

International Lending in War and Peace, 1790-2020

Sebastian Horn
(World Bank)

Carmen M. Reinhart
(Harvard)

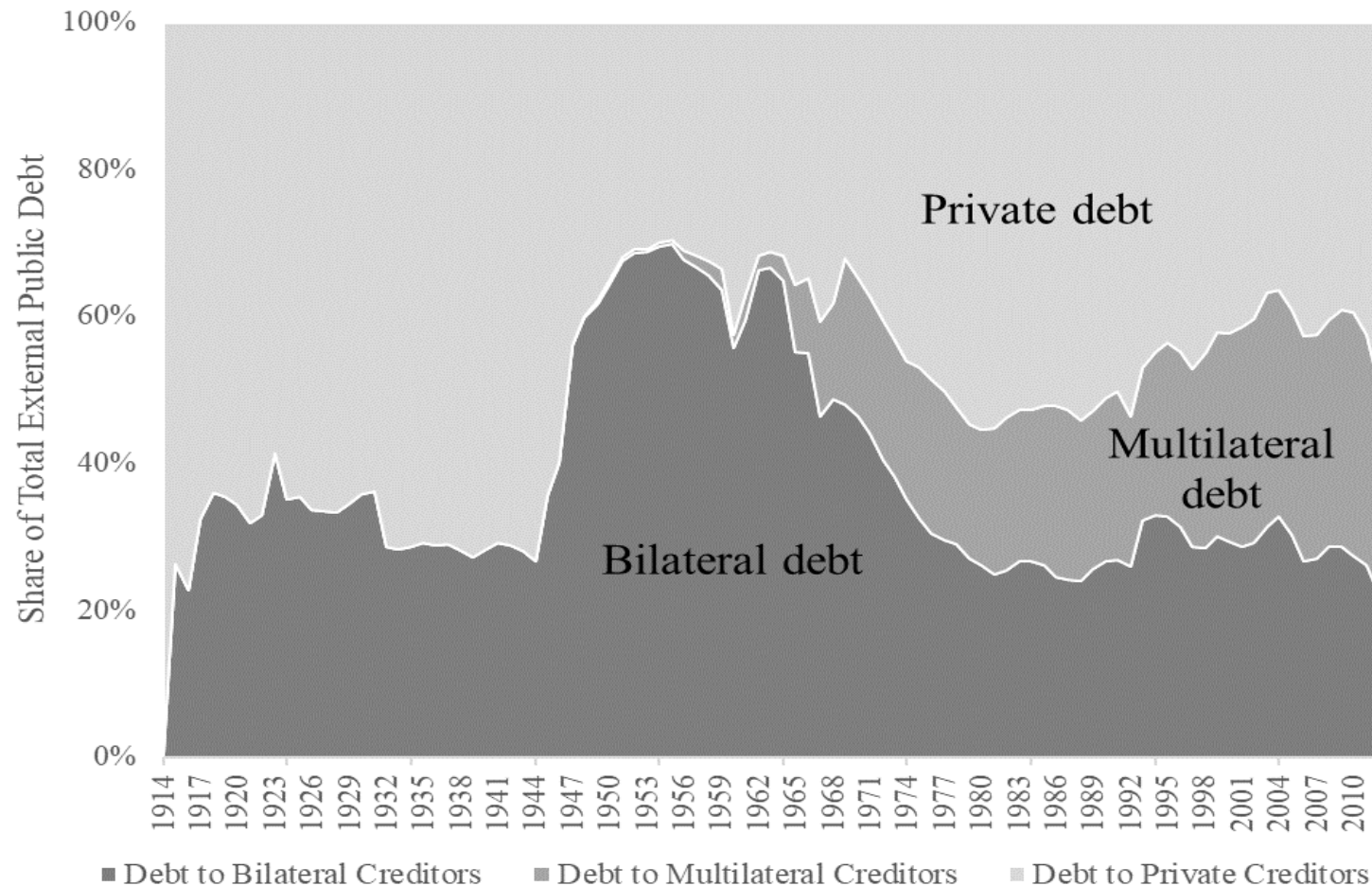
Christoph Trebesch
(Kiel Institute)

Bank of Italy,
October 6, 2023

All views are personal

International lending: private vs. official debt

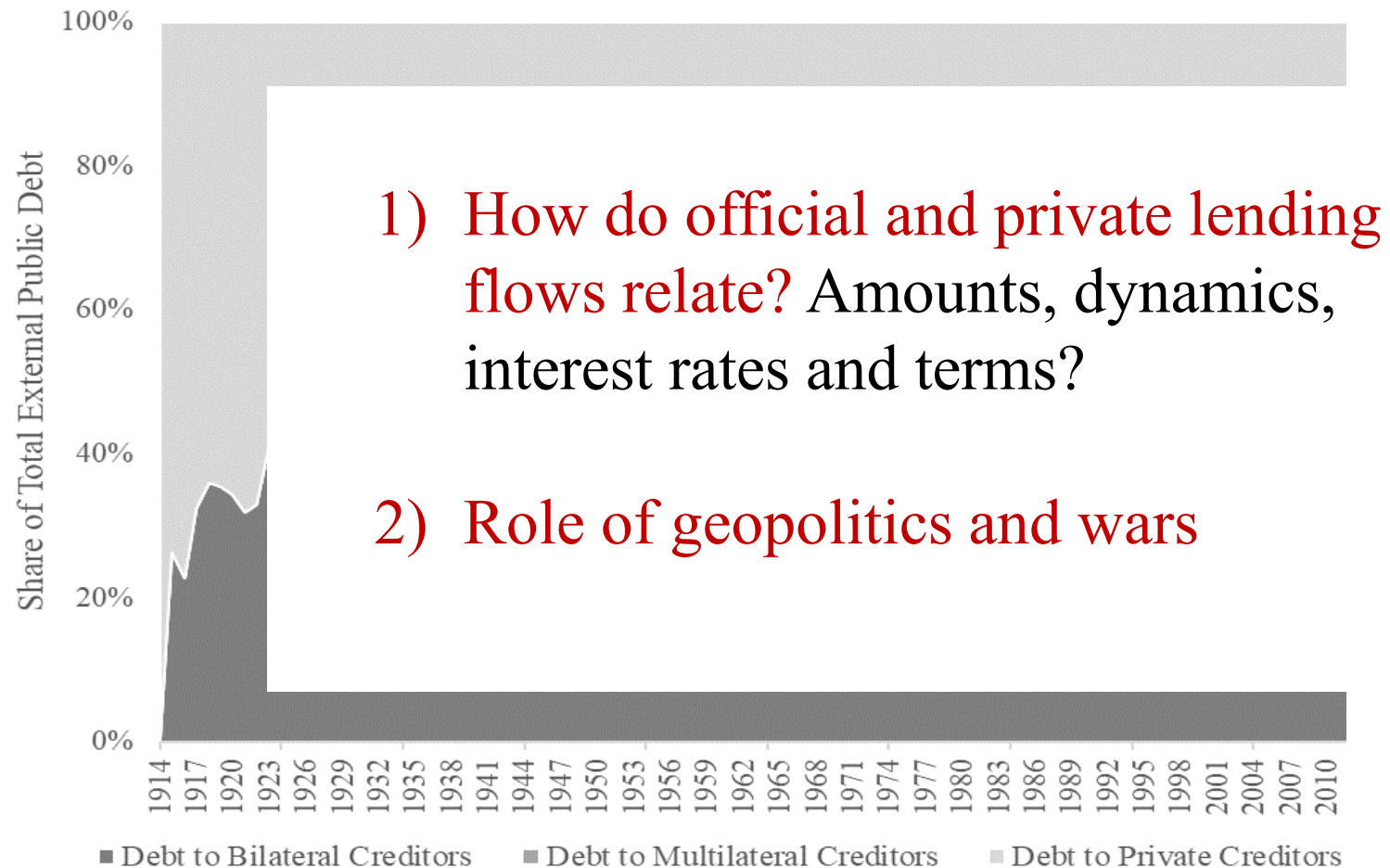
Share of public debt owed to private vs. official creditors, 1914-2012
% of total public external debt (global average)



International lending: private vs. official debt

Share of public debt owed to private vs. official creditors, 1914-2012

% of total public external debt (global average)



State lending: the unsung hero of int'l finance

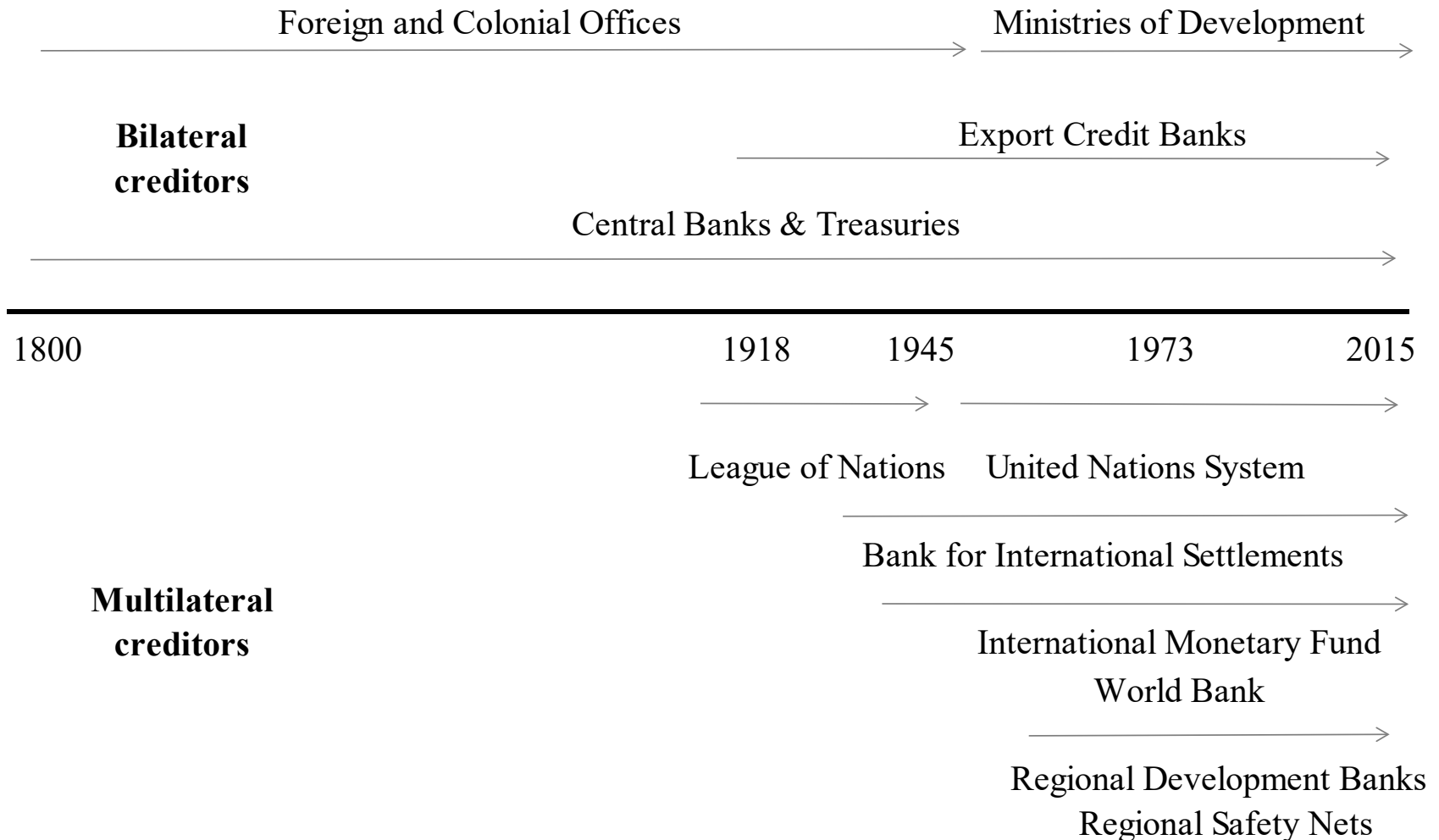
- Private capital flows are “loud”
 - Widely tracked and reported on (press, IMF, ratings etc)
 - Extensive literature; ever more granular data
- Official capital flows are “silent”
 - Governments avoid the topic (taxpayer money)
 - Not traced by rating agencies; scarce press coverage
 - Little research, little data (exception: Alfaro et al. 2014)
 - Discussion in “silos” (IMF bailouts, ESM bailouts, NextGenEU, Global Gateway, China’s Belt and Road, central bank swap lines, Ukraine)
- **We show: state lending is a central pillar of global finance**
 - Much larger than commonly known
 - Essential in geopolitical shocks like wars, when private flows dry out / fragment (similar to deep financial crises)

We trace official international lending since 1790

We compile an encompassing dataset of official international lending flows and debt stocks, 1790-2020

- Definition: includes loans, grants and guarantees *by governments, multilateral institutions and central banks across borders* (we include loans by public entities, e.g. Chinese state owned banks)
- 1.8 mn grants & loans by 134 governments, 50 intl. institutions, a total 17 trillion real USD (commitments in 2015 terms)
- Sources: International treaty series (archives), creditor and debtor budget accounts, annual reports, post-1970: World Bank, OECD

Who lends? The universe of official creditors



Examples of sources

Historical budget accounts

RETURN to an Order of the Honourable House of Commons,
of the 28th Day of May last, for

" AN ACCOUNT of the several Sums of MONEY advanced by way
" of LOAN or SUBSIDY, to different States, from the Com-
" mencement of the present War; together with an Account of the
" INTEREST received on such Sums as have been advanced by way
" of Loan."

	£.	s.	d.
There was issued for the Service of Prussia, in the Year 1794 -	1,223,891	10	6
D° - - - of Sardinia, in 1793, 4, 5, & 6	* 500,000	—	—
D° - - - of the Emperor, in 1795 & 6	† 6,220,000	—	—
D° - - - - D° - - in 1797 - -	700,000	—	—
D° - - - of Portugal - in 1797 - -	247,205	—	—
D° - - - - D° - - in 1798 - -	120,013	13	—
D° - - - of Russia - in 1799 - -	825,000	—	—
D° - - - of the Emperor, Elector of Bavaria, &c. - - - -	500,000	—	—
D° - - - of the Emperor - - - -	‡ 1,066,666	13	4
D° - - - of Russia - - - -	545,494	—	—
D° - - - of Bavaria - - - -	§ 501,017	6	—
D° - - - of the Emperor, to ena- -	180	—	—

CIA reports on Sino-Soviet loans

ECONOMIC INTELLIGENCE REPORT

SOVIET ECONOMIC ASSISTANCE TO THE SINO-SOVIET BLOC 1956-57

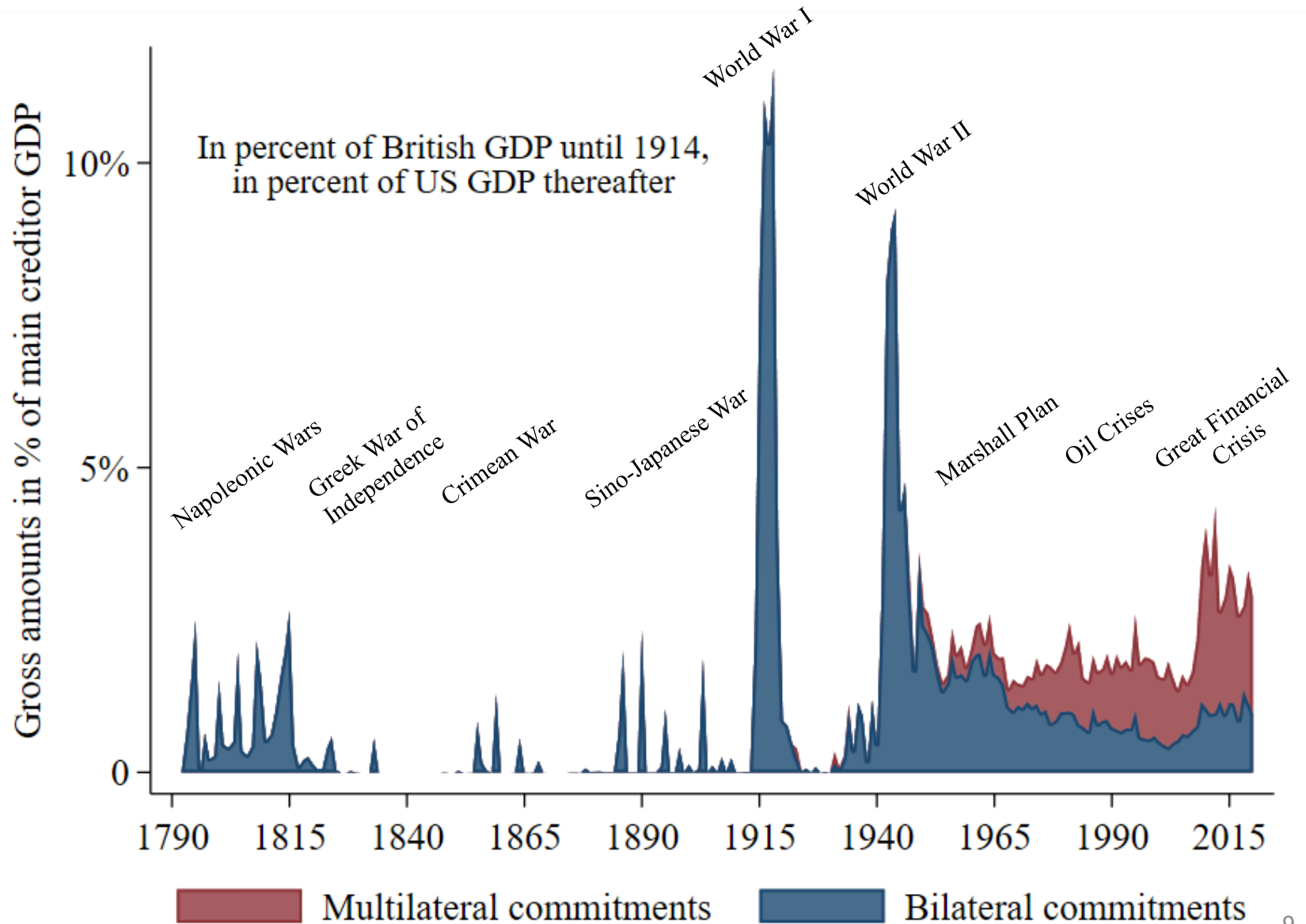


CIA/RR 146

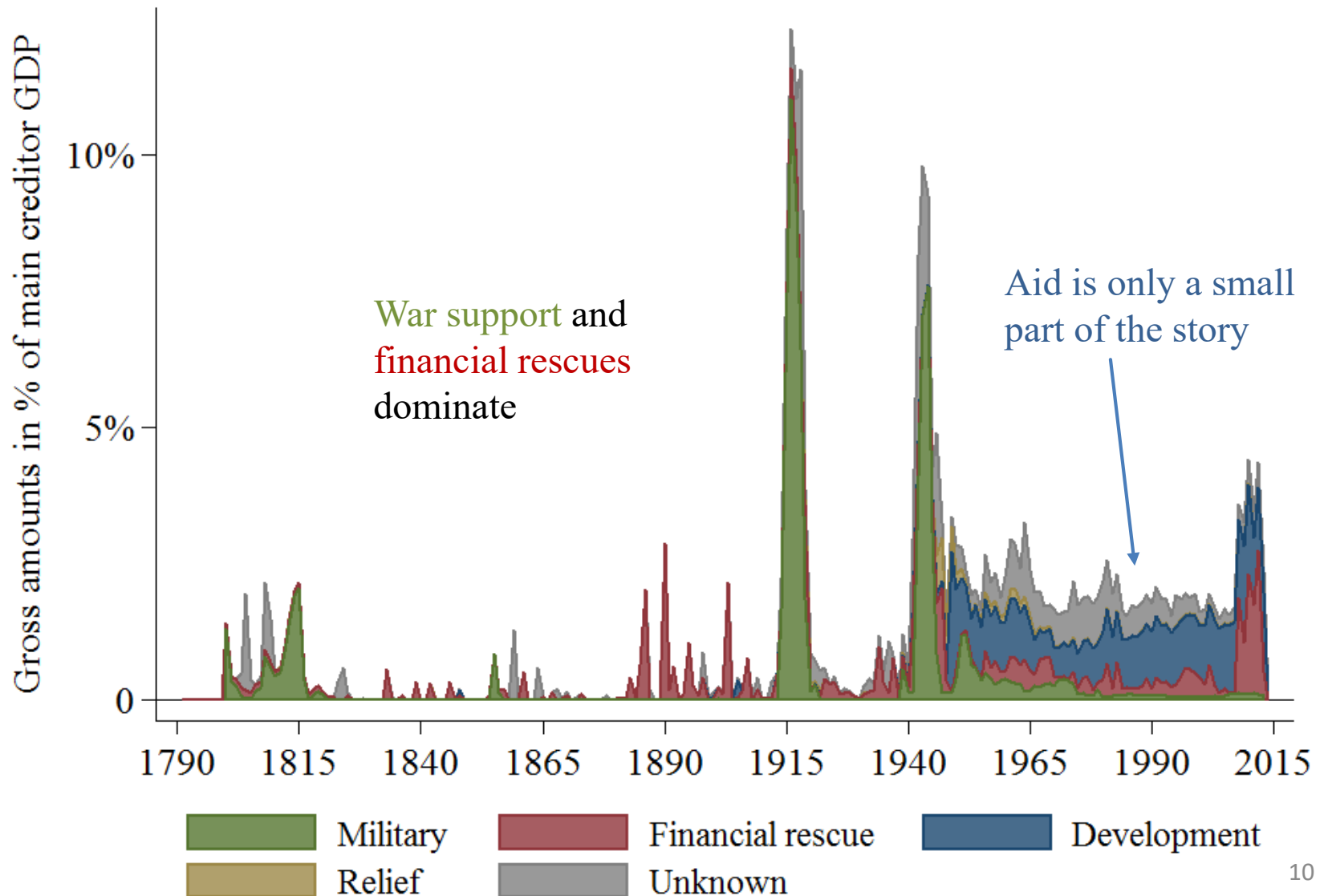
8 September 1958

A panorama of international **official** lending

Official international lending: 1790 - 2020

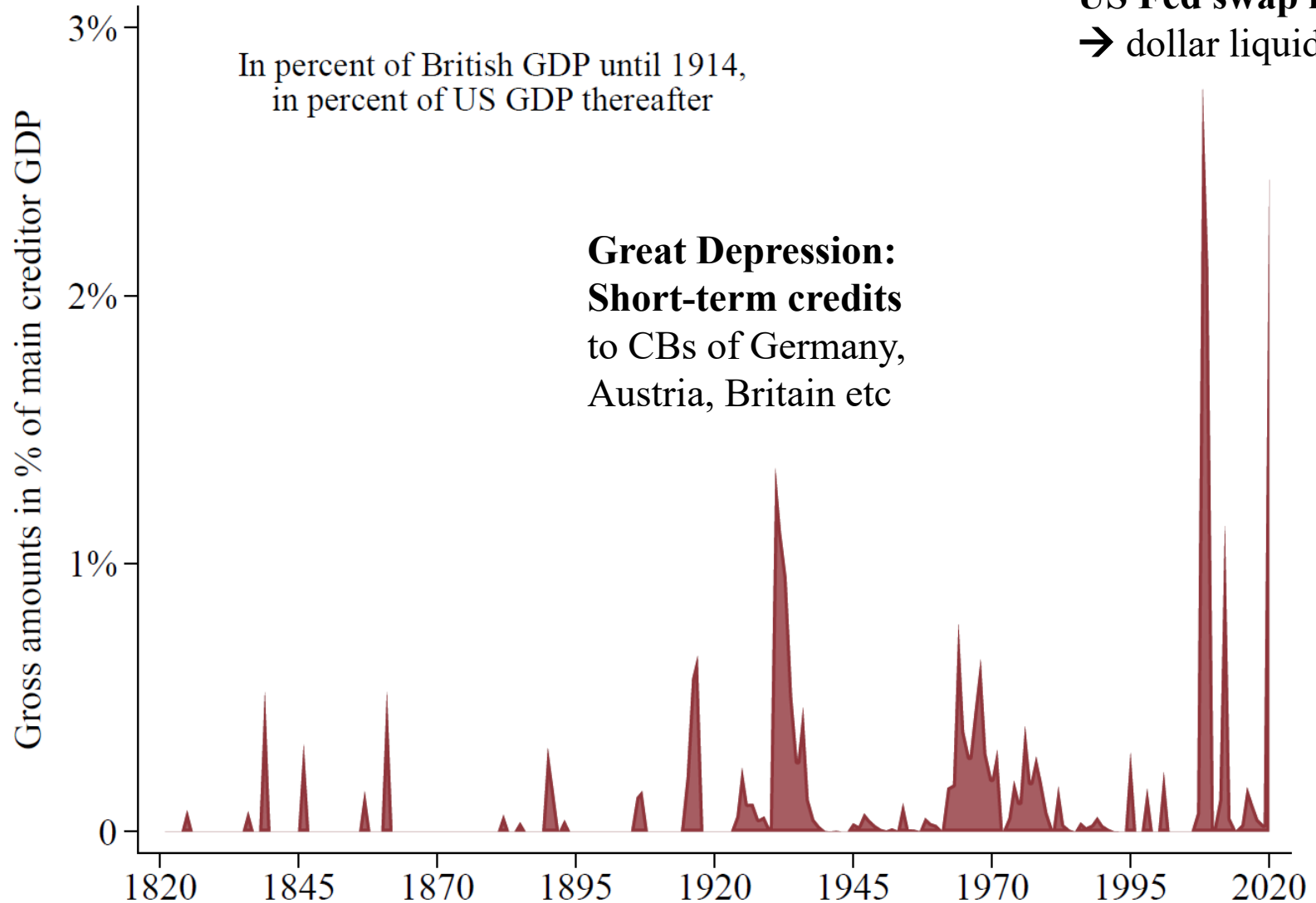


Purposes of official cross-border lending

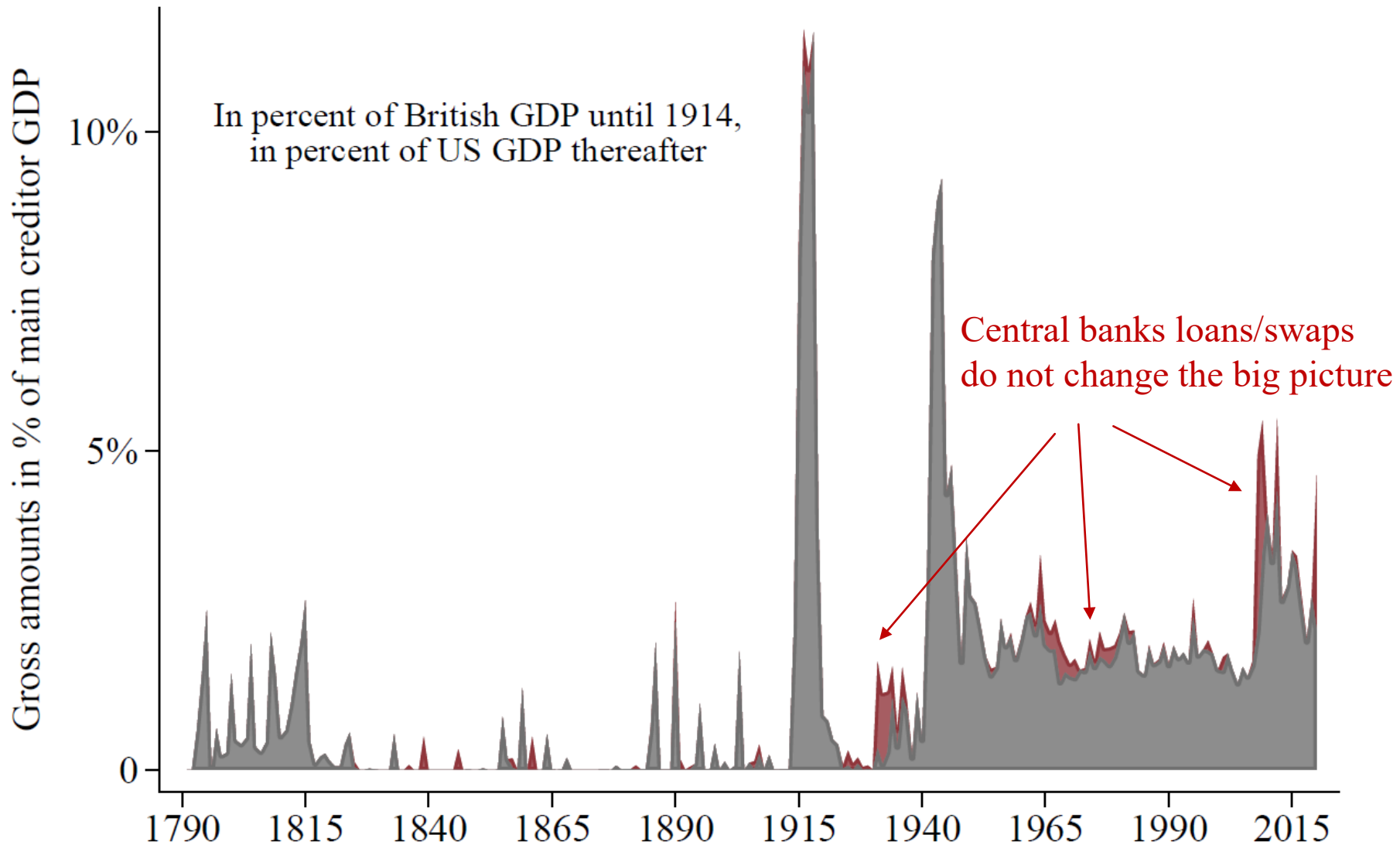


Central bank loans across borders: credits & swap lines

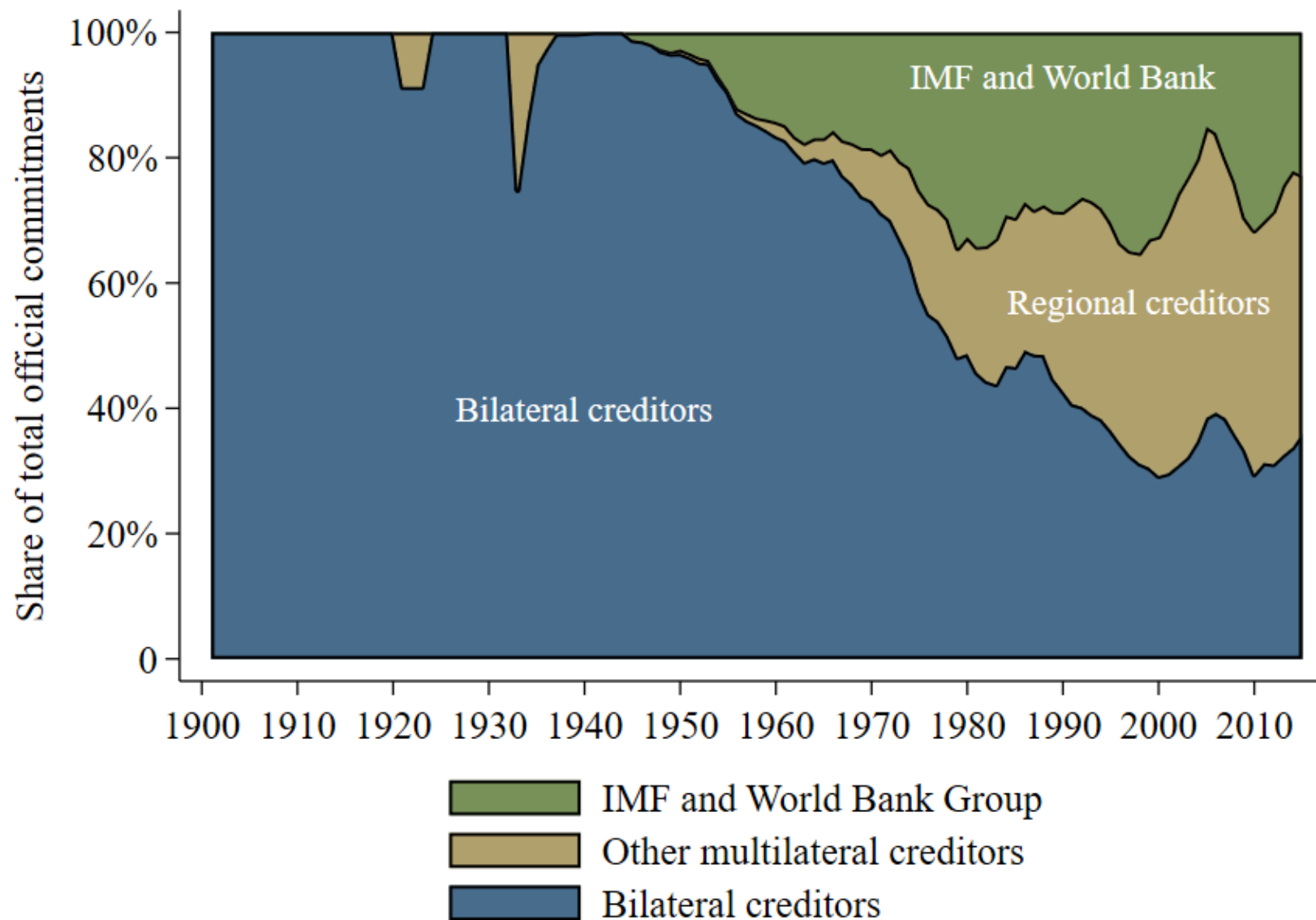
2008 & 2020:
US Fed swap lines
→ dollar liquidity



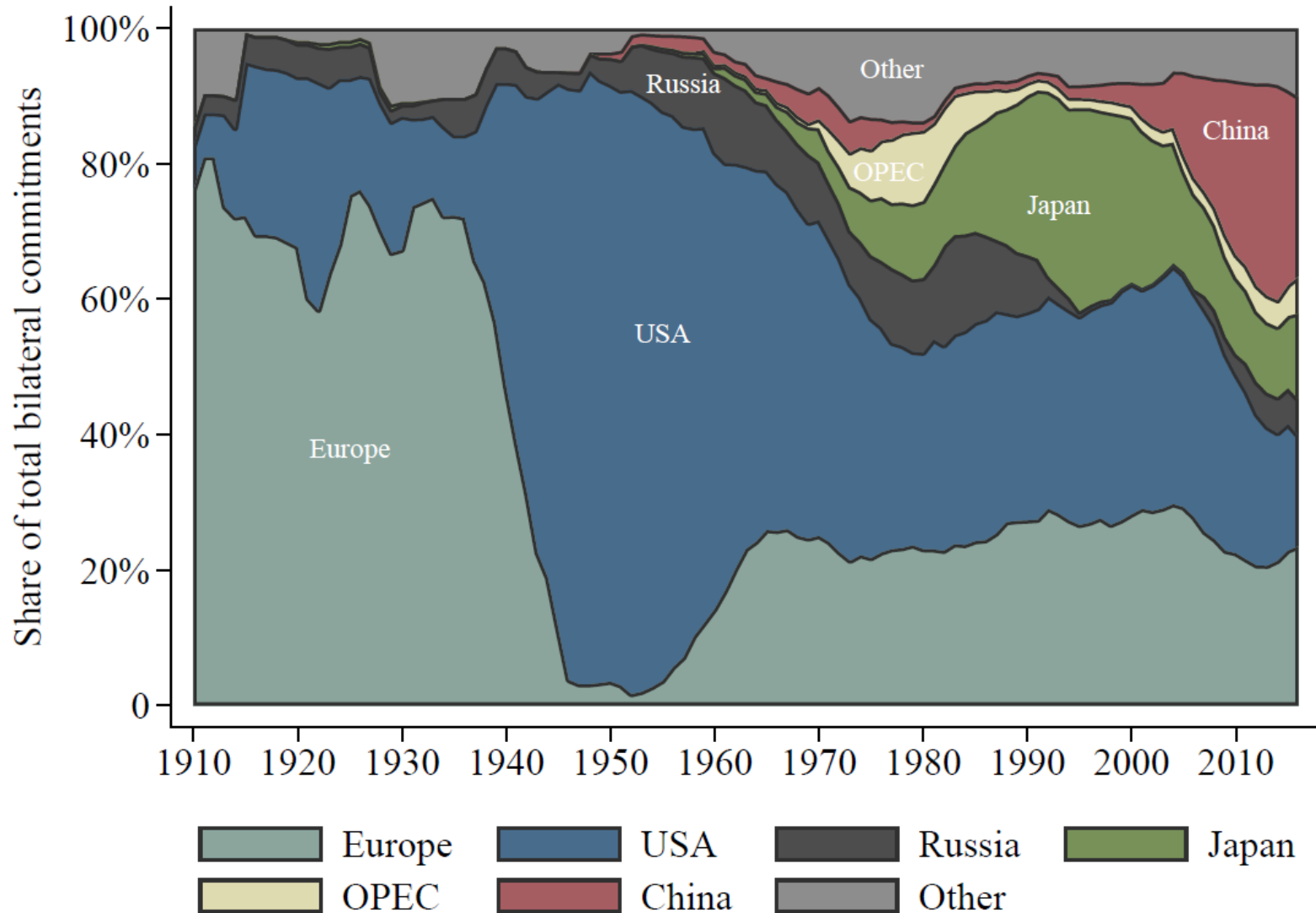
Central banks: second fiddle in int'l rescue lending



Bilateral and regional lending dominates

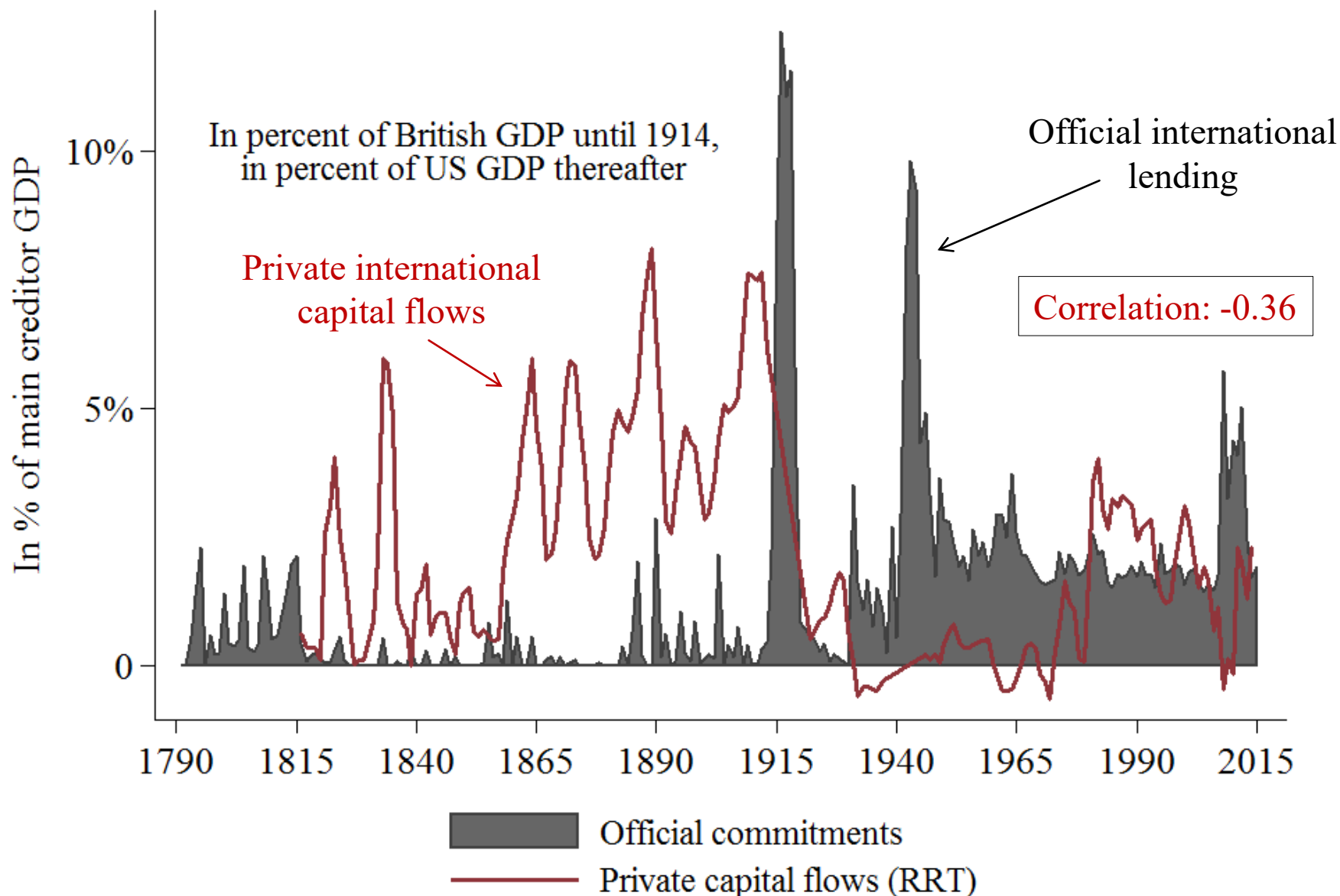


Bilateral creditors: A mirror of global influence

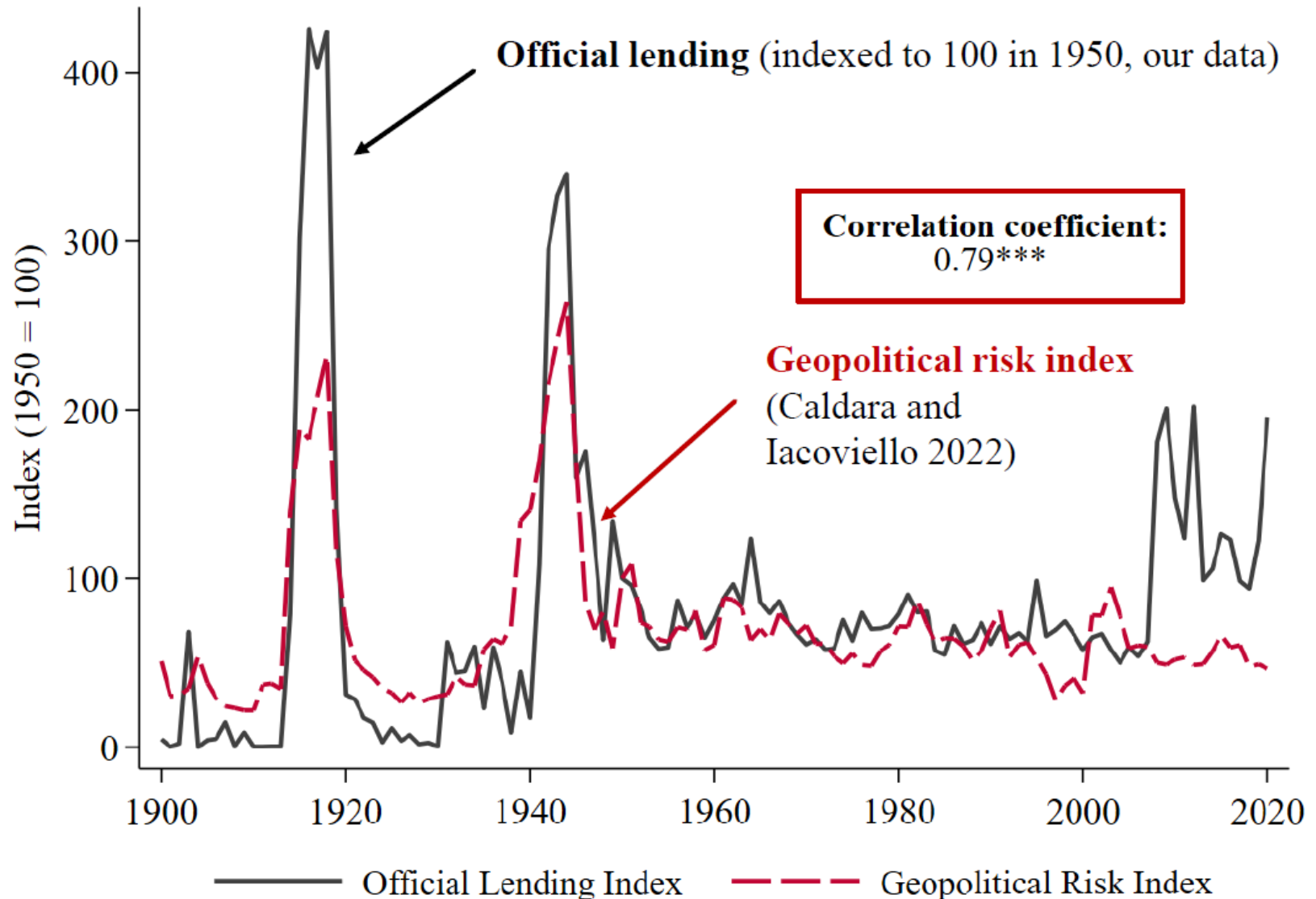


Private vs. official flows

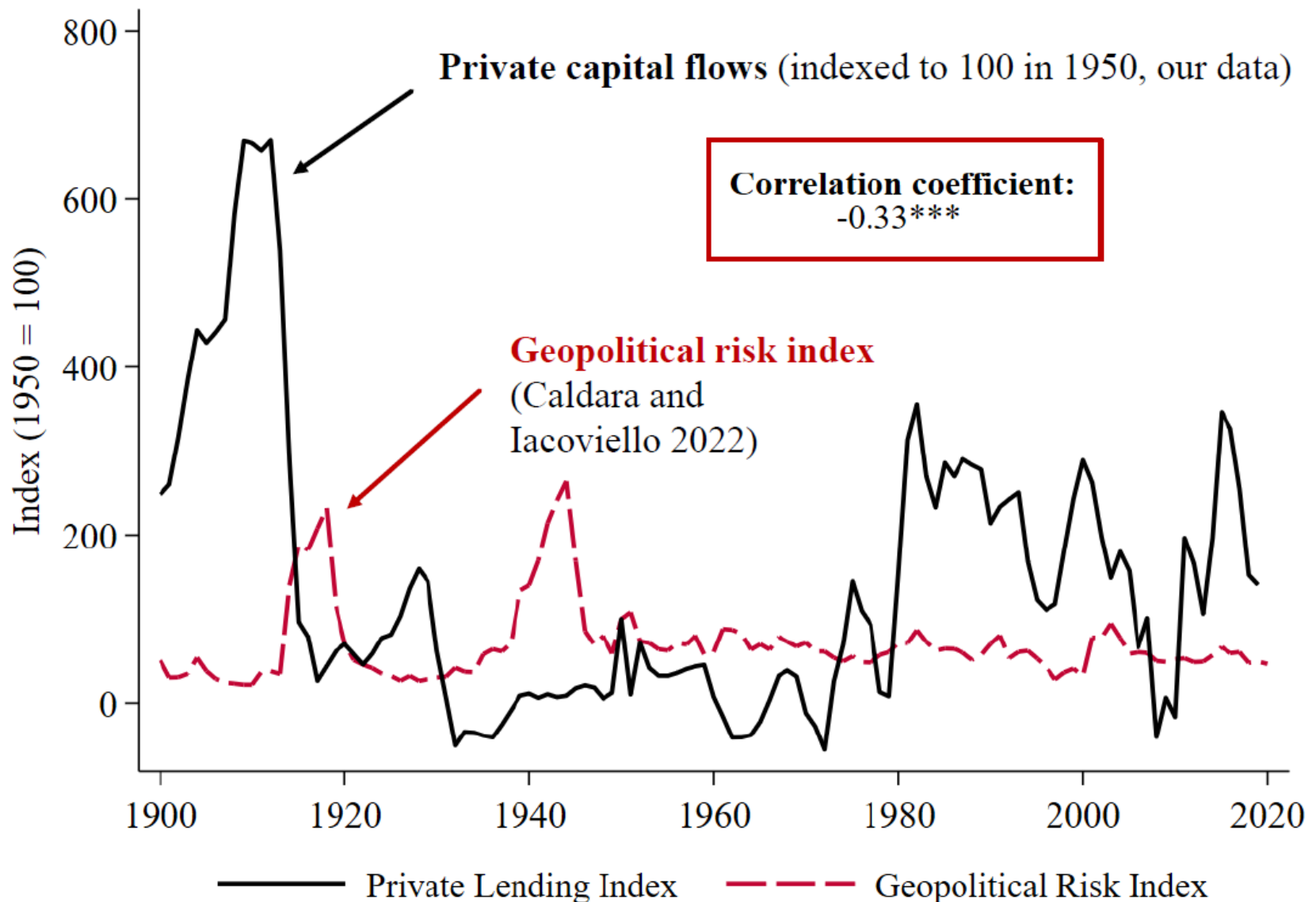
Private vs. official capital flows: 200 year view



Geopolitical risk and **official** flows

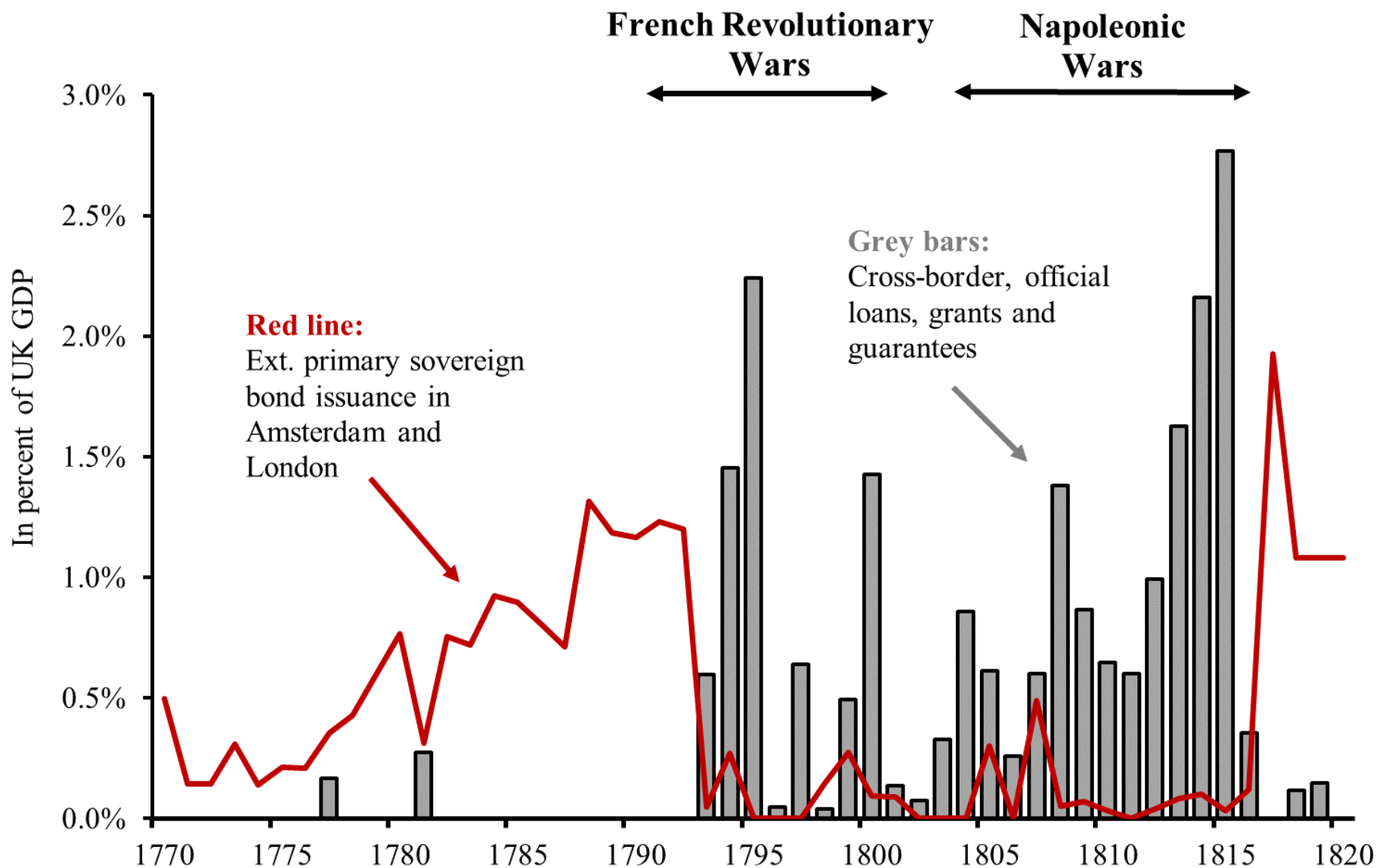


Geopolitical risk and **private** flows

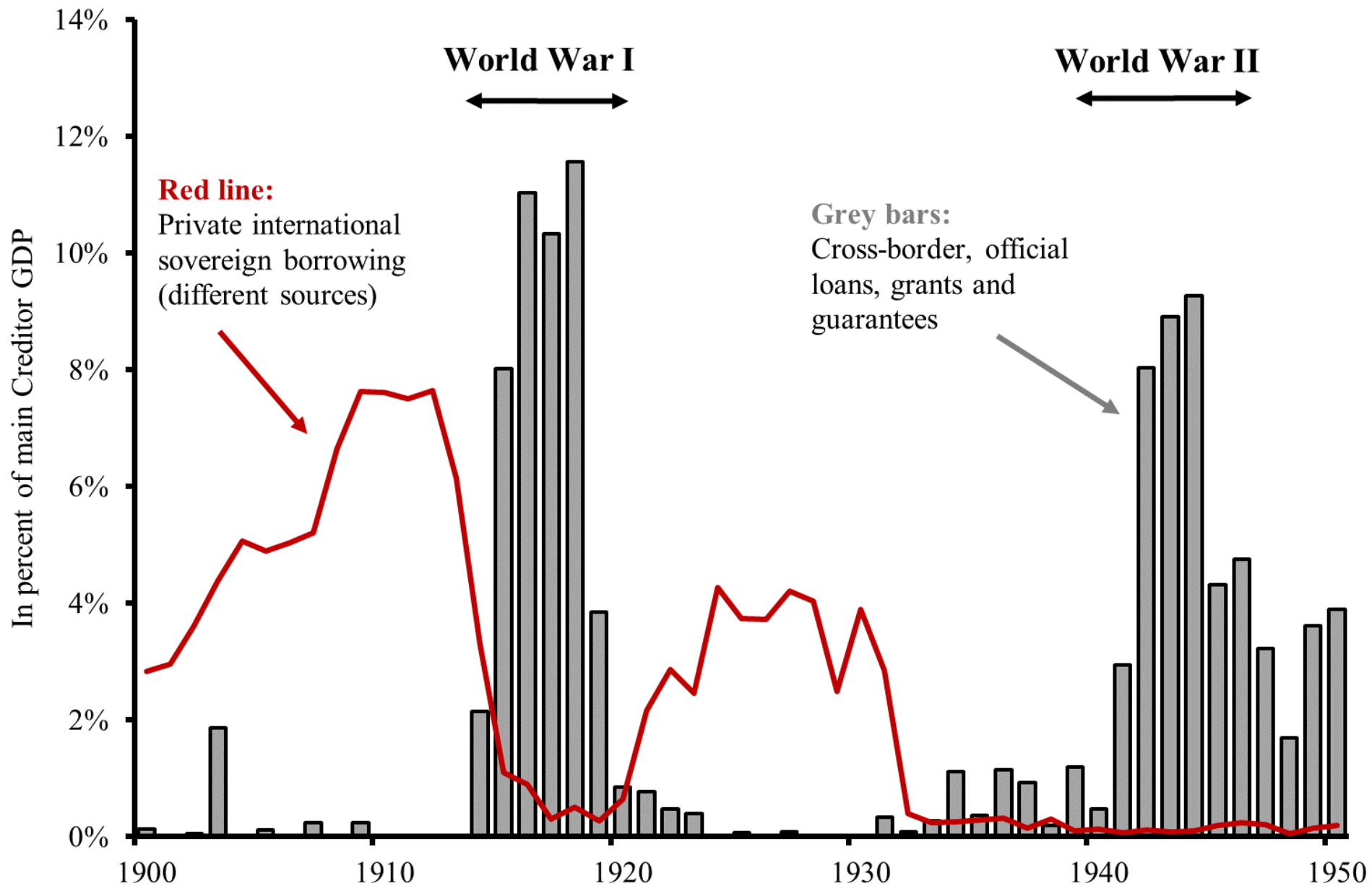


Flows in major wars

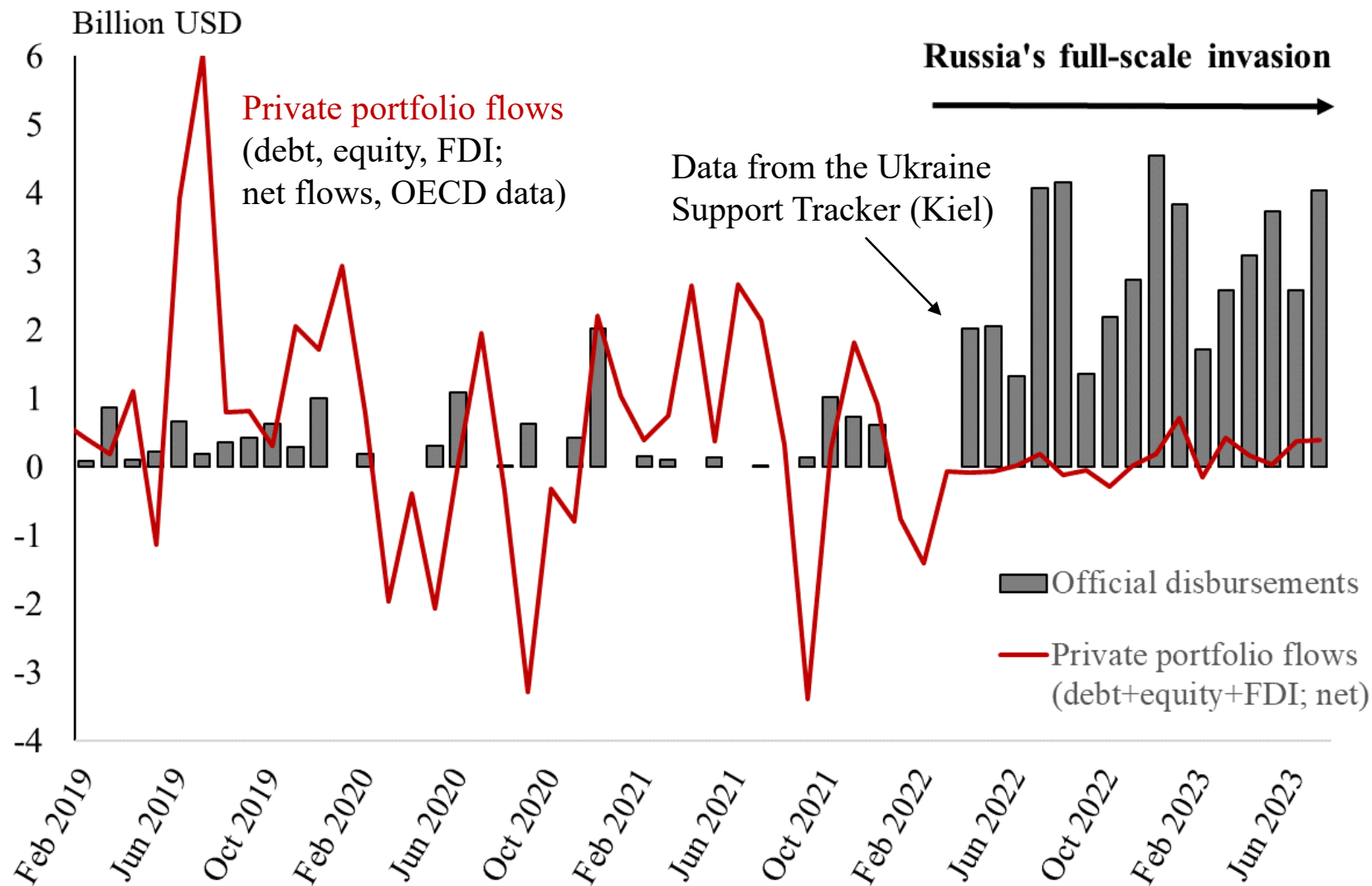
The Napoleonic wars (“WW0”)



WW1 and WW2

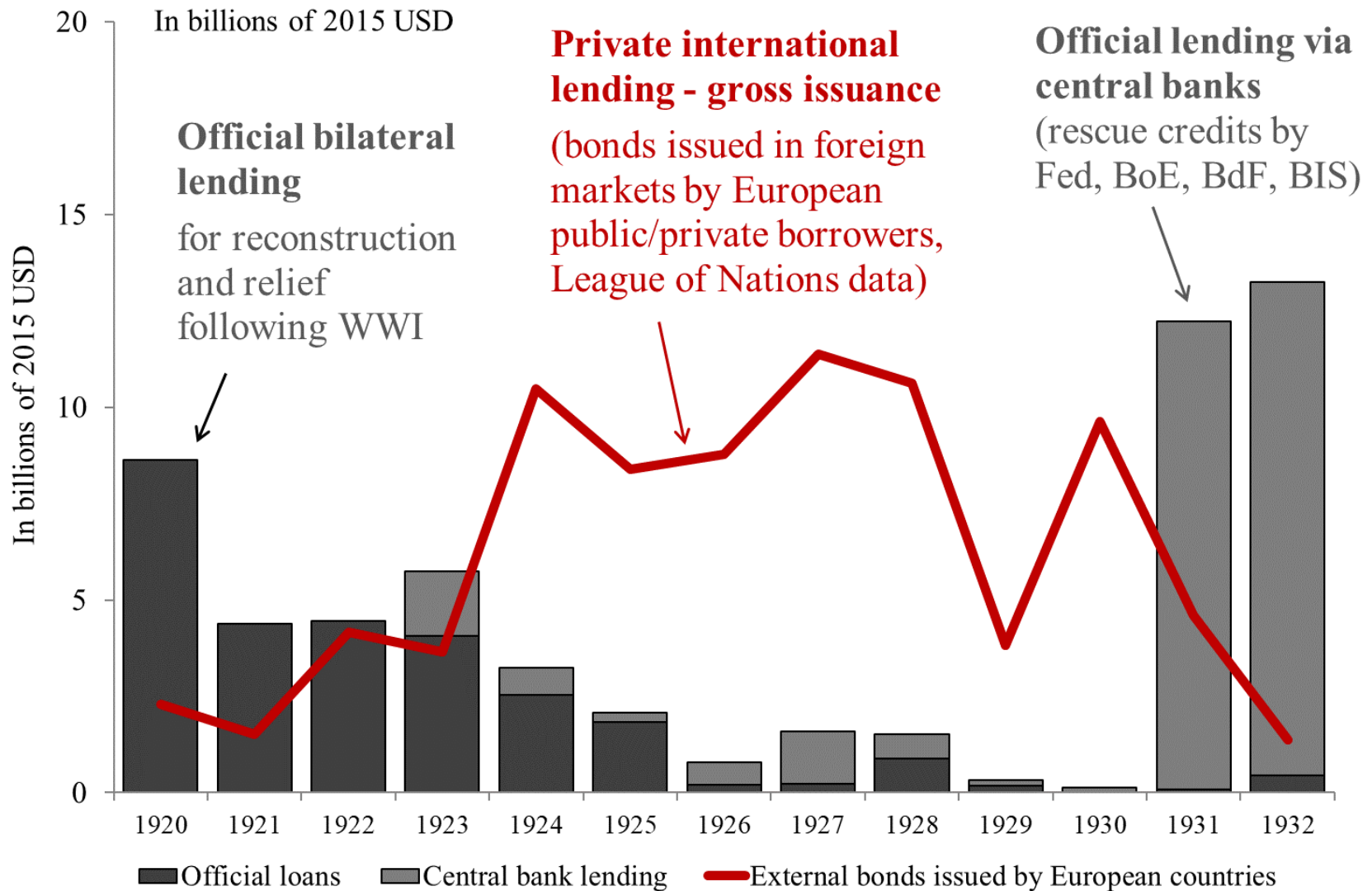


Ukraine 2022/23

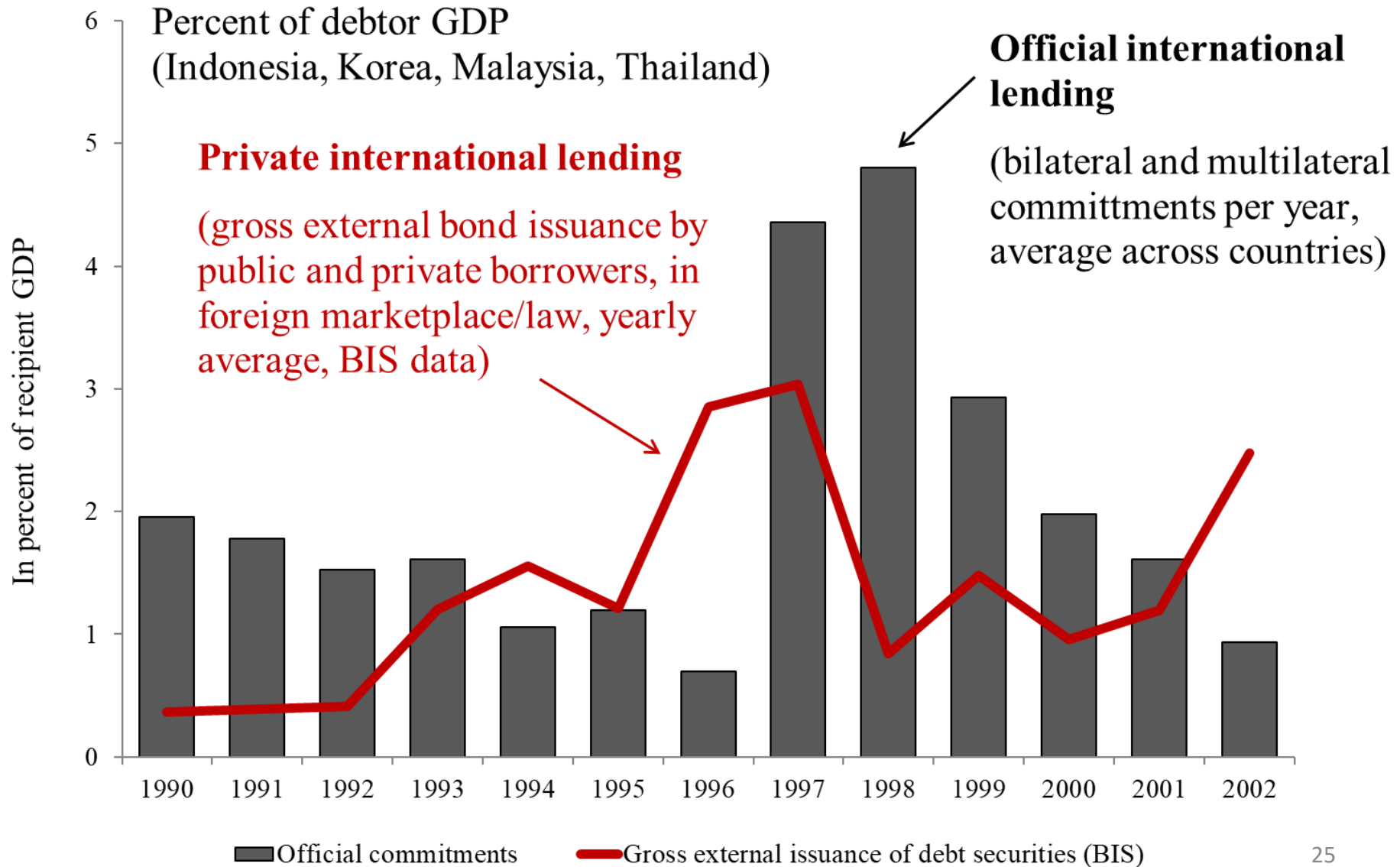


Flows in major financial crises

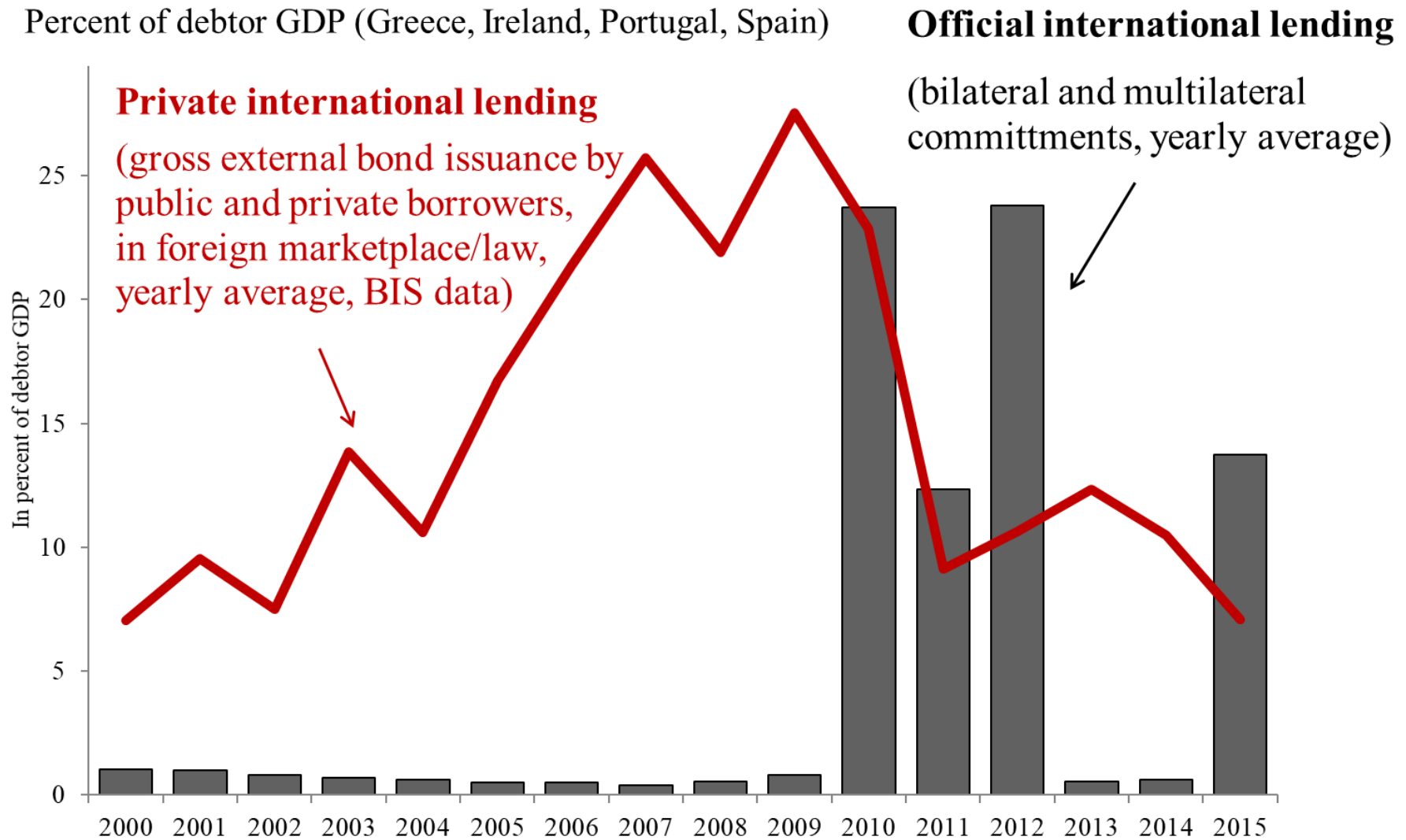
Great Depression (1929-)



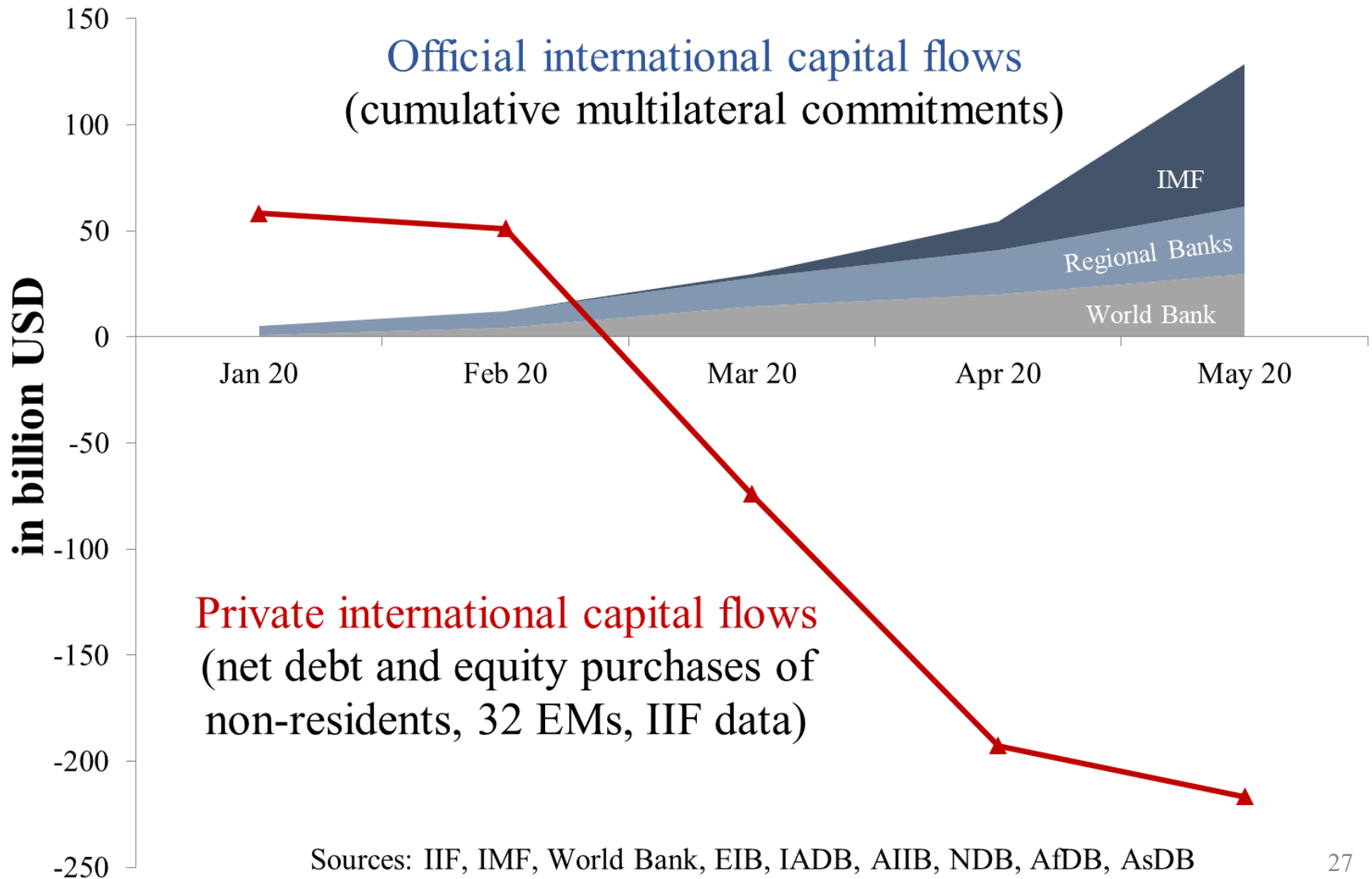
Asian crisis (1997/98)



Eurozone crisis (2010-2012)

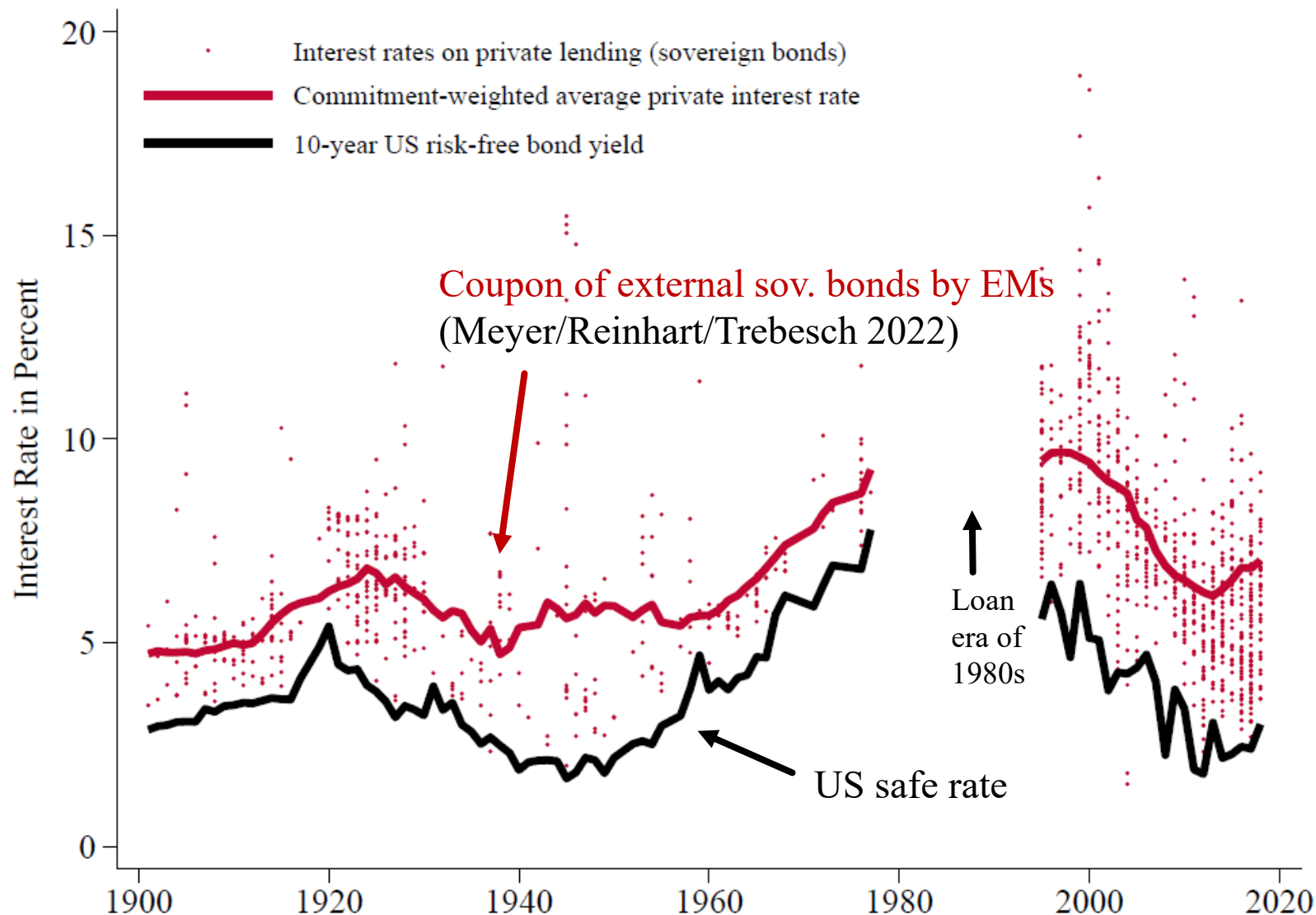


Add-on: Corona crisis

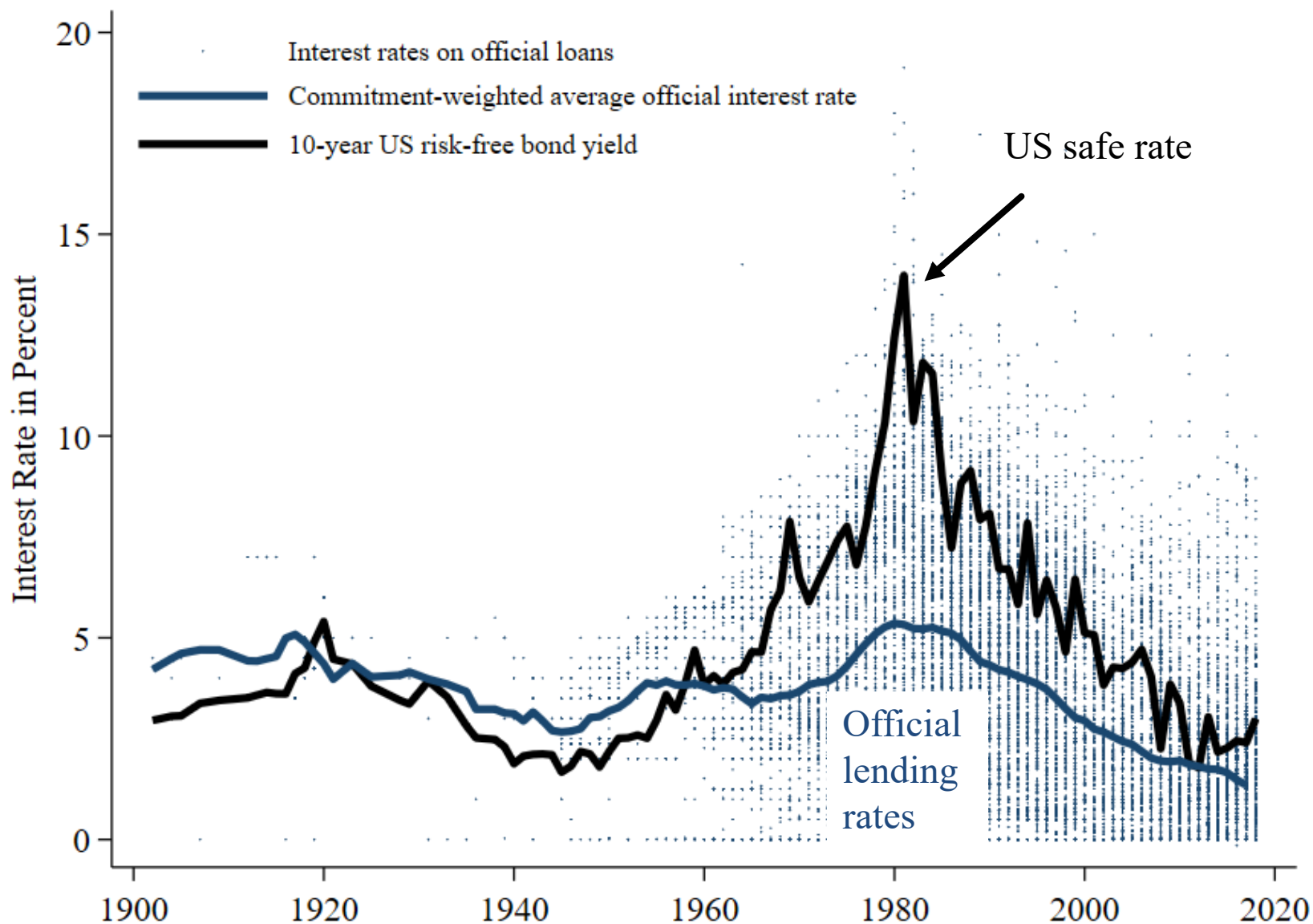


How do the **terms** compare?

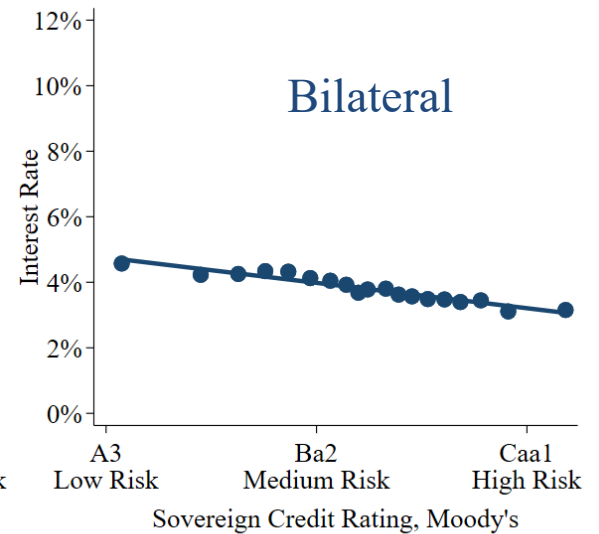
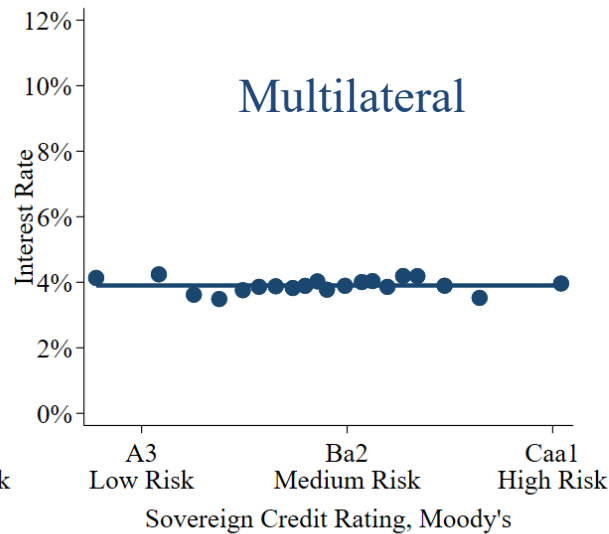
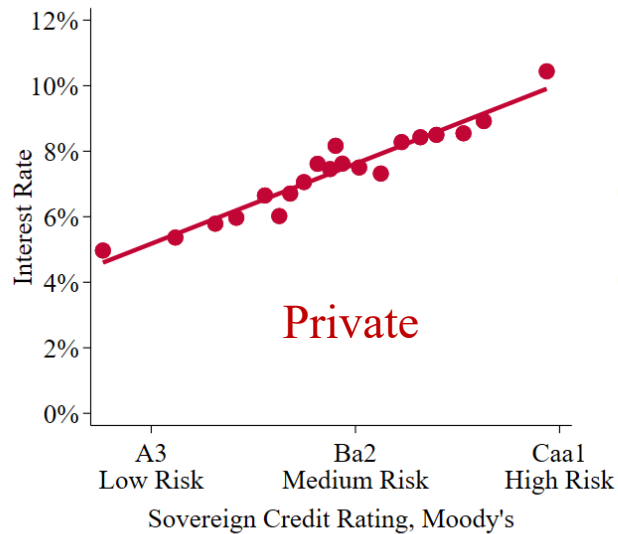
Private cross-border lending – large risk premia



Official lending - highly concessional

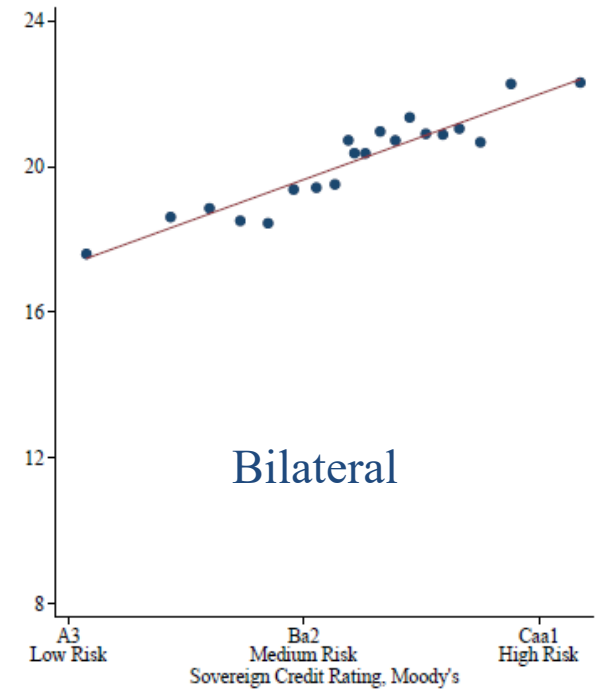
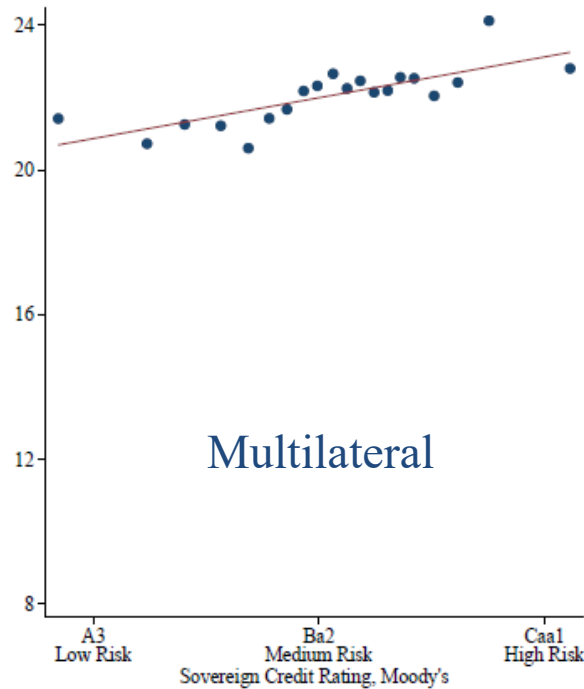
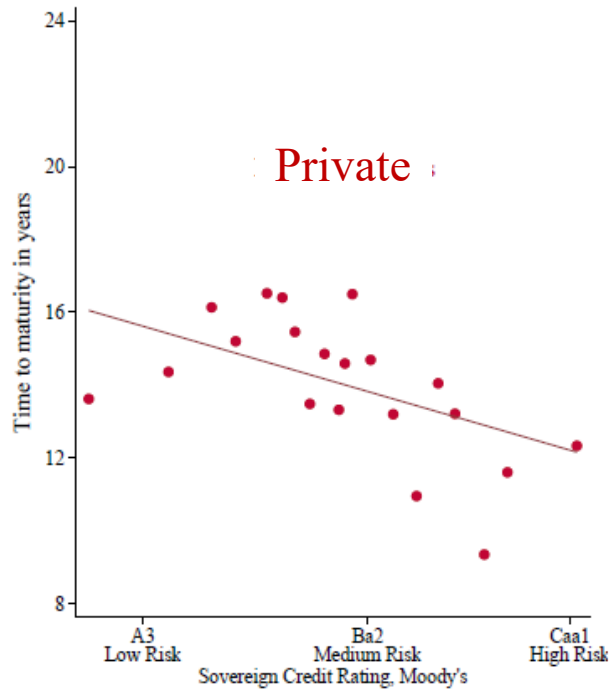


Interest rates on official loans do not increase for risky borrowers



Higher risk

Maturity: Risky borrowers receive longer official loans



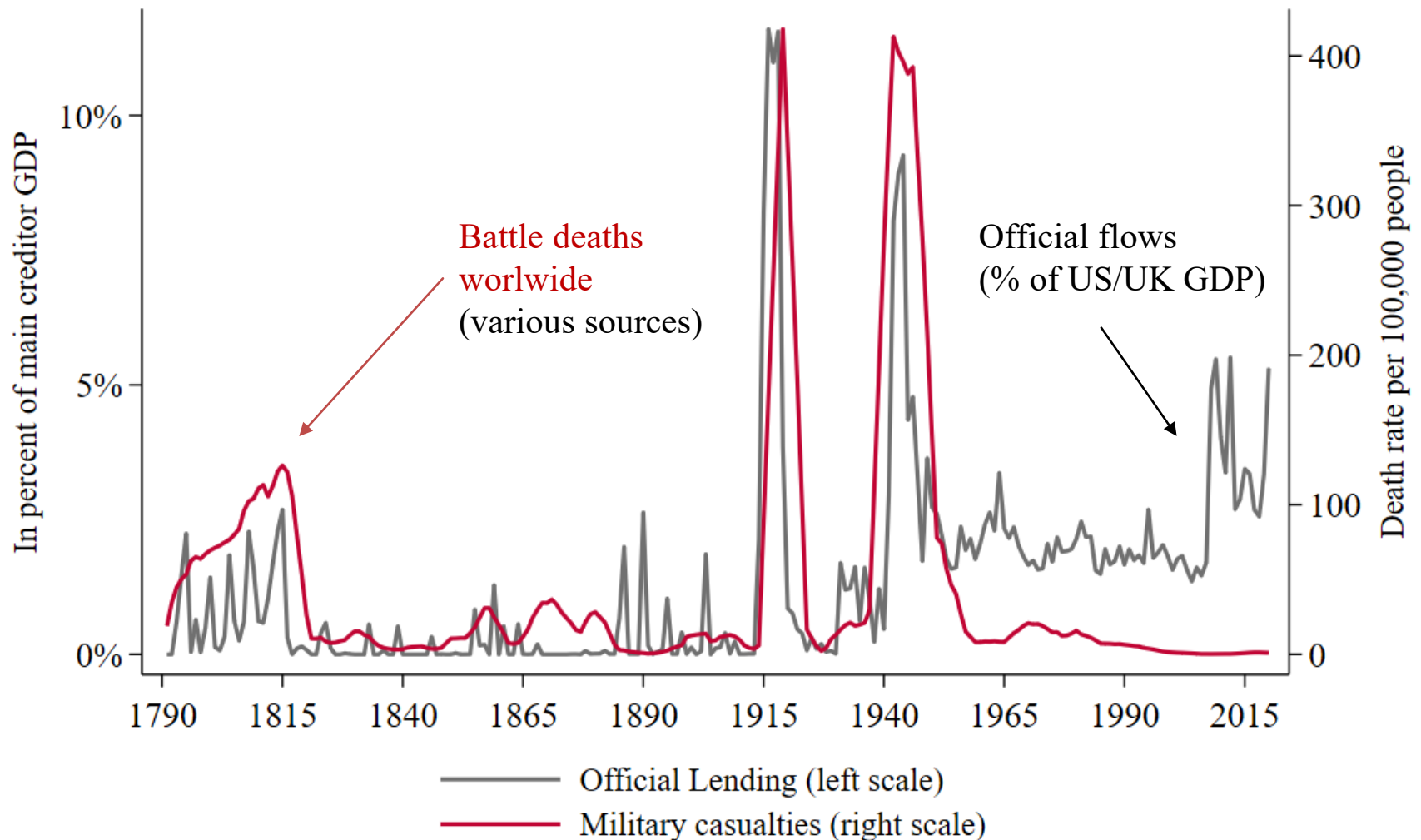
→
Higher risk

Final remarks

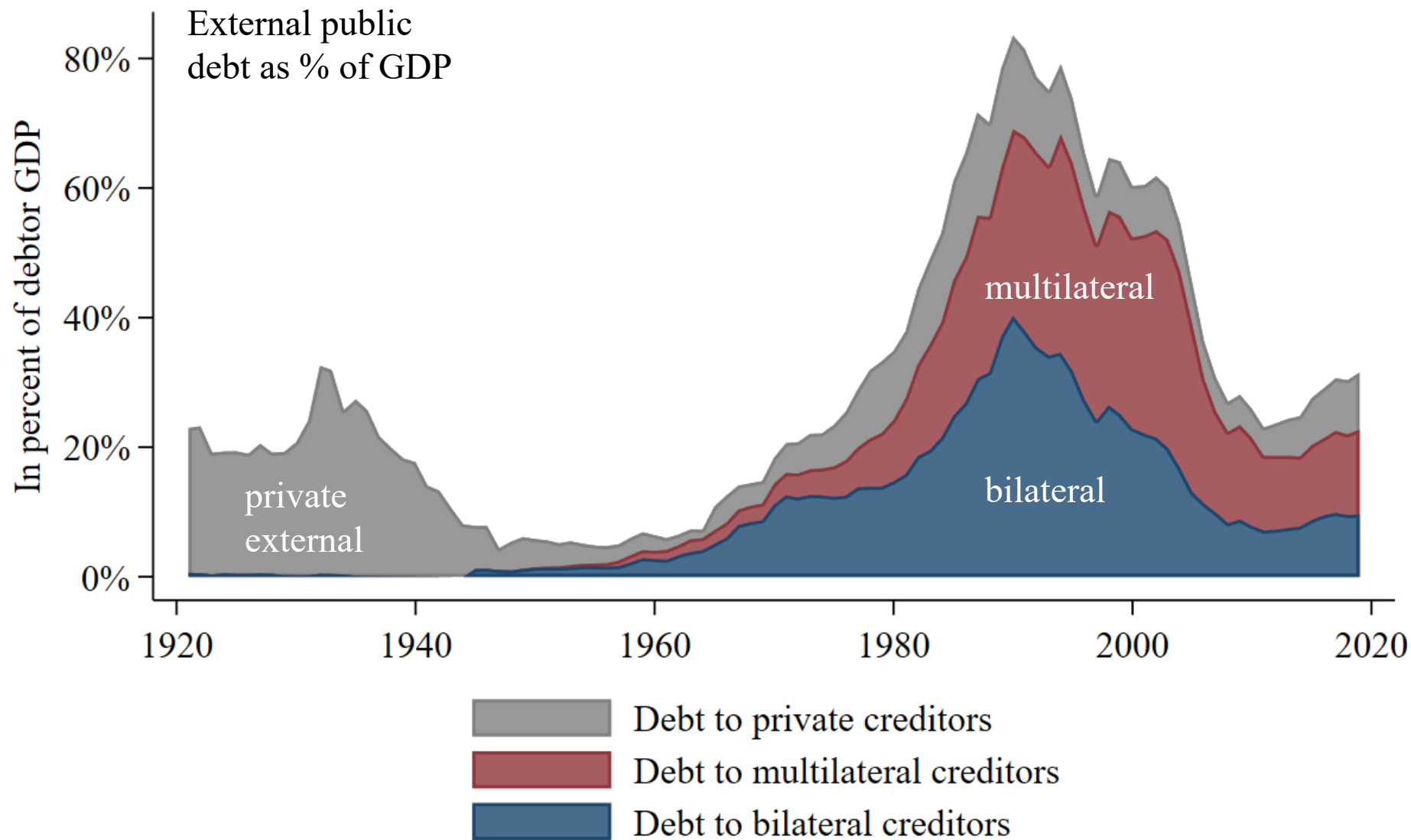
- Geopolitics affects the level, direction and composition of global capital flows (private vs. official)
 - International order is key: Our field (open econ. macro) would not exist without US drive for capital account liberalisation in 1970s
 - In a multipolar world private flows may recede & fragment, as happened after WW1 and WW2 (Kindelberger)
- Official flows large and likely to grow
 - Rise of China, India, Global South (more active users of state banks, SWFs, swap lines → e.g. Belt and Road)
 - State-led finance also rising in West: bailouts, central banks, SWFs
 - More work needed on geopolitics of international finance

Appendix

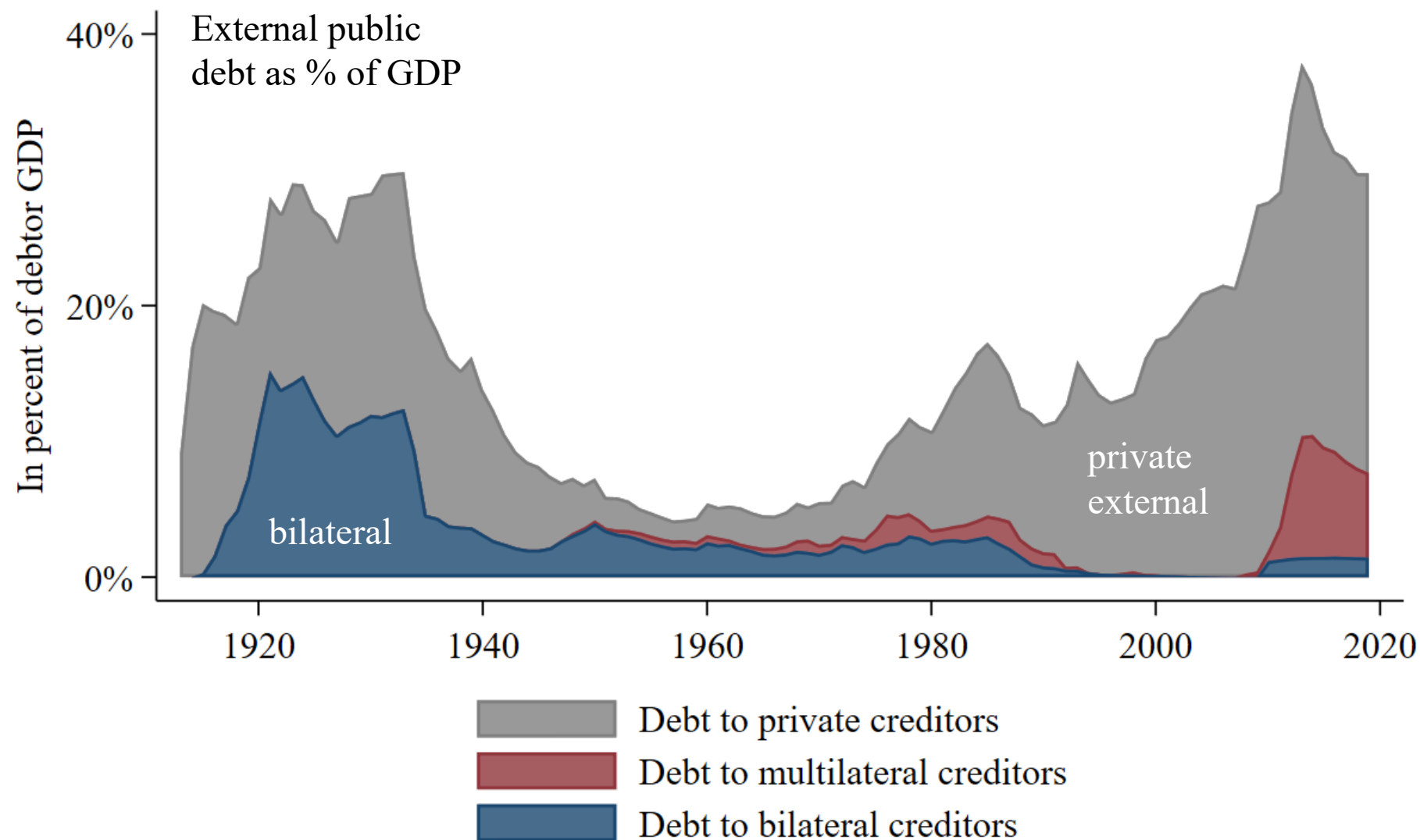
Geopolitical shocks (wars) and **official flows**



Developing world /EMs: official debt dominates

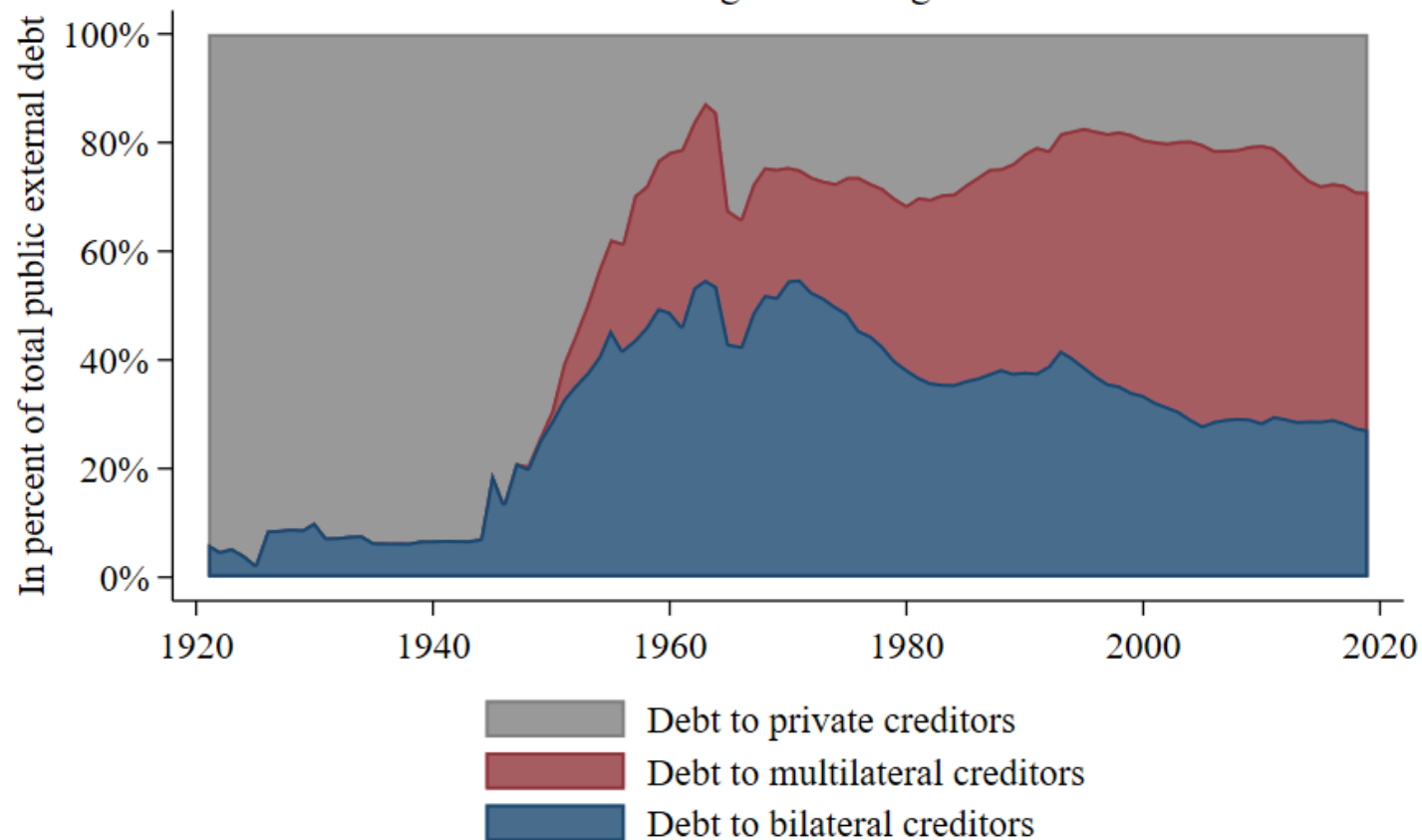


Advanced economies: legacy of WW1 & Euro crisis



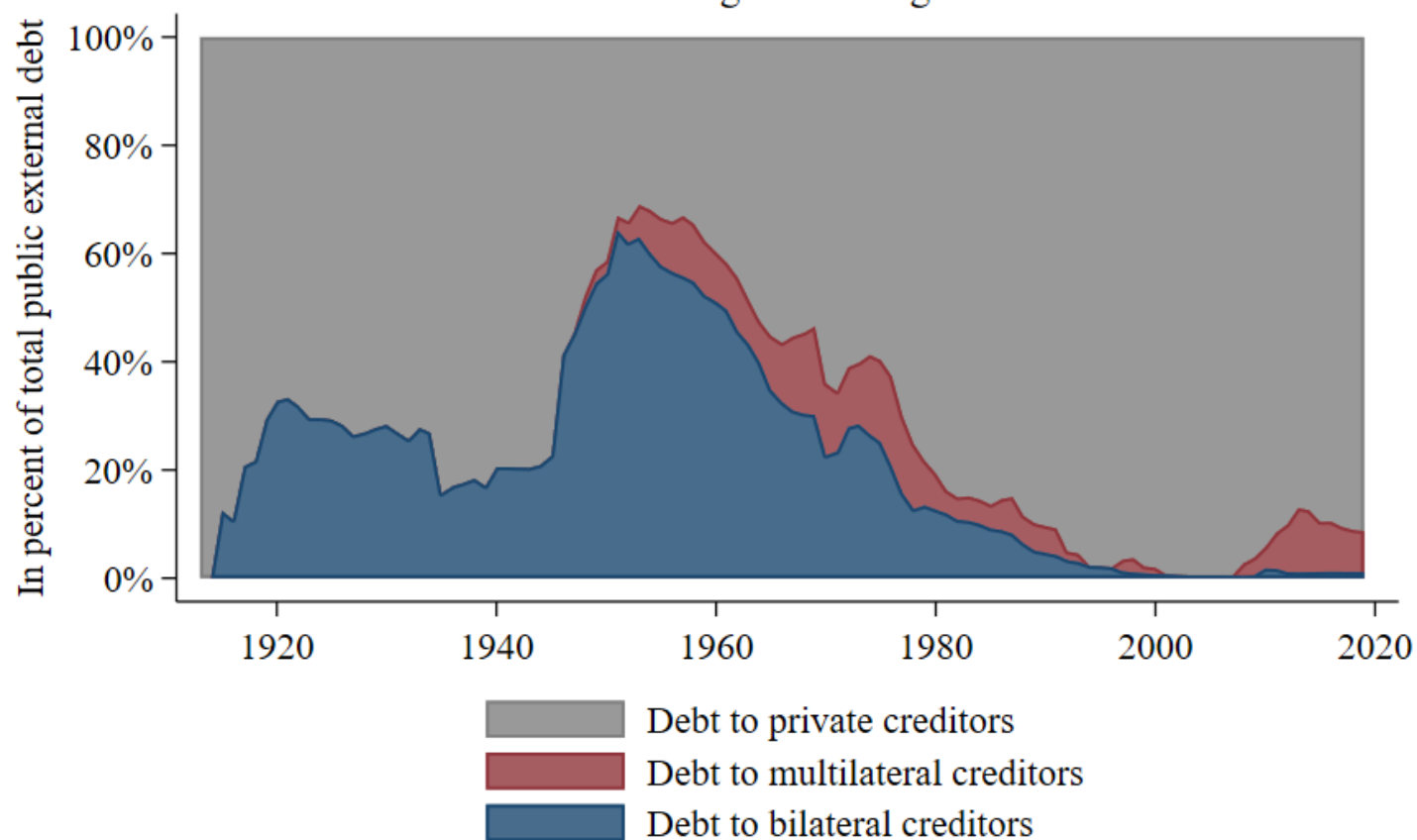
External public debt composition of EMDEs by creditor type: 1920 - 2020

-
Unweighted averages



External public debt composition of AEs by creditor type: 1914 - 2020

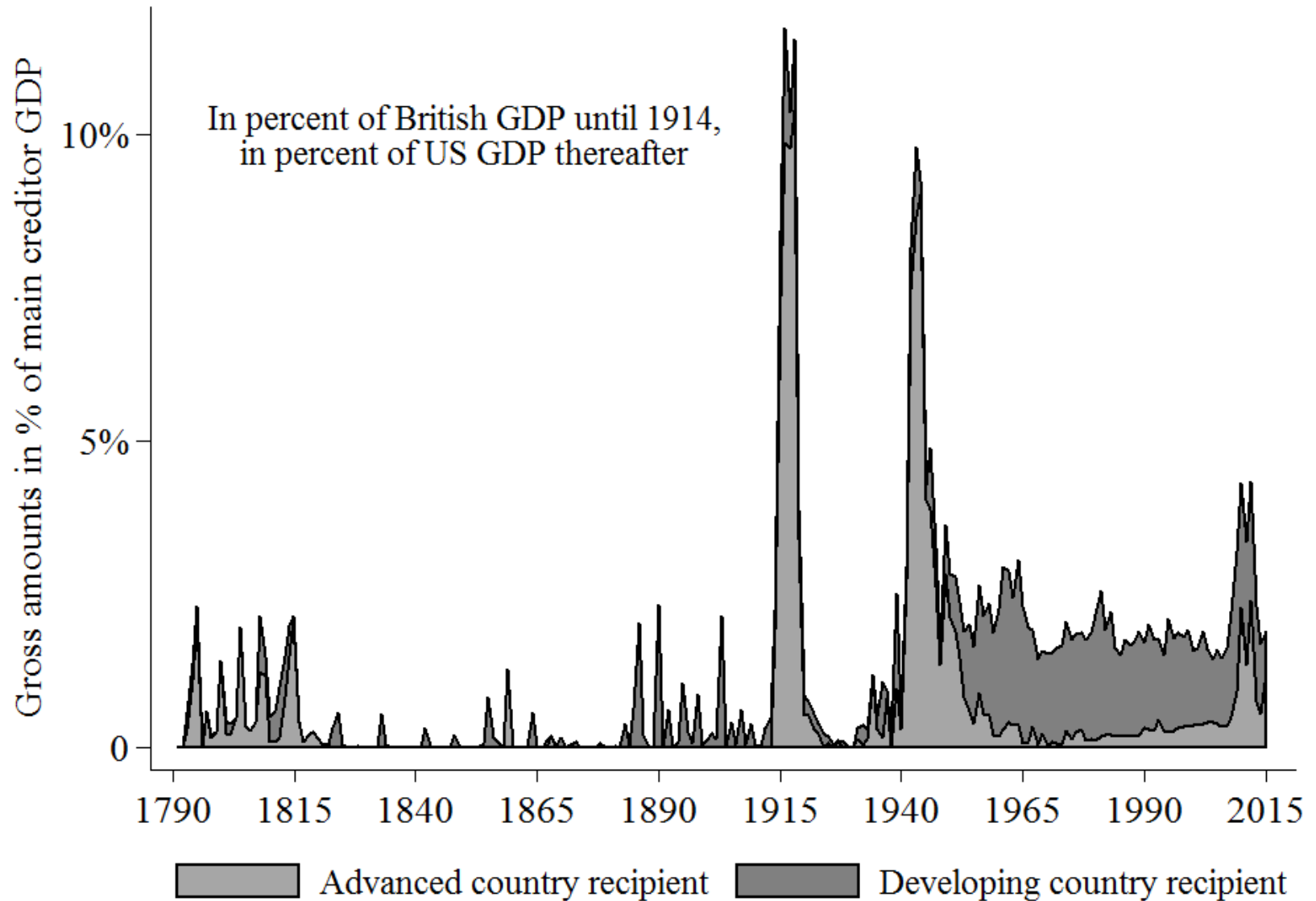
Unweighted averages



Key take aways

- 1. Scale of official lending: Large, especially during disasters**
 - Rescue lending common long before IMF/World Bank
 - Much more institutionalized today (“globalization of assistance“)
- 2. Official flows differ markedly from private flows**
 - When private flows retrench, official lending often steps in (official flows tend to be counter-cyclical)
 - Official lending concessional: lower interest rates, longer maturities
- 3. Why does official lending exist: bailouts of closely-linked countries**
 - What drives country rescues and official lending? (Tirole 2015, Gourinchas et al. 2019)
 - Bailouts increase with economic exposure (selfish motive vs. altruism an interpretation issue)

Recipients of official finance



Natural disasters: increasing odds of rescue lending

