



16

Exceptional Financing Transactions

Introduction

16.1 The recording of exceptional financing transactions in the balance of payments is relevant in the context of analytical presentation described in Chapter 14, paragraphs 14.16 and 14.17, and in Appendix 1 of the *BPM6*. The analytic presentation is used also in the IMF's publication *Balance of Payments Statistics Yearbook* and *International Financial Statistics*. Exceptional financing combines financial transactions under financial arrangements made by the authorities (or by other sectors fostered by the authorities) of an economy to meet balance of payments needs. These transactions can be viewed as an alternate to or in conjunction with the use of reserve assets and IMF credit and loans to deal with payments imbalances. Appendixes 1 and 2 of the *BPM6* provide details on exceptional financing transactions and also on transactions related to debt reorganization that give rise to exceptional financing. The analytic presentation of balance of payments statistics aims to distinguish between transactions in reserves (and closely related items) and other transactions, and draws a line between the ways that monetary authorities finance balance of payments needs (below the line) and all other transactions (above the line).

16.2 This chapter (1) provides guidance on identifying transactions in the standard presentation that are exceptional financing, (2) discusses the rearrangement of balance of payments transactions to highlight exceptional financing components of the analytic presentation, (3) reviews the treatment of a range of exceptional financing transactions in the analytic presentation of the balance of payments, (4) discusses the timing of recording and the valuation of exceptional financing transactions, and (5) identifies data sources for exceptional financing transactions.

Identifying Exceptional Financing Transactions

16.3 Exceptional financing transactions are transactions that are undertaken by the authorities to accommodate balance of payments needs. Exceptional financing transactions include both direct financing (e.g., intergovernmental grants, debt forgiveness) and indirect financing (e.g., accumulation of arrears). It includes arrears on both interest and principal, borrowing to meet balance of payments requirements, rescheduling of loans and other obligations that are either in arrears or due, debt swaps, grants from other governments for balance of payments support, and debt forgiveness. These transactions can all be regarded as new extensions of credit, or as alternatives to raising funds. The early repayment of borrowings (prepayment) associated with balance of payments financing needs is also included in exceptional financing. Arrears are identified/included as transactions in the analytic presentation (in contrast to the standard presentation) because this presentation is focused on the actions of monetary authorities to meet balance of payments financing needs, and the accumulation of arrears may be viewed as a monetary authority's action for this purpose.

16.4 In some cases, such as rescheduling or refinancing of existing debt, the identification of the exceptional nature of the transaction is straightforward. In other cases, exceptional financing transactions cannot be identified using totally objective criteria; examples of such cases may include borrowing for balance of payments need, or advance repayment of debt. In such cases, it is necessary to decide whether the purpose of the transactions by the authorities (or by other sectors on their behalf) is to manage the balance of payments deficit or surplus.

16.5 As a general rule, exceptional financing transactions should meet two criteria: (1) to be

undertaken for balance of payments needs and (2) to have a direct or indirect impact on reserve assets.

16.6 It is sometimes necessary to examine prepayments and advance payments to determine whether they are exceptional financing transactions. If a balance of payments need exists or appears imminent, and the debtor agreed with the creditor to prepay debt at a significant discount using a reserve asset currency, this prepayment is an exceptional financing transaction. In other cases, prepayments and advance payments should not be included in exceptional financing.

16.7 Disbursements by monetary authorities in the current period also should be examined to determine whether they should be included in exceptional financing. Borrowing from the IMF should be included in exceptional financing. Borrowing for general budget purposes should not be included in exceptional financing.

Recording Exceptional Financing Transactions

16.8 Table A.1.1 in Appendix 1 of the *BPM6* provides a comprehensive description of the accounting for exceptional financing transactions. As a general rule, when exceptional financing transactions concern the use of external resources that will be repaid later, the items that should be included below the line are the *credit* entries that indicate the use (disbursement) of the resources. The debit entries that subsequently balance these financings are included above the line in the appropriate items of the financial account. However, when arrears occur, debt is swapped, and debt is repaid or cancelled through transfers, then both the debit and credit entries for these transactions are recorded under exceptional financing, or below the line. The recording of some specific cases is presented in Table 16.1.

Table 16.1 Examples of Recording of Exceptional Financing Transactions¹

Balance of payments item	Standard presentation		Analytic presentation	
Accumulation of arrears: In standard presentation accumulation of arrears is not reported as a transaction; however, in analytic presentation they are presented as exceptional financing transactions below the line.				
Example: In the reported period, the general government failed to repay 10 units of income and 100 units of principal on long-term loan.				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account Primary income, investment income, other investment, interest		10		10
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term		+10		-100
<i>Below-the-line</i>				
Exceptional financing				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Other investment, loans Accumulation of arrears, principal on long-term debt				+100
Accumulation of arrears, original interest				+10
Debt forgiveness: Only forgiveness of debt (principal and interest) in arrears or due for payment in the current period is reported as exceptional financing. Forgiveness of future payments is recorded as repayments above the line under the relevant instrument, offset by a capital or current transfer that is also recorded above the line.				
Example: In the reported period, the creditor forgave 220 units of debt in arrears on long-term loan, including 200 units arrears on principal and 20 units arrears on accrued interest; 180 units of debt due for payment in the reported period, of which 30 units of accrued interest and 150 units of principal; and 310 units of debt not yet due, of which 10 units of interest and 300 units of principal.				

Table 16.1 Examples of Recording of Exceptional Financing Transactions (continued)

Balance of payments item	Standard presentation		Analytic presentation	
(i) Debt arrears (forgiveness of principal/interest already in arrears)				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Capital account Capital transfers, debt forgiveness	220			
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term		-220		
<i>Below-the-line</i>				
Exceptional financing				
	Credit	Debit	Credit	Debit
Capital transfers Debt forgiveness			220	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Other investment, loans Repayment of arrears, principal Repayment of arrears, interest				-200 -20
(ii) Payments falling due (forgiveness of principal/interest due in the current period)				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account Primary income, investment income, other investment, interest		30		30
Capital account Capital transfers, debt forgiveness	180			
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term		-150		-150
<i>Below-the-line</i>				
Exceptional financing				
	Credit	Debit	Credit	Debit
Capital transfers, debt forgiveness			180	
(iii) Debt not yet due (forgiveness of principal/interest due in the future)				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account Primary income, investment income, other investment, interest	-	-	-	-
Capital account Capital transfers, debt forgiveness	300		300	

Table 16.1 Examples of Recording of Exceptional Financing Transactions (*continued*)

Balance of payments item	Standard presentation		Analytic presentation	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term		-300		-300
<i>Below-the-line</i>				
Exceptional financing				
Debt refinancing: Existing debt instrument is extinguished, and a new (or similar) debt instrument with new terms is created.				
Example:				
<i>Loan-for-loan exchange:</i> In the reported period, the government exchanged existing loans (50 units principal arrears, 25 units interest arrears, 30 units due for payments principal, 12 units due for payment interest, 60 units principal not yet due, and 40 units interest not yet due) for a new single loan. Interest not yet due will be recorded in the period when it is accrued.				
<i>Loan-for-bond-swap:</i> The existing loan with the aforementioned terms is extinguished with funds raised from the issuance of a bond issued at 70% discount. The nominal value of the bond is 200 and issuance (discounted) value 140.				
(i) Loan-for-loan exchange				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account Primary income, investment income, other investment, interest		12		12
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term		+177 -165		-30 -60
<i>Below-the-line</i>				
Exceptional financing				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Other investment Liabilities, loans Drawing of new loan Repayment of arrears, principal Repayment of arrears, interest				+177 -50 -25
Loan-for-bond-swap (debt owed to private creditors)				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account Primary income, investment income, other investment, interest		12		12
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Portfolio investment, liabilities, debt securities, general government, long-term		+140		

Table 16.1 Examples of Recording of Exceptional Financing Transactions (continued)

Balance of payments item	Standard presentation		Analytic presentation	
Other investment, liabilities, loans, general government, other long-term		-128		-53 ²
<i>Below-the-line</i> Exceptional financing				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account				
Portfolio investment, liabilities, debt securities				+140
Other investment, loans				
Repayment of arrears, principal				-50
Repayment of arrears, interest				-25
Loan-for-bond-swap (debt owed to official creditors) <i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Current account				
Primary income, investment income, other investment, interest		12		12
Capital account				
Capital transfers, debt forgiveness	37			
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account				
Portfolio investment, liabilities, debt securities, general government, long-term		+140		
Other investment, liabilities, loans, general government, other long-term		-165		-30
				-60
<i>Below-the-line</i> Exceptional financing				
	Credit	Debit	Credit	Debit
Capital account				
Capital transfers, debt forgiveness			37	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account				
Portfolio investment, liabilities, debt securities				+140
Other investment, loans				
Repayment of arrears, principal				-50
Repayment of arrears, interest				-25
Debt repayment is reported as exceptional financing only if it is for balance of payments needs.				
Example: In the reported period, the government prepaid under a bilateral agreement, using reserve assets, an outstanding loan in the value of 130 units for 75 units:				
(i) From a commercial creditor (ii) From an official creditor				

Table 16.1 Examples of Recording of Exceptional Financing Transactions (*concluded*)

Balance of payments item	Standard presentation		Analytic presentation	
(i) From a commercial creditor				
<i>Above-the-line</i>				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term Reserve assets, other reserve assets, currency and deposits	-75	-75 ³		
<i>Below-the-line</i>				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Reserve assets Exceptional financing Other investment, liabilities, loans, prepayment			-75	-75
(ii) From an official creditor				
<i>Above-the-line</i>				
	Credit	Debit	Credit	Debit
Capital account Capital transfers, debt forgiveness	55			
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, general government, other long-term Reserve assets, other reserve assets, currency and deposits	-75	-130		
<i>Below-the-line</i>				
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Reserve assets Exceptional financing			-75	
	Credit	Debit	Credit	Debit
Capital account Capital transfers, debt forgiveness			55	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial account Other investment, liabilities, loans, prepayment				-130

Source: IMF staff.

¹For the purpose of showing the balancing of counterentries in financial account, the "credit" and "debit" are used instead of "net increase of financial assets" and "net incurrence of liabilities."

²The *BPM6* does not explain how the difference in price between old and new debt should be attributed to instruments involved in the transaction. Because the main purpose of the analytic presentation is to highlight the transactions with exceptional character, the *Guide* recommends that transactions below the line (arrears) be presented at the nominal value and that the remaining value be attributed to instruments extinguished above the line (e.g., loan).

³The difference between nominal value and prepayment value equal to 55 units is registered in IIP reconciliation as valuation changes.

Timing of Recording and Valuation of Exceptional Financing Transactions

16.9 The valuation of exceptional financing transactions is not always straightforward. For example, debt swaps and other forms of debt conversion undertaken for balance of payments purposes may raise complex issues: What is the value of the liability that is cancelled? What is the value of the asset that is acquired? Is there an element of debt forgiveness? Clear answers to these questions may not exist. If the debt is traded on a market, the listed price may

be regarded as the value to be used in determining transactions and IIP values for the liability. When the debt is exchanged for another debt, the value of the new debt is used to value the original liability with a valuation change recorded, unless there is element of debt forgiveness involved. Debt forgiveness would not be associated with a purely commercial transaction.

16.10 Table 16.2 presents in an aggregated format the valuation principles for different types of exceptional financing transactions.

Table 16.2 Timing of Recording and Valuation of Exceptional Financing Transactions

	Timing of recording	Valuation
Debt forgiveness	At the time specified in the agreement that the forgiveness takes place	Market price is the basis for valuation for flows and positions, except for loans and deposits, where the nominal value is used.
Debt rescheduling	At the time both parties record the change in terms of the liability in their books; if no precise time is determined, the decisive one is the time when the creditor records the changes in its books.	The value of the new debt and of the old debt typically will be equal; if not equal, transactions should be valued at the value of the new debt. If there is a difference in the value between the old and new debt, this difference is recorded in revaluation account in IIP. When there is no established market price for the new debt, an appropriate proxy is used. For nonmarketable debt owed to official creditors, any reduction in the nominal value of the old debt is recorded as debt forgiveness.
Debt refinancing	Same as for debt rescheduling	The old debt is extinguished (valued) at the value of the new debt instrument, with the difference between it and the value of the old debt recorded in the revaluation account in IIP. Exception for nonmarketable debt (loan) owed to official creditors: the old debt is extinguished at its original value, with the difference in value with the new instrument recorded as debt forgiveness.
Debt-for-equity swap	At the time both parties record the exchange of value in their books	The old debt is valued at the market value of the equity acquired. If the market value of the equity is lower than the value of the old debt, a valuation adjustment is recorded in IIP under the swapped debt instrument.
Debt-for-development swap	Same as for debt-for-equity swap	The old debt is valued at the value of the new liability acquired. If the value of the liability acquired is lower than the value of the old debt, a valuation adjustment is recorded in IIP under the old debt instrument.
Debt prepayment	At the time when the transaction takes place	At the value of the prepaid amount; if the market value of the prepaid debt is less than the amount recorded in the IIP, a valuation adjustment is recorded in IIP under the prepaid debt instrument. If the debt is owed to official creditors and it is nonmarketable, the transaction is valued at the nominal value of the debt. The difference between nominal value and the amount paid is recorded as debt forgiveness.
Debt assumption	At the time the debt is removed from the original debtors balance sheet	At the nominal value of the outstanding debt assumed by the new debtor

Source: IMF staff.

Data Sources and Collection of Data on Exceptional Financing

16.11 As described in the foregoing sections, exceptional financing transactions have specific features, and proper identification of such transactions often requires knowledge of details about related transactions. Difficulties in using collections such as through international transactions reporting system or business surveys for gathering data on exceptional financing transactions arise from the fact that many exceptional financing transactions (e.g., debt forgiveness, debt rescheduling, debt refinancing) do not result in cash transactions. Also, some exceptional financing transactions may not be recorded as separate transactions in the standard presentation (e.g., accumulation and repayment of arrears). Consequently, the compiler needs additional data sources, or needs to collect details about transactions that permit them to identify exceptional financing transactions in existing report forms. Additional information that needs to be collected to allow a proper classification of exceptional financing transactions is presented in Table 16.3.

16.12 Data on exceptional financing transactions would typically be available from official sources. The

most prevalent official data sources for exceptional financing transactions are: central bank information on reserves; public sector debt monitoring unit's record on external debt management; government accounts; and foreign aid accounts on grants for balance of payments purpose. Useful general information can be also gathered from mass media on negotiated/planned debt refinancing/rescheduling, debt forgiveness, and new borrowing for balance of payments needs. Exceptional financing transactions are unique in nature and are conducted by the public sector (including central banks), and so they usually are well monitored by mass media. Therefore, in most cases, the compiler may be able to obtain good information on upcoming exceptional financing transactions. He/she should consult in advance with concerned institutions regarding the reporting of detailed data on such transactions.

16.13 Whatever data sources are used, data collections should be well designed, and should capture all necessary details to assure correct recording of exceptional financing transactions. For example, report forms should collect detailed data for each individual significant exceptional financing transaction

Table 16.3 Additional Information on Exceptional Financing Transactions

Exceptional financing transactions	Additional information to be collected for proper classification
Arrears (accumulation, repayment)	Debt service schedule Principal by maturity (short-term and long-term) not paid when due Interest by type (original and penalty) not paid when due Extinguishment of arrears on principal and interest by source of financing (e.g., repayment, cancellation, rescheduling)
Current and capital transfers	Intergovernmental grants by source, destination, and type
New borrowing for balance of payments purpose	Information on purpose of borrowing, on terms of borrowing, on creditors, and on debtors
Reserve assets	Use of reserve assets for repayment of arrears and other exceptional financing transactions (e.g., prepayment/buyback) Increase in reserve assets as result of exceptional financing transactions (drawing of new loans, issuance of new debt securities, intergovernmental grants received)
Debt refinancing, rescheduling, debt swaps, debt forgiveness	Detailed terms of agreements on such kinds of transactions Paris Club agreed minutes (umbrella agreement) Bilateral agreements under umbrella agreement

Source: IMF staff.