

JARGON

DEBT JARGON

Arrears: the backlog of debt payments that have not been made and are building up over time.

Bilateral debt: debt owed by one government to another.

Bretton Woods: the conference, held in 1944, at which the International Monetary Fund and the World Bank were established, to provide a basis for the functioning of the world economy in the post-war period, and in particular to avoid a Global Depression.

Bretton Woods Institutions: term for the World Bank and International Monetary Fund.

Commercial debt: debt that is owed to private sector creditors and commercial banks.

Concessional: the extent to which the terms of a loan are more favorable to the borrower. Concessional refers to lower than market interest rates. Non-concessional is when market level interest rates are used.

Conditionality: the principle that access to new loans, aid and debt relief should be conditioned on meeting certain criteria. IMF/World Bank "conditionalities" are often harmful economic policies.

Debt cancellation: the legal cancellation of a loan agreement by a creditor.

Debt relief: a somewhat ambiguous term used to refer to rescheduling and refinancing debt; debt stock reduction and/or debt-service reduction.

Debt restructuring: a general term for debt rescheduling and debt refinancing.

Debt-service: the total amount a country spends on its debts, consisting of interest payments and repayments of principal.

Debt stock: the total amount of debt held by a country.

Deregulation: removal or reduction of government regulations and restrictions that affect the operation of a particular market or the economy as a whole.

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 other currencies.

Domestic debt: debt owed to creditors resident in the same country as the debtor, and denominated in local currency.

External debt: debt owed to foreign creditors and denominated in foreign currency.

Face value of debt: the 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.

Floating exchange rate: an exchange rate that is determined by market forces rather than by government policy.

Foreign direct investment (FDI): investment made by a foreign individual or company in productive capacity of another country - for example, the purchase or construction of a factory.

G8: the Group of Eight refers to: the US, Japan, Germany, France, the UK, Italy, Canada and Russia. Formally known as the G7 before Russia officially joined in June 2002. The G8 is the most influential group of rich countries in setting the policies of the international financial system.


Global South: term for countries in Africa, Asia and Latin America. Generally thought of as the group of impoverished countries that are mostly in the Southern Hemisphere. A preferred term for "Third World" or "developing" countries.

Global North: term for the rich and "developed" countries, like Europe and the United States that are mostly in the Northern Hemisphere.

GDP: gross domestic product - one of the two commonly used measures of the total output (or income) of an economy. 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' wages).

GNP: gross national product - 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' wages).

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 by the government of the exporting country. Such guarantees are issued by the export credit guarantee agencies.



Hard currency: a general term for any currency that is widely enough accepted internationally to be used in international transactions. In practice, this means the currencies of the rich countries. The term 'hard currency' is more or less interchangeable with 'foreign exchange'.

HIPC: the Heavily Indebted Poor Country Initiative, the current debt relief scheme created in 1996 by the World Bank and IMF to provide limited debt relief for the poorest countries with the goal of bringing countries to a "sustainable" level of debt.

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.

International Monetary Fund (IMF): the international agency responsible for the operation of the international financial system. Established in 1944, 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 IMF is run by its country shareholders whose percentage of vote is determined by the amount of money they contribute. The U.S. holds the biggest percentage of vote, and virtual veto power as the biggest shareholder. The IMF has played a central part in the debt strategy since 1982, primarily through its role of setting conditions for loans and debt relief.

International reserve: a government's holdings of foreign exchange, usually held by the Central Bank.

Multilateral debt: debt owed to a consortium of creditors, like the World Bank or regional development banks.

Net present value (NPV): a measure of the overall value of a stream of payments over time. In effect, the NPV represents the amount that 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.

Official creditors: creditors in the public sector - that is, creditor governments and multilateral agencies such as the IMF and the World Bank.

Official debt: debt that is owed to public sector lenders.

Paris Club: originated in 1956 as an ad hoc group to discuss rescheduling for Argentina, now has become the

forum in which creditor governments meet to negotiate the rescheduling of the debts owed to them.

Privatization: the sale or transfer of state-owned enterprises, or shares in them, from the public to the private sector.

Public expenditure: the total spending of all branches of government and of other agencies in the public sector, like health and education.

Publicly guaranteed debt: debt originating from loans made to state-owned enterprises or private companies, the payment of which is guaranteed by the government of the debtor country.

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

Structural Adjustment Programs (SAPs): term used to describe the set of economic policies required by the World Bank and IMF for loans and debt relief.

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.

Trade liberalization: an important component of most structural adjustment programs, aimed at opening the economy to increased international trade, particularly by reducing protectionism. The main elements of trade liberalization are reducing, and ultimately removing, taxes on exports, restrictions on imports and reducing the overall level of import tariffs.

World Bank: the main international agency responsible for providing development finance. Established 1944, 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. The Bank's resources are provided by contributions from its member countries, but its operations are financed mainly by borrowing from the international financial markets. Like the IMF, the country shareholders have a percentage of votes based on the amount of resources they provide. The U.S. has the greatest control with the largest percentage of vote in the World Bank. 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.