

Exceptional Financing Transactions

A. Introduction

Reference:

IMF and others, *External Debt Statistics: Guide for Compilers and Users*, Chapter 8, Debt Reorganization.

A1.1 The identification of exceptional financing transactions is linked to an analytic construct rather than based on precise criteria. *Exceptional financing brings together financial arrangements made by the authorities (or by other sectors fostered by authorities) of an economy to meet balance of payments needs.* These transactions can be viewed as an alternative to the use of reserve assets, IMF credit, and loans to deal with payments imbalances, or in conjunction with such use. Exceptional financing is important for IMF operations, statistics, and member countries, as the use of IMF resources is subject to an analytical requirement of need, which—according to the Articles of Agreement of the IMF—is linked to a member’s balance of payments, reserve position, or developments concerning reserves. Exceptional financing is presented in the “analytic” presentation of the balance of payments, such as published in the IMF’s *Balance of Payments Statistics Yearbook*, with the relevant transactions reclassified from that shown in the standard components. The analytic presentation is discussed further in paragraphs 14.16–14.17.

A1.2 Determining the need helps to distinguish:

- (a) the above-the-line items (i.e., those that are deemed to be autonomous in the current, capital, and financial accounts and are undertaken for the sake of the transactions) and thus contribute to or result in an overall payments deficit or surplus, and
- (b) the below-the-line items (i.e., those considered to be accommodating or financing the deficit or surplus).

In essence, from the viewpoint of the authorities of the reporting economy, the below-the-line transactions reflect (a) the transactions undertaken for balance of payments needs that finance payments required to be made in the current recording period such as predetermined debt service payments by the authorities as well as (b) other financial transactions undertaken by the authorities that are related to balance of payments needs (beyond those required) and impact on reserve assets in the current recording period, such as prepayments of debt, drawings on new loans, and receipt of cash transfers. Given that transactions in reserve assets and in IMF credit and loans are always considered as being undertaken to meet a balance of payments need, it is the other below-the-line transactions that are recorded under exceptional financing. There are no below-the-line entries under exceptional financing arising from the provision of financing nor for transactions other than those undertaken to meet balance of payments needs.

A1.3 This appendix provides guidance on distinguishing transactions in the standard presentation that are exceptional financing transactions. Such a distinction involves a degree of judgment. Examples include government-to-government grants provided for debt payment linked to balance of payments needs, and rescheduling or forgiveness of debt falling due in the current period. Also, in cases of arrears, “transactions” are recorded in exceptional financing but are not recorded in the standard presentation. Exceptional financing transactions are usually recorded in the appropriate accounts of the analytic presentation as credit entries below-the-line, with corresponding debit entries shown above-the-line. However, for transactions in arrears past due from previous periods, swaps of such debts (such as described in paragraph A1.9), or where debt is repaid or cancelled through transfers (such as described in paragraph A1.5), the two entries of these transactions are recorded below-the-line.

A1.4 The transactions identified as exceptional financing are presented below under the following sections:

- B. Transfers—such as debt forgiveness and other intergovernmental transfers, including transfers from international organizations;
- C. Direct or other equity investment—such as debt or equity swaps involving debt reduction;
- D. Borrowing (including bond issues) for balance of payments support by the government or central bank, or by other sectors of the economy and induced by the authorities, usually through some form of exchange rate or interest subsidy;
- E. Debt rescheduling or refinancing;
- F. Debt prepayment and buybacks; and
- G. Accumulation and repayment of arrears.

Some of these cases involve debt reorganization that is covered in detail in Appendix 2, Debt Reorganization and Related Transactions. Table A1.1 presents selected exceptional financing transactions in the analytic and standard presentation of the balance of payments.

B. Transfers

I. Debt forgiveness

A1.5 Debt forgiveness is defined as the voluntary cancellation of all or part of a debt obligation within a contractual arrangement between a creditor and a debtor (*External Debt Statistics: Guide for Compilers and Users*). Debt forgiveness is recorded as a capital transfer (see paragraph 13.23) from the creditor economy to the debtor economy, offset by a reduction in the liability of the debtor (reduction in the asset of the creditor) under the appropriate debt instrument in the financial account, with any interest accruing in current period recorded in the income account.

A1.6 In the analytic presentation, for the debtor economy, the recording of debt forgiveness depends on whether the debt being forgiven is due for payment in the current reporting period, in arrears, or not yet due (Table A1.1, rows 1–6). Forgiveness of obligations due in the current period is recorded as transfers, debt forgiveness (credit item) below-the-line, whereas the reduction of the obligations (debit item) is shown above-the-line. For forgiveness on obligations past due from previous periods, that is, on arrears, the two entries are recorded below-the-line in exceptional

financing,¹ that is, credit (under debt forgiveness) and debit items (under cancellation of arrears). If the obligations not yet due are forgiven, there is no entry under exceptional financing, because these payments were not required to be made in the current period, and the two entries are made above the line.

2. Other intergovernmental transfers

A1.7 Other transfers included within exceptional financing are grants in the form of cash from governments and international organizations (including the IMF and the World Bank) to the recipient economy. To the extent that the cash is provided for the purpose of financing a balance of payments need in the recipient country, the grant received (credit item) will be recorded in the analytic presentation as exceptional financing,² with a corresponding debit entry under reserve assets (Table A1.1, row 7). An example of other intergovernmental transfers is cash grants from donor governments or multilateral financial institutions to the debtor economy to be used to repay debt and grants to finance a current account need.

A1.8 Only the initial transaction associated with the grant is relevant for exceptional financing. If the proceeds of the grant are used for scheduled debt service payments, no exceptional financing transactions for the debt transactions are recorded. The same applies if the grant is directly used to make advance repayments of debt for balance of payments needs, such as a debt buyback. However, it should be noted that if an advance repayment is made out of reserve assets, an exceptional financing will be recorded for the debt transaction (see Section C).

C. Debt-for-Equity Swap

A1.9 Exceptional financing transactions related to equity investment involve the exchange, usually at a discount, of debt instruments of an economy for non-resident investors' equity investments in the economy (see paragraphs A2.29–A2.37). Generally, such arrangements result in the extinction (debit item) of a

¹These entries for arrears arise for two reasons: First, if arrears are repaid from reserves, a credit entry under reserves is recorded below-the-line (see Section D); not recording the "repayment of arrears" through debt forgiveness would create an asymmetry of approach. Second, the accumulation of arrears resulting from balance of payments difficulties is recorded as a credit item in the period in which they arise. The repayment recorded as a debit item ensures intertemporal consistency.

²Any interest accruing from the proceeds of the grant should be recorded by the debtor economy as a credit in the income account.

fixed-payment liability, a debt security, or loan (usually denominated in foreign currency), to be recorded under the appropriate instrument, and the creation (credit item) of an equity liability (denominated in domestic currency) to a nonresident, to be recorded under direct or portfolio investment as relevant. These cases include exchanges of a bank loan, or a liability of an enterprise, for equity, or the resident central bank redeeming the outstanding debt owed to a nonresident, at a discount and in local currency (credit item), with the nonresident reinvesting the proceeds as equity in the enterprise.

A1.10 For debt exchanged directly for equity investment in the debtor economy, credit entries should be made under direct investment–equity, if the investor (equity holder) directly holds equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise; otherwise, the equity claim should be recorded under portfolio investment–equity. These transactions should be recorded at the value of the equity acquired, with offsetting debit entries made under the appropriate debt instrument for the reduction in liabilities.

A1.11 For indirect debt-for-equity swaps whereby debt is exchanged, first for a local currency claim (deposit) that is in turn exchanged for equity liability of the debtor, transactions in the balance of payments are recorded for both the initial exchange—debt for deposit at the value of the deposit—and the exchange of deposits for equity. In the IIP, equity liabilities (either direct or portfolio) increase and debt liabilities decrease by the value of the instrument extinguished.

A1.12 In the analytic presentation, only the initial transaction associated with the debt-for-equity swap is relevant. As with debt forgiveness, the recording of the exchange of claims (either debt for equity, or debt for a local currency claim) depends on whether the debt being exchanged is due for payment in the current reporting period, in arrears, or not yet due (Table A1.1, rows 8–16). Swaps of obligations that fall due in the current recording period are recorded under equity (credit item) below-the-line under exceptional financing, with debt repayment (debit item) recorded above-the-line. For arrears swapped, equity (credit item) and repayment of arrears (debit item) are both recorded below-the-line. For debt exchanged that is not yet due, there is no recording under exceptional financing, the two entries being made above-the-line.

A1.13 All transactions should be valued at the market price of the new claim received. If there is a difference in the value between the old and new claims, this

is recorded as a valuation adjustment in the revaluation account rather than as a transaction, except when non-marketable debt owed to official creditors is involved, in which instance any reduction in the value of the old debt is recorded as debt forgiveness (capital transfer).

D. Borrowing for Balance of Payments Support

A1.14 In the analytic presentation, borrowing (including bond issues) by or on behalf of the authorities to meet balance of payments needs is recorded (credit item) below-the-line under exceptional financing. Subsequent debt payments as scheduled are recorded above-the-line (Table A1.1, rows 17–18). However, advance repayments for balance of payments needs financed from reserve assets are recorded as exceptional financing (debit item), so both the reserve and debt transactions are recorded below-the-line (see also Section E).

A1.15 Regarding short-term borrowing for balance of payments support, only the initial drawing of a loan and any subsequent increases in the amount borrowed need be recorded below-the-line. In other words, a new borrowing is not recorded each time the same amount borrowed under a short-term loan is “rolled-over” and not repaid at the maturity (the debit and credit entries for the loan in such circumstances will cancel each other; see paragraph 3.115). If there is repayment of the borrowing (even partial repayment) this amount is recorded above-the-line (unless it is an advance repayment under the conditions described above). If the loan is rolled over for a number of periods, a judgment should be made as to whether the continual renewal of the amount borrowed represents exceptional financing in that the balance of payments circumstances are such that the debtor is unable to repay the loan (see paragraph A1.2, point (a)).

E. Debt Rescheduling or Refinancing

A1.16 Debt rescheduling or refinancing involves a change in an existing debt contract and replacement by a new debt contract, generally with extended debt service payments. Thus, payments are recorded as paid on the old debt and a new debt is recorded. *Debt rescheduling refers to the formal deferment of debt service payments and the application of new and generally extended maturities to the deferred amounts. Debt refinancing refers to the replacement of an existing debt instrument or instruments including any arrears, with a new debt*

instrument or instruments. If, under a rescheduling, the government assumes the debt of banks or other sectors of the economy, the sector classification of the debtor will change (as described in paragraph 8.45).

A1.17 In the analytic presentation, the recording of debt rescheduling and refinancing, as with debt forgiveness, depends on whether the debt being rescheduled or refinanced is due for payment in the current reporting period, in arrears, or not yet due (Table A1.1, rows 19–30). Rescheduling or refinancing of debt falling due in the current recording period is recorded below-the-line as a debt transaction (credit item) under exceptional financing, and the offsetting debit entry is recorded above-the-line. For arrears rescheduled or refinanced, both the arrears on the old debt (debit item) and the rescheduling of arrears (credit item) are recorded below-the-line. For rescheduling or refinancing of obligations not yet due, there is no recording under exceptional financing, both entries being above-the-line under the relevant debt instruments.

A1.18 All transactions should be valued at the market price of the new claim received.³ If there is a difference in the value between the old and new claim, this is recorded as a valuation adjustment in the revaluation account rather than as a transaction (e.g., a capital transfer), except when nonmarketable debt owed to official creditors is involved, in which instance any reduction in the nominal value of debt is recorded as debt forgiveness. Where there is no established market price for the new claim, an appropriate proxy is used (see Appendix 2, Debt Reorganization and Related Transactions).

F. Debt Prepayment and Debt Buyback

A1.19 Debt prepayments consist of a repurchase, or early payment, of debt 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. When a discount is involved relative to the nominal value of the debt, prepayments are referred to as “buybacks.”

A1.20 In the analytic presentation, debt prepayment transactions are recorded as exceptional financing only if they are financed from reserve assets to meet balance of payment needs of the debtor economy (Table A1.1, rows

31–33). In this case, debit entries⁴ are recorded below-the-line in the appropriate instrument in exceptional financing with offsetting credit entries in reserve assets also below-the-line. If the prepayment was financed from external donor funds that are placed in the debtor’s reserve assets, the debtor economy records all transactions below-the-line in the analytic presentation (Table A1.1, row 31). In the IIP of the debtor economy, reserve assets increase when donor funds are received and decline, along with debt liabilities, when the prepayment takes place. Prepayments of debt using the debtor’s own financial assets other than reserve assets are recorded above-the-line in the appropriate accounts (Table A1.1, row 33).

G. Accumulation and Repayment of Debt Arrears

I. Accumulation of arrears—current period

A1.21 Debt arrears arise when amounts are past due for payment and are unpaid. If the contract remains unchanged, in the standard presentation, no transactions will be recorded. Debt arrears (both interest accrued and principal) remain in the outstanding amount of the debt instrument for which payments have been missed until the liability is extinguished (see paragraph 3.56).⁵ Nonetheless, debt arrears are an arrangement recorded in exceptional financing.

A1.22 In the analytic presentation, arrears are included because this presentation is focused on the actions of the monetary authorities to meet balance of payments needs, and accumulating arrears is an action the monetary authorities can take for this purpose. Arrears in the current period resulting from balance of payments difficulties—that is, arrears resulting from the inability of the authorities to provide foreign exchange (and not from the inability of the original debtor to provide national currency)—are recorded below-the-line as accumulation of arrears (credit) within exceptional financing, as de facto the creditor is financing the payments the debtor was required to make. The contra debit entries to the arrears are recorded in the reporting period above-the-line under the appropriate accounts, that is, accrued interest under the appropriate debt instrument in income in the current

³For analytical purposes, supplementary data could be provided on the nominal value of the debt being extinguished.

⁴The debit entry is recorded below-the-line because the repayment of the debt instrument affects the level of reserve assets in the reporting period.

⁵If the original contract provided for a change in the characteristics of a financial instrument when it goes into arrears, this change should be recorded as a reclassification in the other change in volume of assets account.

Table AI.1. Balance of Payments Accounting for Selected Exceptional Financing Transactions¹

Type of Transaction ²	Analytic		Standard	
	Credit	Debit	Credit	Debit
A.1. Transfers—debt forgiveness				
<i>Payments falling due in the current recording period</i>				
1 Interest	Exceptional financing	Investment income, other investment	Capital transfers, debt forgiveness	Investment income, other investment
2 Interest accrued previous period	Exceptional financing	Other investment, liabilities, loans	Capital transfers, debt forgiveness	Other investment, liabilities, loans
3 Principal	Exceptional financing	Other investment, liabilities, loans	Capital transfers, debt forgiveness	Other investment, liabilities, loans
<i>Payments in arrears</i>				
4 Interest	Exceptional financing	Exceptional financing	Capital transfers, debt forgiveness	Other investment, liabilities, loans
5 Principal	Exceptional financing	Exceptional financing	Capital transfers, debt forgiveness	Other investment, liabilities, loans
<i>Payments not yet due in the current recording period</i>				
6 Principal	Capital transfers, debt forgiveness	Other investment, liabilities, loans	Capital transfers, debt forgiveness	Other investment, liabilities, loans
A.2. Transfers—other intergovernmental grants³				
7	Exceptional financing	Reserve assets	Current/Capital transfers	Reserve assets
B. Debt/equity swaps				
B.1. Direct swaps				
<i>Payments falling due in the current recording period⁴</i>				
8 Principal	Exceptional financing	Other investment, liabilities, loans	Direct investment-equity	Other investment, liabilities, loans
<i>Payments in arrears⁴</i>				
9 Interest	Exceptional financing	Exceptional financing	Direct investment-equity	Other investment, liabilities, loans
10 Principal	Exceptional financing	Exceptional financing	Direct investment-equity	Other investment, liabilities, loans
<i>Payments not yet due⁴</i>				
11 Principal	Direct investment-equity	Other investment, liabilities, loans	Direct investment-equity	Other investment, liabilities, loans
B.2. Indirect swaps				
<i>Exchange of a fixed-payment liability denominated in foreign currency for a deposit liability denominated in domestic currency⁵</i>				
<i>Payments falling due in the current recording period⁴</i>				
12 Principal	Exceptional financing	Other investment, liabilities, loans	Other investment, liabilities, currency and deposits	Other investment, liabilities, loans
<i>Payments in arrears⁴</i>				
13 Interest	Exceptional financing	Exceptional financing	Other investment, liabilities, currency and deposits	Other investment, liabilities, loans
14 Principal	Exceptional financing	Exceptional financing	Other investment, liabilities, currency and deposits	Other investment, liabilities, loans

Table AI.1 (continued)

Type of Transaction ²	Analytic		Standard	
	Credit	Debit	Credit	Debit
Payments not yet due⁴				
15 Principal	<i>Other investment liabilities, currency and deposits</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, currency and deposits</i>	<i>Other investment, liabilities, loans</i>
Subsequent exchange of a deposit liability denominated in domestic currency for equity investment				
16 Principal	<i>Direct investment-equity</i>	<i>Other investment, liabilities, currency and deposits</i>	<i>Direct investment-equity</i>	<i>Other investment, liabilities, currency and deposits</i>
C. Borrowing for balance of payments support⁶				
17 Drawing on new loans	Exceptional financing	Reserve assets	<i>Other investment, liabilities loans</i>	Reserve assets
18 Bond issues	Exceptional financing	Reserve assets	<i>Portfolio investment, liabilities, debt securities</i>	Reserve assets
D. Debt rescheduling/refinancing				
D.1 Debt rescheduling				
Payments falling due in the current recording period				
19 Interest	Exceptional financing	<i>Investment income, other investment</i>	<i>Other investment, liabilities, loans</i>	<i>Investment income, other investment</i>
20 Interest accrued previous period	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>
21 Principal	Exceptional financing	<i>Other investment, liabilities loans</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>
22 Capitalization of moratorium interest (interest as it falls due) ⁷	Exceptional financing	<i>Investment income, other investment</i>	<i>Other investment, liabilities, loans</i>	<i>Investment income, other investment</i>
Payments in arrears				
23 Interest	Exceptional financing	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>
24 Principal	Exceptional financing	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>
Payments not yet due in the current recording period				
25 Principal	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>
D.2. Debt refinancing—loan/bond swap				
Payments falling due in the current recording period⁸				
26 Interest	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>
27 Principal	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>
Payments in arrears⁸				
28 Interest	Exceptional financing	Exceptional financing	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>
29 Principal	Exceptional financing	Exceptional financing	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>
Payments not yet due				
30 Principal	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>

Table AI.1 (concluded)

Type of Transaction ²	Analytic		Standard	
	Credit	Debit	Credit	Debit
E. Debt prepayment and buyback				
Payments not yet due in the current recording period				
31 Receipt of donor funds	Exceptional financing	Reserve assets	Capital transfers	Reserve assets
32 Principal	Reserve assets	Exceptional financing	Reserve assets	Other investment, liabilities, loans
33 Principal (using debtor financial assets other than reserve assets)	Other investment, assets, currency and deposits	Other investment, liabilities, loans	Other investment, assets, currency and deposits	Other investment, liabilities, loans
F. Accumulation/repayment of arrears				
F.1. Accumulation of arrears				
34 Interest accrued in the current period	Exceptional financing	Investment income, other investment	Other investment, liabilities, loans	Investment income, other investment
35 Interest accrued previous period	Exceptional financing	Other investment, liabilities, loans	No transaction	No transaction
36 Principal due and not paid	Exceptional financing	Other investment, liabilities, loans	No transaction	No transaction
F.2. Repayment of arrears⁹				
37 Interest	Reserve assets	Exceptional financing	Reserve assets	Other investment, liabilities, loans
38 Principal	Reserve assets	Exceptional financing	Reserve assets	Other investment, liabilities, loans
G. Debt-for-development swaps¹⁰				
Payments falling due in the current recording period				
39 Interest	Exceptional financing	Investment income, other investment	Other investment, liabilities, currency and deposits	Investment income, other investment
40 Principal	Exceptional financing	Other investment, liabilities, loans	Other investment, liabilities, currency and deposits	Other investment, liabilities, loans
Payments in arrears				
41 Principal	Exceptional financing	Exceptional financing	Other investment, liabilities, currency and deposits	Other investment, liabilities, loans
Payments not yet due in the current recording period				
42 Principal	Other investment, liabilities, currency and deposits	Other investment, liabilities, loans	Other investment, liabilities, currency and deposits	Other investment, liabilities, loans
43 Subsequent use of debt/development swap funds in the debtor economy	Capital transfers	Other investment, liabilities, currency and deposits	Capital transfers	Other investment, liabilities, currency and deposits

¹For debt rescheduled or refinanced, swapped into equity or bonds, or canceled before maturity, the reduction in the liability should be attributed to the appropriate instrument in the financial account. In this table, it has been assumed that loans are the instrument.

²This presentation, for illustrative purposes, shows separate debit and credit entries for financial account items. In practice, because net recording is recommended for financial account items, entries affecting the same item will be offsetting and thus will not appear as separate entries in a balance of payments statement.

³Only intergovernmental grants received to finance balance of payments need. (Grants received from IMF subsidy accounts are included since such grants are considered exceptional financing transactions.)

⁴These payments are recorded by using the price at which the new claim on the debtor was acquired by the nonresident investor.

⁵Initially the debtor country exchanges the liability denominated in a foreign currency for a liability denominated in domestic currency. The appropriate credit entry depends on the type of liability for which the liability that is denominated in foreign currency is exchanged for; in this table the liability is assumed to be a deposit.

⁶Borrowing (including bond issues) by authorities or other sectors on the authorities' behalf to finance balance of payments need.

⁷Only moratorium interest linked to balance of payments difficulties. Capitalization of moratorium interest when past due is treated as rescheduling of payment arrears.

⁸These payments are recorded at the value of the new claim received.

⁹Cash settlement only.

¹⁰Debt-for-development swaps are described in paragraphs A2.38–A2.40.

account, and other arrears (principal arrears, and interest arrears arising in the current period that accrued in earlier periods) under the appropriate debt instrument in the financial account (Table A1.1, rows 34–36).

2. Repayment of arrears

A1.23 In the standard presentation, the repayment of debt arrears to meet a balance of payments need is

recorded as a debit entry under the appropriate debt instrument in the financial account and a corresponding credit entry under reserve assets. In the analytic presentation, repayment of arrears (through currency and deposits) is recorded below-the-line as a debit entry under repayment of arrears within exceptional financing, and a credit entry under reserve assets (Table A1.1, rows 37 and 38).