

Commonwealth Secretariat
Seminar on Monitoring Private Sector External Debt
London, September 17-18, 2009

Summary of Deliberations

1. The seminar on monitoring private sector external debt was held at the Headquarters of the Commonwealth Secretariat on September 17-18, 2009.
2. The meeting generally agreed that it was important to adequately monitor private sector external debt (PSED). It was also observed that PSED is now an important policy consideration in many emerging market and developing countries, and not just for industrialized economies. Delegates discussed the importance of monitoring PSED for the following reasons: - (i) the rising levels of PSED during the boom period between 2002-2007, (ii) the increasing presence of foreign banks fuelling cross-border lending, (iii) the increasing reliance on short-term external debt by resident corporations, and (iv) the limited capacity of households to withstand risks.
3. In discussing data presentation for PSED, it was agreed that identifying data by institutional sector was very important for policy analysis and Short-term external debt was seen to be particularly relevant because of its volatility. Maturity breakdowns and foreign/domestic currency splits were also seen as important analytic tools. Some delegates stressed the importance of being forward looking when identifying data needs.
4. The borderline between defining public and private sector external debt was discussed. Clear measurement guidance to countries was advocated. It was also noted that different definitions were applied across countries to define “parastatals” and this blurred cross-country comparisons of public and private sector debt. Adequately distinguishing between public and private sector debt was noted to be especially relevant in the latest financial crisis, as much public sector debt had been created from former private sector debt, often through the enactment of guarantees or contingencies.
5. As outlined in the presentation by Commonwealth Secretariat, the national institutional and regulatory framework was relevant to both analysis and data collection. A hierarchical approach to relaxing capital controls had been observed: first corporations

tended to be affected, then banks, and finally households. With deregulation, capturing PSED transactions and positions data usually became more complex and the scope of permitted transactions widened. Presentations by delegates from India and Mexico threw light on these issues. India has maintained, for external commercial borrowings (ECB), a collection system that was devised in the past when the Indian economy was highly regulated and which requires that borrowers report very detailed information on each loan to intermediaries (e.g., banks) before the loan can be approved. This very detailed information is aggregated by the intermediaries before being passed on the debt compilers. Mexico's institutional environment led to different collection arrangements, under which considerably less detail can be feasibly collected on PSED than in the Indian situation. Other countries represented at the seminar are similarly restricted in the amount of detail that can be collected on PSED. For these countries, this more limited detail is sometimes obtained on an instrument-by-instrument basis and sometimes after aggregation by data reporters. In discussions on these presentations, a particular difficulty mentioned was to monitor transactions through offshore accounts.

6. The IMF's contribution focused on the encouragement that the International Monetary Fund (IMF) gives to General Data Dissemination System (GDDS) countries, as well as Special Data Dissemination Standard (SDDS) countries, to disseminate PSED data and report them for inclusion in the World Bank's Quarterly External Debt Statistics (QEDS). It was explained that last year's release of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) would lead to updates to External Debt Statistics: Guide for Compilers and Users, and that countries would need to be aware of how this would affect reporting. The linkages with the IIP and BOP were described during the presentation of the IMF and the importance of consistent recording (based on consistent internationally-agreed guidelines) between countries and across statistical systems was emphasized. The World Bank's Debtor Reporting System was also described.
7. Successful data collection and compilation activities in Mexico and Thailand were described. Mexico's innovative approach—to collect a significant part of its data from nonresident creditors—was noted. Thailand's survey system—supplemented by International Transaction Reporting System (ITRS) data (i.e. essentially foreign exchange transaction records collected from/ obtained by bank intermediaries—drew considerable attention, in particular, the

case study on the benefits/costs that resulted from adopting a value threshold below which enterprises would not be surveyed on a regular basis and on the techniques used to estimate the below-threshold portion using ITRS data. UNCTAD's experience was that the adoption of similar appropriate reporting thresholds in other countries had generally led to substantial cost savings for little reduction in data accuracy.

8. Delegates from Zambia, Nigeria, and Belize described challenges in capturing and monitoring PSED data. The meeting recognized their achievements in establishing data collection systems. Challenges, which were often common across the countries, included the loss of administrative sources as countries deregulated and the difficulties of setting up appropriate frameworks in the new environment. The need to develop adequate institutional frameworks, including appropriate legislation, communication between agencies, and resourcing, was described. Other difficulties included achieving adequate survey response rates, identifying the existence of transactions that pass outside the domestic banking system, capturing short-term debt, and the incompatibility of data sources (e.g. internet records) with data requirements. The work of Development Finance International (DFI) with countries to address these kinds of difficulties was described. DFI works with various countries to develop good data collection, compilation, and dissemination systems, on the basis of international statistical guidelines and best international survey practices. It was acknowledged that the experience of DFI working with countries could be tapped to assist other countries to improve their PSED capture and monitoring.
9. The Bank for International Settlements (BIS) presentation on the bank's International Banking Statistics demonstrated how these creditor-source data can be used as an alternative source to cross check or supplement debtor-based national source data. It was explained how these statistics appear to be a leading indicator of financial crises. The BIS external derivatives database and the BIS international securities database were also described. The securities database could potentially be used together with security-by-security information collected in national sources to significantly enhance the quality of national data on debt security liabilities.
10. The meeting appreciated the three presentations on the Macroeconomic and Financial Management Institute (MEFMI), Mexican, and Malaysian management information systems for capturing PSED. While each system had a somewhat different

purpose, the capacity of well-designed computerized systems to significantly enhance the efficiency and effectiveness of data processing was shown.

11. The UNCTAD presentation on the development of the DMFAS system to gather data on private non-guaranteed external debt and short term debt contained much useful information, of which of particular note was the neat categorization on how the system's information needs would differ depending upon the type of foreign exchange regime: that is, fully controlled, partly controlled, or fully liberalized. Thus for instruments subject to control, the existing system could well continue to meet country needs, while for instruments not subject to control and short-term debt, a new "DMFAS-lite" system might well prove sufficient to meet international reporting standards. It was also explained that the implementation of the extended DMFAS would have to be comprehensive and involve careful review of requirements, awareness seminars, training, and database development.
12. The seminar was followed by a two-day technical working group (TWG) meeting which crystallized topics discussed during the seminar and identified ways to assist countries to comply with guidelines and international standards regarding information on cross-border private capital flows. The TWG also designed data input reports and survey forms that will serve as a requirement document for the development of a PSED module in the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS).