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World Debt Tables

External Finance for Developing Countries

VOLUME 1

ANALYSIS AND SUMMARY TABLES

1996

A WORLD BANK BOOK

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Preface

World Debt Tables 1996 consists of two volumes. Volume 1 contains analysis and commentary on recent and prospective developments in international finance for developing countries, together with summary statistical tables for selected regional and analytical groups comprising 151 developing countries.

Volume 2 contains statistical tables on the external debt and flows of the 136 countries that report public and publicly guaranteed debt under the Debtor Reporting System (DRS). Portugal is now classified as a high-income country.

For the convenience of readers, charts on pages xi to xiii summarize graphically the relation between the debt stock and its components; the computation of net flows, aggregate net resource flows, and aggregate net transfers; and the relation between net resource flows and the balance of payments. Exact definitions of these and other terms used in the *World Debt Tables* are found in the Sources and Definitions section.

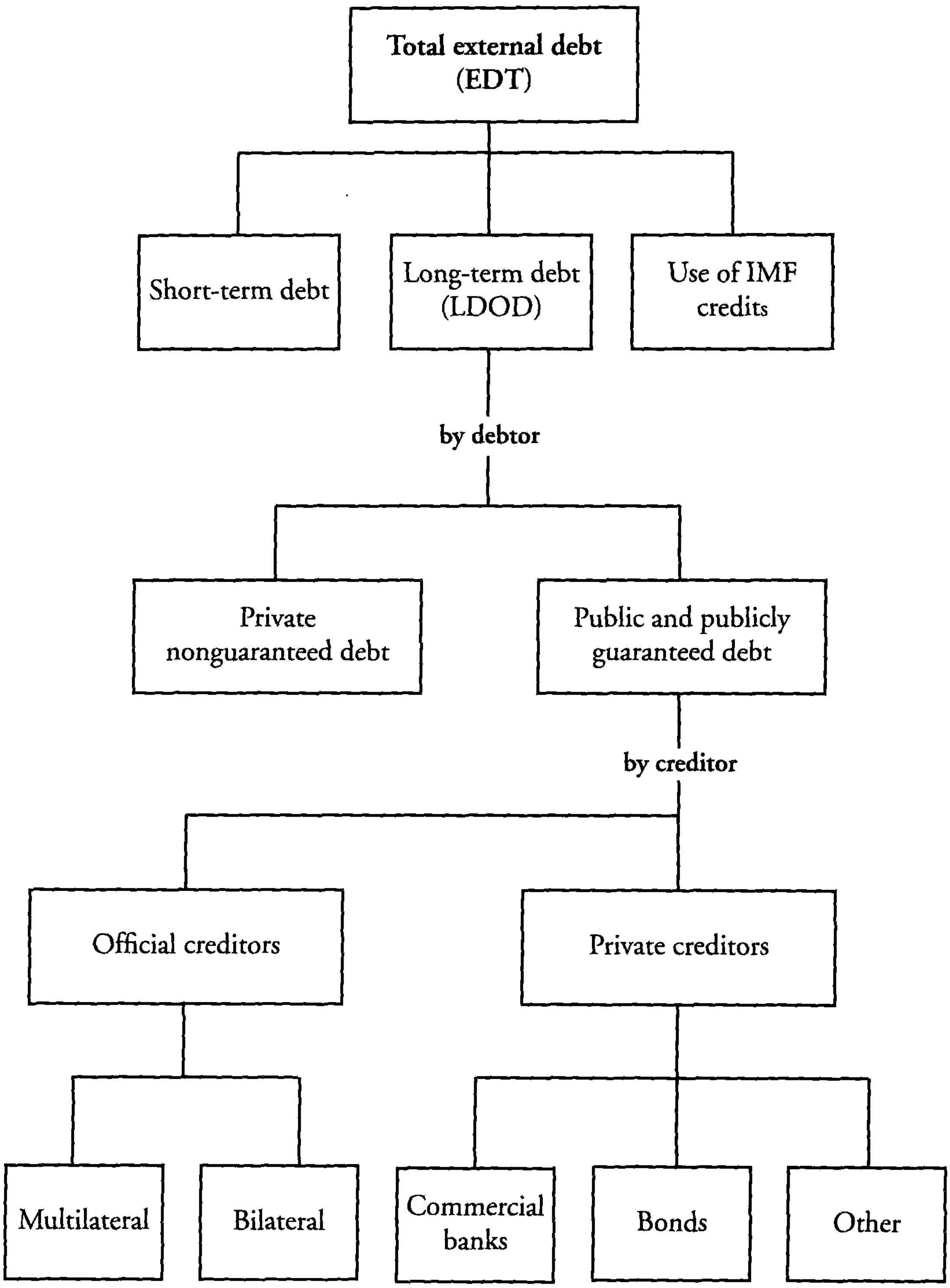
The economic aggregates presented in the tables are prepared for the convenience of users; their inclusion is not an endorsement of their value for economic analysis. Although debt indicators can give useful information about developments in debt-servicing capacity, conclusions drawn from them will not be valid unless accompanied by careful economic evaluation. The macroeconomic information provided is from standard sources, but many series, especially for African countries, are incomplete; thus it may be convenient or necessary to substitute other data series for those used here.

Acronyms and abbreviations

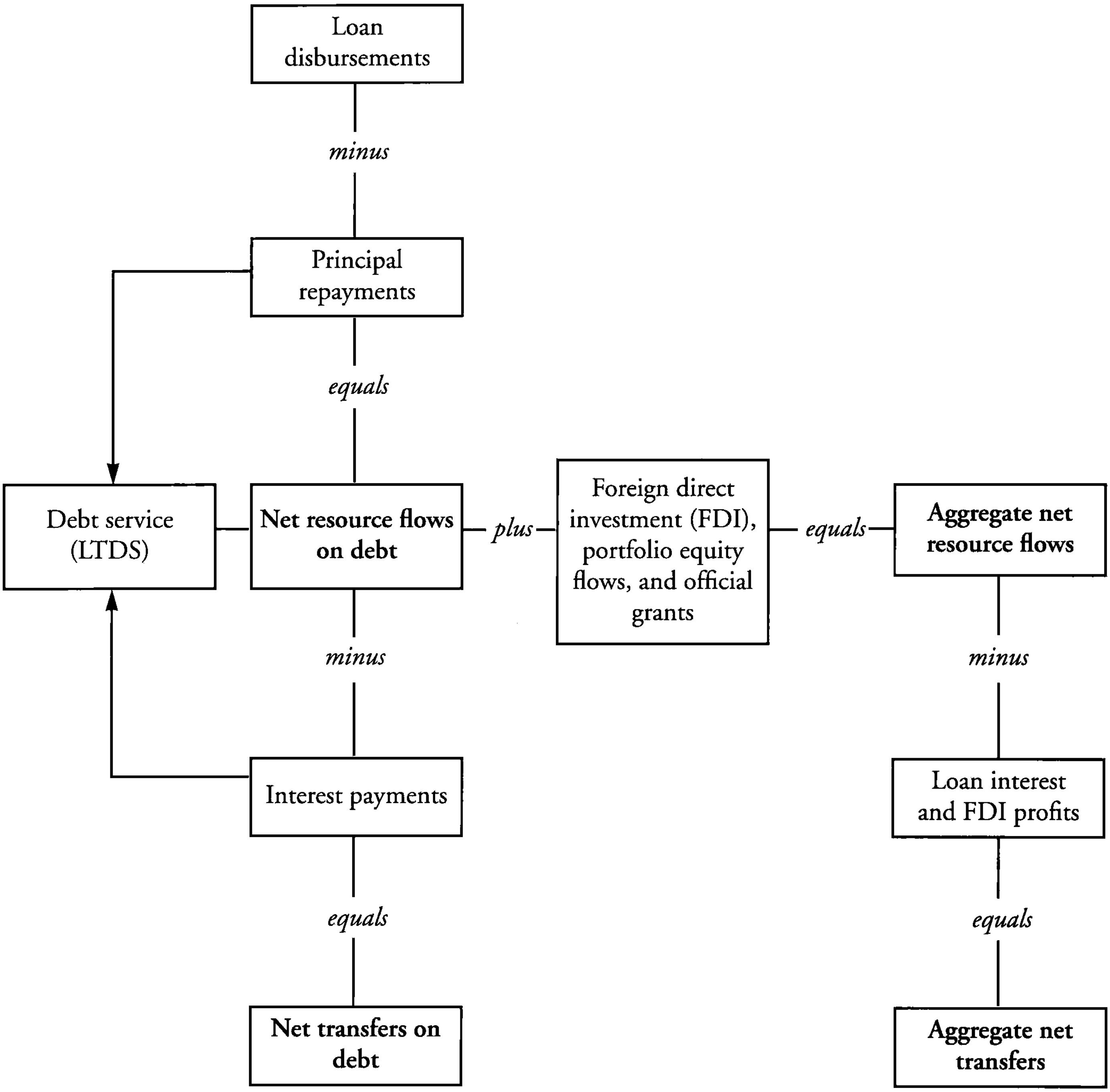
BIS	Bank for International Settlements
CFA	Communauté financière africaine (franc zone)
CRS	Creditor Reporting System (of the OECD)
DAC	Development Assistance Committee (of the OECD)
DDSR	Debt and debt service reduction
DRE	Debt reduction equivalent
DRS	Debtor Reporting System (of the World Bank)
FDI	Foreign direct investment
GDP	Gross domestic product
GNP	Gross national product
IBRD	International Bank for Reconstruction and Development/World Bank
IDA	International Development Association (of the World Bank)
IFC	International Finance Corporation (of the World Bank)
IMF	International Monetary Fund
LIBOR	London interbank offered rate
LILIC	Less indebted low-income country
LIMIC	Less indebted middle-income country
MILIC	Moderately indebted low-income country
MIMIC	Moderately indebted middle-income country
MYRA	Multiyear rescheduling agreement
NGO	Nongovernmental organization
ODA	Official development assistance
ODF	Official development finance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
RXD	Revised External Debt (Reporting System of the World Bank)
SDR	Special drawing right (of the IMF)
SILIC	Severely indebted low-income country
SILMIC	Severely indebted lower-middle-income country
SIMIC	Severely indebted middle-income country

Dollars are current U.S. dollars unless otherwise specified.

Debt stock and its components



Aggregate net resource flows and net transfers (long-term) to developing countries



Note: Includes only loans with an original maturity of more than one year (long-term loans). Excludes IMF transactions.

Aggregate net resource flows (long-term) and the balance of payments

	Credits	*Debits*
Current account	• Exports of goods and nonfactor services	• Imports of goods and nonfactor services
	• Export of factor services	• Import of factor services
	• Private unrequited transfers (by nonresidents) Emigrant remittances Private grants	• Private unrequited transfers (by residents)
	• Official unrequited transfers (by foreign governments)	• Official unrequited transfers (by national government)
Capital account	• Foreign direct investment (by nonresidents) (disinvestment shown as negative)	• Foreign direct investment (by residents) (disinvestment shown as negative)
	• Portfolio investment (by nonresidents) (amortizations shown as negative)	• Portfolio investment (abroad by residents) (amortizations shown as negative)
	• Other long-term capital inflows (by nonresidents) (amortizations shown as negative)	• Other long-term capital outflow (by residents) (amortizations shown as negative)
	• Short-term capital inflow	• Short-term capital outflow
Reserve account	Net changes in reserves	

Aggregate net resource flows

Net resource flows on debt (long-term)

Contents

Part III. Summary tables

Tables

Figures

Boxes

Part I

External finance for developing countries

Summary

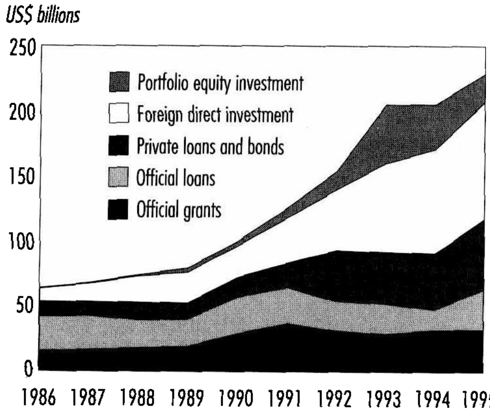
Aggregate net resource flows to developing countries rose another 11.5 percent in 1995 to reach a record $231 billion (table 1 and figure 1). This figure includes the $11 billion net disbursement from the exceptional financing package for Mexico from official bilateral and multilateral sources that helped offset the decline in private flows to that country. Private capital flows continued to grow and dominate total net flows to developing countries, accounting for 72 percent of total flows, down slightly from 74 percent in 1993 and 76 percent in 1994.

The slower growth in private capital flows was due primarily to the decline in portfolio flows. Foreign direct investment, by contrast, continued to rise, increasing its share in total private flows from 50 percent in 1994 to 54 percent in 1995. Private flows remain concentrated in a small number of mostly middle-income countries. Net concessional resource flows, primarily targeted to low-income countries, have remained flat over the last two years in nominal terms and have fallen substantially in real terms from their 1990 level.

The 8 percent rise in developing country debt stocks in 1995 was more than offset by the rise in developing country exports. Thus the ratio of debt to exports declined for developing countries as a group from 163 percent in 1994 to 150 percent in 1995. This improvement was shared by all regions except Sub-Saharan Africa, which saw a continued increase in its debt to export ratio to 270 percent. East Asia, which was responsible for more than a third of the increase in overall developing country debt, managed to reduce its debt to export ratio from 93 percent in 1994 to 83 percent in 1995 because of the buoyancy of its exports. The overall increase in developing country debt, to more than $2 trillion, was mainly due to a jump in net debt flows stemming from continued and expanded access to private market financing by creditworthy borrowers and to the exceptional package for Mexico.

Both official and private flows increased, leading to a record level of aggregate resource flows to developing countries in 1995, but private capital continued to dominate total net flows.

Figure 1 Aggregate net resource flows to developing countries reached a record $231 billion in 1995



a. Preliminary.
Source: World Bank, Debtor Reporting System.

Table 1 Aggregate net long-term resource flows to developing countries, 1990–95
(US$ billions)

Indicator	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*[a]
Aggregate net resource flows	101.9	127.1	155.3	207.2	207.4	231.3
Official development finance	57.9	65.5	55.0	53.0	48.6	64.2
Official grants	29.4	37.5	31.9	29.4	32.5	32.9
Official loans	28.5	28.0	23.1	23.6	16.1	31.3
Bilateral	13.5	13.2	10.8	9.4	6.1	18.8
Multilateral	15.0	14.8	12.3	14.2	10.0	12.5
Total private flows	44.0	61.6	100.3	154.2	158.8	167.1
Private debt flows	15.3	19.0	39.6	40.3	43.8	54.8
Commercial banks	1.7	2.5	13.8	–4.9	9.2	17.1
Bonds	3.0	12.8	13.2	38.3	32.2	33.7
Others	10.6	3.7	12.6	6.9	2.4	4.0
Foreign direct investment	25.0	35.0	46.6	68.3	80.1	90.3
Portfolio equity flows	3.7	7.6	14.1	45.6	34.9	22.0

a. Preliminary.
Source: World Bank, Debtor Reporting System.

Prospects remain good for private capital flows, despite recent volatility

The growth in private capital flows to developing countries slowed in 1994 and 1995, after a more than threefold increase between 1990 and 1993. Bank staff estimates place these flows at around \$167 billion in 1995, less than 10 percent higher (in nominal terms) than the \$154 billion in 1993. The slowdown was due entirely to the sharp decline in portfolio flows.

Foreign direct investment (FDI) continued its steady, if somewhat slower, upward trend, reaching a record \$90 billion in 1995. Propelling these FDI flows have been the rapid globalization of production, the increasing integration of developing countries in buoyant world trade, and the improved economic policies of recipients. The sustained increases boosted the share of low- and middle-income countries in global FDI from 12 percent in 1990 to 38 percent in 1995 (figure 2). Active privatization programs in many countries provided a steady stream of FDI flows; during 1990–95 they attracted about \$40 billion of FDI.

Foreign direct investment continued its steady upward trend. In contrast, portfolio flows dropped substantially, driven by the sharp fall in equity flows.

In contrast, portfolio flows dropped from \$84 billion in 1993 to \$56 billion in 1995, driven by the sharp fall in equity flows from \$46 billion in 1993 to \$22 billion in 1995. This decline was in part to be expected. Portfolio equity flows had jumped more than than tenfold during 1990–93 as institutional investors turned to emerging markets. As many investors approached their desired near-term portfolio shares for emerging markets, the growth of net flows was bound to decelerate.

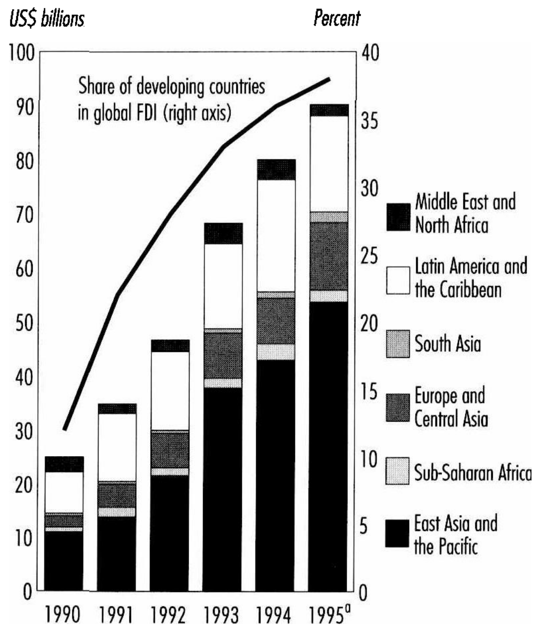
The decline and volatility in portfolio flows also reflect the greater susceptibility of such flows to cyclical factors and changes in investor sentiment. The main factors behind the recent dampening of portfolio flows in 1994 and 1995 were the rise in U.S. interest rates beginning in February 1994, the Mexico crisis in December 1994, the spectacular performance of the U.S. stock market in 1995, and concerns about the overheating of East Asian economies in the second half of 1995.

The fallout from the Mexico crisis had a pronounced impact on portfolio flows. The International Finance Corporation's (IFC) global emerging market index declined about 13 percent during the first quarter of 1995. Although some countries did better than others, all emerging stock markets recorded significant declines due in part to redemptions of open-ended mutual funds, which forced sales in the more liquid and stronger emerging markets. New international issues of portfolio equities and bonds also fell—from a quarterly average of \$17 billion in 1994 to \$4.4 billion in the first quarter of 1995.

Emerging markets recovered strongly in the second quarter of 1995. The likelihood of a systemic crisis abated, thanks to the Mexico rescue package and forceful moves to restore investor confidence in a number of developing countries. Investors also began to evaluate economic fundamentals more closely and to differentiate among emerging markets. Countries with strong fundamentals saw stock market prices recover to their levels before the Mexico crisis—while countries with weaker fundamentals or special domestic factors felt deeper and more persistent effects. The global emerging market index weakened in the second half of 1995, but this was due mainly to the mature stage of the business cycle in East Asia and the exceptionally strong performance of the U.S. stock market.

The more discerning behavior of investors was also evident in new bond issues. The terms of new issues have become more differentiated, in line with market perceptions of economic fundamen-

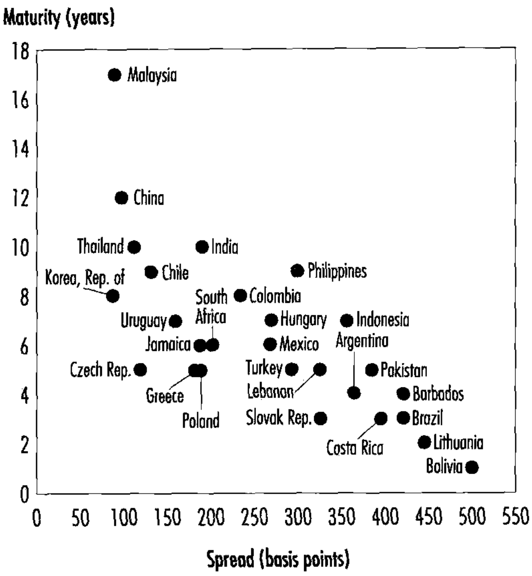
Figure 2 Developing countries' share in global FDI grows further



a. Preliminary.

Source: World Bank staff estimates based on balance of payments data reported by the International Monetary Fund and data on net foreign investment reported by the OECD.

Figure 3 Terms of bond issues for 1994–95 differ widely



Note: Maturities and spreads are based on U.S. dollar-denominated fixed rate issues. Spreads are over the benchmark U.S. Treasury securities, except for Hungary, for which deutschmark issues were used as a proxy.
Source: Euromoney Bondware and World Bank staff estimates.

tals and prospects (figure 3 and box 1.1). East Asian borrowers enjoyed maturities almost three times longer than did Latin American issuers in 1995—and average spreads were about one-half those of Latin America.

East Asia's share of private capital flows also increased—from 41 percent in 1993 to 59 percent in 1995—again largely at the expense of Latin America. Given the importance investors attach to country creditworthiness, it is not surprising that private flows remain highly concentrated in a small number of countries. Some twelve (mainly middle-income) countries account for more than 80 percent of total private flows to developing countries.

The Mexico crisis and its aftermath show that the more creditworthy emerging markets—while still vulnerable to contagion effects—are resilient and that both investors and governments have emerged wiser. Investors, more discerning among markets, are increasingly focusing on underlying political and economic fundamentals and on market infrastructure. In other words, contagion is not likely to have large or long-lasting effects on countries with strong fundamentals and the capacity and willingness to respond promptly to changing external conditions.

The Mexico crisis also provided important lessons for governments. First, countries need to be concerned about their vulnerability to liquidity crises even when flows are largely private. This in turn implies that governments need to worry about sustained real appreciation in excess of productivity gains and potentially unsustainable current account deficits. Increased capital mobility in particular warrants greater attention to the adequacy of international reserves and the composition and maturity structure of debt, and an efficient and well-supervised financial system is critical for ensuring sound use of capital inflows and for avoiding potential vulnerability. Second, governments need to monitor warning signals more closely and move forcefully to counter shocks or the loss of investor confidence.

The prospects for sustained net private capital flows to developing countries remain good. True, there will be year-to-year fluctuations, and risks of volatility remain as investors shift their portfolio holdings among countries as performance changes. But with continued policy reforms and improving creditworthiness in both current major recipients and other developing countries, the underlying structural factors driving globalization and financial integration are likely to fuel continuing growth, albeit somewhat slower, in net private capital flows to developing countries.

The Mexico crisis and its aftermath show that the more creditworthy emerging markets—while still vulnerable to contagion effects—are resilient and that both investors and governments have learned valuable lessons.

Official flows remain stagnant—except for the Mexico financing package

This relatively optimistic assessment of prospects for private flows cannot be extended to official flows. Although the Mexico rescue package led a strong rebound in official flows in 1995, the underlying trends are far less promising. Nonconcessional official flows—traditionally dominated by net flows from multilateral development banks and export credit agencies—tend to be demand-driven. Due to slow new disbursements and large prepayments, net nonconcessional multilateral flows have been declining. The more creditworthy countries that traditionally borrowed from multilateral financial institutions now have easier access to private funds. And portfolio considerations limit lending to the less creditworthy countries. Export financing, however, continues to expand despite tight budgets in OECD countries. Export credit agencies have become important instruments of foreign trade policy and have directed their attention to the new trading opportunities in the more creditworthy emerging markets.

Official development assistance (ODA) from OECD Development Assistance Committee (DAC) countries fell again in 1994, to 0.29 percent of their GNP, the lowest since 1973. Reflecting budgetary pressures facing donor governments, ODA fell 6 percent in real terms in 1994. Efforts to protect the poorest countries have been only partly successful. While low-income countries received a rising share of ODA flows to developing countries (as defined by the OECD), their share has actually declined once flows to countries in Eastern Europe and the former Soviet Union are taken into account. Moreover, ODA for long-term development declined more sharply than total ODA because disaster relief and peacekeeping operations received more than twice as much in 1994 as in the early 1990s.

All regions recorded an increase in debt stock, but trends in the capacity to service external debt are diverging by region and country.

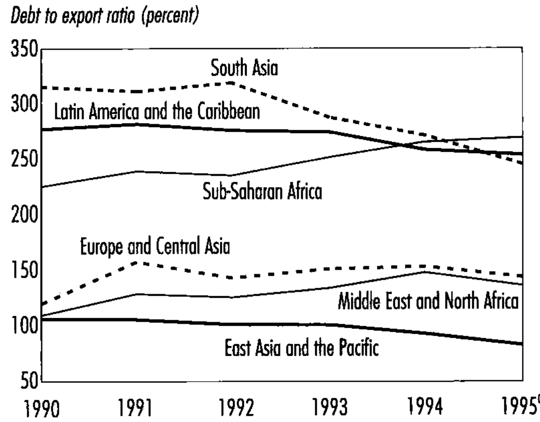
If these trends persist, the low-income countries will be the most vulnerable since they will continue (with some notable exceptions) to lack access to private capital markets. Many of them are pursuing economic reform programs to restore growth and reduce poverty, and they need ODA flows to support this process. Donors thus need to reverse this trend. An important element of this effort needs to be the adequate replenishment of the concessional arms of multilateral development banks, which play a critical role in helping promote sound policies and reducing poverty. It is also important for both bilateral and multilateral donors to allocate these scarce aid resources to the countries committed to sustained reform and poverty reduction.

External debt continues to rise, but with diverging debt indicators by region

The large inflow of private debt-creating flows and the Mexico rescue package contributed to the 10 percent jump in external debt of developing countries, pushing it over $2 trillion in 1995. Also contributing were the depreciation of the U.S. dollar and the capitalization of rescheduled interest.

All regions recorded an increase in debt stock, but the amount of debt hides diverging trends in regional or individual country capacity to service

Figure 4 Debt stock continues to rise, but regions show diverging indicators



Note: Based on nominal debt.
a. Preliminary.
Source: World Bank, Debtor Reporting System.

external debt (figure 4). Despite the rise in debt stock, all regions except Sub-Saharan Africa recorded improvements in their overall debt indicators in 1995. By contrast, despite increasingly concessional reschedulings and continuing positive net transfers from official sources, key debt indicators of many of the poorest countries continued to deteriorate, reflecting both poor past policies (and very low growth performance) and debt strategies that have proved inadequate to address their problems.

The debt problems of a group of heavily indebted poor countries remain an important challenge for the international financial community. Recognizing the long-term development problems faced by these countries, including the buildup of debt and debt servicing obligations, the multilateral institutions have taken a range of actions to address their growing debt problem.

More recently, ministers at the Development Committee requested the World Bank and the International Monetary Fund to continue their work on this issue, including detailed analysis of debt sustainability in individual countries, and to report with proposals to the committee at its next meeting in April 1996. This work is currently under way. Once the work has been completed, a supplement to *World Debt Tables 1996* will be issued to provide a fuller analysis of the debt problem of the heavily indebted poor countries and of the agreed approaches for addressing it.