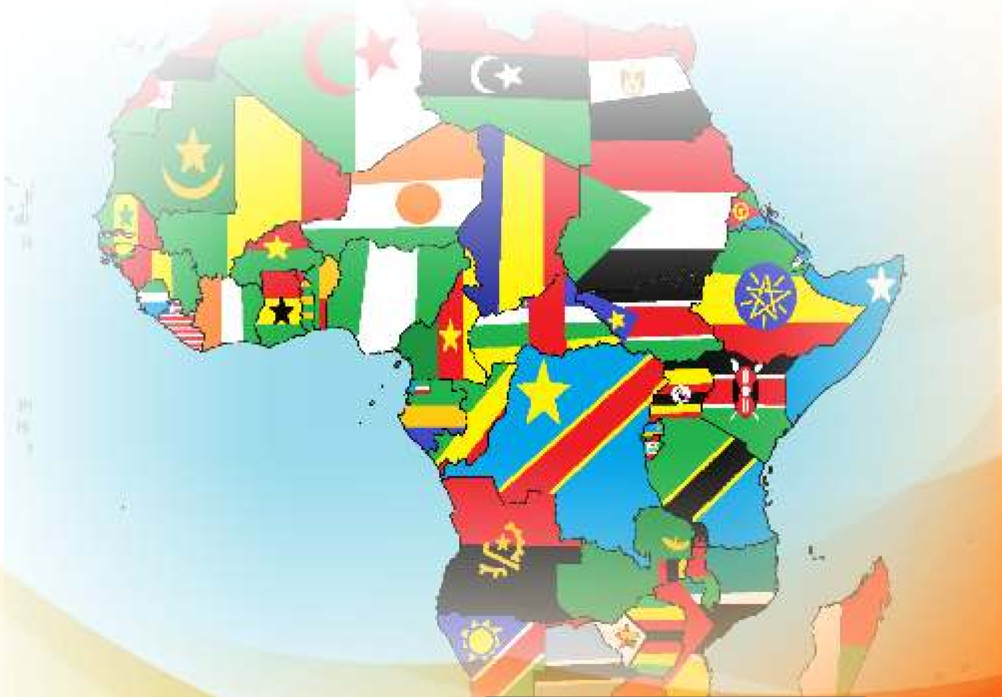
Debt Management Glossary 2018



AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT

Glossary

A

- ACP countries:

the group of former colonies eligible for preferential treatment under various EEC arrangements, such as Stabex, the Common Agricultural Policy and trade restrictions. (ACP is an abbreviation for Africa, Caribbean and Pacific.)

- Adjustment:

a general change in the orientation of economic policies, intended to improve long-term economic performance or to respond to changes in the international economic environment facing a country. Adjustment may comprise macroeconomic adjustment and/or structural adjustment. The IMF generally uses the term 'adjustment' to refer to the former, and the World Bank to the latter.

- Adjustment with a Human Face:

an important study produced by UNICEF in 1987 (written by G A Cornia, Richard Jolly and Frances Stewart) on the social impact of debt and adjustment. It focuses primarily on the effects on health and education, and deliberately avoids separating out the effects of debt (and other factors underlying the need for adjustment) and the effects of adjustment as such, or considering the causal links between specific adjustment policies and specific social effects. 'Adjustment with a Human Face' is also used to refer to the policy recommendations arising from this study - primarily the protection of the health and education sectors from cuts in public expenditure.

- Agreed minute:

the formal agreement between the Paris Club and a debtor country setting out terms of rescheduling (apart from the interest rate, which is negotiated separately by individual creditors). The agreed minute has no legal force, but represents an agreement to negotiate bilateral rescheduling agreements.

- Annual Meetings:

the main meetings of the Boards of Governors of the IMF and World Bank, held each Autumn; and the occasion of one of the two meetings of the Interim Committee and the Development Committee, the other being the Spring Meetings. Although in theory the Annual Meetings represent the main occasion for the Fund and Bank to make major policy decisions, in practice, the main decisions are taken by the Executive Board in discussions beforehand, and are merely rubber-stamped at the Annual Meetings themselves. Two in every three years the Annual Meetings are held in Washington DC; every third year, they are held elsewhere.

- Article IV consultation:

the regular consultation which the IMF hold with each of its member countries, to discuss the country's economic and financial policies. The consultation itself is conducted by the IMF staff, whose report is then discussed by the Executive Board. Such consultations take place under Article IV of the IMF's Articles of Agreement.

- Attachment:

the legal seizure of assets belonging to a debtor by a creditor in the event of de jure default on a debt owed to the creditor, or the triggering of a cross-default clause as a result of de jure default on another debt. Attachment of assets by a creditor is limited to the value of the debt outstanding to that creditor. In practice, attachment of assets is extremely unusual, largely because of the practical problems and limitations of the mechanism: the requirement of a de jure default ruling delays the process substantially; only assets belonging to the debtor institution itself can be attached; most debtor governments have relatively few overseas assets, and much of what they have is protected by diplomatic immunity; the remaining assets can be protected by financial manipulations (such as the transfer of nominal ownership to a new agency unencumbered by foreign debts); and the existence of cross-default clauses means that there would be considerable competition among creditors to attach what assets were available. Thus the benefits to creditors from attachment are very limited, and outweighed by the effect attachment would have on relations with the debtor concerned and other borrowers.

B

- **Balance of payments:**

a country's receipts and expenditure in international transactions.

- **Balance of trade:**

the difference between a country's merchandise exports and imports; that is, its net receipts of foreign exchange from international trade in goods.

- **Bank for International Settlements (BIS):**

the world-wide organisation of central banks. The BIS played an important role in the early stages of the debt crisis after 1982, by providing bridging loans to major debtor countries whose IMF programmes had been delayed by negotiations with commercial banks on new money loans. These bridging loans were repaid from the first drawings from the Fund when the programmes came into effect. This was the first approach to tackling the problem of financing assurances, but came to an end as the BIS became increasingly reluctant to provide such loans, due to the risk attached to them.

- **'Basket case':**

a phrase used mainly in the Paris Club to denote a country which is totally insolvent (see solvency) and, based on current expectations, has no possibility of ever servicing its debts in full.

- **Bilateral Debt:**

1. (of debt): owed by one government to another, usually resulting from aid loans or guaranteed export credits on which the guarantees have been called.
2. In the Paris Club, a round of negotiations between a debtor government and one of its official creditors to implement an agreed minute; or the rescheduling agreement between the two countries which results from such negotiations.

- **Board of Governors:**

in theory, the highest decision-making bodies of the IMF and the World Bank, consisting in each case of the governors from all the member countries of the institution. In the case of the IMF, the Governor representing each country is generally its Finance Minister or equivalent; in the case of the Bank, the Governor is generally the aid minister (for developed countries) or the development minister (for developing countries). In practice, the considerable size of the Board of Governors (it has 151 members) makes it very unwieldy and virtually powerless. Because of the difficulty of getting 151 senior ministers together in the same place at the same time, it meets only twice a year, at the Annual Meetings and the Spring Meetings; and even then the actual decisions are made by the Executive Board, the Interim Committee and the Development Committee. The role of the Board of Governors is essentially limited to rubber-stamping decisions taken elsewhere.

- **Bond:**

a form of debt which is transferable between creditors, and bears interest at a fixed or floating rate. (A special case is the zero-coupon bond used in some debt reduction packages under the Brady Initiative.) Bonds are generally repaid in a single instalment, and are often bought by individuals or by other financial institutions rather than by commercial banks, who have historically tended to prefer other forms of lending, such as syndicated loans.

- **Brady Initiative:**

the third debt initiative put forward by the major creditor governments, launched by US Treasury Secretary Brady in 1989. The main objective of the Initiative was to encourage voluntary debt reduction and debt-service reduction by the commercial banks, by providing enhancements to the value of reduced debts in the form of rolling guarantees on interest payments and/or collateral for principal repayments, and by financing debt buy-backs. The Initiative met, at best, with limited success. The negotiation process proved to be very slow, so that very few countries benefited in the early stages; the resources available for debt reduction were limited, the percentage reduction in the debt under the enhancements approach was limited; the debt reduction which was achieved was partly off-set by the increased official lending which financed it; and the use of non-additional official lending and the debtor country's reserves further tightened the short-term foreign exchange constraint facing the country. In the longer term, there is a risk that the large volume of debt which needs to be reduced to achieve a given degree of debt reduction will reduce the base for new loans in the future, and limit the scope for any further efforts at debt reduction.

- **Bretton Woods:**

the conference, held in 19944, at which the International Monetary Fund, the World Bank and the General Agreement on Tariffs and trade (GATT) were established, to provide a basis for the functioning of the world economy in the post-war period, and in particular to avoid a repetition of the Depression of the 1930s.

- **Bretton Woods Institutions:**

the International Monetary Fund and the World Bank. The term derives from the origins of these institutions at the Bretton Woods Conference of 1944.

- **Burden-sharing:**

the distribution between official and commercial creditors of net lending to debt problem countries. This has become a source of increasing concern to some creditor governments (especially the UK), as commercial lending has dried up, leaving the official creditors as the only substantial net contributors to capital flows to debt problem countries. It also represents a major obstacle to adequate financial support for adjustment programmes, as it means that official creditors are more inclined to respond to inadequate commercial financing by cutting their own contribution rather than by filling the gap.

C

- **Cancellation:**

the legal cancellation of a loan agreement by a creditor. This has been done mainly for aid debts to low-income countries.

- **Capital flight:**

A flow of financial capital which leaves a country other than through legitimate channels, generally in contravention of capital controls. The resulting stock of capital is called flight capital. The sources of capital flight often include (but are by no means exclusively composed of) income from illegitimate sources, such as crime, drug dealing and tax evasion; and it typically takes the form of bank deposits and real estate in developed countries (particularly the US).

Capital flight appears in the errors and omissions section of the balance of payments accounts, as its very nature makes it impossible to measure, or even to estimate. The major motivations for capital flight include: restrictions on the international transfer of capital through legitimate channels; high tax rates and/or low real interest rates on domestic investments; expectations of a substantial exchange rate devaluation; and fears of political instability or of expropriation of savings and investments held domestically.

Capital flight is a serious problem for many developing countries, and has at times reached very considerable volumes in the case of some highly indebted Latin American countries. It is a particular problem, not only because the interest, capital gains and profits on the resulting investments are not generally returned to the country of origin. The commercial banks regularly express serious concern over capital flight, on the grounds that it reduces the foreign exchange available to service the debts owed to them — even though they are the main beneficiaries, and are widely believed to have actively encouraged residents of debt problem countries to transfer their savings abroad in this way.

The term "capital flight" is sometimes used to refer to outflows of capital from developing countries more generally. However, this use is misleading: many forms of capital outflows (such as export credits) are entirely legitimate and part of the normal and necessary international transactions of any country.

- **Catalysis or catalytic use of Fund resources:**

The principle that the IMF role in financing adjustment programmes is based primarily on encouraging other creditors to provide financing (in the form of rescheduling and/or new money) by giving its seal of approval, rather than by providing adequate financial support itself.

- **Collateral:**

an asset used to guarantee payment of a loan or the interest on it. If the payment is not made, the ownership of the asset is transferred from the debtor to the creditor. Collateral is used as one form of enhancement to the value of debts reduced under the Brady Initiative.

- Commercial creditors:

creditors in the private sector, primarily commercial banks

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- Commercial debt:

debt which is owed to private sector creditors (also used in a narrower sense of debt owed to commercial banks.)

- Commercial interest rate:

an interest rate corresponding to that charged on commercial transactions (e.g. LIBOR or prime, with or without a spread), as opposed to concessional rates (see concessionality). Commercial risk: the risk that a loan to a private sector company will not be serviced in full because of a deterioration in the borrower's financial position (as opposed to foreign exchange risk).

- Comparability clause:

in the Paris Club, a standard clause in the agreed minute under which the debtor undertakes to negotiate rescheduling on terms no more favourable to creditors on all its other debts (apart from those owed to the IMF and the World Bank). This is intended to prevent the debtor from using the foreign exchange it saves through the rescheduling to service its other debts. However, like the rest of the agreed minute, it has no legal force.

- Concerted lending:

the approach to new money loans from commercial banks adopted in the early stages of the debt crisis immediately after 1982, whereby loans were collectively negotiated by a steering group representing all the banks with exposure to a particular country. The IMF was active in promoting this approach, and provided advice on the appropriate amount of such loans. Concerted lending is also referred to as involuntary lending.

- Concessionality:

the extent to which the terms of a loan or rescheduling are more favourable to the borrower (in terms of the total cost of debt-service over the long term) than a loan on which a commercial interest rate is charged. If the interest rate is below the market rate, then the maturity of the loan also affects the degree of concessionality, as a longer maturity enables the borrower to benefit from the lower interest rate for longer. The concessionality of a loan or rescheduling can be measured by its grant element.

- Conditionality:

the principle that access to new loans, rescheduling, debt reduction, etc, should be conditional on certain criteria being met. This is central to IMF programmes, where drawings are conditional on certain policy measures being taken and on quantitative performance criteria being met; and to World Bank policy-based lending, which is subject only to policy conditions. In most other cases (eg rescheduling, debt reduction and commercial new money loans), conditionality is based on continued compliance with IMF programmes and in come cases World Bank policy-based lending rather than directly on economic policies or performance. See also cross-conditionality.

- **Consensus:**

the agreement among the members of the OECD (ie the major industrialised countries), established in 1978, to regulate the concessionality they can offer on guaranteed export credits, so as to limit unfair competition. The consensus works by setting minimum interest rates and a minimum grant element which can be offered on concessional export credits, so as to discourage interest rate subsidies by making them more expensive. The terms which are permitted under the consensus vary according to the level of per capita income of the borrowing country. For lower income countries, the minimum degree of concessionality is greater than for those with higher income levels.

- **Consolidation period:**

in a Paris Club rescheduling, the period during which payments due are rescheduled. The consolidation period generally lasts between one and three years, the duration being determined largely by the length of the IMF programme on which the rescheduling is conditional.

- **Country risk:**

the risk of non-payment entailed in lending to a particular country, irrespective of they type of lending involved. The main component of country risk is foreign exchange risk, although it also covers more general risks to economic performance.

- **Cover:**

the availability of guarantees for export credits to a particular country from an export credit guarantee agency (see guaranteed export credits).

- **Coverage:**

under a rescheduling agreement, the debt-service payments which are to be included in the rescheduling. This generally takes the form of a stated percentage of each of: arrears of principal; arrears of interest; current principal repayments; and current interest payments.

- **Crawling peg:**

in exchange rate policy, a system whereby the exchange rate is devalued by a small amount at regular intervals, to off-set the effect of inflation on competitiveness.

- **Creditworthiness:**

the expected ability of a borrower to service its debts on time and in full. This depends both on the borrower's solvency, and on its liquidity at the time debt-service payments are due.

- **Cross-conditionality:**

the implicit or explicit conditionality of World Bank policy-based lending on the conditions laid down as part of a borrower's IMF programme. Cross-conditionality is strongly opposed by the borrowing members of the World Bank.

- **Cross-default clause:**

a clause in a loan or rescheduling agreement which enables the creditors to treat a default by the borrower under another loan or rescheduling as a default under that agreement. Because such clauses apply to most international loan and rescheduling agreements, this seriously limits the scope for debtors to differentiate between lenders in their debt management policies.

- **Current account:**

in the balance of payments, the difference between receipts for exports of goods and services and expenditure on imports of goods and services (including payments of interest and profits), plus net official transfers and private transfers (essentially aid grants and workers' remittances). The current account deficit represents the amount of net foreign exchange inflows needed on the capital account, to avoid a reduction in the international reserves. Given the limited availability of foreign exchange inflows, the current account represents a major constraint on economic policy.

- **Cut-off Date:**

in a Paris Club rescheduling agreement, the date before which loans must have been signed to be included in the rescheduling. The cut-off date generally remains the same from one rescheduling to the next, so as to avoid discouraging Paris Club creditors from making new loans after the first rescheduling. However, this also means that the proportion of bilateral official debt eligible for rescheduling is progressively reduced over time.

D

- Debt buy-back:

An arrangement whereby a debtor government buys part of its debt from its creditors for cash (in foreign exchange) at a discount to its face value. To do this, it must first secure from all its commercial bank creditors waivers of the negative pledge clauses and sharing clauses in their loan agreements.

- Debt-equity swap:

An arrangement whereby a commercial debt is, in effect, converted into an investment in the debtor country. Essentially, the holder of the debt (either the original lender or a potential investor who has bought it on the secondary market) sells the debt back to the debtor government for local currency, usually at a discount to its face value; and the local currency is then used either to buy a share in an existing company (e.g. a public enterprise which is being privatised), or to buy property or productive capital (e.g. a factory) in the debtor country. Debt-equity swaps have been used extensively by some Latin American countries, most notably Chile.

- Debt/GNP ratio:

A country's external debt expressed as a percentage of its gross national product, widely used as a measure of its solvency. In practice, this ratio has some limitations, since it takes no account of the rate of interest charged on the debt: a country with a debt/GNP ratio of 100 per cent, with an average interest rate of 1 per cent on its debt has a much stronger solvency position than a country with an identical debt/GNP ratio but an average interest rate of 10 per cent.

- Debt Indicators EDT/XGS

Is the total external debt to exports of goods and services (including workers' remittances)

- EDT/GNP

Is the total external debt to gross national product

- TDS/XGS

Is also called the debt service ratio, is total debt service compared to revenues from the exports of goods and services (including workers' remittances)

- INT/XGS

Is also called the interest service ratio, is total interest payments compared to revenues from the exports of goods and services (including workers' remittances)

- INT/GNP

Is the total interest payments compared to gross national product

- RES/EDT

Is international reserves compared to total external debt

- RES/MGS

Is international reserves compared to imports of goods and services.

- Short-Term/EDT

Is short-term debt as a proportion of total external debt.

- Concessional EDT

Is concessional debt as a proportion of total external debt.

- Multilateral/EDT

Is the proportion of multilateral debt to total external debt.

- Debt overhang:

The excess of a country's external debt over its long-term capacity to pay, which acts as a discouragement to adjustment and investment. This disincentive arises because any increase in the country's net foreign exchange receipts over the long term will have to be devoted to servicing the debt, in effect imposing a 100 per cent tax on additional foreign exchange earnings; and because producers expect higher future tax rates to repay the debt, reducing the expected post-tax rate of return on their investments.

- Debt reduction:

A transaction which involves a reduction in the face value of an outstanding debt, either through a debt buy-back or through its conversion into a new debt instrument, still denominated in hard currency, such as an exit bond. (The term debt reduction is not generally used to refer to a debt swap.) See also Brady Initiative, debt-service reduction.

- Debt relief:

a somewhat ambiguous term used variously to refer to rescheduling and refinancing; debt reduction and debt-service reduction; or both. In view of this ambiguity, it is generally better to avoid the term. Debt restructuring: a general term for debt rescheduling and debt refinancing.

- Debt-service:

The total amount a country spends (or is scheduled to spend) on its debts, consisting of interest payments and repayments of principal.

- Debt-service ratio:

The most commonly used measure of a country's debt situation, calculated as total interest payments plus repayments of principal on medium- and long term debt, as a percentage of exports of goods and non-factor services (that is, exports of goods and services excluding interest and profits on loans and investment abroad and workers' remittances). The debt-service ratio is essentially a measure of a country's liquidity, although it does not fully capture its vulnerability to short-term credit lines drying up.

- **Debt-service reduction:**

A transaction which involves a reduction in the interest rate of an outstanding debt, through its conversion into a new debt instrument, still denominated in hard currency. See also Brady Initiative, debt reduction.

- **Default:**

Failure by a debtor to fulfil any of its obligations under a loan or rescheduling agreement. The term is often used more specifically to refer to failure to make interest or principal payments when due. There is an important distinction between de facto default (when a country actually contravenes the conditions of its loans), and de jure default when a court with jurisdiction over a loan makes a legal ruling that a default has taken place. De facto default is fairly commonplace, and not in itself very serious; de jure default is much rarer, and has much more serious consequences - in particular it triggers cross-default clauses and allows attachment of assets.

- **Deflation:**

Reduction of the level of demand in an economy through the use of monetary policy and/or fiscal policy, with the objective of strengthening the balance of payments and/or reducing the rate of inflation. The opposite of deflation is reflation.

- **Democratic conditionality:**

The idea that loans from the international financial institutions (IFIs) or other creditors should be conditional on the maintenance of, or movement towards, democratic political systems in the recipient countries. In the case of the IFIs, there is some conflict between this and the principles of uniformity of treatment and non-interference by the Fund and the Bank in the domestic political and social systems of member countries.

- **Demonetisation:**

A reduction in the use of local currency in an economy, as a result of a shift towards the use of other means of exchange (e.g. barter, dollarisation, etc.), and/or the reduction of the amount of local currency held b residents. Demonetisation is generally a result of high rates of inflation, low real interest rates and/or the expectation of a major devaluation of the exchange rate, and is reflected in an acceleration in the velocity of circulation.

- **Deregulation:**

Removal or reduction of government regulations and restrictions which affect the operation of a particular market or the economy as a whole. Deregulation generally forms part of the process of structural adjustment, at least for some sectors of the economy.

- Devaluation:

a deliberate change in the exchange rate (under a fixed exchange rate system) involving a reduction in the value of the local currency against the currency or currency basket against which it is pegged. Devaluation is often included in macroeconomic adjustment programmes, as a means of improving competitiveness and thus strengthening the balance of payments. However, it can also give rise to cost-push inflation, which, over time, erodes the effect of the devaluation.

- Disbursement:

The payment to a borrower of all or part of the sum borrowed under a loan.

- Distortion:

A deviation of a market from the standard model of a free market, generally resulting from government policies or direct intervention in the market, which causes the market to perform in a significantly different way from that predicted by neoclassical theory. Thus, for example, a subsidy gives rise to a distortion because it artificially reduces the relative price of one good compared with others, and thus increases the demand for that good and reduces the demand for substitutes.

- Dollarisation:

A shift towards the use of dollars (or any other hard currency) as a substitute for local currency, usually as a response of to high rates of inflation, low real interest rates and/or the expectation of a major devaluation of the exchange rate.

- Domestic debt:

Debt owed to creditors resident in the same country as the debtor, and denominated in local currency as opposed to external debt, which is denominated in foreign currency and owed to foreign creditors.

E

- **ECDG:**

The Export Credit Guarantee Department — the UK's official export credit guarantee agency.

- **Enhanced Structural Adjustment Facility (ESAF):**

An IMF facility providing concessional financing to low-income countries, in support of programmes of macroeconomic and structural adjustment. The ESAF was introduced in 1988 as a supplement to the Structural Adjustment Facility (SAF). The adjustment programme under a SAF or ESAF is set out in a Policy Framework Paper (PFP), negotiated by the recipient jointly with the IMF and the World Bank. This is accompanied by a Public Sector Investment Programme (PSIP). The ESAF is financed by voluntary contributions by (mainly creditor) governments, in the form of loans and interest subsidies, and is separate from the Fund's own resources.

- **Enhanced surveillance:**

A form of IMF support for an adjustment programme which does not entail the use of IMF resources or any real input into the program's design. Enhanced surveillance has been used where a Fund member's new money and/or rescheduling agreements with its commercial bank creditors have required it to maintain an arrangement with the Fund; but the Fund has not seen its as appropriate to provide a programme as such, for example because there has not been a balance of payments needs. In practice, adjustment under enhanced surveillance has often been limited, and in consequence this type of arrangement has been used in very few cases.

- **Escrow Account:**

An account with a bank, from which money cannot be drawn except under specific circumstances. Escrow accounts have been used, for example, for payment of private sector debt-service in local currency, pending rescheduling negotiations on them, and for payment of debt-service on disputed debts pending a resolution of their status.

- **Executive Board:**

The main decision-making body of the IMF and World Bank. Each Board comprises 22 Executive Directors (EDs), each representing either a single member country (in the cases of the US, the UK, Germany, Japan, France, Saudi Arabia and China), or a constituency comprising a number of member countries. Three Directors (those representing the UK, France, and the constituency led by Belgium) are members of both Executive Boards. The Executive Boards meet regularly (generally twice a week in the Bank and three times a week in the Fund), and take decisions on Fund and Bank policies and their implementation, and on requests for loans and programmes. The IMF Executive Board also discusses the Fund's Article IV consultations with its members.

- Exports of goods and services (XGS):

The total value of revenues from goods and services exported as well as income and worker remittances received from foreign workers.

- Exposure:

The amount of debt which a creditor or group of creditors is owed by a particular country or group of countries, or on which they bear the risk. (For example, in the case of an officially guaranteed export credit, it is the guarantor which has the exposure rather than the lender, as it is the former which bears the risk of non-payment.)

- External debt:

debt denomination in foreign currency and owed to foreign creditors, as opposed to internal or domestic debt, which is owed to creditors resident in the same country as the debtor and denominated in local currency.

- External shock:

A sharp deterioration in the external economic environment facing a country — for example, a large increase in the price of a major import (for example the oil price increases of 1973 and 1979); a sharp fall in the price of one or more major exports; an increase in the interest rate on external debts; loss of access to, or a sharp decline in demand from, a major export market; or loss of a major source of remittance from overseas workers due to political or economic changes in the host country.

F

- Face value of debt:

The notional value of a debt, corresponding to the total amount of principal repayments scheduled to be made on the debt by the borrower. In most cases this also corresponds to the amount originally lent to the borrower, but this is not always the case: for example, in the case of zero-coupon bonds there is a very considerable difference, reflecting the absence of interest payments on the debt, and the need to offer lenders a large capital gain instead.

- Fiscal deficit:

The difference between total government spending and total government receipts (including aid grants, but excluding loans). Fiscal deficits can be financed in any combination of three ways: borrowing from abroad; borrowing from domestic commercial banks; and borrowing from others in the domestic economy. The first of these results in the accumulation of foreign debt, the last two in the accumulation of domestic debt. Financing by the domestic banking sector also results in an increase in the money supply.

- Floating exchange rate:

An exchange rate that is determined by market forces rather than being set by government policy.

- "Floating off":

The idea, put forward by William Cline in 1983, that if the major debtors received sufficient foreign exchange to meet their immediate liquidity requirements, they would be able to return quickly to voluntary lending, and ultimately repay their debts in full — that is that they were illiquid rather than insolvent. This view was widely supported in official circles at the time, but is no longer held by many observers of the debt situation.

- Foreign direct investment (FDI):

Investment made by an individual or company resident in one country in productive capacity in another country. For example, the purchase or construction of a factory or the purchase or a complete company. Foreign direct investment does not include the purchase of shares in a company, which is classified as portfolio investment. Foreign direct investment is seen by many creditor governments as an important potential source of financing for debt problem countries. Its advantages are seen by being that its cost to the debtor (in term of profit remittances) is directly linked to the performance of the investment, unlike interest payments on foreign debt. This means that payments are made only if the resources are there with which to make them; and that it is the investor rather than the recipient country which bears the risk of the investment being unviable. This has led to strong pressure to include reform of foreign investment codes, to allow more favourable terms to investors, as part of structural adjustment programmes.

It is also seen as a means of transferring technology from developed to developing countries. However, direct investment also has substantial drawbacks which tend to be under-estimated in this view. In particular:

- the average rate of return on direct investment (and thus the cost to the recipient country) is higher than that for foreign lending, to compensate for the higher risk (since the investor bears the commercial risk as well as the foreign exchange risk), while profits are remitted only if the resources are available to the company to make them, investments do not necessarily generate additional foreign exchange earnings, so that there may be a substantial net outflow of foreign exchange from the investment;
- transfer pricing may considerably reduce the benefits to the recipient country of the investment;
- the transfer of technology resulting from FDI is generally relatively limited in practice;
- and the urgent need of many developing countries for investment and foreign exchange is leading them to compete for direct investment by offering terms ever more favourable to investors and less favourable to themselves.

G

- G3:

The three largest developed countries: the US, Japan and Germany. Unlike the G5, G7, etc., the G3 has no formal status or institutional framework.

- G5:

The five largest developed countries: the US, Japan, Germany, France and the UK. This group forms the basis for much informal consultation on international economic and financial policy issues.

- G7:

The seven largest developed countries: the US, Japan, Germany, France, the UK, Italy and Canada. The G7 is the most important and influential of the grouping of developed countries in terms of its role in the international financial system. The main forum for G7 discussion is its annual Economic Summit.

- G10:

The ten largest developed countries: the US, Japan, Germany, France, the UK, Italy, Canada, Sweden, Spain and Australia. The influence of the G10 is relatively limited as compared with the G7 or the G5.

- GATT:

The General Agreement on Tariffs and Trade: the framework, established in 1948, within which member countries' international trade policies are co-ordinated. The GATT's objectives are to promote free international trade through the reduction of trade restrictions and production subsidies designed to discourage imports. It does this through periodic rounds of multilateral trade negotiations (MTNs) between its members. The current rounds of MTNs are called the Uruguay Round (since the agenda was finally agreed at Punta del Este in Uruguay, in 1986). The Uruguay Round is likely to entail an extension of the GATT to cover trade in services (as well as goods); intellectual property rights (international protection of patents, technologies, etc.); and restrictions on international investment which have implications for international trade.

- GDP:

Gross domestic product — one of the two commonly used measures of the total output (or income) of an economy, the other being GNP. The difference is that GDP excludes net factor income from abroad (that is, interest and profits from overseas loans and investments, less payments on foreign debts and investments in the country; and net receipts of workers' remittances).

- GNP:

Gross national product — one of the two commonly used measures of the total output (or income) of an economy, the other being GDP. The difference is that GNP includes net factor income from abroad (that is, interest and profits from overseas loans and investments, less payments on foreign debts and investments in the country; and net receipts of workers' remittances).

- Governance:

The political and administrative framework of a country. The term "governance"; has come into use relatively recently, reflecting in part an increasing awareness that a country's political and administrative framework is of fundamental importance to its implementation of adjustment policies; and in part the realisation of the obstacles to "democratic conditionality" in terms of the requirement for the IMF and the World Bank to be neutral between their members. (Because governance can be directly linked to adjustment performance in a way that democracy as such cannot, it is at least arguably compatible with the principles of the Fund and the Bank.) The main concern about the use of governance as a criterion for lending by the international financial institutions is the risk of subjective interpretations by the institutions themselves, and/or by the major creditor governments, according to their ideological preconceptions or political convenience.

- Grace period:

Under a loan or rescheduling agreement, the period during which no principal payments are made — that is, from disbursement (or the end of the consolidation period) to the beginning of the repayment period. In general, interest is payable during the grace period.

- Grant element:

A measure of the concessionality of a loan or rescheduling agreement. In effect, a concessional loan is considered as if it were made up of a loan of similar maturity on commercial terms, and a grant, such that the total of the two is equal to the amount of the concessional loan, and the net present value of debt-service payments under the two arrangements is the same. The grant element is then the value of the notional grant as a percentage of the value of the concessional loan.

- "Growing out of debt":

The idea that a country will ultimately be able to service its debts, provided that its economic growth rate is faster than the real growth rate of its external debt. This formed part of the basis of the idea of "floating off".

- Guarantee export credit:

A loan to finance an export contract, usually made by the exporting company or a commercial bank, on which part or all of the repayments are guaranteed against foreign exchange risk by the government of the exporting country. Such guarantees are issued by the export credit guarantee agencies. In the UK, this is the Export Credit Guarantee Department (ECGD).

H

- **Hard currency:**

A general term for any currency which is widely enough accepted internationally to be used in international transactions. In practice, this means the currencies of the developed countries. The term "hard currency" is more or less interchangeable with "foreign exchange". (The converse, soft currency, is not generally used, except for the convertible rouble, formerly used by the members of the Council for Mutual Economic Assistance (CMEA — essentially the Easter Bloc) for their mutual trade.)

- **Human capital:**

Essentially is the productive capacity of an individual as a producer. It is determined by the individual's health status, education and marketable or productive skills (including, for example, entrepreneurial ability, home management skills, etc).

- **Hyperinflation:**

Exceptionally rapid inflation, such as that experienced in Germany in 1930s. Hyperinflation occurs when prices rise so quickly as to cause a serious loss of confidence in the national currency, leading to a rapid and increasing acceleration in the velocity of circulation, further fuelling price inflation.

I

- IMF credit:

Use of IMF credit denotes obligations to the IMF with respect to all uses of IMF resources (excluding those resulting from drawings in the reserve tranche) shown for the end of the year specified. Use of IMF credit comprises purchases outstanding under the credit tranches, including enlarged access resources and all special facilities (the buffer stock, compensatory financing, extended fund, and oil facilities), trust fund loans, and operations under the structural adjustment and enhanced structural adjustment facilities.

- IMF facilities:

The general term for the different types of lending offered by the IMF to its members. The main facilities are the stand-by-arrangement (SBA), the Extended Fund Facility (EFF), the Structural Adjustment Facility (SAF), the Enhanced Structural Adjustment Facility (ESAF), and the Compensatory and Contingency Financing Facility (CCFF).

- IMF programme:

An adjustment programme supported by an IMF stand-by arrangement (SBA) or an extended arrangement. The term may also be used to refer to adjustment programmes supported under the Structural Adjustment Facility (SAF) or the Extended Structural Adjustment Facility (ESAF).

Import of goods and services (MGS) are the total value of goods and services imported and income paid.

- Inflation:

Increase in the overall level of prices in an economy. Inflation is caused essentially by excess of demand in the economy and/or by rising production costs. Interest Payments are amounts paid by the borrower during the year.

- Interests in arrears

On long term debt is defined as interest payment due but not paid, on a cumulative basis.

- International financial system:

The institutional system governing international transfers of resources, whether in the form of loans, investments, payments for goods and services, interest payments, profit remittances, etc. The centre of the international financial system is the IMF, which has the mandate to ensure its smooth functioning.

- International Monetary Fund (IMF):

The international agency responsible for the operation of the international financial system. The IMF was established along with the World Bank, by the Bretton Woods conference in 1944, as part of the United Nations system, and at the time of writing has 151 members. In principle, its highest decision-making body is the Board of Governors; but in practice operational decisions are taken by the Executive Board. The Fund's Management is headed by a Managing Director, traditionally a European. The IMF's main operational roles are the general supervision of the policies of its member countries on international payments; and, in effect, a lender of last resort for the world economy.

The latter role is fulfilled through a number of facilities under which it makes its resources available to its members when they need them for balance of payments support. Rather than lending, the IMF allows a member to use its resources, which involves the member exchanging its own currency for SDR's from the Fund (see purchase). The member is then obliged to buy back its own currency (see repurchase) within a specified time, and to pay charges (the equivalent of interest) on the outstanding amount until it does so.

The amount which can be made available to each member, and its voting strength within the Fund, are determined by its quota (see quota) The IMF has played a central part in the debt strategy since 1982, primarily through its catalytic role (see catalysis) and the conditionality of external financing from other sources on compliance with the terms of IMF programmes.

- International reserve:

A government's holdings of foreign exchange, usually held by the Central Bank. International reserves represent a cushion against adverse external developments, such as lower export volumes or prices, higher international interest rates, or lower foreign lending than expected, allowing the country to maintain imports at a higher level than would otherwise be possible, on a temporary basis. In assessing the level of international reserves, the number of months of imports they would pay for is the most commonly used criterion.

L

- LDC:

Less developed country or least developed country.

- LLDC:

Least developed country: one of the 42 low-income countries with particularly low levels of industrialisation, designed by the United Nations General Assembly as being in particular need of external assistance. The category of least developed countries was initiated by the United Nations Conference on Trade and Development (UNCTAD) in 1971, when it included all countries with GDP per capita of $100 or less, manufacturing output less than 10% of GDP, and adult literacy less than 20%.

- Lender of last resort:

A lender which offers loans to financial institutions who have no access to funds from other sources, in case where problems from the wider economic and financial system may arise if lending is not forthcoming. Such lending is generally accompanied by some form of conditions intended to ensure the restoration of the borrower's financial position. In national economies, the Central Bank fulfils the role of lender of last resort; in the world economy it is, in effect, the IMF.

- Letter of intent:

The statement of economic policies negotiated by the IMF and the authorities of one of its members as a basis for an IMF programme. This takes the form of a letter from the authorities to the Managing Director of the Fund.

- Liquidity:

The ability of a country to meet its immediate foreign exchange obligations (for imports and debt-service payments) from its receipts (from exports and new borrowing) as opposed to its solvency.

- Loans from Multilateral Organizations:

Are loans and credits from the World Bank, regional development banks, e.g. the African Development Bank, the Asia Development Bank, and other multilateral and inter-governmental agencies. Excluded are loans from funds administered by an international organisation on behalf of a single donor government; these are classified as loans from governments. Multilateral organizations are those that are "owned" by more than one government, e.g. the World Band and the IMF.

- Lome Convention:

An agreement signed by the members of the EEC and the ACP countries in 1975 (in Lome, Togo), allowing preferential access to the EEC for exports from the ACP countries, and providing for financial and technical assistance. Further agreements are negotiated every four to five years, and are referred to as Lome II, Lome III, etc.

- London Club:

A general term for rescheduling negotiations on commercial bank debts. The term "London Club" originated by analogy with the Paris Club, since bank negotiations at that time took place mainly in London (although the main centre is not New York). In fact the analogy is somewhat misleading: unlike the Paris Club, the London Club has no fixed membership, and no permanent secretariat. In effect, the London Club is a concept rather than an institution.

- Low-income country:

A country whose GNP per capita is below a certain level. The actual threshold between low- and middle income countries varies somewhat over time (largely reflecting the effects of inflation and exchange rate changes). The categorisation of countries between income groups varies somewhat between institutions due to differences in estimates of GNP per capita. The most commonly used categorisation is that of the World Bank, whose definition at the time of writing is a country with GNP per capita of $580 or less in 1989.

- Long term external debt:

Is defined as debt that has an original or extended maturity of more than one year and that is owed to nonresidents and repayable in foreign currency, goods, or services.

L

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Less developed country or least developed country.

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Least developed country: one of the 42 low-income countries with particularly low levels of industrialisation, designed by the United Nations General Assembly as being in particular need of external assistance. The category of least developed countries was initiated by the United Nations Conference on Trade and Development (UNCTAD) in 1971, when it included all countries with GDP per capita of $100 or less, manufacturing output less than 10% of GDP, and adult literacy less than 20%.

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- Long term external debt:

Is defined as debt that has an original or extended maturity of more than one year and that is owed to nonresidents and repayable in foreign currency, goods, or services.

M

- Marshall Plan:

A massive programme of financial aid from the US and Canada to Europe, started in 1946, to relieve the extreme shortage of foreign exchange in Europe following the Second World War. The Marshall Plan is frequently referred to as a precedent for proposals of large-scale financial assistance to developing countries in response to the debt crisis.

- Maturity:

The total length of time between disbursement of a loan and the final scheduled payment on it. The maturity of a loan is generally divided between a grace period and a repayment period.

- Medium- and long-term debt:

Debt with an original maturity of more than 12 months. No distinction is normally made between medium-term debt and long-term debt, and the latter expression is often used in exactly the same sense.

- Mexico Crisis:

The liquidity crisis faced by Mexico in August 1982, when the government announced that it could no longer make principal payments on its debts when they fell due. This is generally seen as the beginning of the current debt crisis, although some countries (several African countries from the late 1970s, and Poland in 1981) had already encountered debt problems. The Mexico Crisis was significant mainly as a psychological watershed: it demonstrated that even what was seen as a relatively secure borrower could turn out to be a bad risk. This led to a general loss of confidence among banks in lending to developing countries, which in turn caused the liquidity squeeze which precipitated the debt crisis.

- Middle-income country:

A country whose GNP per capita is between that of the low-income countries and that of the developed countries. The most commonly used categorisation is that of the World Bank, whose definition at the time of writing is a country with GNP per capita of between $580 and $6000 in 1989. The Bank also sub-divides middle-income countries into upper and lower middle-income groups, at an income threshold of $2335 in 1989.

- Mission:

In the IMF and World Bank, an official visit by members of the Fund or Bank staff to one of their member countries. The main purposes of missions are to negotiate loans or credit in the case of the World Bank; and to negotiate programmes and conduct Article IV consultations in the case of the IMF. Joint missions, including staff from both institutions, are held to negotiate policy framework papers (PFPs) as a basis for structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF) arrangements.

- **Mixed credit:**

A combination of concessional aid loans and guaranteed export credits on commercial terms, used by developed countries to provide subsidies credit for exports, as a means of undercutting competitors. The grant element which can be offered on mixed credits by OECD countries is limited by the OECD Consensus.

- **Moderately indebted:**

A category of countries used by the World Bank, with a debt burden which is consider to be substantial, but less serious than for the severely indebted countries. A country is considered to be moderately indebted if it meets three of the following four criteria:

  - its debt/GNP ratio is between 30% and 50%;
  - the ratio of its external debt to its exports of goods and services is between 165% and 275%;
  - its debt-service ratio is between 18% and 30%; and
  - the ratio of its interest payments to its exports of goods and services is between 12% and 20%.

- **Moral hazard:**

The risk that a certain policy action will, in practice, give economic agents an incentive to act in a way which will make the policy itself ineffective, unworkable or counterproductive. Thus, for example, if a system were developed whereby a country's debt were written off automatically if they reached a certain level, this would give governments an incentive to over-borrow in the knowledge that they would receive the benefit of the loan without incurring the cost of repaying it. Similarly, if banks were automatically "rescued" if they lent too much to debtors who could not repay, this would give them an artificial incentive to make high risk loans. In each case, the result would be, not only to encourage irresponsible behaviour by borrowers and lenders, but also, as a result, to increase the cost or reduce the effectiveness of the policy itself. Moral hazard is often invoked by the more hard-line creditor governments as an argument against any attempt to reduce the debt burden on developing countries: to do so, it is argued, would be to reward irresponsible borrowing in the past, and this would encourage similar behaviour in the future. Moral hazard is a genuine problem, and one which needs to be taken into account in designing any mechanism for resolving the debt problem. However, the extent of the problem does tend to be over-stated by its more ardent adherents. In particular, it is difficult to argue that any debt reduction offered after a long and generally painful adjustment process actually provides an incentive for over-borrowing, particularly if it is conditional on continued adjustment. Also, in most of the countries concerned, there is a complete separation between those governments which were responsible for the over-borrowing and those now in power, which would benefit from debt reduction. In many countries, particularly in Latin America, the present governments are actually the democratic opponents of the non-democratic rulers who incurred the debts. It is at least arguable that relieving them of the costs of their predecessors' irresponsibility would not encourage them to over-borrow themselves; and also that forcing them to bear this cost actually discourages the transition to more representative political systems and more responsible governments. To the extent that moral hazard is a potential problem, there are a number of ways in which it can be avoided or reduced, for example, by structuring any debt reduction scheme in such a way that it clearly cannot be repeated in the future; by establishing a mechanism to minimise the risk of over-indebtedness in the future (except through circumstances beyond the debtor country's control); or by imposing costs on those who were responsible for incurring the original debts.

- Moratorium (plural moratoria):

The temporary suspension of payments of interest and/or principal on external debts. A moratorium may be an immediate response to a critical foreign exchange shortage (e.g. Mexico in 1982) or part of a confrontational policy towards creditors (e.g. Peru in 1986); or it may take the form of an agreement with creditors that payments will be suspended pending negotiations on rescheduling. Multilateral: (of debt) owed to an international agency, such as the International Monetary Fund (IMF), the World Bank (WB) and the Regional Development Banks.

- Multilateral:

(Of debt) owed to an international/multilateral agency, "owned" by many "shareholder" governments, including the International Monetary Fund (IMF), the World Bank (WB) and the Regional Development Banks.

N

- Neoclassical/ Neoliberal:

Pertaining to the mainstream approach to economics. Central elements of this approach include the efficiency and desirability of free markets as a basis for economic activity, and the centrality of monetary policy as the basis for macroeconomic policy. Neoclassical economics forms the basis for both the macroeconomic adjustment and the structural adjustment programmes supported by the IMF and the World Bank. At the microeconomic level, the neoclassical view is based on a number of assumptions about the way in which markets should work, and broadly assumes that they do work in this way unless there are clear reasons to expect otherwise. The process of structural adjustment is thus seen essentially as removing the obstacles which prevent markets from working in accordance with the neoclassical model. At the macroeconomic level, neoclassical economics is based essentially on the aggregation of these microeconomic models, and is thus in effect based on similar assumptions. The neoclassical approach to macroeconomics has also traditionally been characterised by the assumption of full employment of resources — although recent experience has led to the relaxation of this assumption, based on wage rigidities preventing market clearance. It also focuses heavily on a comparative static approach — that is, the comparison of the state of the economy in different circumstances — rather than the dynamic process of moving from one state to another in response to changes in circumstances.

- Net flows on debts:

(Or net lending or net disbursement) are disbursement on new loans minus principal.

- Net international reserves:

A country's international reserves less its arrears to foreign creditors. In effect, net international reserves represent the hypothetical level of a country's reserves if it had serviced all of its debts in full. Where a country has significant arrears, net reserves are often negative.

- Net lending:

The disbursements received by a country (or group of countries) minus the repayments of principal it makes or is scheduled to make in particular year. Net lending represents the transfer of resources to a country from its creditors, excluding its payments of interest.

- Net present value (NPV):

A measure of the overall value of a stream of payments over time. In effect, the NPV represents the amount which would need to be invested at a commercial interest rate at the beginning of the period of the payments, such that, with accumulated interest, it would be just adequate to meet all the payments as they fell due. Thus the NPV of the interest and principal repayments on a loan at a commercial interest rate is equal to its face value, while that for a concessional loan is less than its face value. Net resource transfer (NRT): the overall transfer of resources between a country and its creditors (and sometimes foreign investors and aid donors), used as a measure of the extent to which they are making a contribution to, or represent a drain on, the national economy. The most commonly used definition relates to creditors only. In this case, the net resource transfer is the disbursements made by a country (or group of countries) minus the repayments of principal and interest payments is makes or is scheduled to make in a particular year. The broader definition adds on receipts of foreign direct investment and aid grants, and subtracts profit remittances. Since 1982 the net resource transfer for most middle-income debt problem countries has been consistently negative, reflecting a large net flow of resources from debtors to creditors. New money loan: a loan made collectively by commercial banks, usually in connection with a rescheduling agreement. In practice, most new money loans in effect finance part of the interest payments due to the banks.

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- New money loan:

A loan made collectively by commercial banks, usually in connection with a rescheduling agreement. In practice, most new money loans in effect finance part of the interest payments due to the banks.

- Net transfers on debt:

Are net flows minus interest payments (or disbursements minus total debt service payments) Official debt: debt which is owed to public sector lenders.

O

- OECD:

The Organisation for Economic Co-operation and Development. OECD is often used as a country classification, broadly representing the Western developed countries. (It should be noted that the OECD also includes Greece, Portugal and Turkey, which are generally classified as developing countries. When the OECD is used as a country classification, however, it may exclude these countries.) Overseas development assistance (ODA): the more formal expression for aid, grants or concessional loans from developed country governments or international agencies to finance development projects or relief programmes, or for balance of payments support. The latter is generally referred to as programme aid.

- Official creditors:

Creditors in the public sector — that is, creditor governments and multilateral agencies such as the IMF and the World Bank.

- Overdue obligations:

Arrears on payments due to the IMF. The existence of overdue obligations prevents the Fund from making any further resources available to the member in question. As it has become increasingly impossible for developing countries to secure new loans from other sources in the absence of an IMF programme, this has caused serious problems for countries which have accumulated large volumes of overdue obligations.

- Over-heating:

Growth of demand in an economy at a faster rate than supply, in a situation where there is little or no spare productive capacity and (usually) a foreign exchange constraint limiting the level of imports. This gives rise to an increasing level of excess demand in the economy, and thus to increasing inflation and pressure on the balance of payments. Overheating most commonly arises from misjudgments by governments in macroeconomic policy, and was the main reason for the failure of the Brazilian and Peruvian moratoria of 1985-86.

- Overseas development assistance (ODA):

The more formal expression for aid — grants or concessional loans from developed country governments or international agencies to finance development projects or relief programmes, or for balance of payment supports. The latter is generally referred to as programme aid.

- Ownership":

In the IMF and World Bank, the idea that, if a country is to be genuinely committed to the implementation and ultimate success of an adjustment programme, it must feel it to be its own economic policy, rather than one which has been imposed on it by an outside body. The development of this concept largely reflects a concern that the perception of adjustment programmes as externally imposed underlies their weak implementation in some cases. The theory underlying the negotiation of IMF and World Bank programmes is fully in line with the principle of "ownership", in that policies are supposedly decided upon by the government of the country concerned and supported by the Fund and Bank at their discretion.

However, the conditionality of virtually all external financing on IMF support means that any adjustment programme must in practice have such support in order to be viable; and this, together with the demanding conditions for IMF support, means that programmes are very largely designed by the IMF itself. Given these considerations, the scope for increasing the degree of "ownership" of adjustment programmes (particularly IMF programmes) within the present system is limited. Such movement as there has been towards ownership to date has therefore involved increased efforts to persuade governments of the merits of IMF and World Bank proposals, rather than any actual increase in the role of the government in the design of adjustment programmes.

P

- **Paris Club:**

The forum in which creditor governments meet to negotiate the rescheduling of the debts owed to them — manly aid loans and guaranteed export credits. The Paris Club originated in 1956 as an ad hoc group to discuss rescheduling for Argentina, and remained a very informal arrangement until the late 1970s, with rescheduling terms decided on an ad hoc basis for each individual case, on the basis of the debtor country's need and the precedents established by previous cases. Since then, however, as rescheduling has become more frequent, the Paris Club's meetings have become more regular and its procedures and terms more standardised — although it retains the original principle of always reaching its decisions by consensus rather than by voting. The Paris Club agrees the basic terms of the rescheduling — the consolidation period, the cut-off date, the grace period, the repayment period and the coverage of the agreement — which are set out in the agreed minute. However, the agreed minute has no legal status, and the rescheduling is actually put into effect by a series of bilateral agreements negotiated separately by each individual creditors some time after the Paris Club agreement. The bilateral agreements also set the interest rate on the rescheduling for the debts owed to each individual creditor: the agreed minute only states that a commercial interest rate should be charged.

- **Performance criteria:**

Performance targets under IMF programmes, forming the basis of their conditionality. Performance criteria are set when the programme is first approved, and at subsequent reviews. They are of two types: quantitative performance criteria, covering various statistical indicators of fiscal policy, monetary policy and the balance of payments; and non-quantitative criteria, covering specific policy actions which cannot be measured statistically. If all the performance criteria for a particularly drawing under a programme are not met, then the drawing cannot be made unless and until the IMF's Executive Board approves a waiver of those which have been missed.

- **President:**

The head of the World Bank. While the Word Bank President is formally elected by the Board of Governors, he (the Bank has yet to have a woman President) is traditionally an American, and the US exercises the strongest influence in his election. In effect, the US selects a candidate acceptable to the other members of the Fund, who is then elected.

- **Private debt:**

Debt owed by private sector borrowers. (This should not be confused with commercial debt, which is owed to private sector creditors.)

- **Private nonguaranteed external debt:**

Is an external obligation of a private debtor that is not guaranteed for repayment by a public entity, i.e. by the government of the country in which the private debtor lives

.

- **Privatisation:**

The sale or transfer of state-owned enterprises, or shares in them, from the public to the private sector. In the context of adjustment, privatisation has two objectives: firstly to increase the efficiency of the economy (based on the assumption that private sector companies are more economically efficient than those in the public sector); and secondly, to reduce the fiscal deficit by producing capital revenue for the government. In practice, while the proceeds from privatisation reduce the deficit in accounting terms, it is at least questionable whether they have this effect in economic terms, or whether they represent a source of financing of the deficit, since their sale does not actually increase the government's net assets.

- **Principal in Arrears:**

On long term debt is defined as principal repayment due but not paid, on a cumulative basis.

- **Principal Repayments:**

Are the amounts of principal (amortization) paid in foreign currency, goods, or services in the year specified.

- **Provisions:**

Resources set aside by a creditor against the risk of non-payment of a particular debt ("specific provision"), or of its loan portfolio as a whole ("general provisions"). The adequacy of a commercial bank's provisions is regulated and supervised by the Central Bank of the country in which it is based.

Public expenditure: the total spending of all branches of government (national, regional and local), and of other agencies in the public sector (e.g. health and educational institutions or authorities), including the net losses of state-owned enterprises (rather than their total expenditure). Public expenditure as a proportion of GDP is often used as an indicator of the importance of the public sector in the economy. Adjustment programmes generally aim to reduce real public expenditure, except where it has already been eroded to an unsustainable low level in the pre-adjustment period. This reflects two main concerns: firstly, the need to reduce the fiscal deficit as part of macroeconomic adjustment; and secondly, the desire to reduce the role of the state as part of structural adjustment.

- **Public debt:**

Debt owed by public sector borrowers. (This should not be confused with official debt, which is owed to public sector creditors.)

- **Publicly guaranteed debt:**

Debt originating from loans made to state-owned enterprises or private companies, the servicing of which has been guaranteed by the government of the debtor country.

- **Purchase:**

In the IMF, a transaction in which a member country uses its own currency to purchase SDRs from the Fund under one of its facilities. This is the equivalent of a disbursement of a conventional loan.

- **Purchasing-power parity (PPP):**

The exchange rate at which two currencies would buy the same quantity of goods in their respective countries. PPP exchange rates are notoriously difficult to calculate because of the considerable differences in relative prices and consumption patterns between different countries.

Q

- **Quota:**

In the IMF, a member country's contribution to the IMF, which determines its voting strength and the amount it can borrow from the Fund.

R

- **Reflation:**

An attempt by a government to increase the rate of growth in an economy in the short term, using expansionary fiscal policy and/or monetary policy, to stimulate demand in the economy. Reflation in inappropriate circumstances may give rise to excess demand or, in extreme cases, over heating. The opposite of reflation is deflation.

- **Regional Development Banks:**

The African, Asian and Inter-American Development Banks (AfDB, AsDB and IADB respectively). These operate as miniature regional versions of the World Bank, but with less control by the major creditor countries and far smaller resources.

- **Repayment period:**

The period during which amortisation payments are made under a loan or a rescheduling agreement — that is, the period from the end of the grace period until the loan is fully repaid.

- **Repurchase:**

Repayment of debt to the IMF. (Strictly speaking, the IMF member is not repaying a debt, but buying back its own currency from the Fund.)

- **Rescheduling:**

Deferment of payments of principal and/or interest due on loans, by agreement with creditors.

- **Restructuring:**

A general term for alteration of the terms of a debt by agreement with creditors.

- **Retrospective terms adjustment (RTA):**

The conversion by the British government (in 1977) of all the aid debts owed to it by low-income countries into grants. In effects, this amounted to cancellation of the debts.

S

- "Seal of approval":

Support by the IMF of a country's adjustment programme, either through financial support under an IMF facility, or through enhanced surveillance.

- Severely indebted:

A country classification used by the World Bank, representing those countries wit the heaviest debt burdens. A country is considered to be severely indebted if it meets at least three of the following criteria:

  - its debt/GNP ratio is more than 50%;
  - the ratio of its external debt to its exports of goods and services is more than 275%
  - its debt-service ratio is more than 30%;
  - and the ratio of its interest payments to its exports of goods and services is more than 20%

- Shadow programme:

In effect, an IMF programme under which an IMF member pursues an adjustment programme negotiated with the Fund, but without being entitled to draw on the Fund's resources generally because they have overdue obligations to the Fund.

- Short-term external debt:

Is defined as debt that has an original maturity of one year or less.

- Soft loan:

A concessional loan

- Solvency:

The ability of a country to meet its foreign exchange obligation in full over the long term as opposed to its liquidity.

- Special drawing rights (SDR):

The unit of account used by the IMF. In effect, the SDR is a currency basket, made up of the US dollar, the pound sterling, the Japanese Yen, the French Franc and the Deutschmark. The relative weight of each currency in the composition of the SDR is up-dated periodically. The SDR generally fluctuates in value between about US$1.00 and $1.40.

- Spring Meetings:

The meetings of the Interim Committee and the Development Committee held in Washington DC each Spring (that is roughly mid-way between the Annual Meetings of the IMF and the World Bank). The Spring meetings are a very important focus for decision-making on international economic and financial issues — although most of the actual discussion and negotiation takes place in the Executive Boards of the IMF beforehand.

- **Structural adjustment:**

Economic policies seeking to change the way the economy works at the microeconomic level, particularly the role of the public sector, the regulatory framework, the taxation system and incentive structures, with the intention of increasing economic efficiency and improving long-term economic performance. Structural adjustment may be supported by the World Bank, through a structural adjustment loan or credit (SAL or SAC), a sectoral adjustment loan or credit (SECAL), or a hybrid loan or credit; and/or by the IMF under the extended fund facility (EFF), the structural adjustment facility (SAF), or the enhanced structural adjustment facility (ESAF).

- **Subsidy:**

A payment, generally by the government or a public sector agency, to the producer or consumer of a good or service, intended to encourage its production and/or to reduce its cost to consumers. Subsidies are generally seen by the IMF and the World Bank as reducing the efficiency of the economy (since they represent a distortion of the market for the good concerned); and as an inefficient use of the limited resources available to the government. Where subsidies exist in an economy, therefore, structural adjustment programmes generally involve eliminating them, reducing them, or improving their targeting.

- **Syndicated loan:**

A commercial bank loan in which a number of banks participate. The loan is negotiated by a small group of lead banks, which then (in effect) sell parts of the loan to other banks. Syndicated lending was the most common form of commercial bank lending to developing countries in the 1970s and early 1980s, and represents virtually all of the outstanding debt of the debt problem countries to the commercial banks.

T

- **Total debt flows:**

Total debt flows include disbursements, principal repayments, and interest repayments for total long-term debt and transactions with the IMF.

- **Total debt stock (EDT):**

Consists of public and publicly guaranteed long-term debt, private nonguaranteed long-term debt, commercial, the use of IMF credit, and estimated short-term debt.

- **Track record:**

Track record in the IMF, a country's (recent) history of compliance with the conditions of IMF programmes. This concept is used particularly in the context of providing exceptional support for countries, to enable them to clear their overdue obligations to the IMF: it is argued that a country must establish a good track record before it can be offered such treatment. The need for a country to establish a track record while it cannot actually negotiate a Fund programme because of its overdue obligations gave rise to the development of shadow programmes.

- **Trade liberalisation:**

An important component of most structural adjustment programmes, aimed at opening the economy to increased international trade, particularly by reducing protectionism. The main elements of trade liberalisation, in the usual order of implementation, are:

  - reducing, and ultimately removing, taxes on exports;
  - reducing, and ultimately removing, quantitative restrictions on imports;
  - ncreasing the uniformity of tariff rates applying to different imports;
  - and reducing the overall level of import tariffs.

- **Trading bloc:**

A group of countries, usually within a particular geographical region, which allow easier access to their markets for each other's exports than the exports from outside the group - for example, the EEC.

- **Tranche:**

One of two disbursements under a loan agreement.

U

- **Unilateral:**

An action taken by a single debtor country independently of any other country, and without the agreement of creditors, particularly the declaration of a moratorium.

V

- **Voluntary lending:**

Lending which is offered voluntary by a lender or group of lenders (particularly commercial lenders), as opposed to concerted lending.

W

- **World Bank:**

The main international agency responsible for providing development finance. The World Bank, like the IMF, was established by the Bretton Woods conference in 1944, as part of the United Nations system. Its main role was initially that of post-war reconstruction, particularly in Europe, but as this task was accomplished the emphasis shifted to the financing of development projects in developing countries. Since 1980, the Bank has also provided loans in support of programmes of structural adjustment in developing and Eastern European countries. Like the IMF, the Bank's highest decision-making body is nominally the Board of Governors, but its 22-member Executive Board is much more important in practice. The Bank's Management is headed, and the Executive Board is chaired, by its President, traditionally American. The Bank's capital is provided by contributions from its member countries, but its operations are financed mainly by borrowing from the international financial markets. The World Bank is made up of three main parts: the International Bank for Reconstruction and Development (IBRD), which lends mainly to the governments of middle-income countries; the International Development Association (IDA), which lends only to the governments of low-income countries; and the International Financial Corporation (IFC), which lends to and invests in private sector companies in developing countries. Institutionally, however, the IBRD and IDA are effectively the same, sharing a common staff and Management: the difference is in the countries which are eligible to borrow, and the lending terms they offer.

- **Write down:**

To reduce the value of debt shown in the creditor's accounts and make a provision against it. This does not involve any reduction in the debt from the debtor's point of view, and should not be confused with writing off debts.

- **Write off:**

To cancel a debt, or to reduce its face value and the payments due on it. (The latter is a partial write-off.)

Sources

These definitions are based on two sources:

1. *David Woodward's Debt, Adjustment and Poverty in Developing Countries. National and International Dimensions of Debt and Adjustment in Developing Countries, Pinter Publishers London, 1992 - in association with Save the Children; and*
2. *The World Bank's Global Development Finance 2000*