

COUNTRY RISK AND THE BALANCE OF PAYMENTS THE CURRENT ACCOUNT



CIFE SEMINAR ROMA-BERLIN-NICE 2025
MICHEL-HENRY BOUCHET

1

NOVEMBER

FEBRUARY

MARCH

APRIL

ROMA

- Country risk
- Econ Intel.
- Risk Components

BERLIN

- BOP
- Debt dynamics
- Debt Ratios
- Crisis

NICE

- Political risk
 - Institutional crisis and failed states
 - Country reports
- SEMINAR**



MH BOUCHET/Skema-CIFE 2025

2

▶ Country risk assessment starts with the Balance of Payments!

1. Inflation and trade deficits
2. Currency volatility
3. Exchange rates
4. Productivity & competitiveness
5. Net external financing flows & Capital flight
6. Liquidity or solvency problems?
7. Debt crisis!

MH BOUCHET/Skema-CIFE 2025

3



BALANCE OF PAYMENTS

Accounting framework and statistical record of all economic and financial flows between residents of the reporting country and the rest of the world

The time period itself is arbitrary:
monthly, quarterly and yearly basis

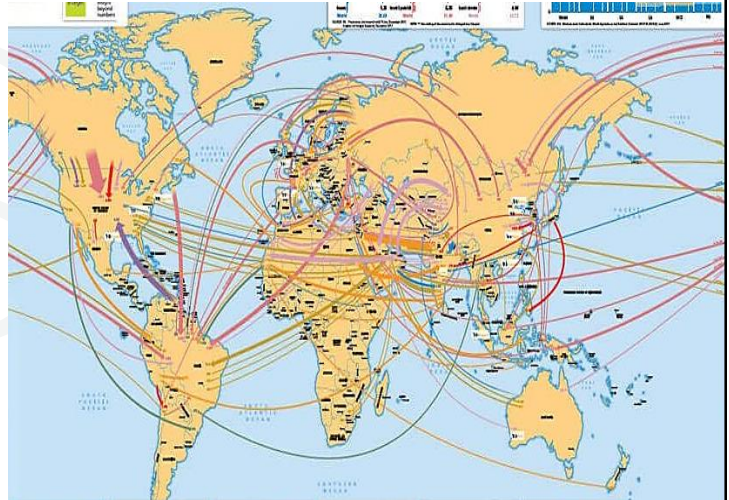
A Video? https://www.youtube.com/watch?v=A_Nut4pNHuc
<https://www.youtube.com/watch?v=YIQgeyKV-QM>

MH BOUCHET/Skema-CIFE 2025

4

BALANCE OF PAYMENTS = RECORDING OF TRADE AND FINANCIAL FLOWS

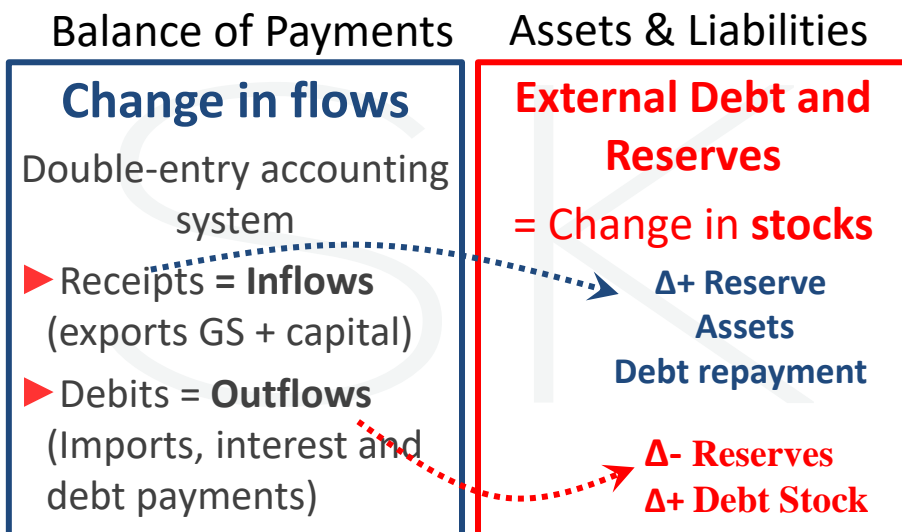
- Exports
- Imports
- Services (tourism)
- Interest Payments
- Transfers (remittances)
 - FDI
 - Portfolio
- Capital inflows and outflows
 - Reserve Change
 - Arrears



MH BOUCHET/Skema-CIFE 2025

5

BALANCE OF PAYMENTS AND EXTERNAL DEBT



MH BOUCHET/Skema-CIFE 2025

6

THE BALANCE IS ALWAYS BALANCED!



Changes in the stock of reserve assets, emergency financing, payment arrears... or debt default, will balance the national accounts

MH BOUCHET/Skema-CIFE 2025

7

Residents? = Government, households, individuals, NGOs & private non-profit entities, and firms.

- MNCs are by definition resident in more than one country. The MNC's subsidiaries are treated as resident in the country in which they are located even if their shares are actually owned by foreign residents.
- IFIs are always foreign residents (IMF...)
- Tourists and CIFE students are foreign residents if they stay in the reporting country **< 1 year**

MH BOUCHET/Skema-CIFE 2025

8

BALANCE OF PAYMENTS ACCURACY ?

- ▶ Data collection and methodological errors
- ▶ Inconsistencies in the time of recording and valuation of the corresponding debit and credit entries
- ▶ Undercoverage (over-invoicing/under-invoicing of trade transactions)
- ▶ Data revisions policy
- ▶ Use of sample surveys rather than complete enumeration
- ▶ Trade-off between accuracy and timeliness!
- ▶ Customs deficiency!



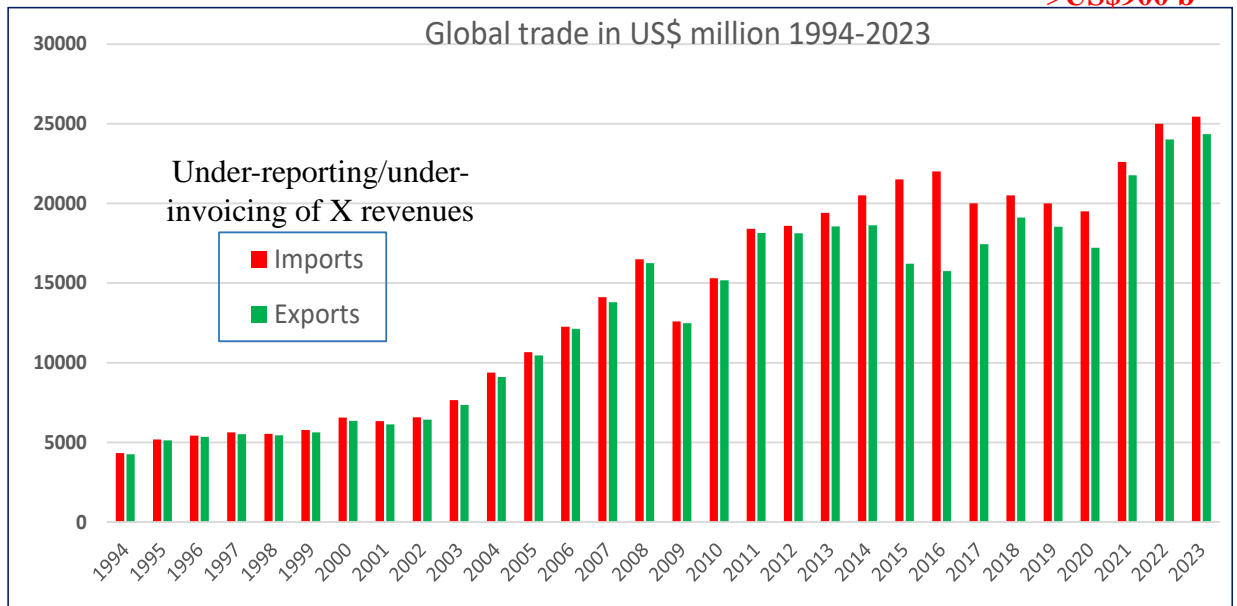
MH BOUCHET/Skema-CIFE 2025

9

THE WORLD "MISSING" EXPORTS

A « *black hole* »

>US\$900 b



Source: IMF-2023

MH BOUCHET/Skema-CIFE 2025

10

INTERPRETING THE BALANCE OF PAYMENTS

Different accounts in the balance of payments make it possible to see whether or not a country lives **“beyond its means”**

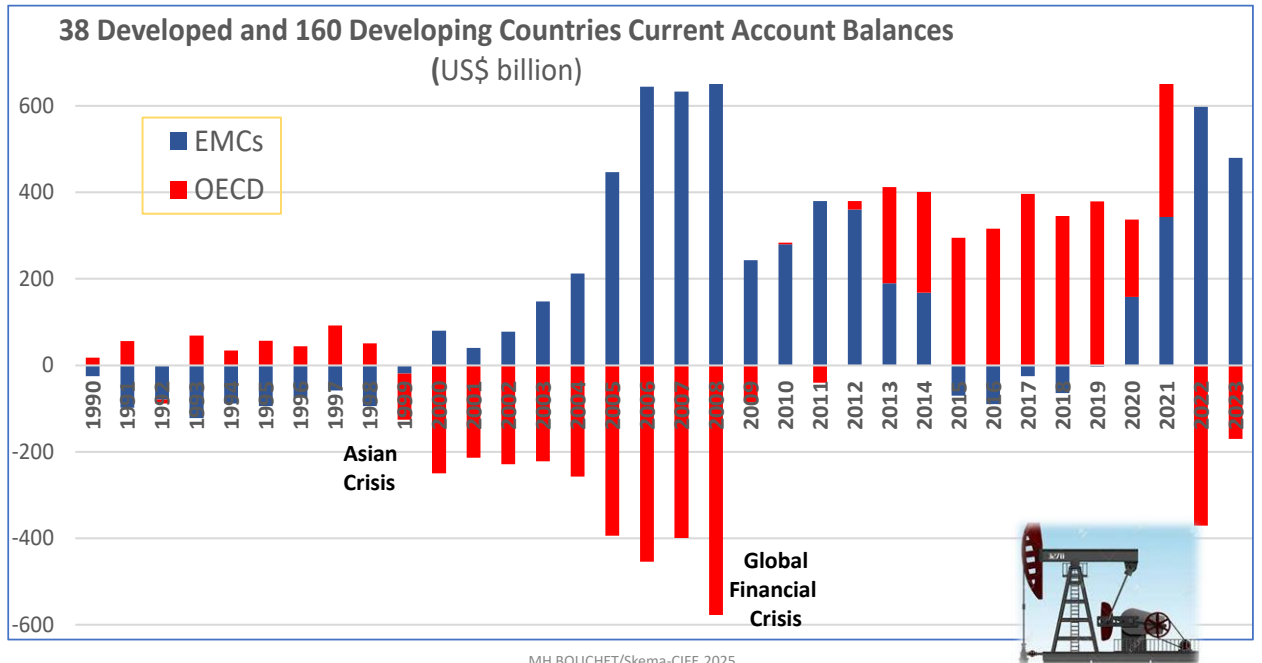
Merchandise exports or imports can be broken down by product and by market source and destination (incompressible imports or volatile exports!)

Useful for determining how a country’s balance of payments and overall economic performance will react to different situations (elasticities, exchange rate adjustment, domestic absorption, terms of trade, trade barriers, deflation...)

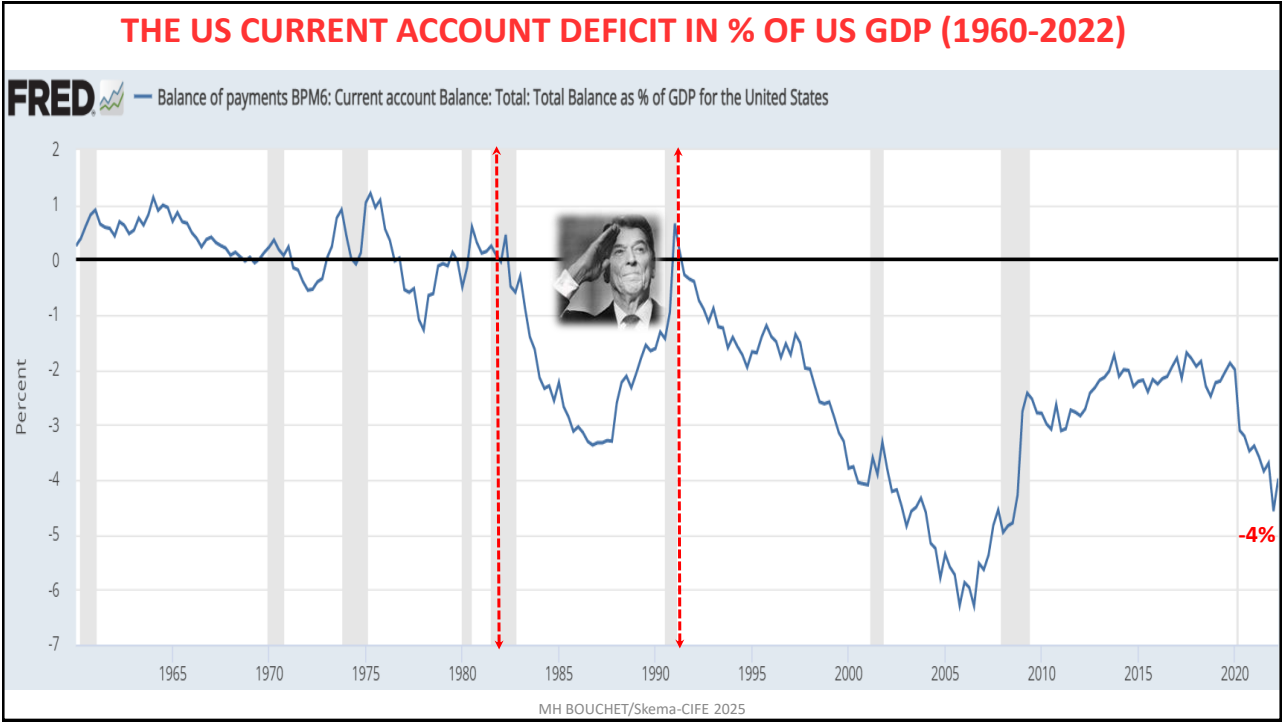
MH BOUCHET/Skema-CIFE 2025

11

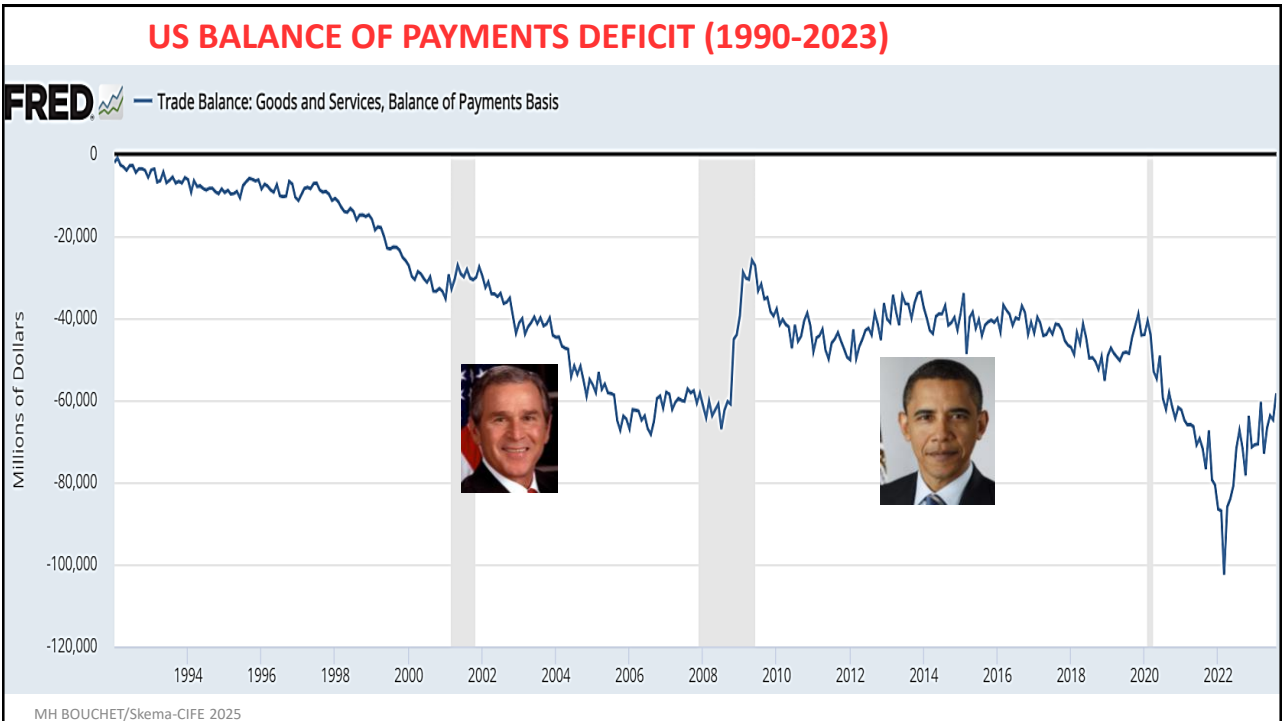
WHERE DOES MONEY COME FROM?



12



13



14

INTERPRETING THE BALANCE OF PAYMENTS

- Living beyond its means?
- Current account balance = saving - domestic spending
- A country that **saves > it invests** at home sends its surplus abroad to purchase foreign assets
- One that **saves < it invests** finances the shortfall by issuing liabilities to foreign investors = Δ debt!
- The accumulated history of current account surpluses or deficits, along with capital gains and losses on past investments, determines a country's **net international investment position**.

MH BOUCHET/Skema-CIFE 2025

15

NATIONAL INCOME IDENTITY

Y = National income
C = Domestic Consumption
I = Investment
G = Government expenses
T = Taxes & Government revenues
X = Exports
M = Imports
S = Domestic Savings (income > consumption)

MH BOUCHET/Skema-CIFE 2025

16

DOMESTIC AND EXTERNAL FINANCIAL EQUILIBRIUM

What is disposable income?

Y = gross income - imports & taxation

$$Y = C + I + G + X - M - T + (KM - K \text{ flight})$$

$$\text{Savings} = Y - C$$

$$\underbrace{(S - I)}_{\text{Savings}} + \underbrace{(T - G)}_{\text{Fiscal balance}} = \underbrace{(X - M)}_{\text{Trade balance}} + \underbrace{(KM - K \text{ flight})}_{\text{Net capital inflows}}$$

MH BOUCHET/Skema-CIFE 2025

17

BOOSTING SAVINGS TO FINANCE INVESTMENT WITHOUT EXTERNAL DEFICIT?

if $S > I \Rightarrow X > M$

if $S < I \Rightarrow \mathbf{M > X}$

- ▶ a trade imbalance is always rooted in low savings and excessive domestic spending (absorption)
- ▶ It requires macroeconomic correction (interest rate hike, devaluation, \uparrow taxation, credit reduction, \uparrow reserve requirements...)

MH BOUCHET/Skema-CIFE 2025

18

Two principal sub-accounts

1. **current account** plays a role similar to a private company's income statement= country's **economic performance** vis-à-vis the rest of the world.
2. **capital account** shows how the country's economic growth gets **financed**

The basic balance draws the line under "other long-term capital" to emphasize the role of economic performance and stable long-term financing. Another presentation is the **Table of Uses & Sources**

MH BOUCHET/Skema-CIFE 2025

19

BALANCE OF PAYMENTS: CURRENT & CAPITAL ACCOUNTS

1. **Balance of trade** = Exports of merchandise – Imports
2. **Balance of services** ("invisible")
= freight, insurance, shipping, banking, tourism, interest and dividend payments (i.e. services of capital!)
3. **Unilateral transfers**
= **CURRENT ACCOUNT**



▶ *A deficit in the current account must be financed by a surplus in the capital account!*

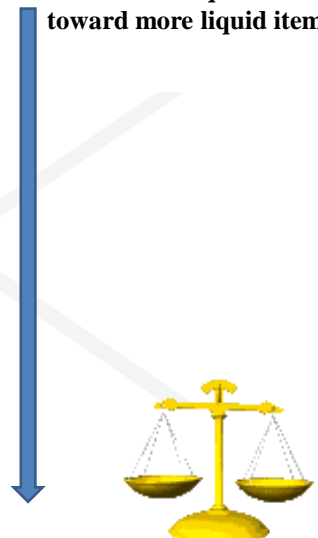
MH BOUCHET/Skema-CIFE 2025

20

THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS

- + Export of goods f.o.b.
- Imports of goods f.o.b.
- = **Trade balance**
- + Exports of non-financial services
- Imports of non-financial services
- + Investment income (credit)
- **Interest payments**
- + Private unrequited transfers
- + Official unrequited transfers
- = **Current account balance**

From less liquid items
toward more liquid items!

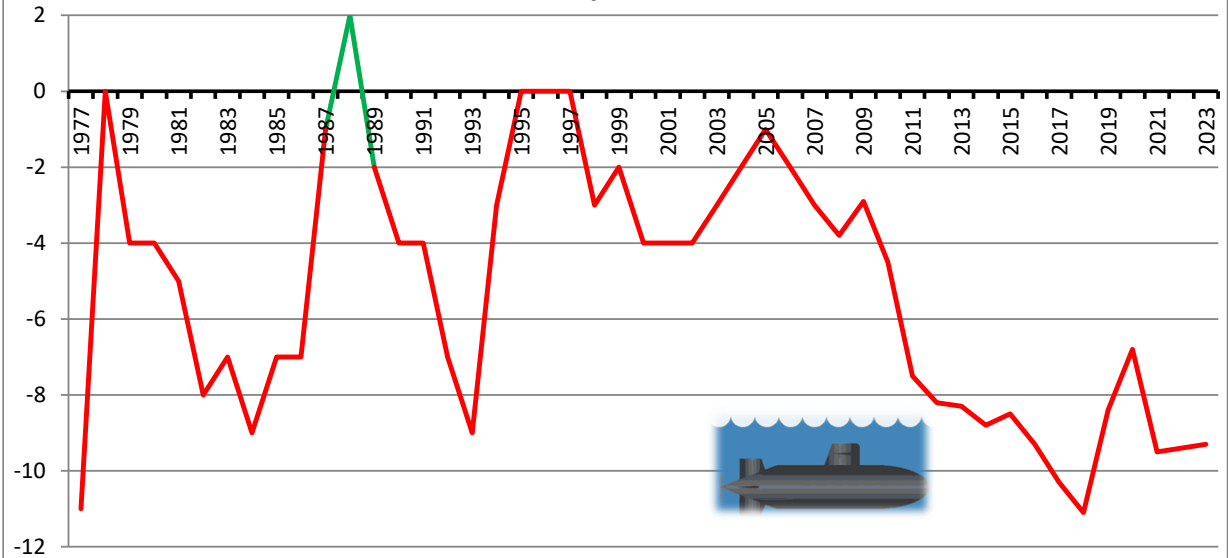


MH BOUCHET/Skema-CIFE 2025

21

Is there any limit to a deficit?

Tunisia: Current Account/GDP % 1977-2023



MH BOUCHET/Skema-CIFE 2025

22

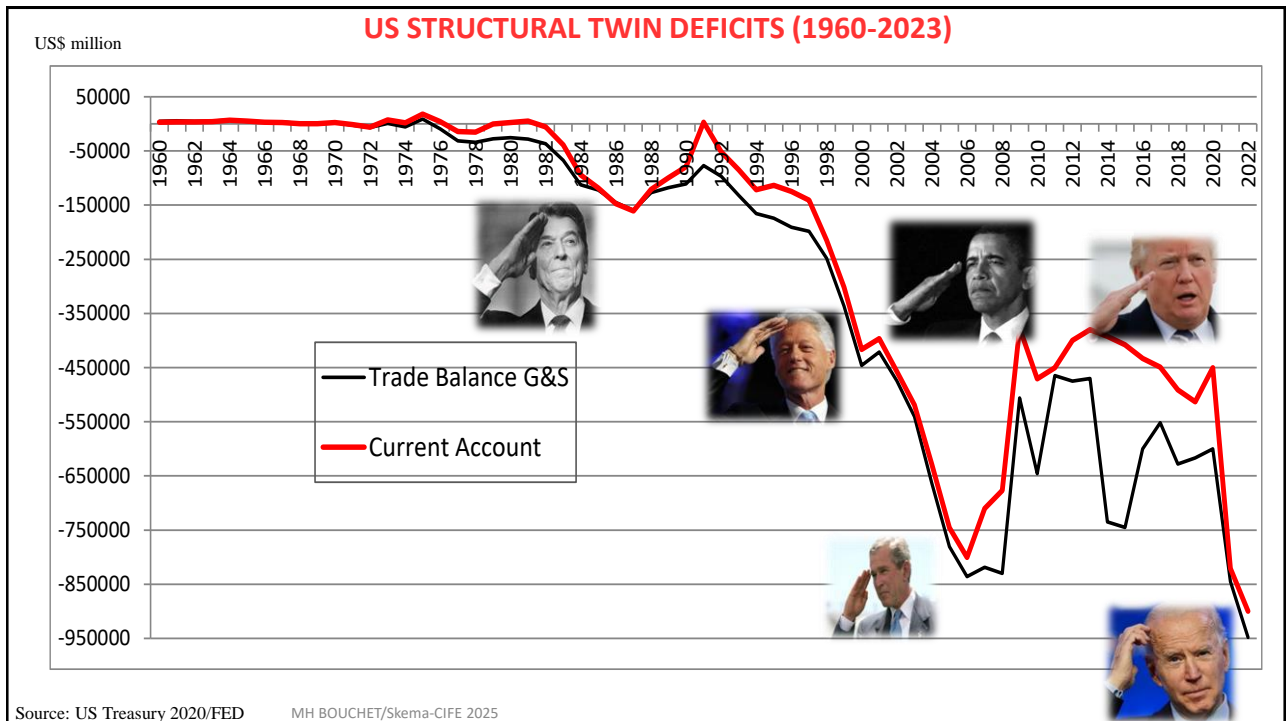
1. **The trade balance** comprises



1. **Merchandise exports:** all movable goods such as equipment, cars, trucks, textile, appliances, oil etc.
2. **Imports are recorded “free on board” (f.o.b.):** services (freight, insurance, shipping and handling performed on goods up to the customs frontier of the economy from which the goods are exported), are **not** included in the trade balance.

MH BOUCHET/Skema-CIFE 2025

23



24

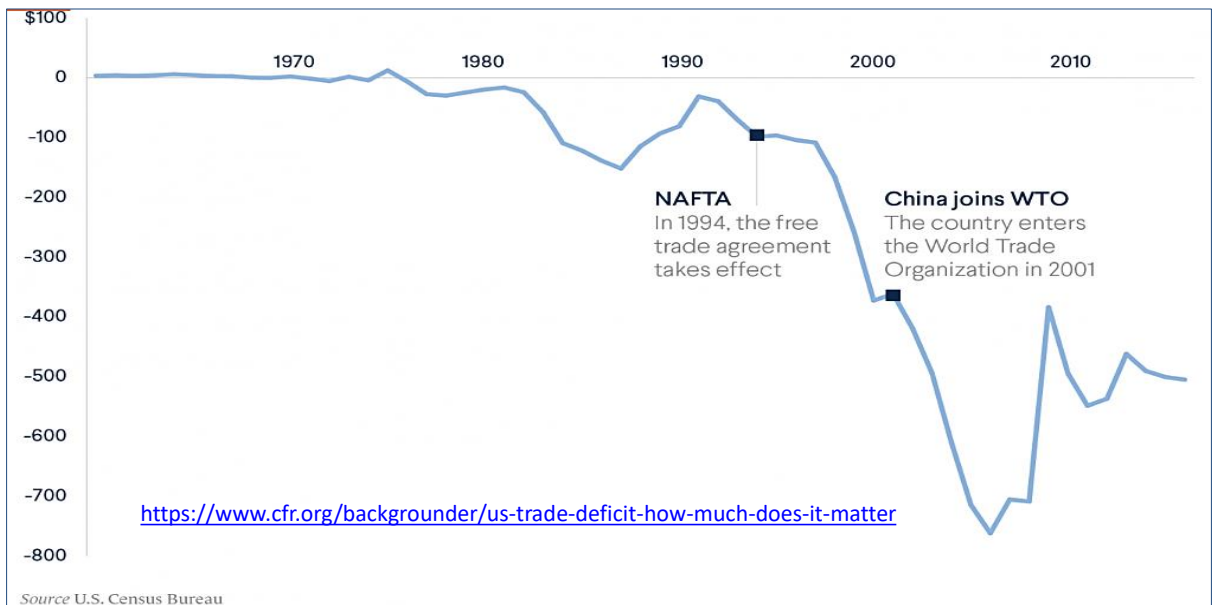
THE US TRADE BALANCE (US CENSUS 11/2023)

- ▶ In 2023 the United States exported \$2050 trillion in goods while it imported \$3110 trillion, hence a **\$1200 billion deficit**.
- ▶ Major goods exported = aircraft, medical equipment, refined petroleum, and agricultural commodities.
- ▶ Major imports are dominated by capital goods, such as computers and telecom equipment; consumer goods, such as apparel, electronic devices, and automobiles; and crude oil.
- ▶ Services, such as tourism, intellectual property, and finance, make up roughly one-third of exports.
- ▶ The deficit in goods is higher than the overall trade deficit, since **a portion of the goods deficit is offset by the surplus in services trade**.

MH BOUCHET/Skema-CIFE 2025

25

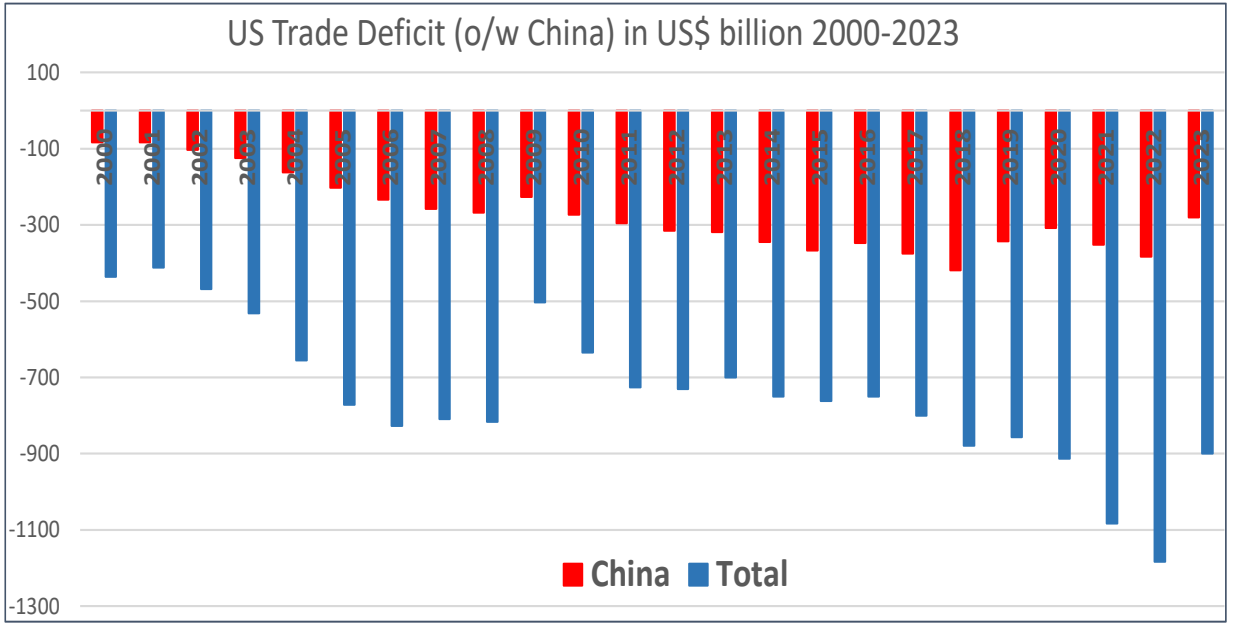
BLAMING FREE TRADE, CHINA AND EMCS? THE US TRADE DEFICIT OVER TIME



MH BOUCHET/Skema-CIFE 2025

26

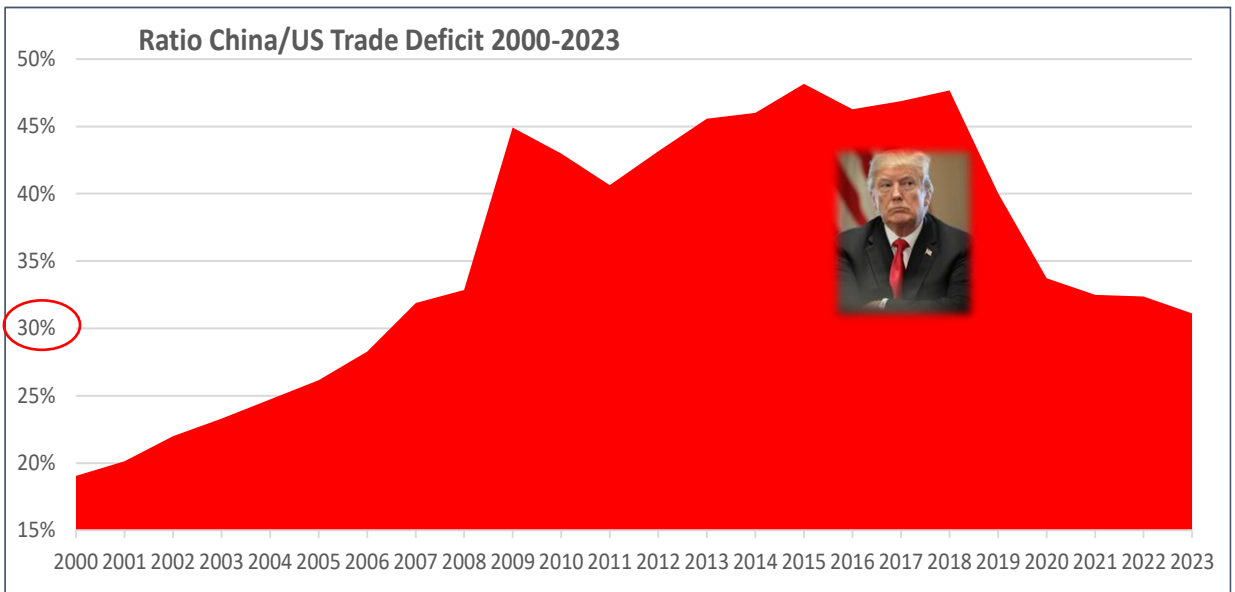
BLAMING CHINA?



MH BOUCHET/Skema-CIFE 2025

27

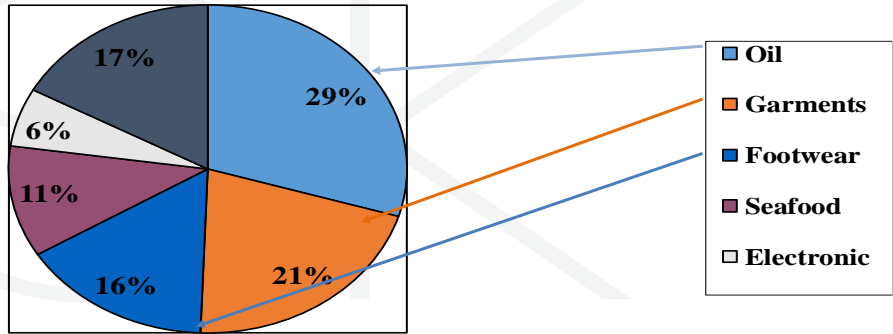
BLAMING CHINA??



MH BOUCHET/Skema-CIFE 2025

28

VIETNAM'S KEY EXPORTS OF GOODS

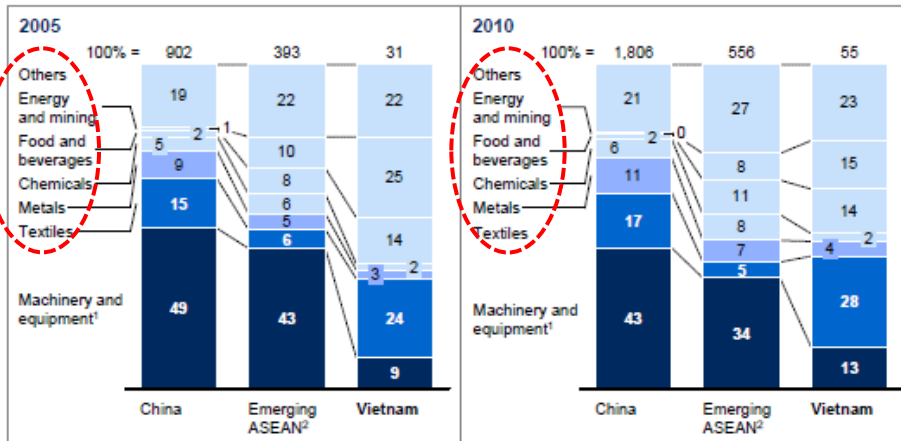


MH BOUCHET/Skema-CIFE 2025

29

Vietnam's exports are concentrated in low-value-added products compared with ASEAN countries

Export breakdown by subsector
%; \$ billion



¹ Includes electric equipment, electronic products, and general machinery and equipment.

² Including Indonesia, Malaysia, the Philippines, and Thailand.

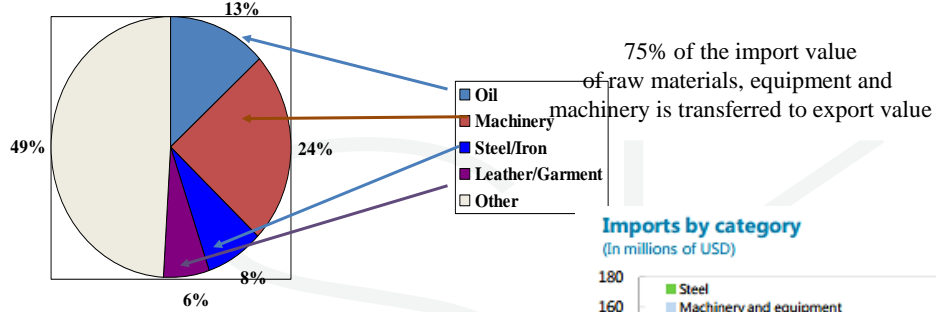
NOTE: Numbers may not sum due to rounding.

SOURCE: Global Insight 2011; McKinsey Global Institute analysis

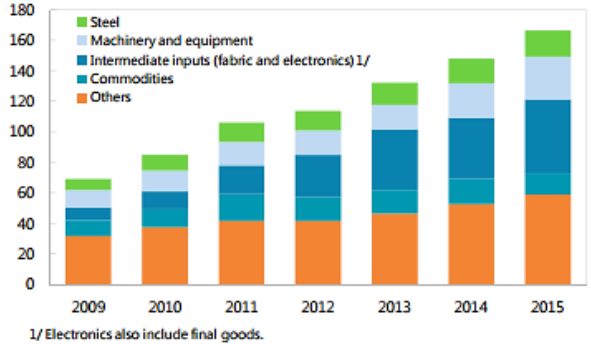
MH BOUCHET/Skema-CIFE 2025

30

VIETNAM'S IMPORTS OF GOODS



Imports by category (In millions of USD)

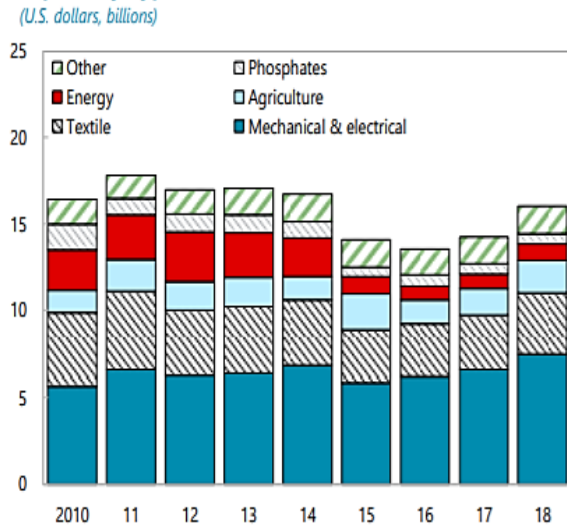


MH BOUCHET/Skema-CIFE 2025

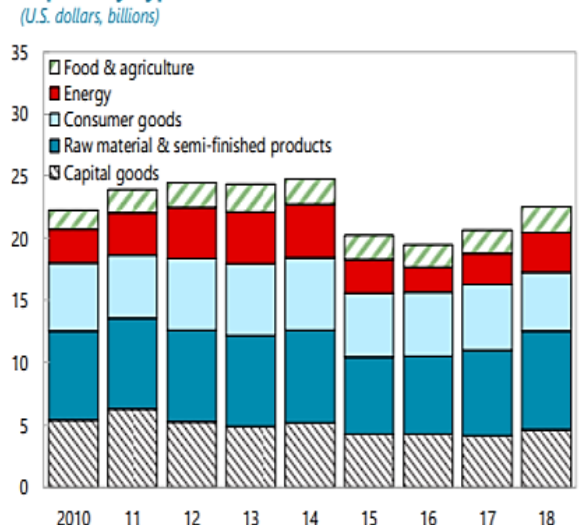
31

TUNISIA = STRUCTURE OF X & M TRADE FLOWS

Exports by Type of Good (U.S. dollars, billions)



Imports by Type of Good (U.S. dollars, billions)



MH BOUCHET/Skema-CIFE 2025

32

2. Non-financial services =

Freight, insurance, passenger services, tourism, and travel!

The transportation of persons represents the largest component of passenger services.

Tourism earnings: Cuba, Morocco, Tunisia?, Vietnam, Thailand, Spain, France...

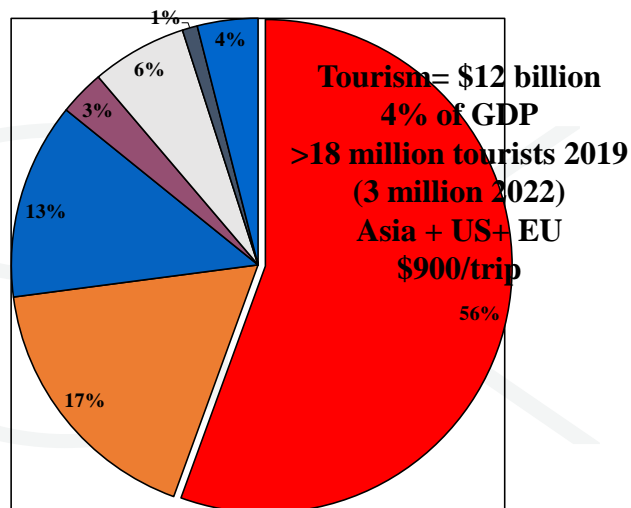
Freight refers mainly to the carriage or transport of goods between national economies (Malta, Cyprus, Liberia, Panama...)

Insurance comprises insurance on movable goods during the course of shipment between economies as well as insurance on the carriers and other types of insurance such as life insurance.

MH BOUCHET/Skema-CIFE 2025

33

SERVICE EXPORTS OF VIETNAM



■ Tourism ■ Air transport ■ Shipping ■ Post-telecom □ Finance/Insurance ■ Govt Services ■ Other

MH BOUCHET/Skema-CIFE 2025

34

3. Financial services: = Investment income and interest payments

Investment income covers income derived from the ownership of foreign financial assets (interest and dividends for portfolio investment + non-distributed earnings of incorporated enterprises)

Distinction between portfolio investment and direct investment revolves around the investor's intentions concerning the foreign company.

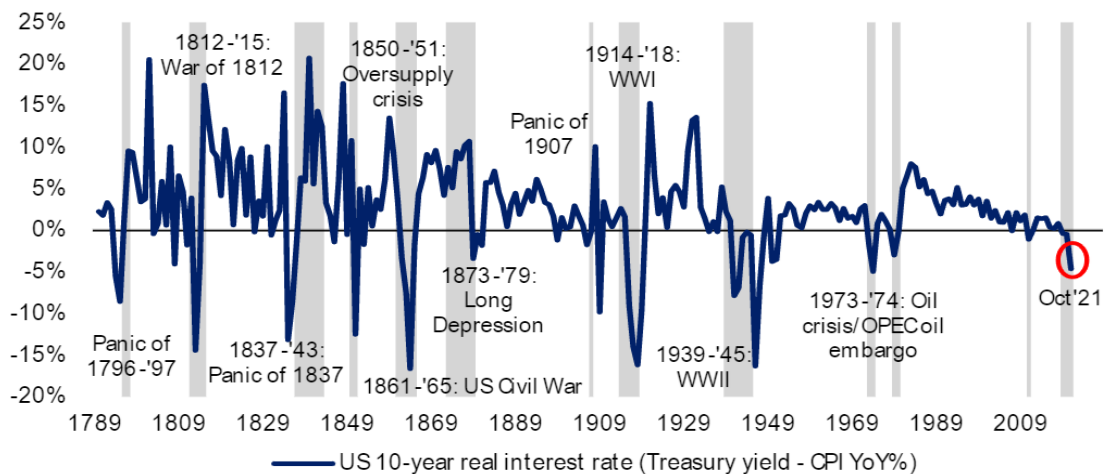
Investment debits = **interest payments** on foreign liabilities
(interest on debt!)

MH BOUCHET/Skema-CIFE 2025

35

THE VOLATILITY OF US INTEREST RATES 1789-2021

US 10-year real interest rate



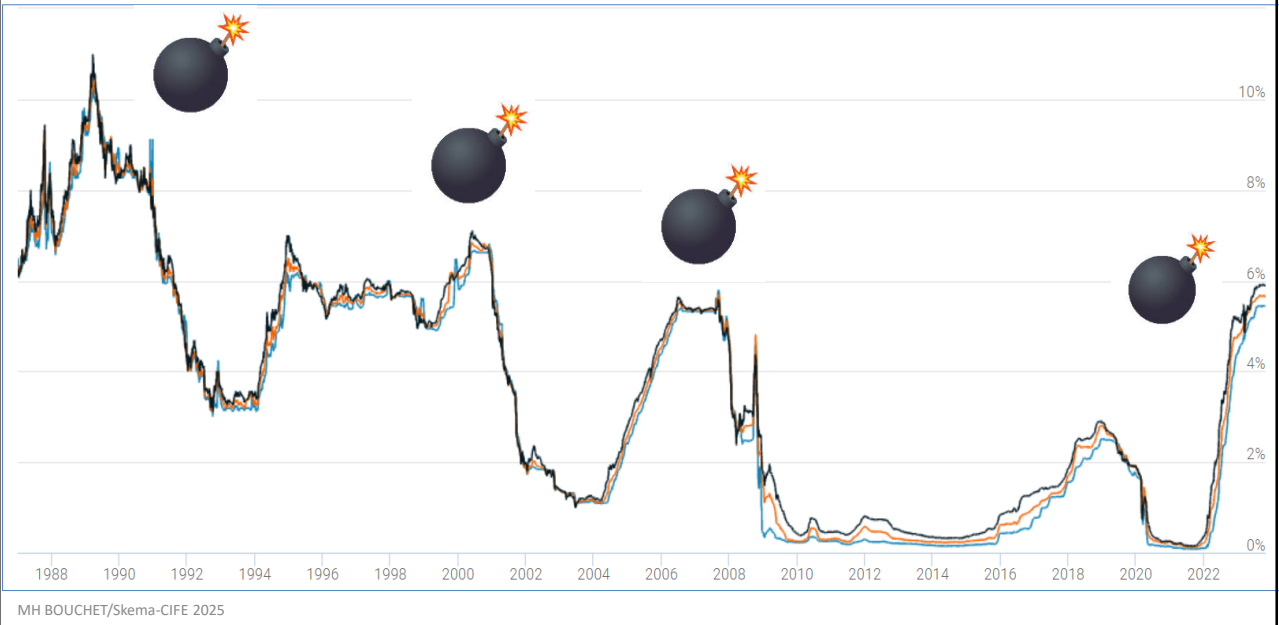
Source: BofA Global Investment Strategy, Global Financial Data

BofA GLOBAL RESEARCH

MH BOUCHET/Skema-CIFE 2025

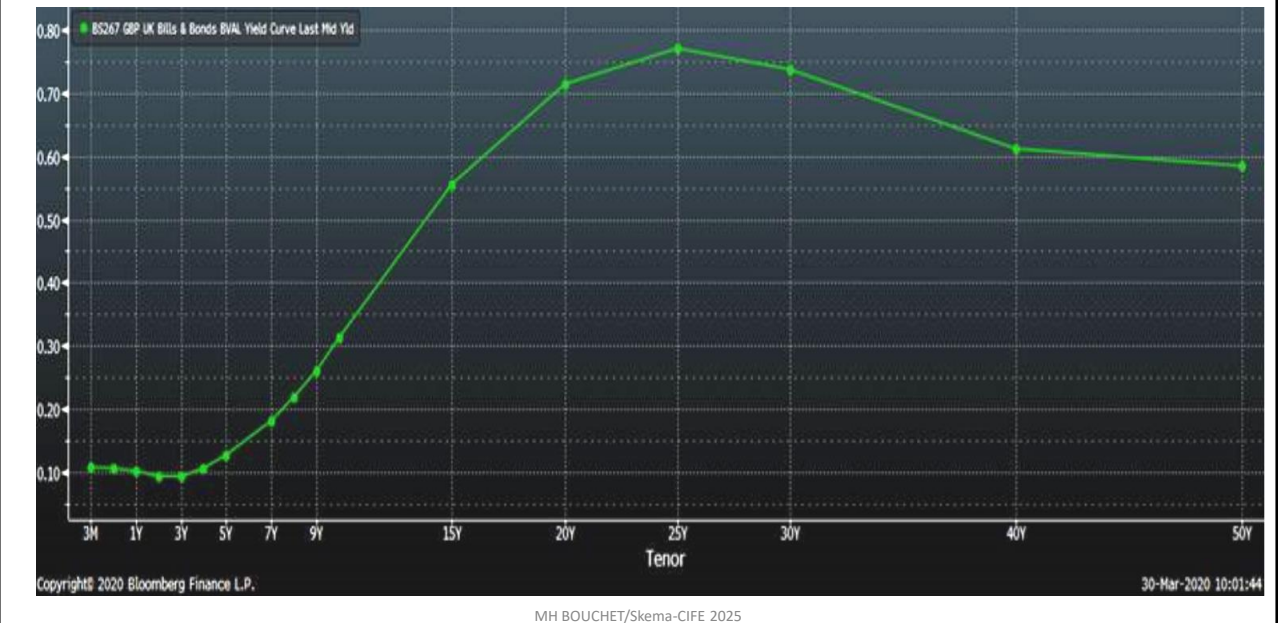
36

LIBOR RATE 1985-2023: A DEBT CRISIS GRAPH!

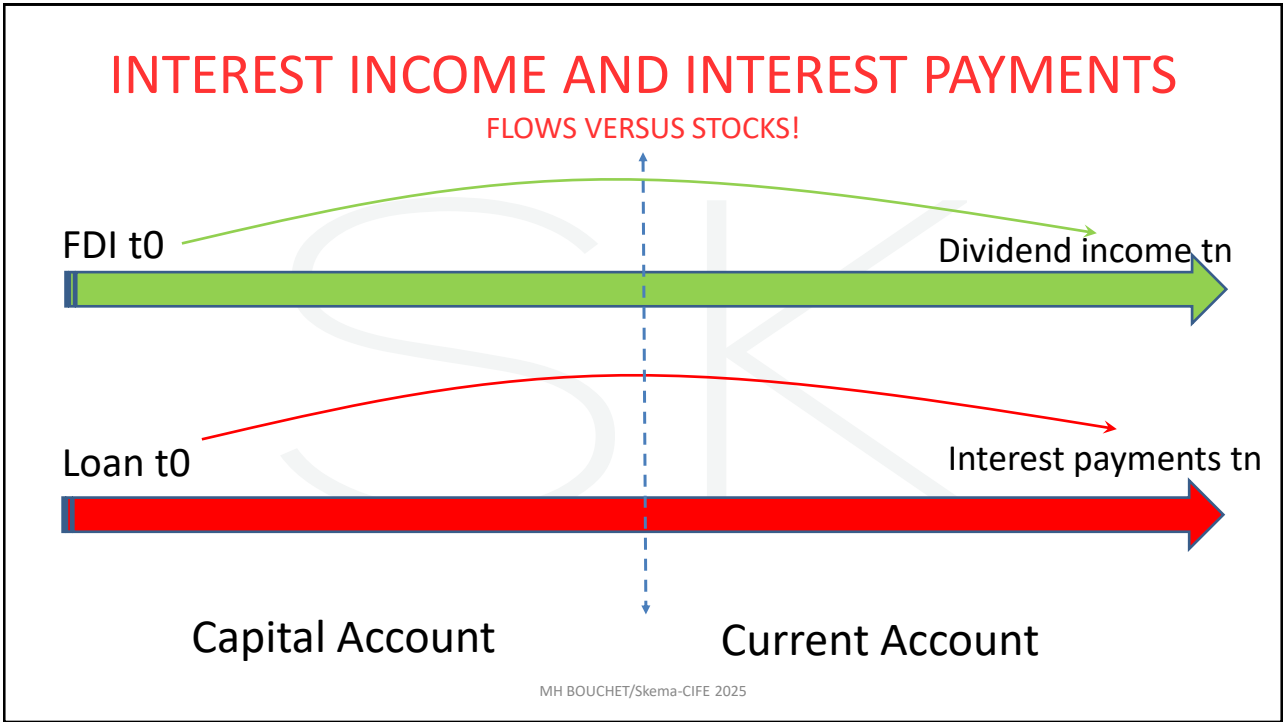


37

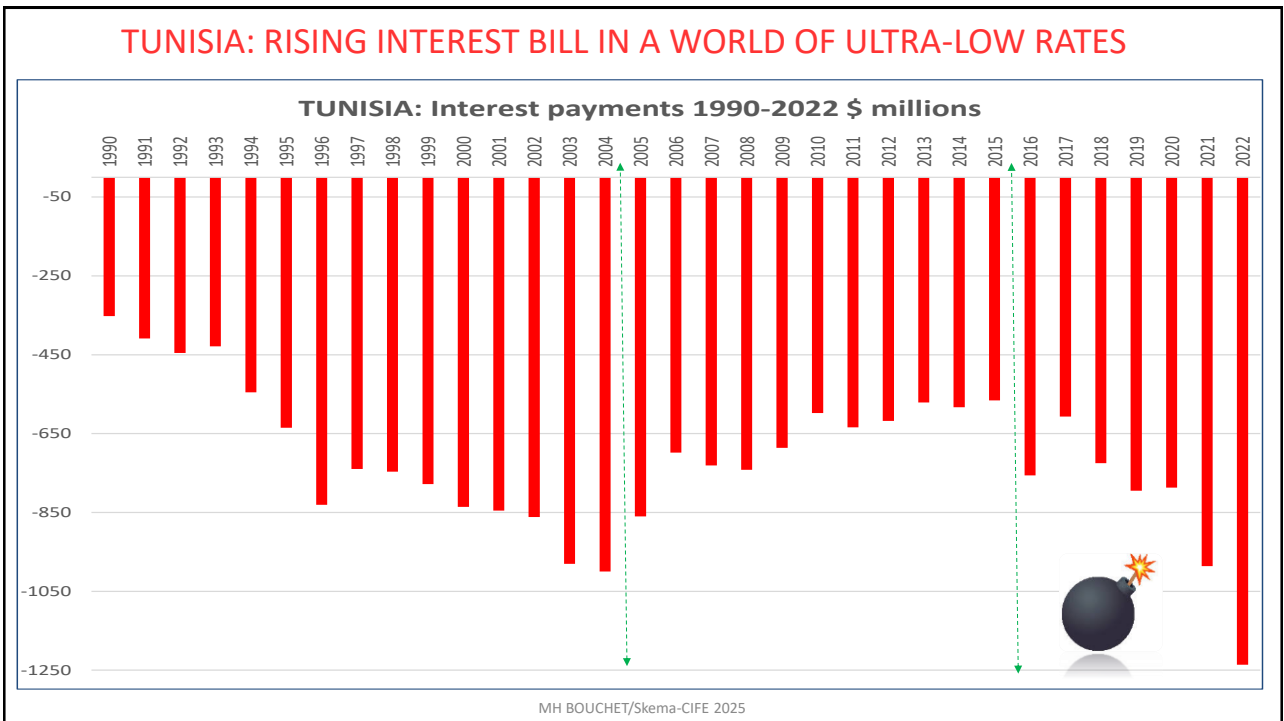
A WORLD OF NEGATIVE/ULTRA LOW INTEREST RATES UNTIL END-2022 UK'S YIELD CURVE 3-MONTHS/50 YEARS Q2-2020



38

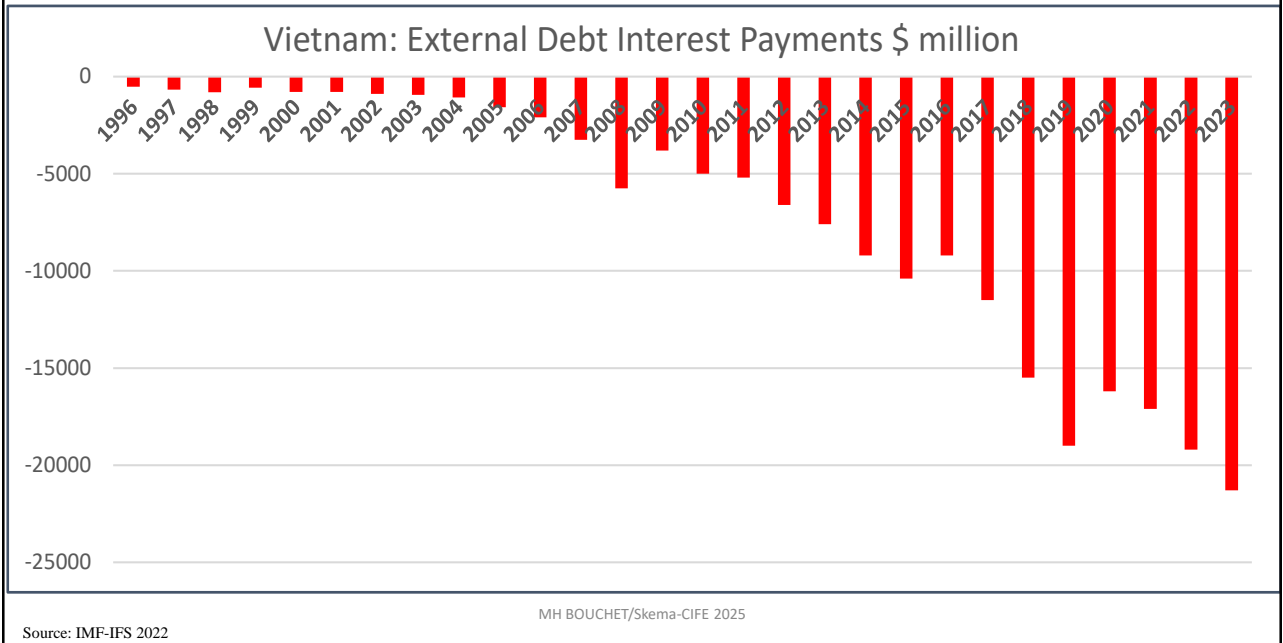


39



40

EXTERNAL DEBT SERVICING BURDEN 1996-2023



41

4. Private and official unrequited transfers

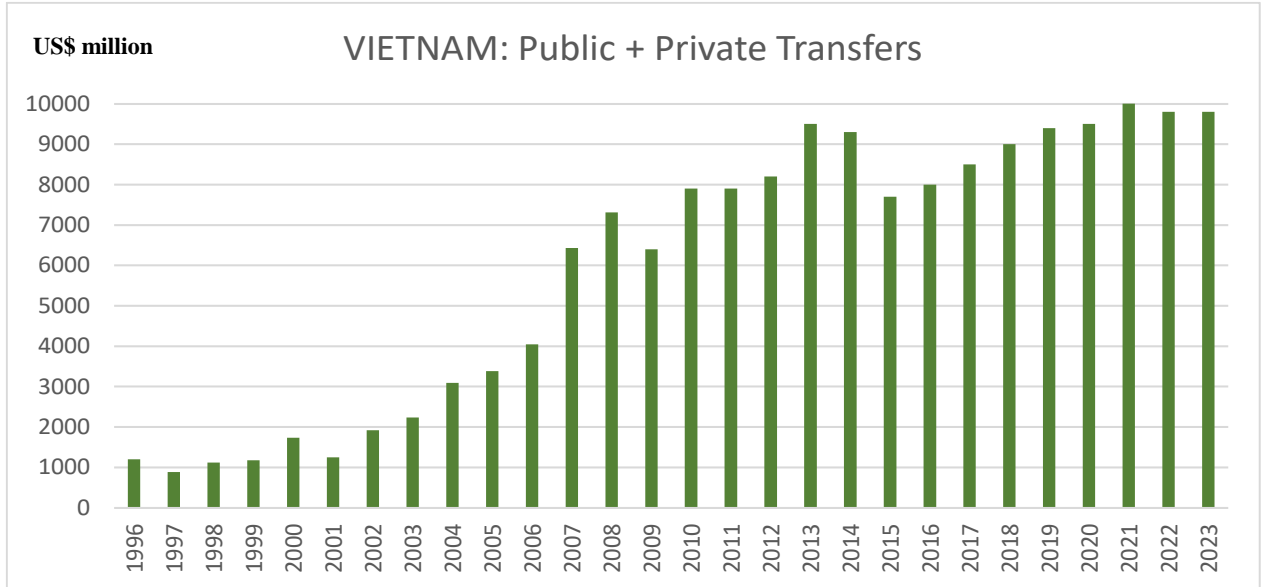
Private unrequited transfers refer mainly to immigrant workers' remittances to their country of origin as well as gifts, inheritances, prizes, charitable contributions, etc.: Morocco, Mexico, Algeria, Tunisia, India, Pakistan...

Official unrequited transfers include grants, subsidies, military aid, voluntary debt cancellation, contributions to international organizations, indemnities imposed under peace treaties, technical assistance, etc. : Large inflows for most HIPC-eligible countries (Benin, Tanzania, Haiti...)

MH BOUCHET/Skema-CIFE 2025

42

VIETNAM'S TOTAL TRANSFERS REVENUES 1996-2023

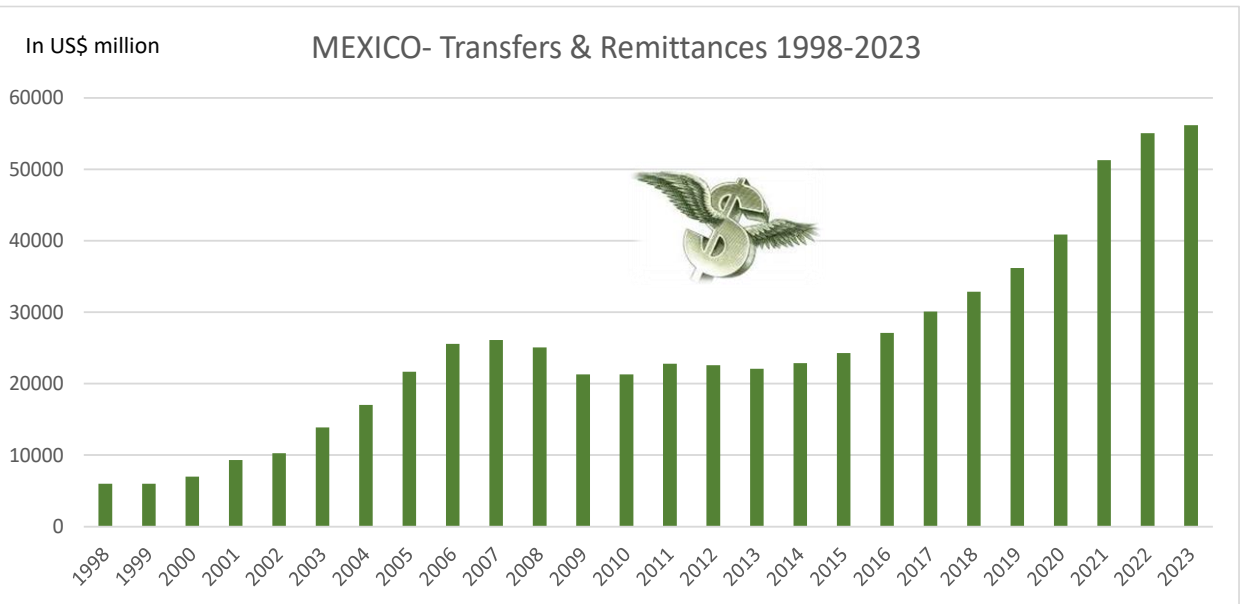


Source: IMF-2022

MH BOUCHET/Skema-CIFE 2025

43

MEXICO: THE KEY ROLE OF LABOR FLOWS IN THE US



MH BOUCHET/Skema-CIFE 2025

44

REMITTANCES BETWEEN LATIN AMERICA AND THE US UNDER TRUMP??

- ▶ = Migrant worker's earnings sent back from the country of employment to the country of origin
- ▶ Key for Morocco, Tunisia, Indonesia, Vietnam, Philippines, Mexico...
- ▶ What linkages between remittance flows to Latin America and the U.S. business cycle?

All of the evidence suggests that remittance flows are relatively **insensitive** to fluctuations in the U.S. cycle, underlining their role as a stable source of external financing... until the 2008 global financial crisis!

Rising again since 2018.

Source: IMF Working Paper, 12/2007= <http://www.imf.org/external/pubs/ft/wp/2007/wp07273.pdf>

MH BOUCHET/Skema-CIFE 2025

45

DEEPER IN DEFICIT! TUNISIA: POST-VIRUS BALANCE OF PAYMENTS

(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Proj.	Proj.			Proj.	
Current account balance	-4,080	-4,443	-3,288	-2,697	-4,210	-4,396	-4,493	-4,608	-4,717
Trade balance	-5,308	-5,950	-5,428	-3,711	-6,312	-6,101	-5,986	-6,243	-6,434
Exports	14,231	15,485	14,945	13,646	15,913	16,928	17,761	18,503	19,160
Energy	846	880	824	774	910	977	1,057	1,164	1,292
Non-energy	13,384	14,605	14,121	12,872	15,003	15,951	16,704	17,339	17,868
<i>of which: non-food</i>	11,844	12,561	12,516	10,964	12,716	13,569	14,237	14,788	15,233
Imports	-19,538	-21,435	-20,373	-17,357	-22,225	-23,028	-23,748	-24,745	-25,594
Energy	-2,513	-3,214	-3,467	-2,424	-3,903	-3,999	-4,136	-4,285	-4,446
Non-energy	-17,025	-18,220	-16,906	-14,933	-18,322	-19,030	-19,612	-20,460	-21,148
<i>of which: non-food</i>	-15,100	-16,195	-14,981	-12,914	-15,748	-16,422	-17,034	-17,861	-18,529
Services and transfers (net)	1,228	1,506	2,140	1,014	2,102	1,705	1,493	1,634	1,717
Services	305	717	1,182	6	1,105	898	799	970	972
<i>of which: tourism exports</i>	1,170	1,565	1,918	740	1,295	1,750	1,887	1,974	2,042
Transfers (net)	923	790	958	1,008	997	807	694	664	745
<i>of which: workers' remittances</i>	1,861	1,875	2,023	2,249	2,322	2,386	2,468	2,461	2,492
<i>of which: interest payments on external debt</i>	-607	-725	-795	-787	-986	-1,236	-1,498	-1,590	-1,500
Capital and financial account	4,079	5,068	5,066	4,255	3,690	3,715	4,098	4,165	4,307
Capital account balance	184	128	137	419	92	72	80	89	99
Financial account balance	3,895	4,940	4,928	3,836	3,598	3,644	4,018	4,076	4,208
Direct investment and portfolio (net)	747	948	823	647	767	930	982	999	1,025

Source: IMF 2022

MH BOUCHET/Skema-CIFE 2025

46

STRONGER SURPLUS! VIETNAM'S BALANCE OF PAYMENTS POST COVID!

(In billions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	Projections	
						2022	2023
Current account balance	-1.7	5.8	12.2	15.1	-3.8	2.8	6.0
Trade balance	10.8	16.5	21.2	30.7	17.7	27.2	34.4
Of which: Oil balance	-3.7	-5.0	-3.6	-1.5	-2.1	-3.7	-3.4
Exports, f.o.b.	215.1	243.7	264.2	282.6	336.3	379.5	423.0
Imports, f.o.b.	204.3	227.2	243.0	251.9	318.6	352.3	388.6
Nonfactor services	-4.0	-3.8	-1.5	-10.3	-15.7	-17.4	-19.5
Receipts	13.1	14.8	19.9	7.6	3.7	5.2	7.8
Payments	17.1	18.6	21.4	17.9	19.4	22.6	27.3
Investment income	-17.0	-15.8	-16.8	-14.8	-16.1	-16.8	-18.6
Receipts	0.7	1.6	2.2	1.4	1.0	2.5	2.7
Payments	17.7	17.4	19.0	16.2	17.1	19.2	21.3
Transfers	8.5	8.9	9.2	9.5	10.3	9.8	9.8
Private (net)	8.0	8.3	8.7	8.9	9.6	9.2	9.3
Official (net)	0.5	0.5	0.6	0.6	0.7	0.5	0.4
Capital and financial account balance	20.0	8.5	19.0	8.5	30.6	13.2	15.0
Direct investment (net)	13.6	14.9	15.7	15.4	15.4	16.3	17.4

MH BOUCHET/Skema-CIFE 2025

47

A QUICK COUNTRY BOP COMPARISON EXERCISE!



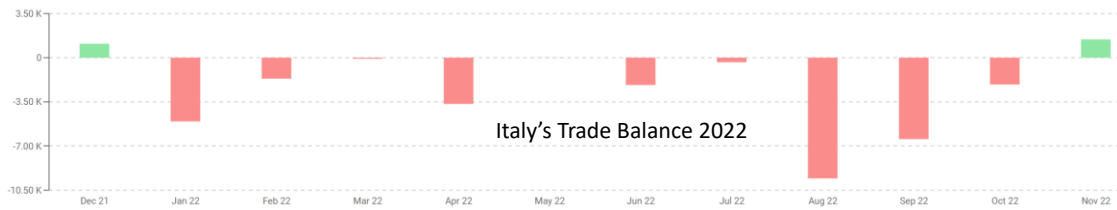
Hi There CIFE's GEGPA Students!
I need a quick comparison
between **Italy** and **Spain's**
balance of payments! Strengths
& weaknesses in 2024!

MH BOUCHET/Skema-CIFE 2025

48

SPAIN'S & ITALY'S BALANCE OF PAYMENTS 2023

	SPAIN	ITALY
Exports	405	534
Imports	-460	-500
Trade Balance	-47	34
Balance of goods & services	25	5
Current Account	38 (2,6%)	1 (0,5% GDP)
Trade Openness:	58%	60%



MH BOUCHET/Skema-CIFE 2025