from these grants in the balance of payments and IIP has already been covered (paragraphs 46-49). The grant mechanism, which was already used during the second phase of the HIPC, is normally made available at the completion point for the HIPC country to use against debt payments falling due.

57. However, one issue that needs further elaboration relates to the income accruing from HIPC Trust Fund investments that are credited to HIPC accounts. According to the administration procedures of the IMF PRGF-HIPC Trust Fund, the grant resources earmarked for HIPC debt service to the Fund are invested in special accounts and the interest accruing from such investments is credited to the account of the debtor with the IMF. In other words, the undistributed part of the grant before it is applied to debt service accrues interest, which is a credit to the debtor country once the relief is provided irrevocably. *The question arises as to whether such interest should be recorded as income in the balance of payments of the country, as the funds are legally owned by the country*.

58. Also, *compilers have asked as to which sector to classify IMF PRGF-HIPC grants linked to government budget financing—under monetary authorities or government sector.* In a number of countries such resources are classified under monetary authorities although the government is the recipient of the funds as well as the sector responsible for debt service.

59. In conclusion, it is worthwhile noting that most of the mechanisms used by Paris Club creditors in providing debt relief to HIPC apply in virtually all the phases of the HIPC Initiative including the completion point and continue until the debt is eventually retired. Similarly, HIPC debt transactions in the balance of payments are recorded based on the nature of the transactions regardless of whether they occur in the first phase, second phase or completion point. Furthermore, it is noted that there are recording issues that need consideration in the revision of *BPM5*.

## IV. ISSUES FOR CONSIDERATION

60. Arising from the HIPC Initiative, some issues have been identified above as possibly requiring more elaboration in the revised Manual. Also, compilers of debt statistics have raised some other issues as not adequately covered in *BPM5*. This section elaborates further, starting with the issues not discussed above, and identifies questions to stimulate discussion.

Once Committee members have expressed their views on the relevance of the issues for consideration, Fund staff intend to undertake further work with the intention of coming back to the Committee in 2005 with draft guidance. Given its work on debt statistics, the Inter-Agency Task Force on Finance Statistics will also be consulted at its next meeting in March/April 2005.

### 1. Debt service falling due between Paris Club Agreed Minute date and specified implementation date

61. Under the Paris Club debt rescheduling arrangements, creditor countries usually agree to suspend the payment of debt falling due before the effective date of the agreement. However, moratorium interest continues to accrue, but payments are not made, up until the point when there is a formal agreement. Debt compilers in debtor countries have argued that debt payments due between the conclusion date of a Paris Club Agreed Minute and the implementation date—i.e., the specified conclusion date of bilateral agreement—should not be considered as arrears. It is argued that any payment made after the Paris Club Agreed Minute and based on the old loan terms is tantamount to violating the clause of "equal treatment of creditors."

62. While such arrears are not explicitly covered in *BPM5*, they are considered in the *Debt Guide* as *technical arrears* (paragraph 3.37) to be included under short-term debt under other debt liabilities. The *Debt Guide* recognizes that the creditor in this case has agreed in principle to reschedule debt—that is, to reorganize payments that are falling due—but the agreement has yet to be signed and implemented and so the liabilities remain outstanding. The *Debt Guide* further explains that if the agreement in principle lapses before the bilateral agreement is signed, "then any accumulated arrears are no longer technical arrears."

*63. Issue for consideration: What are the Committee's views on the treatment of technical arrears in the balance of payments? e.g. regarded as arrears and included as short-term debt under other debt liabilities and/or be identified as a supplementary item?(see also 2 below).*

### 2. Debt service moratorium extended by creditors before the completion point

64. There has been a concern that the *BPM5* is not clear about the treatment of debt service moratorium offered by creditors. Debt service moratorium involves a creditor permitting suspension of debt service payments falling due within a given but extended period, unlike technical arrears which typically cover about six months. In the case of the treatment extended by the Canadian authorities (see paragraph 52), the question has been raised of how to handle payments falling due within the moratorium period.[19]

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[19] Debt service falling due in the moratorium period is usually earmarked for cancellation when the country reaches completion point.

65. Three possibilities are: (a) based on the principle of accrual accounting it can be argued that payments falling due during the moratorium period are deemed paid but transformed into short-term debt liabilities—arrears; (b) it can further be argued that the creditor's decision to offer debt service moratorium is sufficient enough to treat debt liabilities falling due within the moratorium period as rescheduled, in which case arrears are not created; and (c) it can also be argued that since the amounts falling due within the moratorium period are earmarked for cancellation upon successful progression to completion point, such liabilities are essentially contingent hence not part of "external debt" as defined in the *Debt Guide.* There might be a case to establish a supplementary item for debt service moratorium payments. Also, the question still remains as to when and how to record the debt relief in the balance of payments.

*66. Issues for discussion: What are the Committee's views on the treatment of debt service falling due during the moratorium period? The options above include treated as arrears, assumed rescheduled (that is new debt), or perhaps contingent liabilities. Should such transactions be separately identified, perhaps as a supplementary item? Are there issues regarding the time of recording of such transactions that require attention?*

### 3. Treatment of HIPC debt in balance of payments for creditors that opt out of HIPC Debt Relief Initiative

67. Debt compilers in debtor countries have sought guidance regarding the treatment of debt service when an agreement is reached in principle but specific HIPC creditors subsequently opt out of providing debt relief and claim full payment of their assets. When payments on such claims fall due, debtors are left in a dilemma of making the payment (which amounts to violation of the broad Paris Club Agreed Minute) or reneging (which increases penalties on arrears and other financial risks). While *BPM5* is clear about change of ownership of assets and liabilities it may be worthwhile elaborating further on these concepts and how they apply when conflicting arrangements are involved especially on HIPC debt.

68. *Issue for discussion: Does the Committee consider that this is an issue for which further guidance is required?*

### 4. Paris Club debt rescheduling agreements: Timing

69. More generally, perhaps further clarification is required on the timing of debt rescheduling transactions. The practice of some balance of payments economists has been to reflect debt rescheduling in the balance of payments when it is agreed in principle by the Paris Club group of creditors rather than when the agreement is signed by individual Paris Club Creditors. Additionally some economists have sought clarification on whether a rescheduling should be reflected when it is signed, or when the agreement becomes effective i.e., when it is approved by parliament.

70. *Issue for discussion: Is there a need to elaborate further on the timing of recording the Paris Club debt rescheduling agreements?*

### 5. Economic transfers arising from concessionality under HIPC treatment

71. Debt rescheduling transfers associated with concessional interest rates might be considered as not adequately covered in *BPM5*[20]. Such transfers arise from the lowering of applicable interest rates to HIPC debts from near market terms to near grant levels. These transfers have assumed prominence in recent years because they are increasingly used to quantify the amount of debt relief provided to HIPC countries. In countries where the relief is linked to government expenditure on social development projects it may be reasonable to show these flows explicitly in the balance of payments. There is also a case for doing so from the creditor's perspective since the debt relief is provided with a quid pro quo expectation that the creditor will contribute to official development aid and advance social development in HIPC countries.

*72. Issues for discussion: Does the Committee consider that there is a need to take account in the balance of payments of transfers arising from concessional interest rate debt relief mechanisms. If so, does the Committee have views on how such transfers could be measured and recorded? Are there issues of the time of recording? e.g. recording the full value of the transfer at time of relief or spread out over lifetime of the new loan?*

### 6. HIPC debt transactions linked to social expenditure and the classification of transfers

73. *BPM5* is unclear about the treatment of HIPC debt transactions that are linked to budget expenditure. Some HIPC trust fund transactions are linked to government expenditure in that the local currency equivalence of the debt service is earmarked to finance social development projects. Questions have been raised as to whether expenditure from such trust funds should be treated as current transfers (as is the case in many countries) or should be apportioned to capital transfers and current transfers depending on whether the payment is for principal or interest, respectively. From the point of view of government expenditure outlays, it can be argued that there is a strong case to record these transactions in their appropriate categories to match the flow of funds in the government accounts with the corresponding items in the balance of payments.

74. Further, there is a need to clarify whether when interest payments are forgiven or paid through a grant mechanism whether only the interest accruing in the period or the whole of the interest payment that is forgiven should be classified as a current transfer. Finally, a question arises as to whether current and capital transfers should be separately identified under exceptional financing.

75. *Issues for discussion: Does the Committee consider that there is a case for matching the entries in the government accounts and balance of payments when HIPC transactions are*

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[20] Although paragraph 104 in *BPM5* does indicate the possibility of comparing market and non-commercial interest rate on government loans to calculate grant elements.

*linked to social expenditures? One approach might be to disaggregate debt service payments made through trust funds by transaction classification—principal payment as capital transfer and interest payment as current transfers. Are there views on whether current and capital transfers should be separately identified under exceptional financing. Should interest and principal payments be defined in the revised Manual?*

### 7. Rescheduling of Interest payments

76. *Issue for discussion: Does BPM5 need to be clearer regarding whether rescheduling interest payments results in the whole amount of the loan being recorded as a debit and credit transaction in the financial account or not (see paragraph 38 above)?*

### 8. Accounting of Income Accrued on HIPC Trust Funds

77. There is a need to clarify both the treatment of interest earned on HIPC Trust Funds and credited to the accounts of the debtor and the sectors involved. As noted above (paragraph 57), according to the administration of IMF PRGF-HIPC Trust Fund, the grant resources earmarked for HIPC debt service as it falls due are invested in special accounts and the interest accruing from such investment is credited to the debtor's account with the IMF, which is later used for debt service to the Fund. Indeed, following successful progression to completion point of the HIPC initiative, a country is entitled to receive the full HIPC assistance on an irrevocable basis.

78. *Issue for discussion: Should the income generated from such funds be accounted for in the appropriate sectors in the balance of payments given that there appears to be a clear change of ownership at completion point?*

### 9. Identification of HIPC transactions

79. *Issue for discussion: More generally, does the Committee have views on whether there is a case for separately identifying data that are attributable to HIPC arrangements, perhaps through supplementary information?*

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## Table 1. Evolution of Paris Club Rescheduling Terms

| | Middle-Income Countries /1. | Lower-Middle Income Countries (Houston terms) /1. | Low- Income Countries /2. | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Toronto Terms Options | | | London Terms Option /3. | | | | Naples Terms Options /4. | | | | | HIPC Initiative | | | | |
| | | | | | | | | | | | DSR | | | | Lyon Terms Options /5. | | | | Cologne Term Options /5/6. |
| | | | DR | DSR | LM | DR | DSR | MIC | LM | DR | Maturing Flows | Stocks | MIC | LM | DR | DSR | MIC | LM | DR |
| Implemented | ... | Since Sept. 1990 | Oct. 1988-June 1991 | | | Dec. 1991-Dec 1994 | | | | Since January 1995 | | | | | Dec. 1996-Oct. 1999 | | | | Since Nov.1999 |
| Grace in Years | 5-6 /1. | Up to 8 /1. | 8 | 8 | 14 | 6 | .. | 5 | 16 /7. | 6 | .. | 3 | 8 | 20 | 6 | 8 | 8 | 20 | 6 |
| Maturity (in years) | 9 /1. | 15 /1. | 14 | 14 | 25 | 23 | 23 | 23 | 25 | 23 | 33 | 33 | 33 | 40 | 23 | 40 | 40 | 40 | 23 |
| Repayment schedule | Flat/ Graduated | Flat/ Graduated | ...........Flat............ | | | .. .......... Graduated............. | | | | .................Graduated................................. | | | | | ...........Graduated........... | | | | ..Graduated... |
| Interest /8. | M | M | M | R /9. | M | M | R /10. | R /10. | M | M | R /11. | R /11. | R/11 | M | M | R /12. | R /12. | M | M |
| Reduction in present Value (in percent) | .. | ... | 33 | 20-30 /13. | ... | 50 | 50 | 50 | .. | 67 | 67 | 67 | 67 | ... | 80 | 80 | 80 | .. | 90 /6. |
| *Memorandum items* | | | | | | | | | | | | | | | | | | | |
| ODA credits Grace (in years) | 5-6 | Up to 10 | 14 | 14 | 14 | 12 | 12 | 12 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 20 | 16 |
| Maturity in years | 10 | 20 | 14 | 25 | 25 | 30 | 30 | 30 | 25 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |

Notes:

/1. Since the 1992 agreements with Argentina and Brazil, creditors have made increasing use of graduated payments schedules (up to 15 years' maturity and 2-3 years grace for middle- income countries; up to 18 years" maturity for lower income countries). /2. DR refers to the debt-reduction option applicable to non-ODA credits; DRS to the debt service reduction option applicable to ODA credits; MIC refers to moratorium interest capitalization option; LM denotes the nonconcessional option providing longer maturities. Under London, Naples, Lyon and Cologne terms there is a provision for a stock-of-debt operation, but no such operation took place under London terms.

/3 These have also been called "Enhanced Toronto" and Enhanced Concessions" terms. /4. Until 1999 included an option of a 50 percent level of concessionality for countries with a per capita income of more than $500, and an overall present value of debt/export ratio of less than 350 percent. For a 50 percent level concessionality, terms were equal to London terms except for the debt-service-reduction option under a stock-of-debt operation that included a three-year grace period./5. These terms are to be granted in the context of concerted action by all creditors under the HIPC Initiative. They also include, on voluntary basis, an ODA debt-reduction option. /6. Creditors agree on a case-by-case basis on a present value debt reduction of 90 percent on pre-cutoff date commercial (non-ODA) debt, or more if this is required in the context of proportional burden sharing with other creditors to achieve debt sustainability in the debtor country. All creditors endeavor to apply the DR option, but if that is not possible there is also a DSR option with very long maturities and grace periods. /7. Fourteen years before June 1992.

/8. Interest rates are determined in the bilateral agreements implementing the Paris Club Agreed Minute. M= Market rates; R= Reduced rates. /9. The interest rate was 3.5 percentage points below the market rate or half of the market rate if the market rate was below 7 percent. /10. Reduced to achieve a 50 percent present value reduction. /11. Reduced to achieve a 67 percent present value reduction; under the DSR option for the stock operation, interest rate is slightly higher, reflecting the three-year grace period. /12. Reduced to achieve an 80 percent present value reduction. /13. The reduction of present value depends on the interest rates and therefore varies as indicated in /9.

Table 2. Accounting for selected debt reorganization transactions in the standard BOP presentation and IIP

| Selected Accounts | Accumulation of interest & principal arrears. | Payment of interest and principal arrears (cash). | Forgiving of interest & principal falling due in current period using HIPC Trust Funds. | Forgiving of interest & Principal falling due in current period. | Forgiving of interest & principal falling in arrears in current period. | Forgiving of payments not yet due in current period. | Other inter-governmental grants:IMF/World Bank grants for debt payment | Debt-for-bond swap for payments falling due current period. | Debt-for-bond swap for payments in arrears. | Debt-for-bond swaps for payments not yet due. | Debt-for-equit swap for principal payments fallin due current period. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| **A. BOP** | | | | | | | | | | | |
| 1. Income | DI*** | | DI | DI | DI | | DI | DI | | | |
| 2. Current Transfers | | | CI | CI | CIA | | CI | | | | |
| 3. Capital Transfers | | | CP | CP | CPA | CP | CP | | | | |
| 4. Direct Investment | | | | | | | | | | | |
| -.Equity Capital* | | | | | | | | | | | CP1 |
| 5. Portfolio Investment | | | | | | | | | | | |
| - Debt Securities | | | | | | | | CI, CP1 | CP1 | CP1 | |
| - Equity Securities | | | | | | | | | | | |
| 6. Other Investment | | | | | | | | | | | |
| - Long-term (loans)** | DP | | DP | DP | DP | DP | DP | DP1 | | DP1 | DP1 |
| - Short-term (loans & others) | CIA, CPA | DIA, DPA | | | | | | | DP1 | | |
| **B. Reserve Assets** | | CIA, CPA | | | | | | | | | |
| **C. IIP Liabilities** | | | | | | | | | | | |
| 1. Direct Investment | | | | | | | | | | | |
| - Equity Capital* | | | | | | | | | | | CP1 |
| 2. Portfolio Investment | | | | | | | | | | | |
| - Debt Securities | | | | | | | | CI, CP1 | CP1 | CP1 | |
| - Equity Securities | | | | | | | | | | | |
| 3. Other Investment | | | | | | | | | | | |
| -Long-term (loans)** | | | DP | DP | | DP | DP | DP1,DP2 | | DP1,DP2 | DP1, DP2 |
| -Short-term (loans) | CIA | DIA, DPA | | | DIA, DPA | | | | DP1, DP2 | | |

Notes:

DI= Debit interest; DP= Debit principal; CI= Credit interest; CP=Credit principal; DIA=Debit interest arrears; DPA=Debit principal arrears; CIA=Credit interest arrears; CPA =Credit Principal arrears; CG= Credit grants; DG= Debit grants; CP1 &DP1= Credit and Debit market value of debt being bought back, respectively; CP2 & DP2= Credit & Debit valuation adjustment of nominal debt, respectively; (* ) If equity acquired is less than 10% of total equity investments, the transactions should be recorded as equity securities under portfolio investments; (**) Transactions should be recorded under short-term debt if original maturity of debt instruments is equal or less than one year; (***) Comprises interest in arrears accruing in the recording period and late (penalty) interest on arrears accrued in the recording period. Interest accrued in the previous period recording period should be recorded under the appropriate instrument in the financial account.

Table 2. Accounting for selected debt reorganization transactions in the standard BOP presentation and IIP (continued)

| Selected Accounts | Debt for Devpt. swap for payments falling due current period. | Debt for equity swap for principal payments in arrears previous periods. | Debt for equity swap for payment not due. | Exchange of fixed payment liability for a security in domestic currency. | Exchange of fixed payment liability for a security in domestic currency (payments in arrears). | Exchange of fixed payment liability for a security in domestic currency (payments not due). | Exchange of liability in domestic currency for equity investment. | Debt buyback supported by donor grants. | Borrowing for balance of payments support ( new loans). | Rescheduling/ Refinancing for payments falling due current period. | Rescheduling/ Refinancing payments in arrears. | Rescheduling Refinancing payments n yet due. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (12) | (13) | (14) | (15) | (16) | (17) | (18) | (19) | (20) | (21) | (22) | (23) |
| **A. BOP** | | | | | | | | | | | | |
| 1 .Income | DI | | | | | | | | | DI | | |
| 2. Current transfers | CI | | | | | | | | | | | |
| 3. Capital transfers | CP1 | | | | | | | CP1 | | | | |
| 4. Direct Investment | | | | | | | | | | | | |
| -.Equity Capital* | | CP1 | CP1 | | | | CP | | | | | |
| 5. Portfolio Investment | | | | | | | | | | | | |
| - Debt Securities | | | | CP | CIA, CPA | CP | | | | | | |
| - Equity Securities | | | | | | | | | | | | |
| 6. Other Investment | | | | | | | | | | | | |
| - Long-term (loans)** | DP1 | | DP1 | DP | | DP | DP | DP1 | CP | CI, CP, DP | CIA, CPA | DP, CP |
| - Short-term (loans) | | DP1 | | | DIA, DPA | | | | | | DIA, DPA | |
| **B. Reserve Assets** | | | | | | | | | DP | | | |
| **C. IIP Liabilities** | | | | | | | | | | | | |
| 1. Direct Investment | | | | | | | | | | | | |
| - Equity Capital* | | CP1 | CP1 | | | | CP | | | | | |
| 2. Portfolio Investment | | | | | | | | | | | | |
| - Debt Securities | | | | CP | CIA, CPA | CP | | | | | | |
| - Equity Securities | | | | | | | | | | | | |
| 3. Other Investment | | | | | | | | | | | | |
| -Loans ** | DP1 | | DP1, DP2 | DP | | DP | DP | DP1, DP2 | CP | CI | | |
| -other liabilities | | DP1, DP2 | | | DIA, DPA | | | | | | | |

Notes:
DI= Debit interest; DP= Debit principal; CI= Credit interest; CP=Credit principal; DIA=Debit interest arrears; DPA=Debit principal arrears; CIA=Credit interest arrears; CPA =Credit Principal arrears; CG= Credit grants; DG= Debit grants; CP1 &DP1= Credit and Debit market value of debt being bought back, respectively; CP2 & DP2= Credit & Debit valuation adjustment of nominal debt, respectively; (* ) If equity acquired is less than 10% of total equity investments, the transactions should be recorded as equity securities under portfolio investments; (**) Transactions should be recorded under short-term debt if original maturity of debt instruments is equal or less than one year; (***) Comprises interest in arrears accruing in the recording period and late (penalty) interest on arrears accrued in the recording period. Interest accrued in the previous period recording period should be recorded under the appropriate instrument in the financial account.

Table 3. Accounting for selected exceptional financing transactions in the analytical presentation of the BOP

| Selected Accounts | Accumulation of interest & principal Arrears | Payment of interest and principal arrears (cash) | Forgiving of interest & principal falling due current in period using HIPC Trust Funds. | Forgiving of interest & Principal falling due in current period | Forgiving of interest & principal falling in arrears current period | Forgiving of payments not yet due in current period | Other inter-governmental grants: IMF/World Bank grants for debt payment | Debt-for-bond swap for payments falling due current period | Debt- for-bond swap for payments in arrears | Debt-for-bond swaps for payments not yet due | Debt-for- equity swap for principal payments falling due current period |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| **A. BOP Transactions** | | | | | | | | | | | |
| 1. Income (interest) | DI | | DI | DI | DI | | DI | DI | | | |
| 2. Current Transfers | | | | | | | | | | | |
| 3. Capital Transfers | | | | | | CP | | | | | |
| 4. Direct Investment | | | | | | | | | | | |
| - Equity Capital* | | | | | | | | | | | |
| 5. Portfolio Investment | | | | | | | | | | | |
| - Debt Securities | | | | | | | | | | CP1 | |
| -Equity Securities | | | | | | | | | | | |
| 6. Other Investment | | | | | | | | | | | |
| -Long-term (loans)** | DP | | DP | DP | DP | DP | DP | DP1 | | DP1 | DP1 |
| -Short-term (loans) | | | | | CIA,CPA | | | | | | |
| **B. Change in Reserve Assets** | | CIA, CPA | | | | | | | | | |
| **C. Exceptional Financing** | | | | | | | | | | | |
| 1. Current Transfers # | | | CI | CI | | | CI | | | | |
| 2.. Capital Transfers | | | CP | CP | | | CP | | | | |
| 3. Direct Investment* | | | | | | | | | | | CP1 |
| 4. Portfolio Investment | | | | | | | | CI, CP1 | CP1 | | |
| 5. Other Investment Liabilities | | | | | | | | | | | |
| - loans** | | | | | | | | | | | |
| - other liabilities | CIA, CPA | DIA, DPA | | | | | | | DP1 | | |

Notes:

DI= Debit interest; DP= Debit principal; CI= Credit interest; CP=Credit principal; DIA=Debit interest arrears; DPA=Debit principal arrears; CIA=Credit interest arrears; CPA =Credit Principal arrears; CG= Credit grants; DG= Debit grants; CP1 &DP1= Credit and Debit market value of debt being bought back, respectively; CP2 & DP2= Credit & Debit valuation adjustment of nominal debt, respectively; (* ) If equity acquired is less than 10% of total equity investments, the transactions should be recorded as equity securities under portfolio investments; (**) Transactions should be recorded under short-term debt if original maturity of debt instruments is equal or less than one year; (***) Comprises interest in arrears accruing in the recording period and late (penalty) interest on arrears accrued in the recording period. Interest accrued in the previous period recording period should be recorded under the appropriate instrument in the financial account. # Not a line item in *BPM5*.

Table 3: Accounting for selected exceptional financing transactions in the analytical presentation of the BOP (continued)

| Selected Accounts | Debt for Devpt. swap for payments falling due current period. | Debt for equity swap for principal payments in arrears previous periods. | Debt for Equity swap for payments not due. | Exchange of fixed payment liability for a security in domestic currency. | Exchange of fixed payment liability for a security in domestic currency (payments in arrears). | Exchange of fixed payment liability for a security in domestic currency (payments not due). | Exchange of Liability in domestic currency for equity investment. | Debt buyback supported by donor grants. | Borrowing for balance of payments support (new loans). | Rescheduling/ Refinancing for payments falling due current period. | Rescheduling/ Refinancing payments in arrears. | Rescheduling/ Refinancing payments not yet due. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (12) | (13) | (14) | (15) | (16) | (17) | (18) | (19) | (20) | (21) | (22) | (23) |
| **A. BOP Transactions** | | | | | | | | | | | | |
| 1. Income (interest) | DI | | | | | | | | | DI*** | | |
| 2. Current Transfers | | | | | | | | | | | | |
| 3. Capital Transfers | | | | | | | | CP1 | | | | |
| 4. Direct Investment | | | | | | | | | | | | |
| - Equity Capital* | | | CP1 | | | | CP | | | | | |
| 5. Portfolio Investment | | | | | | | | | | | | |
| - Debt Securities | | | | | | CP | DP | | | | | |
| -Equity Securities | | | | | | | | | | | | |
| 6. Other Investment | | | | | | | | | | | | |
| -Long-term (loans)** | DP1 | | DP1 | DP | | DP | | DP1 | | DP | | DP, CP |
| -Short-term (loans) | | | | | | | | | | | | |
| **B. Change in Reserve Assets** | | | | | | | | | DP | | | |
| **C. Exceptional Financing** | | | | | | | | | | | | |
| 1. Current Transfers # | CI | | | | | | | | | | | |
| 2. Capital Transfers | CP1 | | | | | | | | | | | |
| 3. Direct Investment* | | CP1 | | | | | | | | | | |
| 4. Portfolio Investment | | | | CP | CIA, CPA | | | | | | | |
| 5.Other Investment Liabilities | | | | | | | | | | | | |
| - Long-term (loans)** | | | | | | | | | CP | CI, CP | CIA, CPA | |
| - Short-term (loans) | | DP1 | | | DIA, DPA | | | | | | DIA, DPA | |

Notes:

DI= Debit interest; DP= Debit principal; CI= Credit interest; CP=Credit principal; DIA=Debit interest arrears; DPA=Debit principal arrears; CIA=Credit interest arrears; CPA =Credit Principal arrears; CG= Credit grants; DG= Debit grants; CP1 &DP1= Credit and Debit market value of debt being bought back, respectively; CP2 & DP2= Credit & Debit valuation adjustment of nominal debt, respectively; (* ) If equity acquired is less than 10% of total equity investments, the transactions should be recorded as equity securities under portfolio investments; (**) Transactions should be recorded under short-term debt if original maturity of debt instruments is equal or less than one year; (***) Comprises interest in arrears accruing in the recording period and late (penalty) interest on arrears accrued in the recording period. Interest accrued in the previous period recording period should be recorded under the appropriate instrument in the financial account. # Not a line item in *BPM5*.